

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

Address: 296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC

Telephone: 886-2-2708-7698

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

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

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

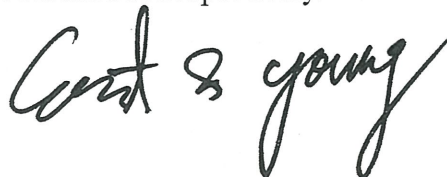
We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the “Company”) and its subsidiaries as of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014, and the related consolidated statements of comprehensive income for the three-month periods ended 30 September 2015 and 2014, and for the nine-month periods ended 30 September 2015 and 2014, changes in equity and cash flows for the nine-month periods ended 30 September 2015 and 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report on these consolidated interim 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 prepared the financial reports in accordance with the International Financial Reporting Standards (“IFRS”), International Accounting Standards, and interpretations issued, revised or amended (excluding IFRS 9), which are recognized by the FSC and would be applicable for annual periods beginning on or after 1 January 2015. The consolidated financial statements for the nine-month period ended 30 September 2014, and the related consolidated balance sheets as of 1 January 2014 and 31 December 2014 were restated retrospectively.

Ernst & Young
Taipei, Taiwan
The Republic of China
5 November 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 of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014

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

(Expressed in thousands of New Taiwan Dollars)

	Notes	2015.9.30	2014.12.31 (adjusted)	2014.9.30 (adjusted)	2014.1.1 (adjusted)
Assets					
Cash and cash equivalents	4, 6	\$309,760,074	\$435,006,606	\$508,527,175	\$331,666,078
Due from the Central Bank and call loans to banks		106,591,988	151,289,044	146,979,030	151,945,066
Financial assets at fair value through profit or loss	4, 7	301,418,560	223,007,168	202,941,797	244,023,246
Available-for-sale financial assets - net	4, 8	1,391,995,900	1,405,300,159	1,301,619,201	1,357,106,776
Derivative financial assets for hedging	4	618,196	665,390	799,689	1,300,914
Securities purchased under agreements to resell	4	44,986,518	56,515,170	49,522,901	12,960,817
Receivables - net	4, 9	153,707,207	134,368,376	125,765,347	169,590,966
Current income tax assets	4	4,323,085	7,374,177	6,572,752	5,585,301
Assets held for sale - net		-	-	-	81,950
Loans - net	4, 10	1,791,823,698	1,812,773,579	1,791,938,582	1,667,391,682
Reinsurance assets - net		6,760,330	6,377,012	6,261,024	5,740,684
Held-to-maturity financial assets - net	4, 11	81,056,988	81,658,512	75,387,965	54,970,153
Investments accounted for using the equity method - net	4, 12	24,819,686	4,545,318	4,427,470	3,152,848
Other financial assets - net	4, 13	2,681,880,406	2,131,815,297	1,943,342,582	1,724,797,817
Investment properties - net	4, 14	385,573,499	338,336,979	346,145,873	292,314,597
Property and equipment - net	4, 15	93,172,769	92,877,629	93,044,730	103,394,363
Intangible assets - net	4, 16	56,852,527	9,283,025	9,257,382	9,223,432
Deferred tax assets - net	4	19,884,301	16,081,618	12,854,385	14,657,474
Other assets - net		65,004,257	37,562,177	36,332,731	26,963,941
Total assets		\$7,520,229,989	\$6,944,837,236	\$6,661,720,616	\$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 of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014

(30 September 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	2015.9.30	2014.12.31 (adjusted)	2014.9.30 (adjusted)	2014.1.1 (adjusted)
Liabilities					
Due to the Central Bank and call loans from banks		\$37,149,666	\$58,816,432	\$71,776,229	\$56,985,225
Bankers acceptances and funds borrowed		-	1,585,900	1,521,800	1,497,500
Financial liabilities at fair value through profit or loss	4, 17	156,158,848	108,286,154	36,507,336	28,754,621
Derivative financial liabilities for hedging		-	-	13,397	5,148
Securities sold under agreements to repurchase	4	81,932,624	62,021,921	62,636,760	60,931,600
Commercial paper payable - net	4, 18	26,778,973	26,790,000	23,400,000	10,050,000
Payables		55,153,124	50,417,151	58,475,379	37,548,440
Current income tax liabilities	4	1,955,159	237,634	176,336	37,003
Deposits	19	1,814,400,235	1,702,302,143	1,667,763,366	1,585,031,001
Bonds payable	4, 20	105,550,787	107,613,949	107,288,890	92,417,213
Provisions	4, 22	4,192,814,665	3,800,562,744	3,675,109,762	3,475,059,961
Other financial liabilities - net	4, 21	544,772,545	543,279,993	516,660,371	413,414,217
Deferred tax liabilities	4	38,248,284	27,171,920	21,075,791	18,936,918
Other liabilities		21,864,053	16,630,845	16,662,617	14,712,855
Total liabilities		7,076,778,963	6,505,716,786	6,259,068,034	5,795,381,702
Equity attributable to owners of parent					
Capital stock					
Common stock	24	125,632,102	125,632,102	125,632,102	119,649,621
Capital surplus	25	88,781,174	88,782,304	88,782,304	89,063,184
Retained earnings	26				
Legal reserve		24,820,095	19,784,401	19,784,401	16,922,773
Special reserve		140,185,120	82,305,614	82,305,614	82,314,780
Undistributed earnings		62,107,315	60,939,777	55,165,601	37,273,569
Other equity		(4,140,559)	56,036,407	25,583,067	32,082,136
Non-controlling interests	4, 27	6,065,779	5,639,845	5,399,493	4,180,340
Total equity		443,451,026	439,120,450	402,652,582	381,486,403
Total liabilities and equity		\$7,520,229,989	\$6,944,837,236	\$6,661,720,616	\$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 30 September 2015 and 2014, and nine-month periods ended 30 September 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	2015.7.1~2015.9.30	2014.7.1~2014.9.30 (adjusted)	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Interest income	4	\$40,818,692	\$35,186,713	\$115,661,600	\$104,571,864
Less: Interest expenses		(4,427,865)	(4,124,897)	(12,960,446)	(12,001,834)
Net interest income	4	36,390,827	31,061,816	102,701,154	92,570,030
Net income other than interest					
Net commission and handling fee		(1,609,936)	(310,163)	(2,908,888)	1,700,158
Net premiums from insurance business		62,279,909	63,687,496	175,914,289	125,524,091
Gains on financial assets and liabilities at fair value through profit or loss		(72,822,670)	(12,124,902)	(64,364,796)	(9,301,419)
Gains from investment properties		2,247,169	1,860,061	17,783,985	23,229,350
Realized gains on available-for-sale financial assets		8,415,047	18,462,903	50,519,305	37,576,617
Realized gains (losses) on held-to-maturity financial assets		526	1,120	(46,951)	3,975
Losses on foreign exchange		80,716,094	14,745,643	58,198,542	10,188,717
Impairment losses on assets		(8,636)	-	(8,636)	(7,123)
Share of profit of associates and joint ventures accounted for using the equity method		352,976	51,920	637,464	119,259
Net other non-interest gains		(4,291,441)	878,013	10,153,552	3,822,264
Total income		111,669,865	118,313,907	348,579,020	285,425,919
Bad debt expenses and provision for premiums reserve		(387,363)	(747,127)	(554,171)	(1,189,768)
Changes in insurance liabilities and provisions		(79,805,874)	(85,562,206)	(239,058,848)	(192,620,022)
Operating expenses	28				
Employee benefits expenses		(9,513,772)	(8,999,134)	(28,222,733)	(25,853,872)
Depreciation and amortizations expenses		(1,143,018)	(623,021)	(2,365,053)	(1,864,154)
Other general and administration expenses		(6,613,467)	(5,419,759)	(15,094,277)	(13,653,558)
Subtotal		(17,270,257)	(15,041,914)	(45,682,063)	(41,371,584)
Profit before income tax from continuing operations		14,206,371	16,962,660	63,283,938	50,244,545
Income tax expense	4, 30	(555,272)	(2,845,919)	(8,399,185)	(5,578,518)
Net income		13,651,099	14,116,741	54,884,753	44,666,027
Other comprehensive income	4, 29				
Not to be reclassified to profit or loss in subsequent periods:					
Revaluation surplus		-	29,441	-	931,776
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		(6,411)	-	(5,654)	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		764,361	-	1,022,064	-
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		(128,852)	(5,884)	(172,790)	(80,610)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation		3,261,402	394,500	2,276,383	13,029
Unrealized (losses) gains from available-for-sale financial assets		(43,504,429)	(24,641,051)	(67,015,412)	(7,281,424)
Gains (losses) on cash flow hedges		169,188	(146,759)	172,056	(322,047)
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		301,726	404	106,024	21,259
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		1,297,774	108,305	3,645,274	377,674
Other comprehensive income, net of tax		(37,845,241)	(24,261,044)	(59,972,055)	(6,340,343)
Total comprehensive income		<u>\$24,194,142</u>	<u>\$(10,144,303)</u>	<u>\$(5,087,302)</u>	<u>\$38,325,684</u>
Net income attributable to:					
Owners of parent		\$13,535,384	\$14,006,036	\$54,430,674	\$44,406,700
Non-controlling interests		115,715	110,705	454,079	259,327
Subtotal		<u>\$13,651,099</u>	<u>\$14,116,741</u>	<u>\$54,884,753</u>	<u>\$44,666,027</u>
Total comprehensive income attributable to:					
Owners of parent		\$(24,644,295)	\$(10,394,553)	\$(5,732,119)	\$37,908,134
Non-controlling interests		450,153	250,250	644,817	417,550
Subtotal		<u>\$(24,194,142)</u>	<u>\$(10,144,303)</u>	<u>\$(5,087,302)</u>	<u>\$38,325,684</u>
Earnings per share (expressed in dollars) :	31				
Basic earnings per share:					
Net income		\$1.07	\$1.11	\$4.33	\$3.53

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity

For the nine-month periods ended 30 September 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
Appropriations and distribution for 2013(Note1)															
Legal reserve			2,861,628		(2,861,628)									-	-
Cash dividends					(17,947,443)								(17,947,443)		(17,947,443)
Stock dividends	5,982,481				(5,982,481)								-		-
Reversal of special reserve				(9,166)	9,166								-		-
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(13,665)											(13,665)		(13,665)
The capital reserve set aside for the first-time adoption of IFRS		(267,215)			267,215								-		-
Net income for the nine-month periods ended 30 September 2014(adjusted)					44,406,700								44,406,700	259,327	44,666,027
Other comprehensive income for the nine-month periods ended 30 September 2014(adjusted)						(118,017)	(6,963,330)	(268,385)			851,166		(6,498,566)	158,223	(6,340,343)
Comprehensive income for the nine-month periods ended 30 September 2014(adjusted)	-	-	-	-	44,406,700	(118,017)	(6,963,330)	(268,385)	-	-	851,166	-	37,908,134	417,550	38,325,684
Increase in non-controlling interests														801,603	801,603
Others					503						(503)		-		-
Balance on 30 September 2014(adjusted)	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$55,165,601	\$(646,051)	\$13,267,161	\$113,921	\$-	\$1,990,588	\$10,858,401	\$(953)	\$397,253,089	\$5,399,493	\$402,652,582
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
Appropriations and distribution for 2014(Note2)															
Legal reserve			5,035,694		(5,035,694)								-		-
Special reserve				23,148,991	(23,148,991)								-		-
Cash dividends					(25,126,420)								(25,126,420)		(25,126,420)
Reversal of special reserve				(33,796)	33,796								-		-
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(1,130)											(1,130)		(1,130)
Net income for the nine-month periods ended 30 September 2015					54,430,674								54,430,674	454,079	54,884,753
Other comprehensive income for the nine-month periods ended 30 September 2015						1,819,107	(62,967,689)	142,169	848,313	(4,693)			(60,162,793)	190,738	(59,972,055)
Comprehensive income for the nine-month periods ended 30 September 2015	-	-	-	-	54,430,674	1,819,107	(62,967,689)	142,169	848,313	(4,693)	-	-	(5,732,119)	644,817	(5,087,302)
Decrease in non-controlling interests														(218,883)	(218,883)
Others				34,764,311	14,173						(14,173)		34,764,311		34,764,311
Balance on 30 September 2015	\$125,632,102	\$88,781,174	\$24,820,095	\$140,185,120	\$62,107,315	\$2,420,893	\$(18,710,043)	\$322,622	\$896,464	\$914,295	\$10,016,647	\$(1,437)	\$437,385,247	\$6,065,779	\$443,451,026

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

Note1: As of 31 December 2013, directors' remuneration \$3,300 thousand and employees' bonuses \$2,394 thousand have been deducted from current year's Statements of Comprehensive Income.

Note2: As of 31 December 2014, directors' remuneration \$2,100 thousand and employees' bonuses \$2,513 thousand have been deducted from current year's Statements of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the nine-month periods ended 30 September 2015 and 2014
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)	Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Cash flows from operating activities			Cash generated from operations	<u>(242,947,489)</u>	<u>120,350,934</u>
Profit before income tax from continuing operations	\$63,283,938	\$50,244,545	Interest received	111,732,740	102,117,937
Adjustments :			Dividends received	20,152,301	15,158,421
Income and other adjustments with no cash flow effects			Interest paid	(11,988,885)	(9,620,846)
Depreciation expenses	1,585,164	1,640,731	Income taxes received (paid)	2,904,346	(1,984,285)
Amortizations expenses	779,889	223,423	Net cash flows (used in) from operating activities	<u>(120,146,987)</u>	<u>226,022,161</u>
Bad debt expense	554,171	1,189,768	Cash flows from investing activities		
Net losses on financial assets and liabilities at fair value through profit or loss	66,233,449	14,008,330	Acquisition of financial assets at fair value through profit or loss	(567,545)	(143,000)
Interest expenses	12,960,446	12,001,834	Disposal of financial assets at fair value through profit or loss	1,882,246	180,009
Interest revenue	(115,661,600)	(104,571,864)	Acquisition of financial assets available for sale	(938,933)	(617,334)
Dividend income	(19,782,933)	(14,967,596)	Disposal of financial assets available for sale	684,802	750,056
Net changes in insurance liabilities and provisions	266,649,774	197,320,482	Acquisition of bond investments with no active market	(3,000)	-
Net changes of other liabilities and provisions	472,579	2,690,877	Disposal of bond investments with no active market	-	2,500
Share of gain of associates and joint ventures accounted for using the equity method	(637,464)	(119,259)	Acquisition of investments accounted for using the equity method	(20,018,930)	(397,005)
Losses (gains) on disposal or scrapping of property and equipment	6,571	(30,564)	Disposal of investments accounted for using the equity method	-	39,706
Gains on disposal of investment properties	(37,571)	(1,346,197)	Acquisition of subsidiary	(6,978,545)	-
Losses on disposal of intangible assets	35,492	-	Cash returned by capital deduction from investments accounted for using equity method	86,501	9,942
Gains on disposal of investments	(39,096,488)	(27,493,830)	Disposal of assets held for sale	-	65,981
Impairment losses on financial assets	8,636	-	Acquisition of property and equipment	(876,778)	(919,940)
Impairment losses on non-financial assets	-	7,123	Disposal of property and equipment	4,559	57,589
Unrealized foreign exchange gains (losses)	73,601	(1,674)	Increase in clearing and settlement funds	(313)	(2,051)
Revaluation gains on investment properties	(11,268,688)	(16,460,840)	Increase in guarantee deposits paid	(13,584)	(3,970)
Others	(9,183)	-	Decrease in guarantee deposits paid	-	8
Subtotal	<u>162,865,845</u>	<u>64,090,744</u>	Acquisition of intangible assets	(249,586)	(168,556)
Changes in operating assets and liabilities			Generalized foreclosed collects net cash from other company	16,157,186	-
Changes in operating assets			Generalized foreclosed collects compensation from other company	30,300,000	-
Increase in due from the Central Bank and call loans to banks	(4,077,825)	(3,076,451)	Acquisition of investment properties	(32,984,695)	(27,493,476)
(Increase) decrease in financial assets at fair value through profit or loss	(11,481,066)	74,708,716	Disposal of investment properties	193,927	1,682,842
(Increase) decrease in available-for-sale financial assets	(15,843,090)	69,565,178	Increase in other assets	(20,214,537)	(4,391,282)
Decrease in derivative financial assets for hedging	219,250	179,178	Decrease in other assets	55,273	-
(Increase) decrease in accounts receivable	(15,767,625)	46,084,591	Dividends received	385,029	67,793
Decrease (increase) in loans	30,945,843	(125,750,266)	Net cash used in investing activities	<u>(33,096,923)</u>	<u>(31,280,188)</u>
Increase in reinsurance contract assets	(245,087)	(514,628)	Cash flows from financing activities		
Decrease (increase) in financial assets held to maturity	635,271	(20,394,648)	Decrease in short-term borrowings	(600,000)	-
Increase in other financial assets	(478,531,836)	(146,808,049)	(Decrease) increase in funds borrowed from Central Bank and banks	(1,585,900)	24,300
Increase in other assets	(4,229,934)	(5,971,688)	(Decrease) increase in commercial paper payable	(11,027)	13,350,000
Subtotal	<u>(498,376,099)</u>	<u>(111,978,067)</u>	(Decrease) increase in bank debentures	(2,063,161)	14,871,677
Changes in operating liabilities			Increase in bills and bonds sold under agreements to repurchase	121,741	209,198
(Decrease) Increase in due to the Central Bank and call loans from banks	(16,011,630)	14,664,569	Increase (decrease) in other liabilities	1,889,039	(13,810)
Decrease in financial liabilities at fair value through profit or loss	(86,363,032)	(38,241,864)	Payment of cash dividend	(25,126,422)	(17,947,446)
Increase in derivative financial liabilities for hedging	-	8,249	Net cash flows (used in) from financing activities	<u>(27,375,730)</u>	<u>10,493,919</u>
Increase in securities purchased under agreements to repurchase	19,788,962	1,495,962	Effects of exchange rate changes on cash and cash equivalents		
Increase in payables	920,696	18,162,560	(Decrease) increase in cash and cash equivalents	<u>(179,773,187)</u>	<u>205,567,061</u>
Increase in deposits	111,168,877	82,402,727	Cash and cash equivalents at the beginning of periods	<u>597,008,819</u>	<u>453,686,200</u>
Increase in provisions for the liabilities of employee benefits	3,475	159,576	Cash and cash equivalents at the end of periods	<u>\$417,235,632</u>	<u>\$659,253,261</u>
Increase (decrease) in reserves for the operations and liabilities	939	(141,602)	The components of cash and cash equivalents		
(Decrease) increase in other financial liabilities	(4,723,964)	36,695,463	Cash and cash equivalents presented in balance sheet	\$309,760,074	\$508,527,175
Increase in other liabilities	4,494,504	2,788,072	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	62,489,040	101,203,185
Subtotal	<u>29,278,827</u>	<u>117,993,712</u>	Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	44,986,518	49,522,901
Subtotal of Changes in operating assets and liabilities	<u>(469,097,272)</u>	<u>6,015,645</u>	Cash and cash equivalents at the end of periods	<u>\$417,235,632</u>	<u>\$659,253,261</u>
Subtotal of Adjustment	<u>(306,231,427)</u>	<u>70,106,389</u>			

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

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Cathay Financial Holding Co., Ltd. and Subsidiaries

Notes to Consolidated Interim Financial Statements

30 September 2015 and 2014

(30 September 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 30 September 2015, 31 December 2014, and 30 September 2014, the total numbers of the employees of the Company and Subsidiaries (the Group) were 45,495, 44,542, and 44,023, 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 nine-month periods ended 30 September 2015 and 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 5 November 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~ 2015.9.30	2014.1.1~ 2014.9.30
Net income other than interest	<u>\$17</u>	<u>\$21</u>
Operating expense:		
Employee benefits expenses	<u>(14,376)</u>	<u>(95,020)</u>
Profit before income tax from continuing operations	(14,359)	(94,999)
Income tax profit	<u>2,442</u>	<u>16,153</u>
Net income	<u>(11,917)</u>	<u>(78,846)</u>
Other comprehensive income		
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(5,654)	-
Income tax relating to the components to be reclassified	<u>961</u>	-
Other comprehensive income, net of tax	<u>(4,693)</u>	-
Total comprehensive income	<u><u>\$(16,610)</u></u>	<u><u>\$(78,846)</u></u>

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Impact on the balance sheet:

As at	2015.9.30	2014.12.31	2014.9.30	2014.1.1
Investments accounted for using the equity method-net	\$(6,081)	\$(1,405)	\$(451)	\$(472)
Deferred tax assets-net	(161,466)	(163,908)	(388,595)	(404,748)
Other assets-net	741	741	664	664
Provisions	(949,790)	(964,166)	(2,285,850)	(2,380,870)
Deferred tax liabilities	126	126	113	113
Retained earnings	(131,437)	(119,520)	(93,233)	(14,387)
Other equity	914,295	918,988	1,990,588	1,990,588

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~ 2015.9.30	2014.1.1~ 2014.9.30
Net income other than interest:		
Financial assets at fair value through profit or loss	\$(1,022,064)	\$-
Profit before income tax from continuing operations	(1,022,064)	-
Income tax expense	173,751	-
Net income	\$(848,313)	\$-

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Impact on the balance sheet:

	2015.9.30	2014.12.31	2014.9.30	2014.1.1
Retained earnings	\$(896,464)	\$(48,151)	\$-	\$-
Other equity	896,464	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.

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.

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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.

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.

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

A. *IAS 36 "Impairment of Assets" (Amendment)*

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

B. *IFRIC 21 "Levies"*

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

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

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

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

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

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

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 judgments 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.

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IAS 16 “Property, Plant and Equipment”

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

IAS 24 “Related Party Disclosures”

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

IAS 38 “Intangible Assets”

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

F. *Improvements to International Financial Reporting Standards (2011-2013 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 and applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 “Business Combinations”

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

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IFRS 13 “Fair Value Measurement”

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

IAS 40 “Investment Property”

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

G. *IFRS 14 “Regulatory Deferral Accounts”*

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

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

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

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

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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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.

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.

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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 nine-month periods ended 30 September 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

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

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

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

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

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

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

If the Group loses control of a subsidiary, it:

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

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The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2015.9.30	2014.12.31	2014.9.30	Notes
The Company	Cathay Life Insurance Co., Ltd. (“Cathay Life”)	Life insurance	100.00	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the “Company Act”).
The Company	Cathay United Bank Co., Ltd. (“Cathay United Bank”)	Commercial banking operations	100.00	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. (“Cathay Century”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on 2 August 2002.
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	100.00	Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.

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Investor	Subsidiary	Business nature	2015.9.30	2014.12.31	2014.9.30	Notes
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	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	-	-	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	-	-	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.
Cathay Life	Conning Holdings Limited	Holding company	100.00	-	-	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Holdco (UK) Ltd.	Holding company	100.00	-	-	Conning Holdco (UK) Ltd. was incorporated on 14 June 2011.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	-	-	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.

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Investor	Subsidiary	Business nature	2015.9.30	2014.12.31	2014.9.30	Notes
Conning Holdco (UK) Ltd.	Conning Asset Management Ltd.	Wealth Management	100.00	-	-	Conning Asset Management Ltd. was incorporated on 16 October 1998.
Conning Holdco (UK) Ltd.	Conning (Germany) GmbH	Risk management software	100.00	-	-	Conning (Germany) GmbH was incorporated on 1 October 2012.
The Company & Conning Holdco (UK) Ltd.	Cathay Conning Asset Management Ltd.	Wealth Management	100.00	-	-	Cathay Conning Asset Management Ltd. was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	-	-	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	-	-	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	-	-	Conning Inc. was incorporated on 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	-	-	Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	-	-	Conning Investments Products, Inc. was incorporated on 13 February 2012.
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).

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Investor	Subsidiary	Business nature	2015.9.30	2014.12.31	2014.9.30	Notes
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. (“Cathay Century (Vietnam)”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00	50.00	50.00	Indovina Bank was incorporated in Vietnam on 21 November 1990. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”)	Wholesale banking	100.00	100.00	100.00	SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Co., Ltd. (“Cathay Futures”)	Futures related business	99.99	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.
Cathay Securities	Cathay Securities (Hong Kong) Corporation Limited (“Cathay Securities (Hong Kong)”)	Securities agent	100.00	-	-	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition.

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

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.

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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	2015.9.30 Ownership interest	2014.12.31 Ownership interest	2014.9.30 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Class 3 general business insurers and a long-term insurer	100.00	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 24 January 2000.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”)	Securities investment 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	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

(4) Foreign currency transactions

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

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

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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.

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.

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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.

(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.

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A. Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

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

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Compound instruments

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

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

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

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

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

Financial liabilities

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

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Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

Derivative financial liabilities for hedging

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

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Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

(9) Derivative financial instrument

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.

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

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

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

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

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

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(12) Property, plant and equipment

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

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

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(13) Investment property

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

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

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

(14) Leases

Group as a lessee

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

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

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Group as a lessor

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

(15) Intangible assets

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

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

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

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

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

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Licenses

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

Customer relationships

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

Computer software

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

Other intangible assets

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

(16) Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or 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.

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

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

(17) Provisions

Insurance liabilities

A. Cathay Life

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

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

a. Unearned premium reserve

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

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

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

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

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

d. Special reserve

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

i. Special capital reserve—Special reserve for major incidents

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.

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

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

- (B) Cathay Life sells participating life insurance policy. According to the “Rule Governing application of revenues and expenses related to participating / non-participating policy”, Cathay Life is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.
- (C) According to Article 32 of the Regulations Governing the Preparation of Financial 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.

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e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life is \$4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 30 September 2015, the amount set aside was \$17,567,304 thousand.

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j. Liability adequacy test

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

B. Cathay Century

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

a. Unearned premium reserve

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

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.

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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.

(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.

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(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.

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.

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

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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.

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

Deferred tax

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

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit 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 reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

B. Fair value of financial instruments

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

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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

	2015.9.30	2014.12.31	2014.9.30
Petty cash and cash on hand	\$15,309,820	\$16,246,007	\$14,055,038
Cash in banks	87,955,552	80,114,375	85,179,398
Time deposits	110,277,164	193,754,061	279,093,338
Cash equivalents	8,191,763	18,438,948	22,816,343
Checks for clearance	6,243,783	6,090,870	2,764,298
Due from commercial banks	81,781,992	120,362,345	104,618,760
Total	<u>\$309,760,074</u>	<u>\$435,006,606</u>	<u>\$508,527,175</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

	2015.9.30	2014.12.31	2014.9.30
Designated financial assets at fair value through profit or loss at initial recognition:			
Corporate bonds	\$2,354,935	\$3,649,136	\$3,746,133
Held for trading:			
Common stock	9,136,337	12,087,584	13,917,745
Funds and beneficiary certificates	33,051,591	33,269,830	39,972,554
Government bonds	11,601,008	9,006,028	10,522,064
Corporate bonds	3,581,553	5,665,311	5,913,643
Financial debentures	259,679	-	-
Overseas debentures	338,864	73,584	3,874,549
Structured time deposits	2,484,479	2,299,750	2,301,250
Short-term notes	158,710,118	110,018,729	102,409,057
Margin for futures trading-own funds	519,771	200,838	397,194
Derivative financial instruments	79,380,225	46,736,378	19,887,608
Subtotal	299,063,625	219,358,032	199,195,664
Total	\$301,418,560	\$223,007,168	\$202,941,797

- (1) As of 30 September 2015, Cathay United Bank and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$762,960. Such repurchase agreements amounting to \$111,464 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements were settled at \$111,510 thousand, prior to 30 October 2015; Cathay United Bank and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreement with notional amounts of \$621,438 thousand without a repurchase date agreed.
- (2) Please refer to 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 30 September 2015, 31 December 2014, and 30 September 2014.

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8. Available-for-sale financial assets

	2015.9.30	2014.12.31	2014.9.30
Common stock	\$496,858,109	\$501,952,140	\$438,397,873
Beneficiary certificates	212,214,504	193,562,279	147,691,487
Funds and beneficiary Securities	3,663,530	6,253,082	7,249,819
Real Estate Investment Trust	12,000,252	11,378,037	11,256,170
Government bonds	211,116,906	204,129,599	210,940,929
Corporate bonds	54,944,722	63,831,625	69,247,638
Financial debentures	119,616,694	137,024,986	140,491,904
Asset-backed securities	1,186,423	1,419,482	1,463,354
Overseas debentures	283,694,125	294,283,758	283,473,728
Short-term notes	314,346	136,157	112,844
Less: Litigation deposits	(1,462,557)	(35,719)	(44,804)
Less: Securities serving as deposits paid-bonds	(2,151,154)	(8,635,267)	(8,661,741)
Total	\$1,391,995,900	\$1,405,300,159	\$1,301,619,201

- (1) As of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$39,093,052 thousand, \$15,143,582 thousand and \$16,374,568 thousand, respectively. Such repurchase agreements amounting to \$35,985,956 thousand, \$11,855,152 thousand and \$16,300,401 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements are settled at \$36,017,560 thousand, \$11,861,068 thousand and \$16,315,362 thousand, prior to 31 March 2016, 31 January 2015, and 31 December 2014, respectively; as of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreement with notional amounts of \$3,688,542 thousand, \$3,710,003 thousand and \$186,387 thousand without a repurchase date agreed.
- (2) As of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay Securities and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$0 thousand, \$100,000 thousand, and \$250,000 thousand, respectively.

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- (3) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with stocks, beneficiary certificates and financial property beneficiary Securities held by Cathay Life and its subsidiaries. As of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay Life and its subsidiaries recognized impairment losses amounting to \$196,673 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 \$140,985 thousand, \$163,785 thousand, and \$163,785 thousand as of 30 September 2015, 31 December 2014, and 30 September 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 30 September 2015, 31 December 2014, and 30 September 2014.

9. Receivable - net

	2015.9.30	2014.12.31	2014.9.30
Notes receivable	\$1,932,162	\$2,115,657	\$1,972,497
Accounts receivable	60,378,087	61,485,841	57,780,155
Interest receivable	41,762,374	33,109,739	31,474,822
Foreign currency receivable	118,099	128,259	307,599
Acceptances	1,216,095	1,276,248	1,667,396
Factoring receivable	24,364,854	18,221,906	11,015,834
Others	25,886,556	20,035,405	23,525,464
Subtotal	155,658,227	136,373,055	127,743,767
Adjustment for discounts and premiums	(6,489)	(7,462)	(7,323)
Less: Allowance for bad debts	(1,944,531)	(1,997,217)	(1,971,097)
Total	<u>\$153,707,207</u>	<u>\$134,368,376</u>	<u>\$125,765,347</u>

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

	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Balance, beginning of the period	\$1,997,217	\$2,199,913
Reversal of doubtful accounts	(182,910)	(399,602)
Write-offs	(261,676)	(251,411)
Debt counseling recoveries	88,108	97,664
Recoveries	380,943	419,137
Reclassification	(82,061)	(97,664)
Effect of exchange rates change	4,910	3,060
Balance, end of the period	<u>\$1,944,531</u>	<u>\$1,971,097</u>

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

Item		Accounts Receivable		
		2015.9.30	2014.12.31	2014.9.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$1,227,473	\$736,518	\$14,391,888
	Collective assessment of impairment	175,821	171,362	159,910
Objective evidence of impairment does not exist individually	Collective assessment of impairment	154,254,933	135,465,175	113,191,969

Item		Allowance for doubtful account		
		2015.9.30	2014.12.31	2014.9.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$85,085	\$86,202	\$87,289
	Collective assessment of impairment	130,571	128,384	118,910
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,728,875	1,782,631	1,764,898

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

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10. Loans - net

	2015.9.30	2014.12.31	2014.9.30
Inward-outward documentary bills	\$1,849,611	\$9,121,368	\$13,256,408
Loans	1,805,642,922	1,820,033,486	1,793,998,242
Overdrafts	1,930,147	1,429,637	1,220,078
Delinquent accounts	3,454,389	3,394,386	2,851,736
Subtotal	1,812,877,069	1,833,978,877	1,811,326,464
Adjustment for discounts and premiums	948,475	944,256	907,561
Less: Allowance for bad debts	(22,001,846)	(22,149,554)	(20,295,443)
Total	<u>\$1,791,823,698</u>	<u>\$1,812,773,579</u>	<u>\$1,791,938,582</u>

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

	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Balance, beginning of the period	\$22,149,554	\$18,506,935
Provision of doubtful accounts	1,006,723	1,659,572
Write-offs	(2,177,559)	(1,485,008)
Debt counseling recoveries	81,523	91,521
Recoveries	763,866	1,396,307
Reclassification	82,061	97,664
Effect of exchange rates change	95,678	28,452
Balance, end of the period	<u>\$22,001,846</u>	<u>\$20,295,443</u>

(2) Assessment for loans are showed as followed:

Item		Total loans		
		2015.9.30	2014.12.31	2014.9.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$7,834,203	\$19,620,653	\$20,681,792
	Collective assessment of impairment	10,188,218	10,169,605	10,310,943
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,794,854,648	1,804,188,619	1,780,333,729

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Item		Allowance for bad debts		
		2015.9.30	2014.12.31	2014.9.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$1,725,000	\$5,136,492	\$4,500,796
	Collective assessment of impairment	2,135,678	1,883,156	1,778,748
Objective evidence of impairment does not exist individually	Collective assessment of impairment	18,141,168	15,129,906	14,015,899

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

	2015.9.30	2014.12.31	2014.9.30
Government bonds	\$32,720,054	\$24,127,874	\$20,166,222
Corporate bonds	10,670,463	10,936,111	10,434,012
Financial debentures	25,303,869	25,972,789	25,538,118
Asset-backed securities	15,700,230	16,712,326	16,467,381
Overseas debentures	5,574,399	4,495,219	3,369,576
Short-term notes	41,409	39,621	38,043
Subtotal	90,010,424	82,283,940	76,013,352
Less: Court security deposit	(1,992,325)	-	-
Less: Securities serving as deposits paid-bonds	(6,961,111)	(625,428)	(625,387)
Total	<u>\$81,056,988</u>	<u>\$81,658,512</u>	<u>\$75,387,965</u>

- (1) As of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of \$45,743,559 thousand, \$44,301,111 thousand and \$39,897,513 thousand, respectively. Such repurchase agreements amounting to \$39,270,868 thousand, \$40,065,833 thousand and \$40,170,719 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$39,285,293 thousand, \$40,087,078 thousand and \$40,177,468 thousand as of 31 August 2015, 31 January 2015, and 31 July 2014, respectively; as of 30 September 2015, 31 December 2014, and 30 September 2014, certain available-for-sale financial assets under repurchase agreement with notional amounts of \$0 thousand, \$0 thousand and \$19,915 thousand 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 30 September 2015, 31 December 2014, and 30 September 2014.

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12. Investments accounted for using the equity method

Investee	2015.9.30		2014.12.31		2014.9.30	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:						
Cathay Securities Investment Consulting	\$206,806	100.00	\$214,996	100.00	\$ 193,645	100.00
Seaward Card	39,270	100.00	39,727	100.00	40,653	100.00
Cathay Insurance (Bermuda)	128,962	100.00	126,123	100.00	120,470	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	28,265	100.00	34,880	100.00	36,191	100.00
Subtotal	<u>403,303</u>		<u>415,726</u>		<u>390,959</u>	
Investments in associates:						
WK Technology Fund VI Co., Ltd	205,049	21.43	279,946	21.43	281,023	21.43
Taiwan Real-estate Management Corp.	92,621	30.15	95,048	30.15	94,743	30.15
Taiwan Finance Corp.	1,552,816	24.57	1,512,391	24.57	1,478,304	24.57
IBT Venture Capital Corp.	3,056	24.96	7,485	24.96	21,045	24.96
Tien-Tai Energy Corp.	36,868	44.44	41,861	44.44	41,534	44.44
Tien-Tai One Energy Corp.	25,310	33.33	27,751	33.33	29,568	33.33
Tien-Tai Management Consulting Co., Ltd.	59	30.00	210	30.00	210	30.00
CDBS Cathay Asset Management Co., Ltd	307,103	33.30	279,825	33.33	277,153	33.33
Cathay Conning Asset Management Ltd.	-	50.00	80,127	50.00	77,331	50.00
Symphox Information Co., Ltd.	436,689	49.12	450,352	49.12	426,070	49.12
Da Sheng Venture Inc.	1,490,718	25.00	1,273,596	25.00	1,244,730	25.00
Chi-Chia Energy Corp.	35,212	29.08	40,500	29.08	32,400	23.27
Chao-Yang Energy Corp.	34,878	29.08	40,500	29.08	32,400	23.27
Dun-Yang Energy Corp.	50,071	32.20	-	-	-	-
Yong-Chang Energy Corp.	49,005	32.32	-	-	-	-
Ri-Zhao Energy Corp.	49,210	32.32	-	-	-	-
Nan-Gang International 1 Corp.	671,534	45.00	-	-	-	-
Nan-Gang International 2 Corp.	670,948	45.00	-	-	-	-
Rizal Commercial Banking Corporation	13,169,632	21.57	-	-	-	-
PT Bank Mayapada Internasional Tbk	5,535,604	24.90	-	-	-	-
Subtotal	<u>24,416,383</u>		<u>4,129,592</u>		<u>4,036,511</u>	
Total	<u>\$24,819,686</u>		<u>\$4,545,318</u>		<u>\$4,427,470</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:

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Profit or loss from continuing operations	\$325,073	\$27,878	\$571,337	\$47,624
Other comprehensive income (post-tax)	287,275	(1,637)	94,887	19,365
Total comprehensive income	<u>\$612,348</u>	<u>\$26,241</u>	<u>\$666,224</u>	<u>\$66,989</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 30 September 2015, 31 December 2014, and 30 September 2014, the carrying amount of investments accounted for using the equity method amounted to \$24,416,383 thousand, \$4,129,592 thousand, and \$4,036,511 thousand, respectively. The share of the profits (losses) of associates and joint ventures accounted for using the equity method amounts to \$325,073 thousand and \$27,878 thousand for the three-month periods ended 30 September 2015 and 2014, respectively. The share of the profits (losses) of associates and joint ventures accounted for using the equity method amounts to \$571,337 thousand and \$47,624 thousand for the nine-month periods ended 30 September 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 \$287,275 thousand and \$(1,637) thousand for the three-month periods ended 30 September 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 \$94,887 thousand and \$19,365 thousand for the nine-month periods ended 30 September 2015 and 2014, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounts to \$314,880 thousand and \$32,946 thousand for the three-month periods ended 30 September 2015 and 2014, respectively. The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounts to \$571,433 thousand and \$67,143 thousand for the nine-month periods ended 30 September 2015 and 2014, respectively. As of 30 September 2015 and 2014, the remaining balance of related investments were \$24,109,280 and \$3,759,358 thousand, respectively.
- (3) No investment in the associates was pledged.

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13. Other financial assets

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Investments in debt securities with no active market	\$2,185,785,088	\$1,629,251,574	\$1,460,159,213
Separate account product assets	467,992,665	462,266,776	442,715,117
Structured time deposits	25,000,000	39,200,000	39,200,000
Other miscellaneous financial assets	3,102,653	1,096,947	1,268,252
Total	<u>\$2,681,880,406</u>	<u>\$2,131,815,297</u>	<u>\$1,943,342,582</u>

Investments in debt securities with no active market

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Common stocks	\$6,437,285	\$7,984,017	\$8,437,017
Corporate bonds	10,803,092	7,450,248	15,447,108
Financial debentures	39,883,106	32,649,819	30,749,813
Structured debentures	662,560	1,268,720	1,217,440
Asset-backed securities	7,668,408	6,389,263	6,944,243
Overseas debentures	1,673,240,229	1,206,127,614	1,033,456,159
Time deposit	445,078,804	365,795,893	362,321,433
Beneficial right of real estate	300,000	200,000	200,000
Beneficiary Securities	1,711,604	1,386,000	1,386,000
Total	<u>\$2,185,785,088</u>	<u>\$1,629,251,574</u>	<u>\$1,460,159,213</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 30 September 2015, 31 December 2014, and 30 September 2014, Cathay Life and its subsidiaries recognized impairment losses amounting to \$430,664 thousand, \$412,334 thousand and \$395,668 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 \$1,419,345 thousand, \$1,358,935 thousand and \$1,218,788 thousand as of 30 September 2015, 31 December 2014, and 30 September 2014, respectively, due to credit deterioration of securitization and financial debentures.

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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 30 September 2015, 31 December 2014, and 30 September 2014, respectively, due to the default on the convertible bonds.

- (3) As of 31 December 2014 and 30 September 2014, Cathay United Bank and its subsidiaries sold certain investments in debt securities with no active market classified as overseas financial instruments under repurchase agreements with the notional amounts of \$11,597,421 thousand and \$4,219,738 thousand, respectively. Such repurchase agreements amounting to \$4,058,318 thousand and \$3,500,140 thousand, were recorded in the account “securities sold under agreements to repurchase” on the balance sheet. Abovementioned overseas financial instruments will be settled at the price amounted to \$4,060,181 thousand and \$3,500,405 thousand, respectively, no later than 31 January 2015 and 31 October 2014, under the repurchase agreement accordingly.
- (4) Please refer to Note 34 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 30 September 2015, 31 December 2014, and 30 September 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	-	26,448,317	5,796,857	366,033	32,611,207
Additions from subsequent expenditure	-	3,561	369,928	-	373,489
	2,472,177	112,347	-	25,021	2,609,545
Transfers from property and equipment	-	(798,027)	-	-	(798,027)
Transfers from (to) investment property under construction and prepayments for buildings and land	-	16,042,444	(16,033,562)	(8,882)	-
Gains (losses) generated from fair value adjustments	13,585,083	(2,316,395)	-	-	11,268,688
Disposals	(130,742)	(25,615)	-	-	(156,357)
Exchange differences	84,837	1,243,138	-	-	1,327,975
30 September 2015	\$265,722,694	\$115,102,851	\$2,570,506	\$2,177,448	\$385,573,499

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	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	-	15,665,223	3,348,494	7,744,573	26,758,290
Additions from subsequent expenditure	-	-	735,186	-	735,186
Transfers from property and equipment	9,702,426	824,153	-	-	10,526,579
Transfers from (to) investment property under construction and prepayments for buildings and land	7,036,238	5,635,321	(1,652,752)	(11,079,221)	(60,414)
Gains (losses) generated from fair value adjustments	16,644,339	(183,499)	-	-	16,460,840
Impairment	(7,123)	-	-	-	(7,123)
Disposal	(316,197)	(24,580)	-	-	(340,777)
Exchange differences	-	(240,143)	-	(1,162)	(241,305)
30 September 2014	<u>\$252,773,776</u>	<u>\$73,533,705</u>	<u>\$18,001,050</u>	<u>\$1,837,342</u>	<u>\$346,145,873</u>
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30	
Rental income from investment properties	\$2,165,459	\$1,893,796	\$6,387,916	\$5,487,811	
Less: direct operating expense from investment properties generating rental income	(62,838)	(60,399)	(208,615)	(234,855)	
direct operating expense from investment properties not generating rental income	(17,418)	(13,773)	(53,414)	(64,024)	
Total	<u>\$2,085,203</u>	<u>\$1,819,624</u>	<u>\$6,125,887</u>	<u>\$5,188,932</u>	

(1) Cathay Life and its subsidiaries' valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 30 June 2015, 31 December 2014, and 30 June 2014. Please refer to original financial report for detail information of the appraisers and agencies.

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The 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:

	2015.9.30	2014.12.31	2014.9.30
	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%~4.2%

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

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

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- (2) Cathay United Bank appointed appraisers from China Real Estate Appraising Firm (Yufen Ye and Jingsheng Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2015 and 31 December 2014.

Cathay United Bank appointed appraisers from Savills Valuation and Professional Services (Kempis Tai, Howard Chang, Sky Liu, Yi-Jun Chen) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2014 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 has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method.

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 repair 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:

	2015.9.30	2014.12.31	2014.9.30
Discounted rates	4.625%	4.625%	4.625%

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

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

	2015.9.30	2014.12.31	2014.9.30
Rate of return	25%	25%	18%~20%
Overall capital interest rate	23.05%	23.05%	1.29%~2.53%

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 an appraiser from Elite Appraisers Firm (Guo-Shi Wu) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2014, and 30 June 2014. According to the appraiser’s review and evaluation on the current market condition of the underlying property, there was no significant difference between the fair values of the investment property on 30 June 2015 and the fair value on 31 December 2014 based on the appraisal report.

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

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

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.

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

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

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

The parameters used are as followed:

	2015.9.30	2014.12.31	2014.9.30
Direct Capitalization rate (net)	2.50%	2.50%	2.50%
Discount Rate	2.225%	2.225%	2.225%

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

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

- (4) The real estate investments are held mainly for leasing purposes.
- (5) All the lease agreements of the Group's lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.
- (6) Rents from real estate investment are received annually, semiannually, quarterly, monthly or in a lump sum.
- (7) As of 30 September 2015, 31 December 2014, and 30 September 2014, no investments in real estate were pledged as collateral.

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15. Property and equipment

	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Cost:									
1 January 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	-	4,811	226,182	10,850	223,229	72,112	331	339,590	877,105
Acquisition from business combination	36,190	7,535	77,565	800	5,897	60,913	-	-	188,900
Transfers	-	641,953	43,849	1,202	404,287	-	-	(334,174)	757,117
Disposal	-	(925)	(243,255)	(6,264)	(89,434)	(2,770)	-	-	(342,648)
Reclassifications	-	-	-	-	(102)	-	-	-	(102)
Exchange difference	6,114	44,303	24,412	4,451	6,364	6,302	2	8,671	100,619
30 September 2015	<u>\$63,615,140</u>	<u>\$44,513,120</u>	<u>\$7,398,712</u>	<u>\$138,221</u>	<u>\$11,505,418</u>	<u>\$590,104</u>	<u>\$423,550</u>	<u>\$767,053</u>	<u>\$128,951,318</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	-	514	177,836	2,646	249,859	38,970	-	450,113	919,938
Transfers	(8,538,759)	(1,081,327)	55,965	19,967	236,893	(345)	-	(455,430)	(9,763,036)
Disposal	(16,717)	(6,642)	(319,617)	(15,829)	(137,852)	-	-	-	(496,657)
Exchange difference	2,107	6,565	6,249	1,217	(6,266)	791	-	2,206	12,869
30 September 2014	<u>\$63,643,702</u>	<u>\$43,807,052</u>	<u>\$7,256,000</u>	<u>\$122,674</u>	<u>\$10,718,170</u>	<u>\$438,283</u>	<u>\$423,217</u>	<u>\$765,186</u>	<u>\$127,174,284</u>
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	-	723,709	306,904	8,581	425,567	41,125	79,278	-	1,585,164
Transfers	-	-	18	-	(18)	-	-	-	-
Disposal	-	(621)	(242,958)	(5,073)	(80,358)	(2,599)	-	-	(331,609)
Reclassification	-	-	-	-	-	92	-	-	92
Exchange difference	-	5,805	16,538	3,188	3,040	3,633	-	-	32,204
30 September 2015	<u>\$105,610</u>	<u>\$19,262,214</u>	<u>\$6,277,687</u>	<u>\$92,948</u>	<u>\$9,401,506</u>	<u>\$349,509</u>	<u>\$289,075</u>	<u>\$-</u>	<u>\$35,778,549</u>
1 January 2014	\$105,610	\$17,621,796	\$6,214,639	\$85,461	\$8,721,079	\$254,227	\$103,995	\$-	\$33,106,807
Depreciation	-	844,334	309,860	7,743	363,736	55,616	59,442	-	1,640,731
Transfers	-	(156,058)	-	-	345	(345)	-	-	(156,058)
Disposal	-	(4,264)	(316,123)	(15,829)	(134,402)	-	-	-	(470,618)
Reclassification	-	-	-	-	-	39	-	-	39
Exchange difference	-	1,294	4,502	915	1,259	683	-	-	8,653
30 September 2014	<u>\$105,610</u>	<u>\$18,307,102</u>	<u>\$6,212,878</u>	<u>\$78,290</u>	<u>\$8,952,017</u>	<u>\$310,220</u>	<u>\$163,437</u>	<u>\$-</u>	<u>\$34,129,554</u>
30 September 2015	<u>\$63,509,530</u>	<u>\$25,250,906</u>	<u>\$1,121,025</u>	<u>\$45,273</u>	<u>\$2,103,912</u>	<u>\$240,595</u>	<u>\$134,475</u>	<u>\$767,053</u>	<u>\$93,172,769</u>
31 December 2014	<u>\$63,467,226</u>	<u>\$25,282,122</u>	<u>\$1,072,774</u>	<u>\$40,930</u>	<u>\$1,901,902</u>	<u>\$146,289</u>	<u>\$213,420</u>	<u>\$752,966</u>	<u>\$92,877,629</u>
30 September 2014	<u>\$63,538,092</u>	<u>\$25,499,950</u>	<u>\$1,043,122</u>	<u>\$44,384</u>	<u>\$1,766,153</u>	<u>\$128,063</u>	<u>\$259,780</u>	<u>\$765,186</u>	<u>\$93,044,730</u>

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

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

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16. Intangible assets

Cost:	Franchise	Trademark	Goodwill	Customer	Computer	Others	Total
				relationship	software		
1 January 2015	\$-	\$-	\$8,598,542	\$-	\$3,774,398	\$-	\$12,372,940
Addition-individual acquisition	-	-	-	-	240,957	-	240,957
Reduction	-	-	-	-	(176,697)	-	(176,697)
Acquisition from business combination	37,659,600	210,103	7,300,651	2,406,225	49,948	227,841	47,854,368
Transfers	-	-	-	-	169,758	-	169,758
Exchange difference	-	2,976	76,853	34,083	8,561	3,227	125,700
30 September 2015	<u>\$37,659,600</u>	<u>\$213,079</u>	<u>\$15,976,046</u>	<u>\$2,440,308</u>	<u>\$4,066,925</u>	<u>\$231,068</u>	<u>\$60,587,026</u>
1 January 2014	\$-	\$-	\$8,579,854	\$-	3,504,443	\$-	12,084,297
Addition-individual acquisition	-	-	-	-	168,555	-	168,555
Reduction	-	-	-	-	(75,753)	-	(75,753)
Transfers	-	-	-	-	82,131	-	82,131
Exchange difference	-	-	5,137	-	2,349	-	7,486
30 September 2014	<u>\$-</u>	<u>\$-</u>	<u>\$8,584,991</u>	<u>\$-</u>	<u>\$3,681,725</u>	<u>\$-</u>	<u>\$12,266,716</u>
Depreciation and impairment:							
1 January 2015	\$-	\$-	\$-	\$-	\$3,089,915	\$-	\$3,089,915
Amortization	519,846	-	-	6,205	250,680	1,865	778,596
Reduction	-	-	-	-	(141,205)	-	(141,205)
Exchange difference	-	-	-	11	7,179	3	7,193
30 September 2015	<u>\$519,846</u>	<u>\$-</u>	<u>\$-</u>	<u>\$6,216</u>	<u>\$3,206,569</u>	<u>\$1,868</u>	<u>\$3,734,499</u>
1 January 2014	\$-	\$-	\$-	\$-	\$2,860,866	\$-	\$2,860,866
Amortization	-	-	-	-	222,147	-	222,147
Reduction	-	-	-	-	(75,753)	-	(75,753)
Exchange difference	-	-	-	-	2,074	-	2,074
30 September 2014	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,009,334</u>	<u>\$-</u>	<u>\$3,009,334</u>
30 September 2015	<u>\$37,139,754</u>	<u>\$213,079</u>	<u>\$15,976,046</u>	<u>\$2,434,092</u>	<u>\$860,356</u>	<u>\$229,200</u>	<u>\$56,852,527</u>
31 December 2014	<u>\$-</u>	<u>\$-</u>	<u>\$8,598,542</u>	<u>\$-</u>	<u>\$684,483</u>	<u>\$-</u>	<u>\$9,283,025</u>
30 September 2014	<u>\$-</u>	<u>\$-</u>	<u>\$8,584,991</u>	<u>\$-</u>	<u>\$672,391</u>	<u>\$-</u>	<u>\$9,257,382</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

	<u>2015.9.30</u>	<u>2014.12.31</u>	<u>2014.9.30</u>
Designated financial assets at fair value through profit or loss at initial recognition:			
Bond Investment	\$40,451,501	\$32,746,635	\$-
Held for trading:			
Derivative financial instruments	114,571,181	74,723,447	34,728,283
Bond Investment	-	-	946,304
Security lending payables hedging	477,668	216,578	228,718
Security lending payables non-hedging	658,498	599,494	604,031
Subtotal	<u>115,707,347</u>	<u>75,539,519</u>	<u>36,507,336</u>
Total	<u>\$156,158,848</u>	<u>\$108,286,154</u>	<u>\$36,507,336</u>

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18. Commercial paper payables

	2015.9.30	2014.12.31	2014.9.30
Commercial paper payable	\$26,780,000	\$26,790,000	\$23,400,000
Less: Discount on commercial paper payable	(1,027)	-	-
Total	<u>\$26,778,973</u>	<u>\$26,790,000</u>	<u>\$23,400,000</u>
Average interest rates	<u>0.48%~0.84%</u>	<u>0.65%~1.25%</u>	<u>0.64%~0.92%</u>

19. Deposits

	2015.9.30	2014.12.31	2014.9.30
Check deposits	\$14,853,045	\$16,489,217	\$16,233,087
Demand deposits	369,673,101	314,453,948	309,462,424
Demand savings deposits	700,073,419	681,050,222	678,889,315
Time deposits	364,525,959	350,463,441	330,131,833
Negotiable Certificates of Deposit	4,719,500	5,290,200	5,826,100
fixed savings deposits	358,481,520	332,579,141	325,220,902
Remittances	2,073,691	1,975,974	1,999,705
Total	<u>\$1,814,400,235</u>	<u>\$1,702,302,143</u>	<u>\$1,667,763,366</u>

20. Bonds payable

	2015.9.30	2014.12.31	2014.9.30
Subordinated bonds payable-net	\$40,000,000	\$40,000,000	\$40,000,000
Subordinated financial debentures	65,545,445	67,283,839	66,864,138
Discount on financial debentures	(1,431)	(8,417)	(10,237)
Valuation adjustment	6,773	338,527	434,989
Total	<u>\$105,550,787</u>	<u>\$107,613,949</u>	<u>\$107,288,890</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 \$2,800,000 thousand with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.

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- (11) 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.
- (12) 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.
- (13) 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.
- (14) 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.
- (15) 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.
- (16) 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.
- (17) 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.
- (18) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

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21. Other financial liabilities

	2015.9.30	2014.12.31	2014.9.30
Separate account insurance products-liabilities	\$467,992,665	\$462,266,776	\$442,715,117
Principle received from the sale of structured products	75,118,387	79,842,351	72,840,621
Other financial liabilities	1,661,493	1,170,866	1,104,633
Total	\$544,772,545	\$543,279,993	\$516,660,371

22. Provisions

	2015.9.30	2014.12.31	2014.9.30
Unearned premium reserve	\$25,489,166	\$25,153,080	\$24,216,030
Reserve for life insurance liabilities	4,020,097,075	3,628,127,330	3,504,452,332
Special reserve	31,579,587	39,061,395	41,749,382
Reserve for claims	14,314,049	12,845,393	13,343,052
Premium deficiency reserve	21,442,180	17,494,328	18,454,670
Reserve for insurance contracts with feature of financial instruments	54,323,439	55,094,699	55,145,882
Foreign exchange volatility reserve	17,567,304	16,846,406	13,173,058
Reserve for Guarantees	102,973	121,414	116,714
Reserve for employee benefits liabilities	5,063,313	4,981,865	3,664,820
Contingent liabilities reserve	817,140	814,154	771,142
Other operating reserve	22,680	22,680	22,680
Other reserve	1,995,759	-	-
Total	\$4,192,814,665	\$3,800,562,744	\$3,675,109,762

(1) Life insurance subsidiaries

As of 30 September 2015, 31 December 2014, and 30 September 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:

	2015.9.30			2014.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Life insurance	\$3,508,022,430	\$5,695,668	\$3,513,718,098	\$3,180,129,656	\$6,423,897	\$3,186,553,553
Injury insurance	7,765,675	-	7,765,675	7,962,275	-	7,962,275
Health insurance	444,480,301	-	444,480,301	367,711,484	-	367,711,484
Annuity insurance	1,378,210	51,865,033	53,243,243	1,329,511	63,532,669	64,862,180
Investment-linked insurance	889,758	-	889,758	1,037,838	-	1,037,838
	<u>3,962,536,374</u>	<u>57,560,701</u>	<u>4,020,097,075</u>	<u>3,558,170,764</u>	<u>69,956,566</u>	<u>3,628,127,330</u>
Less ceded reserve for life insurance liabilities :						
Life insurance	167,271	-	167,271	74,461	-	74,461
Total	<u>\$3,962,369,103</u>	<u>\$57,560,701</u>	<u>\$4,019,929,804</u>	<u>\$3,558,096,303</u>	<u>\$69,956,566</u>	<u>\$3,628,052,869</u>

	2014.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$3,055,941,622	\$13,008,484	\$3,068,950,106
Injury insurance	7,932,066	-	7,932,066
Health insurance	354,298,430	-	354,298,430
Annuity insurance	1,264,505	70,937,363	72,201,868
Investment-linked insurance	1,069,862	-	1,069,862
Total	<u>\$3,420,506,485</u>	<u>\$83,945,847</u>	<u>\$3,504,452,332</u>

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Reserve for life insurance liabilities is summarized below:

	2015.1.1~2015.9.30			2014.1.1~2014.9.30		
	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	419,011,886	540,598	419,552,484	349,588,149	2,060,001	351,648,150
Recover	(157,669,494)	(14,170,485)	(171,839,979)	(93,733,098)	(57,881,950)	(151,615,048)
Losses (gains) on foreign exchange	28,948,842	(687,480)	28,261,362	6,116,147	(19,979)	6,096,168
Others (Note2)	114,074,376	1,921,502	115,995,878	-	-	-
Ending balance	3,962,536,374	57,560,701	4,020,097,075	3,420,506,485	83,945,847	3,504,452,332
Less ceded reserve for life insurance liabilities :						
Beginning balance (net)	74,461	-	74,461	-	-	-
Increase	87,209	-	87,209	-	-	-
Losses (gains) on foreign exchange	5,601	-	5,601	-	-	-
Ending balance (net)	167,271	-	167,271	-	-	-
Total	\$3,962,369,103	\$57,560,701	\$4,019,929,804	\$3,420,506,485	\$83,945,847	\$3,504,452,332

Note 1: Recover from major incident reserve and reserve for operation losses are included.

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

B. Unearned premium reserve:

	2015.9.30			2014.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance	\$480,923	\$-	\$480,923	\$425,156	\$-	\$425,156
Individual injury insurance	5,062,892	-	5,062,892	4,869,670	-	4,869,670
Individual health insurance	7,025,761	-	7,025,761	6,799,997	-	6,799,997
Group insurance	1,207,162	-	1,207,162	996,645	-	996,645
Investment-linked insurance	108,664	-	108,664	111,399	-	111,399
Total	13,885,402	-	13,885,402	13,202,867	-	13,202,867
Less ceded unearned premium reserve:						
Individual life insurance	99,749	-	99,749	126,985	-	126,985
Individual injury insurance	24,613	-	24,613	3,395	-	3,395
Individual health insurance	12,893	-	12,893	3,066	-	3,066
Group insurance	15,228	-	15,228	4,468	-	4,468
Total	152,483	-	152,483	137,914	-	137,914
Net	\$13,732,919	\$-	\$13,732,919	\$13,064,953	\$-	\$13,064,953

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	2014.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$401,931	\$-	\$401,931
Individual injury insurance	4,748,028	-	4,748,028
Individual health insurance	6,396,137	-	6,396,137
Group insurance	1,115,762	-	1,115,762
Investment-linked insurance	110,924	-	110,924
Total	12,772,782	-	12,772,782
Less ceded unearned premium reserve:			
Individual life insurance	114,383	-	114,383
Individual injury insurance	6,077	-	6,077
Individual health insurance	61	-	61
Group insurance	552	-	552
Total	121,073	-	121,073
Net	\$12,651,709	\$-	\$12,651,709

Unearned premium reserve is summarized below:

	2015.1.1~2015.9.30			2014.1.1~2014.9.30		
	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	13,455,837	-	13,455,837	12,721,592	-	12,721,592
Recover	(13,181,520)	-	(13,181,520)	(12,516,237)	-	(12,516,237)
Losses (gains) on foreign exchange	6,907	-	6,907	1,220	-	1,220
Others (note)	401,311	-	401,311	-	-	-
Ending balance	13,885,402	-	13,885,402	12,772,782	-	12,772,782
Less ceded unearned premium reserve:						
Beginning balance-Net	137,914	-	137,914	321,982	-	321,982
Increase	2,234	-	2,234	-	-	-
Decrease	(31,172)	-	(31,172)	(200,656)	-	(200,656)
Losses (gains) on foreign exchange	189	-	189	(253)	-	(253)
Others (note)	43,318	-	43,318	-	-	-
Total	152,483	-	152,483	121,073	-	121,073
Ending balance-Net	\$13,732,919	\$-	\$13,732,919	\$12,651,709	\$-	\$12,651,709

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

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C. Reserve for claims:

	2015.9.30			2014.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
Individual life insurance						
— Reported but not paid claim	\$157,525	\$-	\$157,525	\$112,000	\$797	\$112,797
— Unreported claim	88,253	-	88,253	58,655	-	58,655
Individual injury insurance						
— Reported but not paid claim	101,655	-	101,655	100,465	-	100,465
— Unreported claim	1,410,832	-	1,410,832	1,219,643	-	1,219,643
Individual health insurance						
— Reported but not paid claim	170,789	-	170,789	143,747	-	143,747
— Unreported claim	2,155,189	-	2,155,189	1,844,235	-	1,844,235
Group insurance						
— Reported but not paid claim	81,263	-	81,263	76,193	-	76,193
— Unreported claim	1,268,158	-	1,268,158	1,129,083	-	1,129,083
Investment-linked insurance						
— Reported but not paid claim	4,451	-	4,451	5,820	-	5,820
— Unreported claim	2,404	-	2,404	-	-	-
Total	5,440,519	-	5,440,519	4,689,841	797	4,690,638
Less ceded reserve for claims:						
Individual life insurance	3,408	-	3,408	-	-	-
Individual injury insurance	12,768	-	12,768	-	-	-
Individual health insurance	19,956	-	19,956	17,456	-	17,456
Group insurance	41,579	-	41,579	-	-	-
Total	77,711	-	77,711	17,456	-	17,456
Net	\$5,362,808	\$-	\$5,362,808	\$4,672,385	\$797	\$4,673,182

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	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Individual life insurance			
— Reported but not paid claim	\$176,193	\$797	\$176,990
— Unreported claim	62,327	-	62,327
Individual injury insurance			
— Reported but not paid claim	112,377	-	112,377
— Unreported claim	1,216,330	-	1,216,330
Individual health insurance			
— Reported but not paid claim	171,742	-	171,742
— Unreported claim	1,853,831	-	1,853,831
Group insurance			
— Reported but not paid claim	77,459	-	77,459
— Unreported claim	1,207,689	-	1,207,689
Investment-linked insurance			
— Reported but not paid claim	7,238	-	7,238
Total	4,885,186	797	4,885,983
Less ceded reserve for claims:			
Individual health insurance	16,926	-	16,926
Net	\$4,868,260	\$797	\$4,869,057

Reserve for claims is summarized below:

	2015.1.1~2015.9.30			2014.1.1~2014.9.30		
	Financial instruments with discretionary		Total	Financial instruments with discretionary		Total
	Insurance contract	participation feature		Insurance contract	participation feature	
Beginning balance	\$4,689,841	\$797	\$4,690,638	\$4,639,993	\$1,091	\$4,641,084
Reserve	4,813,192	-	4,813,192	4,747,472	797	4,748,269
Recover	(4,530,642)	(797)	(4,531,439)	(4,502,555)	(1,091)	(4,503,646)
Losses (gains) on foreign exchange	7,767	-	7,767	276	-	276
Others (note)	460,361	-	460,361	-	-	-
Ending balance	5,440,519	-	5,440,519	4,885,186	797	4,885,983
Less ceded reserve for claims:						
Beginning balance-Net	17,456	-	17,456	16,875	-	16,875
Increase	7,407	-	7,407	16	-	16
Decrease	(16,770)	-	(16,770)	-	-	-
Losses (gains) on foreign exchange	30	-	30	35	-	35
Others (note)	69,588	-	69,588	-	-	-
Total	77,711	-	77,711	16,926	-	16,926
Net	\$5,362,808	\$-	\$5,362,808	\$4,868,260	\$797	\$4,869,057

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

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D. Special reserve:

	2015.9.30				2014.12.31			
	Financial instruments with discretionary participation		Other	Total	Financial instruments with discretionary participation		Other	Total
	contract	feature			contract	feature		
Participating policies dividends reserve	\$(37,257)	\$-	\$-	\$(37,257)	\$1,631	\$-	\$-	\$1,631
dividends reserve	38,553	-	-	38,553	-	-	-	-
Special reserve for revaluation								
increments of property	-	-	27,946,619	27,946,619	-	-	35,416,619	35,416,619
Others	-	-	-	-	4,008	-	-	4,008
Total	\$1,296	\$-	\$27,946,619	\$27,947,915	\$5,639	\$-	\$35,416,619	\$35,422,258

	2014.9.30			
	Financial instruments with discretionary participation		Other	Total
	contract	feature		
Participating policies dividends reserve	\$1,492	\$-	\$-	\$1,492
Special reserve for revaluation				
increments of property	-	-	37,946,619	37,946,619
Others	1,770	-	-	1,770
Total	\$3,262	\$-	\$37,946,619	\$37,949,881

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Special reserve is summarized below:

	2015.1.1~2015.9.30				2014.1.1~2014.9.30			
	Financial instruments with discretionary participation		Financial instruments with discretionary participation		Financial instruments with discretionary participation		Financial instruments with discretionary participation	
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Beginning balance	\$5,639	\$-	\$35,416,619	\$35,422,258	\$3,682	\$-	\$45,416,619	\$45,420,301
Reserves for participating policies								
dividends reserve	25,350	-	-	25,350	878	-	-	878
Participating policies								
dividends recover	(1,122)	-	-	(1,122)	(1,317)	-	-	(1,317)
dividends reserve	(24,563)	-	-	(24,563)	-	-	-	-
Special reserve for revaluation								
increments of property (note1)	-	-	(7,470,000)	(7,470,000)	-	-	(7,470,000)	(7,470,000)
Other- Participating policies								
dividends reserve (note2)	(63,116)	-	-	(63,116)	-	-	-	-
Other-Reserves								
for dividend risk(note2)	63,116	-	-	63,116	-	-	-	-
Decrease	(3,929)	-	-	(3,929)	-	-	-	-
Exchange difference	(79)	-	-	(79)	19	-	-	19
Ending balance	\$1,296	\$-	\$27,946,619	\$27,947,915	\$3,262	\$-	\$37,946,619	\$37,949,881

Note 1: 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.

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

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E. Premium deficiency reserve:

	2015.9.30			2014.12.31		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
	Individual life insurance	\$19,130,902	\$-	\$19,130,902	\$16,583,715	\$-
Individual health insurance	1,957,733	-	1,957,733	710,087	-	710,087
Group insurance	9,117	-	9,117	762	-	762
Total	\$21,097,752	\$-	\$21,097,752	\$17,294,564	\$-	\$17,294,564

	2014.9.30		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
	Individual life insurance	\$17,658,322	\$-
Individual health insurance	624,383	-	624,383
Group insurance	938	-	938
Total	\$18,283,643	\$-	\$18,283,643

Premium deficiency reserve is summarized below:

	2015.1.1~2015.9.30			2014.1.1~2014.9.30		
	Financial instruments with discretionary			Financial instruments with discretionary		
	Insurance contract	participation feature	Total	Insurance contract	participation feature	Total
	Beginning balance	\$17,294,564	\$-	\$17,294,564	\$19,629,253	\$-
Reserve	2,441,139	-	2,441,139	303,195	-	303,195
Recover	(1,233,254)	-	(1,233,254)	(1,804,034)	-	(1,804,034)
Losses (gains) on foreign exchange	273,081	-	273,081	155,229	-	155,229
Others (note)	2,322,222	-	2,322,222	-	-	-
Ending balance	\$21,097,752	\$-	\$21,097,752	\$18,283,643	\$-	\$18,283,643

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

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F. Other reserve:

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

Other reserve is summarized below:

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

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

G. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature		
	2015.9.30	2014.12.31	2014.9.30
Reserve for life insurance liabilities	\$4,020,097,075	\$3,628,127,330	\$3,504,452,332
Unearned premium reserve	13,885,402	13,202,867	12,772,782
Premium deficiency reserve	21,097,752	17,294,564	18,283,643
Other reserve	1,995,759	-	-
Total	\$4,057,075,988	\$3,658,624,761	3,535,508,757
Book value of insurance liabilities	\$4,057,075,988	\$3,658,624,761	3,535,508,757
Estimated present value of cash flows	\$3,243,159,633	\$2,940,198,715	2,873,147,728
Balance of liability adequacy reserve	\$-	\$-	\$-

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

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

	2015.9.30	2014.12.31	2014.9.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2015. (2) Discount rate: The acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. was settled on 1 July 2015. Under the assets allocation plan on 31 July 2015, the discount rates were calculated using the best estimated scenario investment return based on 2014 actuary report, 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: Under asset allocation condition of 30 September 2014, 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 30 September 2014. (2) Discount rate: Under asset allocation condition of 30 June 2014, 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.

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

	2015.9.30	2014.12.31	2014.9.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 30 September 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on 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 30 September 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.

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

Life insurance subsidiaries issues non-investment-linked insurance contract without discretionary participation feature of financial instruments. As of 30 September 2015, 31 December 2014 and 30 September 2014, reserve for insurance contract with feature of financial instruments is summarized below:

	2015.9.30	2014.12.31	2014.9.30
Life insurance	\$54,315,232	\$55,090,662	\$55,144,587
Investment-linked insurance	8,207	4,037	1,295
Total	\$54,323,439	\$55,094,699	\$55,145,882

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	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Beginning balance	\$55,094,699	\$57,596,449
Premiums (returned) received	543,267	707,763
Insurance claim payments	(1,585,102)	(3,294,169)
Net provision of statutory reserve	175,003	126,161
Losses (gains) on foreign exchange	95,572	9,678
Ending balance	<u>\$54,323,439</u>	<u>\$55,145,882</u>

I. Foreign exchange volatility reserve

(A) The hedge strategy and risk exposure:

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

(B) Adjustment in foreign exchange volatility reserve:

	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Beginning balance	\$16,846,406	\$10,482,181
Reserve:		
Compulsory reserve	2,729,671	2,176,201
Extra reserve	5,783,111	3,892,579
Subtotal	8,512,782	6,068,780
Recover	(8,040,203)	3,377,903
Acquisition from business combination	248,319	-
Ending balance:	<u>\$17,567,304</u>	<u>\$13,173,058</u>

(C) Effects due to foreign exchange volatility reserve:

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

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2014.1.1~2014.9.30			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$46,899,454	\$44,666,027	\$(2,233,427)
Earnings per share	3.71	3.53	(0.18)
Foreign exchange volatility reserve	-	13,173,058	13,173,058
Equity	409,841,753	402,652,582	(7,189,171)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

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

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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
		business	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

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

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

Item	2015.1.1~2015.9.30		2014.1.1~2014.9.30	
	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	11,580,354	2,613,418	11,433,551	2,630,425
Recover	(11,950,105)	(2,749,932)	(11,206,568)	(2,494,813)
Effects of exchange rate changes	23,302	2,032	2,796	2,273
Ending balance	\$11,603,764	\$2,615,937	\$11,443,248	\$2,632,975

B. Claims reserve

a. Claims reserve and ceded claims reserve

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

Item	2014.12.31			
	Claims reserve		Ceded claims reserve	Retained business
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$4,073,887	\$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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2014.9.30				
Item	Claims reserve		Ceded claims reserve	Retained business
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$4,409,607	\$251,293	\$1,418,466	\$3,242,434
Unreported claims	3,579,610	216,559	969,232	2,826,937
Total	\$7,989,217	\$467,852	\$2,387,698	\$6,069,371

b. Net changes for claims reserve and ceded claims reserve

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

2014.1.1~2014.9.30								
Item	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded claims reserve (8)=(6)-(7)
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)		(6)	(7)	
Claims reported but not paid off	\$4,399,489	\$3,882,078	\$251,292	\$307,234	\$461,469	\$1,414,241	\$1,350,397	\$63,844
Unreported claims	3,575,002	1,786,588	216,554	59,076	1,945,892	968,319	312,701	655,618
Total	\$7,974,491	\$5,668,666	\$467,846	\$366,310	\$2,407,361	\$2,382,560	\$1,663,098	\$719,462

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

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

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

d. Reinsurance asset- ceded claims reserve for policyholder

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

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

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2015.1.1~2015.9.30		2014.1.1~2014.9.30	
	Claims reserve	Ceded claims	Claims reserve	Ceded claims
		reserve		reserve
Beginning balance	\$8,154,755	\$2,249,673	\$6,041,523	\$1,663,767
Reserve	8,843,463	2,284,568	8,442,337	2,382,560
Recover	(8,145,881)	(2,241,036)	(6,034,976)	(1,663,098)
Effects of exchange rate changes	21,193	(409)	8,185	4,469
Ending balance	\$8,873,530	\$2,292,796	\$8,457,069	\$2,387,698

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30
Beginning balance	\$1,528,545	\$2,225,672
Reserve	116,606	25,290
Recover	(124,071)	(580,781)
Ending balance	\$1,521,080	\$1,670,181

b. Special reserve - Non-compulsory automobile liability insurance

Item	Liability					
	2015.1.1~2015.9.30			2014.1.1~2014.9.30		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$524,353	\$1,586,239	\$2,110,592	\$543,080	\$1,586,240	\$2,129,320
Reserve	-	-	-	-	-	-
Recover	-	-	-	-	-	-
Ending balance	\$524,353	\$1,586,239	\$2,110,592	\$543,080	\$1,586,240	\$2,129,320

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“Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”, “Regulations for the Management of the Various Reserves for the nuclear Insurance”, and other reserves do not have material impact on the Cathay Century profit and earnings per share. The special reserve under liabilities increased \$1,277,740 thousand and special earnings capital under equity decreased \$281,358 thousand.

D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

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

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2014.12.31				
Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed	Ceded	
		business	reinsurance	reinsurance
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

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

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

2015.1.1~2015.9.30									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$34	\$-	\$-	\$-	\$34	\$595	\$-	\$595	\$(561)
Marine insurance	-	-	-	7	(7)	54	(1,183)	1,237	(1,244)
Land and air insurance	-	-	9,368	1,095	8,273	-	-	-	8,273
Liability insurance	13,474	14,913	(7)	5	(1,451)	7,447	2,073	5,374	(6,825)
Bonding insurance	73	510	-	-	(437)	23	8	15	(452)
Other property insurance	258,364	137,114	66	1	121,315	2,764	38,621	(35,857)	157,172
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	57,044	46,321	-	-	10,723	-	-	-	10,723
Total	\$328,989	\$198,858	\$9,427	\$1,108	\$138,450	\$10,883	\$39,519	\$(28,636)	\$167,086

2014.1.1~2014.9.30									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business		Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)		(6)	(7)		
Fire insurance	\$286	\$4,209	\$1	\$91	\$(4,013)	\$-	\$-	\$-	\$(4,013)
Marine insurance	-	159	13	2	(148)	(3,367)	(8,736)	5,369	(5,517)
Land and air insurance	-	-	557	377	180	(229)	(329)	100	80
Liability insurance	16,658	27,338	10	11	(10,681)	2,283	3,462	(1,179)	(9,502)
Bonding insurance	22	10,288	-	-	(10,266)	4	9,698	(9,694)	(572)
Other property insurance	107,955	160,035	10	422	(52,492)	34,304	-	34,304	(86,796)
Accident insurance	-	-	16	97	(81)	-	-	-	(81)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	44,035	39,051	-	-	4,984	-	-	-	4,984
Total	\$168,956	\$241,080	\$607	\$1,000	\$(72,517)	\$32,995	\$4,095	\$28,900	\$(101,417)

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

Item	2015.1.1~2015.9.30		2014.1.1~2014.9.30	
	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	338,416	10,883	169,563	32,995
Recover	(199,966)	(39,519)	(242,080)	(4,095)
Effects of exchange rate changes	6,214	240	(62)	294
Ending balance	\$344,428	\$11,082	\$171,027	\$33,312

- 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.

23. Post-employment benefits

- (1) Defined contribution plans

The Group recognized expenses for defined contribution plans amounted to \$369,554 thousand, \$359,669 thousand, \$1,049,123 thousand, and \$980,630 thousand for the three-month and nine-month periods ended 30 September 2015 and 2014, respectively, and were recorded as “Employee benefits expenses”.

- (2) Defined benefit plans

The Group recognized expenses for defined benefit plans amounted to \$142,427 thousand, \$91,897 thousand, \$426,762 thousand, and \$302,122 thousand for the three-month and nine-month periods ended 30 September 2015 and 2014, respectively, and were recorded as “Employee benefits expenses”.

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(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 \$78,228 thousand, \$76,014 thousand, \$234,806 thousand, and \$228,744 thousand for the three-month and nine-month periods ended 30 September 2015 and 2014, respectively, and were recorded as “Employee benefits expenses”.

24. Common Stock

- (1) As of 30 September 2015, 31 December 2014, and 30 September 2014, all the authorized share capital amounted to \$180,000,000 thousand, and all the issued share capital amounted to \$125,632,102 thousand with 12,563,210 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.
- (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

	2015.9.30	2014.12.31	2014.9.30
Additional paid-in capital	\$84,858,972	\$84,858,972	\$84,858,972
Treasury share transactions	2,539,377	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142	29,142
Additional paid-in capital-Employee stock option	203,408	203,408	203,408
Convertible bonds to convert	1,144,486	1,144,486	1,144,486
Others	5,789	6,919	6,919
Total	\$88,781,174	\$88,782,304	\$88,782,304

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- (1) The capital surplus of the Company consists of consolidation premium from share exchange, additional paid-in capital from issuance of shares for cash accumulated adjustments on paid-in capital from investment under equity method, and transactions of treasury stocks and employee stock options. Capital surplus were \$88,781,174 thousand, \$88,782,304 thousand, and \$88,782,304 thousand as of 30 September 2015, 31 December 2014, and 30 September 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".
- (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 12 June 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.

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(2) Special reserve

- A. According to the legal interpretations No.1010012865 issued by Financial Supervisory Commission on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Group is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Group did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.
- B. Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company appropriated to the special reserve an amount of \$333,598 thousand during the year ended 31 December 2011.
- C. In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the "Special Reserve for Major Incidents" and "Special Reserve for Fluctuation of Risks" amounted to \$9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of \$4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of \$3,744,467 thousand. The Company has appropriated to the special reserve an amount of \$3,744,467 thousand during the year ended 31 December 2013.

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D. Cathay Life has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall be set aside an equal amount of retained earnings; the residual amount should be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount \$2,994,565 thousand shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861. The Company appropriated to the special reserve an amount of \$2,994,565 thousand during the year ended 31 December 2013.

E. In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. According to Order No. Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the group shall set aside an equal amount of special reserve when transfer the fair value increment of investment properties to retained earnings. The Company appropriated to the special reserve an amount of \$75,242,150 thousand on 31 December 2013.

The Group also reclassified \$33,796 thousand and \$9,166 thousand of special reserve to undistributed earnings due to the Group's reclassification of relevant assets which are used, disposed of, reclassified by Cathay Bank for the nine-month periods ended 30 September 2015 and 2014.

As of 30 September 2015, 31 December 2014, 30 September 2014, the special reserves amounted to \$75,232,984 thousand, \$75,232,984 thousand, \$75,232,984 thousand, respectively.

F. In 2015, Cathay Life'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.

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G. Cathay Century's special reserves for major incidents and special reserve for fluctuation of risks shall be recorded as special reserve at the end of year. As of 30 September 2015, the reserves amounted to \$1,949,825 thousand.

H. In accordance with Jin-Guan-Bao-Cai-Zi No. 10402029590, the Company recognized special capital reserve amounting to \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

(3) Undistributed earnings

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

B. The Company cannot distribute overdue undistributed earnings. Before 2004, the Company has to pay an extra 10% income tax on approved taxable income. From (including) 2005, the calculation of extra 10% income tax should be based on current-year net income (after tax) generated according to Business Entity Accounting Act. Earnings that have been taxed will not be taxed again if the earnings are not distributed in the following years.

C. According to Article 41 of Securities and Exchange Act, when distributing earnings, listed companies shall appropriate, in addition to legal reserve, special reserve equal to net deductions from shareholders' equity. The special reserve for the current year's net deductions shall be appropriated from current year's net income and prior periods' accumulated undistributed earnings. The special reserve for the prior periods' net deductions shall be appropriated only from prior periods' accumulated undistributed earnings. For any subsequent reversal of net deductions from shareholders' equity, the amount reversed may be distributed.

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D. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employee remuneration”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria.

E. Details of the years ended 31 December 2014 and 2013 earnings distribution and dividends per share as approved by the shareholders’ meeting on 12 June 2015 and 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 2014’s earning and the estimated amount in the financial statements for the year ended 31 December 2014.

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.

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27. Non-controlling interests

	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Beginning balance	\$5,639,845	\$4,180,340
Net income attributed to non-controlling interests	454,079	259,327
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	215,678	81,923
Unrealized gains from available-for-sale financial assets	(24,940)	76,300
Changes in non-controlling interests	(218,883)	801,603
Ending balance	<u>\$6,065,779</u>	<u>\$5,399,493</u>

28. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Employee benefits expense				
Salary and wages	\$7,429,399	\$7,044,841	\$22,254,374	\$20,284,414
Labor and health insurance	817,768	823,369	2,439,819	2,391,829
Pension expense	534,418	519,022	1,544,615	1,459,452
Other employee benefits	732,187	611,902	1,983,925	1,718,177
Depreciation	530,915	543,833	1,585,164	1,640,731
Amortization	612,103	79,188	779,889	223,423

The Company estimated the amounts of the employee bonuses and remunerations to directors and supervisors for the nine-month period ended 30 September 2015 based on actual profit of the year. The estimated employee bonuses and remunerations to directors and supervisors are recognized as operating costs or operating expenses for the period. If the board of directors modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The employee bonuses and remunerations to directors and supervisors for the three-month periods and nine-month periods ended 30 September 2015 were NT\$525 thousand and NT\$1,575 thousand, respectively.

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The Company estimated the amounts of the employee bonuses and remunerations to directors and supervisors for the nine-month period ended 30 September 2014 based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remunerations to directors and supervisors are recognized as operating costs or operating expenses for the period. If the board of directors modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The employee bonuses and remunerations to directors and supervisors for the three-month periods and nine-month periods ended 30 September 2015 were NT\$525 thousand and NT\$1,575 thousand, respectively.

As of 30 September 2015, and 30 September 2014, the total numbers of the employees of the Group were 45,495, and 44,023, respectively.

29. The Components of other comprehensive income

For the three-month period ended 30 September 2015

	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax	
Arising during the period	during the period	comprehensive income	benefit (expense)	income, net of tax	
Not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(6,411)	\$-	\$(6,411)	\$1,090	\$(5,321)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	764,361	-	764,361	(129,942)	634,419
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	3,261,402	-	3,261,402	(265,892)	2,995,510
Unrealized gains (losses) from available-for-sale financial assets	(48,539,132)	5,034,703	(43,504,429)	1,599,036	(41,905,393)
Gains (losses) on cash flow hedges	205,406	(36,218)	169,188	(28,763)	140,425
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	301,726	-	301,726	(6,607)	295,119
Total	\$(44,012,648)	\$4,998,485	\$(39,014,163)	\$1,168,922	\$(37,845,241)

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For the three-month period ended 30 September 2014

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Gains from revaluation	\$29,441	\$-	\$29,441	\$(5,884)	\$23,557
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	394,500	-	394,500	(69,554)	324,946
Unrealized gains (losses) from available-for-sale financial assets	(18,027,836)	(6,613,215)	(24,641,051)	153,067	(24,487,984)
Gains (losses) on cash flow hedges	(39,244)	(107,515)	(146,759)	24,792	(121,967)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	404	-	404	-	404
Total	\$(17,642,735)	\$(6,720,730)	\$(24,363,465)	\$102,421	\$(24,261,044)

For the nine-month period ended 30 September 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:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(5,654)	\$-	\$(5,654)	\$961	\$(4,693)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	1,022,064	-	1,022,064	(173,751)	848,313
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	2,276,383	-	2,276,383	(167,279)	2,109,104
Unrealized gains (losses) from available-for-sale financial assets	(36,298,048)	(30,717,364)	(67,015,412)	3,812,993	(63,202,419)
Gains (losses) on cash flow hedges	284,689	(112,633)	172,056	(29,887)	142,169
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	106,024	-	106,024	29,447	135,471
Total	\$(32,614,542)	\$(30,829,997)	\$(63,444,539)	\$3,472,484	\$(59,972,055)

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For the nine-month period ended 30 September 2014

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Gains from revaluation	\$931,776	\$-	\$931,776	\$(80,610)	\$851,166
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	13,029	-	13,029	(54,824)	(41,795)
Unrealized gains (losses) from available-for-sale financial assets	15,066,575	(22,347,999)	(7,281,424)	378,836	(6,902,588)
Gains (losses) on cash flow hedges	55,209	(377,256)	(322,047)	53,662	(268,385)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	21,272	(13)	21,259	-	21,259
Total	\$16,087,861	\$(22,725,268)	\$(6,637,407)	\$297,064	\$(6,340,343)

30. Income taxes

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

Income tax expense recognized in profit or loss

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30
Current income tax expense (income):		
Current income tax charge	\$(5,891,955)	\$994,538
Adjustments in respect of current income tax of prior periods	384,629	7,831
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	6,477,297	(379,653)
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	338,828	1,525,554
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)	(852,765)	697,649
Total income tax expense	\$555,272	\$2,845,919

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	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Current income tax expense (income):		
Current income tax charge	\$ (3,208,470)	\$ 2,650,167
Adjustments in respect of current income tax of prior periods	(28,592)	(254,192)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	9,966,595	4,353,278
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	(202,656)	(2,267,322)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	297,715	-
Other components of deferred tax expense (income)	1,574,593	1,096,587
Total income tax expense	<u>\$8,399,185</u>	<u>\$5,578,518</u>

Income tax relating to components of other comprehensive income

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30
Current income tax expense:		
Current income tax charge	\$-	\$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	129,942	-
Exchange difference resulting from translating the financial statements of a foreign operation	265,892	69,554
Unrealized gains (losses) from available-for-sale financial assets	(1,599,036)	(153,067)
Losses on cash flow hedges	28,763	(24,792)
Gains from revaluation	-	5,884
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	5,517	-
Income tax relating to components of other comprehensive income	<u>\$ (1,168,922)</u>	<u>\$ (102,421)</u>

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	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Current income tax expense:		
Current income tax charge	\$-	\$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	173,751	-
Exchange difference resulting from translating the financial statements of a foreign operation	167,279	54,824
Unrealized gains (losses) from available-for-sale financial assets	(3,812,993)	(378,836)
Losses on cash flow hedges	29,887	(53,662)
Gains from revaluation	-	80,610
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(30,408)	-
Income tax relating to components of other comprehensive income	<u><u>\$(3,472,484)</u></u>	<u><u>\$(297,064)</u></u>

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

	2015.9.30	
	Income tax returns examined by tax authorities	Notes
The Company	through 2009	-
Cathay Life	through 2009	Cathay Life was in the process of administrative remedy for 2006 and 2007 and re-examination for 2009.
Cathay United Bank	through 2009	Cathay United Bank was in the process of administrative remedy for 2008 and re-examination for 2009.
Cathay Century	through 2009	Cathay Century was in the process of administrative remedy for 2006 and 2007.
Cathay Securities	through 2009	Cathay Securities was in the process of administrative remedy for 2007 and re-examination for 2009.
Cathay Venture	through 2009	-
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.

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(3) Information related to imputation credit account:

	2015.9.30	2014.12.31	2014.9.30
Balance of imputation credit account	\$385,031	\$15,952	\$15,062

The Company's cash dividends-imputed tax credit ratio applied to actual distribution was 2.02% for the year ended 31 December 2014. The cash dividends-imputed and stock dividends-imputed tax credit rates applied to actual distribution were 2.42% and 1.23% for the year ended 31 December 2013, 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.

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Basic earnings per share (\$)				
Profit attributable to ordinary equity holders of the Company (in thousand)	\$13,535,384	\$14,006,036	\$54,430,674	\$44,406,700
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,563,210	12,563,210	12,563,210
Basic earnings per share (\$)	\$1.07	\$1.11	\$4.33	\$3.53

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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32. Business combinations

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

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

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

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The fair value of the abovementioned receivables was \$10,822,864 thousand. The Company and Subsidiaries expect that the assumed investments from business combination would be recovered from settlement or repayment when due.

In accordance with Jin-Guan-Bao-Cai-Zi No. 10402029590, the Company recognized special capital reserve amounting to \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

The goodwill of \$2,918,390 thousand comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Due to the contractual terms imposed on the acquisition, the customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 *Intangible Assets*. The goodwill recognized is expected to be fully deductible for income tax purposes.

From the acquisition date, the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. has no effect on the revenue from the continuing operations or income from continuing operations before income tax of the Company and Subsidiaries. If the combination had taken place at the beginning of the year, revenue from the continuing operations would have been \$544,850,635 thousand and income from continuing operations before income tax for the Company and Subsidiaries would have been \$40,654,324 thousand.

(2) Acquisition of subsidiary

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

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

	Fair value recognized on the acquisition date	
Purchase consideration		\$7,839,676
Cash and cash equivalents	\$861,131	
Receivables	859,351	
Debt instrument investments for which no active market exists	2,956	
Property and equipment	131,862	
Intangible assets (Except for goodwill)	2,877,684	
Other assets	139,081	
Payables	(955,402)	
Provisions	(253,643)	
Deferred tax liabilities	(32,530)	
Other liabilities	(85,681)	
Non-controlling interests	(78,765)	
Identifiable net assets acquired at fair value	\$3,466,044	
Acquisition ratio	100%	
Intangible assets (Goodwill)		\$4,373,632

From the acquisition date, the acquisition of Conning Holdings Limited has no effect on the revenue from the continuing operations or income from continuing operations before income tax of the Company and Subsidiaries. If the combination had taken place at the beginning of the year, revenue from the continuing operations would have been \$538,242,583 thousand and the income from continuing operations before income tax for the Company and Subsidiaries would have been \$43,047,731 thousand.

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

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

For the nine-month period ended 30 September 2014			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,524,914	Decrease (increase) 1,265,679
Expense	×1.05 (×0.95)	Decrease (increase) 1,878,291	Decrease (increase) 1,558,982
Surrender rates	×1.05 (×0.95)	Increase (decrease) 312,099	Increase (decrease) 259,042
Rate of return	+0.1%	Increase 2,766,049	Increase 2,295,821
Rate of return	-0.1%	Decrease 2,768,089	Decrease 2,297,514

(B) Cathay Lujiazui Life

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

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

(C) Cathay Life (Vietnam)

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

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

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- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the nine-month periods ended 30 September 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.
- 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.

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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.

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.

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(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	Ultimate claim	
2009	18,936,765	22,174,762	22,467,101	22,555,725	22,612,133	22,644,896	22,663,763	22,702,551	38,788
2010	14,400,027	17,650,397	17,933,114	18,022,949	18,094,831	18,122,433	18,139,734	18,144,135	21,702
2011	15,168,943	18,795,885	19,145,224	19,243,043	19,297,878	19,329,595	19,348,002	19,353,460	55,582
2012	15,116,152	18,469,124	18,791,133	18,884,255	18,939,938	18,968,661	18,985,797	18,990,053	105,798
2013	14,163,099	17,585,826	17,907,950	17,982,797	18,024,214	18,047,223	18,062,242	18,066,366	158,416
2014	14,347,348	17,747,138	18,031,588	18,105,452	18,145,540	18,168,307	18,183,665	18,187,296	440,158
2015	14,678,915	17,907,683	18,187,924	18,260,081	18,298,757	18,321,029	18,336,273	18,340,152	3,819,020

Expected future payment	\$4,639,464
Less: Expected reported but not paid claim	(116,180)
Add: Assumed reserve for incurred but not reported claim	58,921
Reserve for unreported claim	4,582,205
Add: Reported but not paid claim	473,982
Claims reserve balance	<u>\$5,056,187</u>

b. Retained business development trend

Accident year	Development year								Expected future payment
	1	2	3	4	5	6	7	Ultimate claim	
2009	17,825,362	20,725,695	20,984,483	21,063,956	21,118,149	21,144,651	21,163,793	21,194,538	30,745
2010	12,547,076	15,122,349	15,319,936	15,392,411	15,463,216	15,491,250	15,508,814	15,512,059	20,809
2011	13,215,428	16,091,737	16,346,395	16,435,216	16,490,625	16,522,661	16,541,352	16,545,390	54,765
2012	13,287,366	16,026,940	16,316,886	16,409,137	16,465,547	16,494,659	16,512,142	16,515,517	106,380
2013	12,856,509	16,055,245	16,379,599	16,455,204	16,497,445	16,520,894	16,536,306	16,539,701	160,102
2014	14,332,897	17,744,652	18,031,266	18,105,484	18,146,171	18,169,258	18,184,901	18,187,877	443,225
2015	14,743,581	17,991,003	18,274,594	18,347,460	18,386,887	18,409,560	18,425,160	18,428,428	3,822,211

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

Expected future payment	\$4,638,237
Less: Expected reported but not paid claim	(116,180)
Add: Reported but not paid claim	457,135
Retained claims reserve balance	<u>\$4,979,192</u>

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B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q4~2009Q3	29	57	59	59	59	59	59	-
2009Q4~2010Q3	873	3,510	3,523	3,523	3,523	3,523	3,523	-
2010Q4~2011Q3	10,026	19,311	20,166	20,166	20,166	20,166	20,166	-
2011Q4~2012Q3	55,281	124,916	131,472	131,472	131,472	131,472	131,472	-
2012Q4~2013Q3	103,918	207,970	221,282	221,282	221,282	221,282	221,282	-
2013Q4~2014Q3	139,874	385,016	405,443	405,443	405,443	405,443	405,443	20,427
2014Q4~2015Q3	159,009	512,411	515,284	515,284	515,284	515,284	515,284	356,275

Expected future payment	\$376,702
Less: Expected reported but not paid claim	(34,505)
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	342,197
Add: Reported but not paid claim	41,562
Claims reserve balance	<u>\$383,759</u>

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2008Q4~2009Q3	29	57	59	59	59	59	59	-
2009Q4~2010Q3	873	3,510	3,523	3,523	3,523	3,523	3,523	-
2010Q4~2011Q3	10,026	19,311	20,166	20,166	20,166	20,166	20,166	-
2011Q4~2012Q3	55,281	124,916	131,472	131,472	131,472	131,472	131,472	-
2012Q4~2013Q3	103,918	207,824	221,133	221,133	221,133	221,133	221,133	-
2013Q4~2014Q3	129,019	391,355	403,349	403,349	403,349	403,349	403,349	11,994
2014Q4~2015Q3	149,058	500,801	513,050	513,050	513,050	513,050	513,050	363,992

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

Expected future payment	\$375,986
Less: Expected reported but not paid claim	(34,505)
Add: Reported but not paid claim	41,562
Retained claims reserve balance	<u>\$383,043</u>

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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.

On 1 July 2015, the Company acquired assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd.. However, these three companies disclose claim payments differently in both calculation methods and disclosure period in the “direct business development trend table” and “retained business development trend table”. For the accumulated claims of each event year presented above the diagonal line in the table, the Company originally disclosed the actual amount from the 4th quarter of prior year to the 3rd quarter of current year for each corresponding year. Nonetheless, Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. disclosed the amount from the 1st quarter to the 4th quarter of current year for each year. In addition, both companies disclosed the amounts for 2015 with estimated annualized amounts and actual amounts for previous years. Also, both companies’ accumulated claim payments for 2009 included claims prior to 2009 while claims prior to 2009 is not included in that of the Company’s. On the other hand, the Company and Singfor Life Insurance Co., Ltd. recognized only the claims paid in accumulated claims though Global Life Insurance Co., Ltd. recognized both paid and unpaid claims in accumulated claims.

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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
2010Q4~2011Q3	240	339	339	339	339
2011Q4~2012Q3	1,116	1,291	1,291	1,291	1,291
2012Q4~2013Q3	847	927	927	927	927
2013Q4~2014Q3	667	763	763	763	763
2014Q4~2015Q3	1,208	1,389	1,389	1,389	1,389

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.

30 September 2015	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	\$(1,041)	\$275	\$152,768

Unit:
100 million

Note: Separate account products are not included.

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C. Market risk

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

(2) Century insurance subsidiaries

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

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

Responsibility:

(A) Board of directors

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

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(B) Risk Management Committee

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

(C) Chief Risk Officer

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

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

(D) Risk management department

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

Responsibility of risk management division:

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

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(E) Business unit

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

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

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

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

(F) Internal audit room

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

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

(A) Risks reporting

- a. Each business unit within Cathay Century should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.

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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.

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

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

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

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.

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

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

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

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

Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note)		
	2015.9.30	2014.12.31	2014.9.30
Fire insurance	\$596,556	\$694,299	\$756,724
Marine insurance	278,148	253,767	246,217
Land and air insurance	165,790	986,485	794,475
Liability insurance	149,096	153,702	150,491
Bonding insurance	53,595	39,522	43,443
Other property insurance	338,735	352,528	408,327
Accident insurance	158,537	272,721	291,049
Health insurance	16,336	15,934	14,147
Compulsory automobile liability insurance	38,340	338,731	326,387
Total	1,795,133	3,107,689	3,031,260
Less: Allowance for bad debts	(108,325)	(80,050)	(75,199)
Net	\$1,686,808	\$3,027,639	\$2,956,061

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Note: As of 30 September 2015, 31 December 2014 and 30 September 2014, the receivables included overdue receivables amounted to \$395,521 thousand, \$227,092 thousand, and \$911,353 thousand, respectively, and the allowance for bad debts amounted to \$74,599 thousand, \$24,293 thousand, and \$21,411 thousand, respectively.

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

Item	Claims reported and paid off		
	2015.9.30	2014.12.31	2014.9.30
Fire insurance	\$10,894	\$34,417	\$11,776
Marine insurance	26,452	23,522	36,029
Land and air insurance	53,056	38,387	37,154
Liability insurance	17,130	27,060	17,526
Bonding insurance	126	(6)	(4)
Other property insurance	12,074	10,043	6,890
Accident insurance	15,898	16,075	19,687
Health insurance	-	-	-
Compulsory automobile liability insurance	127,807	172,311	108,314
Total	263,437	321,809	237,372
Less: Allowance for bad debts	-	-	-
Net	\$263,437	\$321,809	\$237,372

C. Payables of insurance contract

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

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Item	2014.12.31		
	Commission payables	Other payables	Total
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	2014.9.30		
	Commission payables	Other payables	Total
Fire insurance	\$26,458	\$15,861	\$42,319
Marine insurance	5,812	9,382	15,194
Land and air insurance	29,951	175,559	205,510
Liability insurance	9,992	10,987	20,979
Bonding insurance	3,914	392	4,306
Other property insurance	41,754	11,948	53,702
Accident insurance	5,999	77,853	83,852
Health insurance	3,131	2,506	5,637
Compulsory automobile liability insurance	108,300	-	108,300
Total	\$235,311	\$304,488	\$539,799

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

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

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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

Item	2014.9.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$59,519	\$216,431
Munich Re	-	185,151
AON	16,652	64,787
Central Re	43,726	105,765
FP Marine	78,915	20,170
Marsh	12,012	78,941
Swiss Re	1,352	80,559
Wilson Re	27,938	165
Others	275,192	499,963
Total	515,306	1,251,932
Less: Allowance for bad debts	(14,097)	-
Net	\$501,209	\$1,251,932

Notes: As of 30 September 2015, 31 December 2014, and 30 September 2014, the due from reinsurers and ceding companies included overdue receivables amounted to \$30,027 thousand, \$47,827 thousand and \$40,971 thousand, respectively, and the allowance for bad debts amounted to \$30,027 thousand, \$19,566 thousand and \$14,097 thousand, respectively.

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Information of management achievements

A. Acquisition cost for insurance contracts

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

Item	2014.7.1~2014.9.30				
	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$27,996	\$8,372	\$2,582	\$20,323	\$59,273
Marine insurance	5,728	447	1,547	12,120	19,842
Land and air insurance	38,894	-	(4)	204,361	243,251
Liability insurance	10,044	5,056	96	17,458	32,654
Bonding insurance	5,531	23	-	662	6,216
Other property insurance	7,393	76,475	732	13,165	97,765
Accident insurance	14,902	-	(1)	101,554	116,455
Health insurance	10,420	-	-	6,101	16,521
Compulsory automobile liability insurance	-	105,005	-	-	105,005
Total	\$120,908	\$195,378	\$4,952	\$375,744	\$696,982

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

2014.1.1~2014.9.30					
Item	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$47,813	\$23,338	\$6,346	\$75,258	\$152,755
Marine insurance	13,175	2,202	2,224	34,591	52,192
Land and air insurance	85,250	-	403	698,338	783,991
Liability insurance	25,730	13,687	160	55,246	94,823
Bonding insurance	7,476	155	1	1,497	9,129
Other property insurance	14,387	204,650	2,600	53,308	274,945
Accident insurance	26,469	-	(1)	318,274	344,742
Health insurance	20,633	-	-	9,581	30,214
Compulsory automobile liability insurance	-	365,958	-	2,742	368,700
Total	\$240,933	\$609,990	\$11,733	\$1,248,835	\$2,111,491

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B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

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

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

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2015.1.1~2015.9.30

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

2014.1.1~2014.9.30

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

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

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

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

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2015.1.1~2015.9.30

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

2014.1.1~2014.9.30

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

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

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

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

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

2014.1.1~2014.9.30

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

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Sensitivity of insurance risk

A. Cathay Century

Insurance type	Premium income	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$1,864,661	61.87	\$93,233	\$57,202
Marine insurance	485,846	63.49	24,292	6,721
Land and air insurance	4,957,762	66.26	247,888	155,493
Liability insurance	730,812	67.30	36,541	18,333
Bonding insurance	102,501	67.80	5,125	527
Other property insurance	424,377	60.92	21,219	9,127
Accident insurance	1,995,437	74.03	99,772	66,622
Health insurance	175,250	72.40	8,762	6,327
Compulsory automobile liability insurance	2,105,060	N/A	N/A	N/A

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

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

B. Cathay Century (China)

Insurance type	Premium income	The impact to profit and loss when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	\$235,414	\$11,771	\$4,694
Marine insurance	32,309	1,615	938
Liability insurance	141,722	7,086	2,866
Bonding insurance	2,468	123	62
Other property insurance	1,431,186	71,559	70,724
Compulsory automobile liability insurance	589,749	29,488	29,488

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

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Concentration Risk

A. Cathay Century

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

a. Single insurance contract or few related contracts

For the nine-month periods ended 30 September 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.

b. Exposure to unanticipated change in trend

For the nine-month periods ended 30 September 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 nine-month periods ended 30 September 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 nine-month periods ended 30 September 2015, there is no catastrophe has taken place.

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

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

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

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

- f. Concentration risks in geographic regions and operating segments

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

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

Insurance type	2015.7.1 ~ 2015.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$2,842,584	\$231,818	\$543,961	\$2,530,441
Fire insurance	547,614	19,719	(489,903)	1,057,236
Marine insurance	153,965	17,156	(31,602)	202,723
Engineering insurance	145,391	2,289	417,318	(269,638)
Health and injury insurance	445,286	1,558	120,953	325,891
Other insurance	342,579	12,839	565,369	(209,951)
Total	\$4,477,419	\$285,379	\$1,126,096	\$3,636,702

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Insurance type	2015.1.1 ~ 2015.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$7,830,767	\$562,551	\$1,231,237	\$7,162,081
Fire insurance	1,894,019	98,664	362,738	1,629,945
Marine insurance	494,355	31,496	223,051	302,800
Engineering insurance	380,420	6,840	509,385	(122,125)
Health and injury insurance	1,222,707	4,492	182,755	1,044,444
Other insurance	1,017,471	25,273	877,526	165,218
Total	\$12,839,739	\$729,316	\$3,386,692	\$10,182,363

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

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

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

B. Cathay Century (China)

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

- a. The exposure of unanticipated change in trend

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

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b. The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the nine-month periods ended 30 September 2015.

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

Insurance type	2015.7.1 ~ 2015.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$744,706	\$-	\$(116)	\$744,822
Fire insurance	82,786	2,136	41,740	43,182
Marine insurance	10,308	1,443	12,925	(1,174)
Engineering insurance	6,066	(119)	3,900	2,047
Health and injury insurance	-	-	-	-
Other insurance	54,156	160	33,013	21,303
Total	\$898,022	\$3,620	\$91,462	\$810,180

Insurance type	2015.1.1 ~ 2015.9.30			
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income
Automobile insurance	\$1,983,417	\$-	\$(186)	\$1,983,603
Fire insurance	242,688	3,767	149,485	96,970
Marine insurance	32,309	2,379	15,922	18,766
Engineering insurance	19,300	(81)	12,614	6,605
Health and injury insurance	-	2	-	2
Other insurance	155,134	829	86,469	69,494
Total	\$2,432,848	\$6,896	\$264,304	\$2,175,440

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Claim development table

A. Cathay Century

Underwriting Year	2009.10.1-	2010.10.1-	2011.10.1-	2012.10.1-	2013.10.1-	2014.10.1-	Total
	-2009.9.30	2010.9.30	2011.9.30	2012.9.30	2013.9.30	2014.9.30	
Estimate of cumulative claims incurred:							
At end of underwriting year	\$3,322,792	\$3,931,646	\$5,408,275	\$4,851,463	\$5,735,223	\$7,020,725	\$6,911,681
One year later	4,039,173	4,872,374	5,667,748	5,613,239	5,894,046	7,093,497	
Two year later	4,142,479	4,895,061	5,701,952	5,746,960	5,872,691		
Three year later	4,178,118	5,180,738	5,754,805	5,749,726			
Four year later	4,340,338	5,209,418	5,760,640				
Five year later	4,355,842	5,178,125					
Six year later	4,400,739						
Estimate of cumulative claims incurred	4,400,739	5,178,125	5,760,640	5,749,726	5,872,691	7,093,497	6,911,681
Cumulative payment to date	4,299,837	5,064,109	5,648,664	5,639,528	5,571,440	6,194,048	3,889,379
Subtotal	100,902	114,016	111,976	110,198	301,251	899,449	3,022,302
Reconciliation	-	-	-	-	-	-	110,517
Recorded in balance sheet	\$100,902	\$114,016	\$111,976	\$110,198	\$301,251	\$899,449	\$3,132,819

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 is excluded claim reserve of compulsory automobile liability insurance \$1,976,809 thousand and assumed reinsurance from the upper table (except compulsory automobile liability insurance) \$184,748 thousand.

B. Cathay Century (China)

	Accident year						Total
	2010.10.1-	2011.10.1-	2012.10.1-	2013.10.1-	2014.10.1-		
	-2010.9.30	2011.9.30	2012.9.30	2013.9.30	2014.9.30	2015.9.30	
Estimated accumulation amount of claim							
As to 2010/12/31	\$353,898						
As to 2011/12/31	350,563	\$380,888					
As to 2012/12/31	314,826	341,121	\$1,059,489				
As to 2013/12/31	314,852	359,030	890,022	\$1,549,225			
As to 2014/12/31	313,974	370,343	847,453	1,402,660	\$2,102,715		
As to 2015/9/30	314,480	356,077	838,123	1,394,279	1,917,988	\$1,692,485	
Estimated accumulation of claim	314,480	356,077	838,123	1,394,279	1,917,988	1,692,485	\$6,513,432
Accumulated claim paid	314,474	351,292	824,482	1,297,928	1,595,405	644,080	5,027,661
Subtotal	6	4,785	13,641	96,351	322,583	1,048,405	1,485,771
Indirect claim expense, discount and risk margin							66,519
Recognized amount on balance sheet							\$1,552,290

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

33. Related party transactions

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	"
Cathay Century	"
Cathay Securities	"
Cathay Venture	"
Cathay Securities Investment Trust	"
Cathay Lujiazui Life	"
Cathay Life (Vietnam)	"
Cathay Insurance (Bermuda)	"
Cathay Woolgate Exchange Holding 1 Limited	"
Cathay Woolgate Exchange Holding 2 Limited	"
Cathay Walbrook Holding 1 Limited	"
Cathay Walbrook Holding 2 Limited	"
Conning Holdings Limited	"
Conning U.S. Holdings, Inc.	"
Conning Holdings Corp.	"
Conning & Company	"
Conning, Inc.	"
Goodwin Capital Advisors, Inc.	"
Conning Investments Products, Inc.	"

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Name	Relationship
Conning Holdco (UK) Ltd	//
Conning Asset Management Ltd	//
Conning (Germany) GmbH	//
Cathay Conning Asset Management Ltd.	//
Cathay Securities Investment Consulting Co., Ltd.	//
Lin Yuan (Shanghai) Real Estate Co., Ltd.	//
Cathay Insurance Co., Ltd. (China)	//
Cathay Insurance (Vietnam) Co., Ltd.	//
Indovina Bank Limited (Vietnam)	//
Seaward Card Co., Ltd.	//
CUBC Bank (Cambodia)	//
Cathay Futures Co., Ltd.	//
Cathay Investment Consulting(Shanghai) co, ltd	//
Cathay Securities (Hong Kong) Limited	//
Taiwan Real-estate Management Corp.	Associate
Symphox Information Co., Ltd.	//
Tien-Tai Energy Corp.	//
Vietinbank	Other related party
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.	//
Liang-Ting Co., Ltd.	//
Ally Logistic Property	//
Culture and Charity Foundation of the CUB	//
Charity Foundation of Cathay Life	//
Cathay Cultural Foundation	//
Others	//

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

Name	Interest income			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Other related party				
Vietinbank	\$-	\$-	\$-	\$28,198

(B) Due from commercial banks

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Other related party			
Vietinbank	\$5,909,998	\$5,035,169	\$7,109,089

Name	Interest income			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Other related party				
Vietinbank	\$43,403	\$51,105	\$84,109	\$121,676

(C) Call loans from banks

Name	Interest expense			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Other related party				
Vietinbank	\$-	\$-	\$-	\$70,906

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(D) Due to commercial banks

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Other related party			
Vietinbank	\$1,513,385	\$301,321	\$3,581,380

Name	Interest expense			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Other related party				
Vietinbank	\$28,506	\$40,336	\$41,966	\$49,703

B. Financial assets at fair value through profit or loss

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$1,974,197	\$3,650,026	\$2,827,707

C. Receivables

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Other related party						
San Ching Engineering	\$4,299	-	\$6	-	\$1,472	-
Cathay Dragon Fund etc.	87,810	0.06	88,613	0.07	86,186	0.07
Total	\$92,109		\$88,619		\$87,658	

D. Reinsurance assets

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Insurance (Bermuda)	\$30,191	\$25,206	\$23,630

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E. Loans

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Associate			
Taiwan Real-estate Management Corp.	\$-	\$55,000	\$55,000
Tien-Tai Energy Corp.	106,590	112,866	114,958
Other related party			
Cathay Real Estate Development Co., Ltd.	50,000	280,000	770,000
Cathay General Hospital	-	2,733,550	2,807,180
Liang-Ting Co., Ltd.	45,423	82,716	-
Others	2,181,599	2,211,877	2,062,253
Total	\$2,383,612	\$5,476,009	\$5,809,391

Name	Interest income			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Associate				
Taiwan Real-estate Management Corp.	\$-	\$277	\$300	\$839
Tien-Tai Energy Corp.	951	1,024	2,875	3,093
Other related party				
Cathay Real Estate Development Co., Ltd.	1,657	436	2,082	1,257
Cathay General Hospital	-	15,936	20,847	48,967
Liang-Ting Co., Ltd.	294	-	1,107	-
Others	11,024	10,244	32,800	29,316
Total	\$13,926	\$27,917	\$60,011	\$83,472

F. Available-for-sale financial assets

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$400,971	\$469,486	\$463,294
Cathay Healthcare Management Co., Ltd.	62,708	63,383	63,585
Total	\$463,679	\$532,869	\$526,879

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G. Deposit

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Associate			
Symphox Information	\$186,962	\$153,609	\$16,707
Other related party			
Cathay Real Estate Development Co., Ltd.	83,297	375,029	241,952
Cathay Dragon Fund etc.	175,872	28,854	179,269
Others	13,233,545	9,742,777	9,939,748
Total	<u>\$13,679,676</u>	<u>\$10,300,269</u>	<u>\$10,377,676</u>

Name	Interest expense			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Associate				
Symphox Information	\$379	\$36	\$1,036	\$440
Other related party				
Cathay Real Estate Development Co., Ltd.	16	28	77	93
Cathay Dragon Fund etc.	-	21	2	4,873
Others	29,480	25,996	85,724	76,718
Total	<u>\$29,875</u>	<u>\$26,081</u>	<u>\$86,839</u>	<u>\$82,124</u>

H. Property transactions

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

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

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Name	2014.1.1~2014.9.30	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$54,561
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	496,540
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	9,407
Ally Logistic Property	Ruifang Logistic Park	504,882
Total		<u>\$1,065,390</u>

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and Lin Yuan Property Management Co., Ltd. were \$23,723 thousand, \$42,443 thousand and \$42,460 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and San Ching Engineering Co., Ltd. were \$7,294,139 thousand, \$5,575,823 thousand and \$5,662,922 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,708,592 thousand, \$49,306 thousand and \$49,306 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and Ally Logistic Property were \$2,756,476 thousand, \$2,756,476 thousand and \$1,408,380 thousand, respectively.

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(B) Real estate rental income from Cathay Life:

Name	Rental income			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Securities Investment Consulting	\$2,210	\$2,210	\$6,631	\$6,633
Associate				
Symphox Information	8,595	7,813	25,809	19,991
Other related party				
Cathay Real Estate Development Co., Ltd.	4,233	4,935	11,698	13,621
San Ching Engineering Co., Ltd.	992	1,420	3,360	4,193
Cathay General Hospital	10,830	10,946	99,925	99,831
Cathay Healthcare Management Co., Ltd.	13,230	12,317	39,510	35,383
Cathay Hospitality Management Co., Ltd.	48,077	34,834	139,264	100,053
Ally Logistic Property	25,959	9,303	66,479	27,337
Total	\$114,126	\$83,778	\$392,676	\$307,042

Name	Guarantee deposits received		
	2015.9.30	2014.12.31	2014.9.30
Associate			
Symphox Information	\$8,343	\$8,343	\$8,355
Other related party			
Cathay Real Estate Development Co., Ltd.	3,751	4,028	4,028
Cathay General Hospital	10,166	10,166	10,166
Cathay Healthcare Management Co., Ltd.	12,290	12,192	12,192
Total	\$34,550	\$34,729	\$34,741

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

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(C) Real estate rental expense from Cathay Life:

Name	Rental expense			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related party Cathay Real Estate Development Co., Ltd.	\$1,927	\$1,963	\$5,853	\$5,889

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

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

Name	Rental income			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related party Culture and Charity Foundation of the CUB	\$1,158	\$1,158	\$3,474	\$3,474

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

Name	Rental expense			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related party Cathay Real Estate Development Co., Ltd.	\$5,709	\$9,617	\$17,801	\$35,820

Name	Guarantee deposits		
	2015.9.30	2014.12.31	2014.9.30
Other related party Cathay Real Estate Development Co., Ltd.	\$4,038	\$7,399	\$13,932

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E. Guarantee deposits received

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000	\$5,000
Ally Logistic Property	238,500	308,950	167,400
Total	<u>\$243,500</u>	<u>\$313,950</u>	<u>\$172,400</u>

J. Futures traders' equity

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$147,092	\$160,074	\$159,303

K. Securities sold under agreements to repurchase

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Other related party			
Liang-Ting Co., Ltd.	\$-	\$16,105	\$58,068

Name	Interest expense			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related party				
Liang-Ting Co., Ltd.	\$-	\$85	\$14	\$135

L. Payables

Name	2015.9.30	%	2014.12.31	%	2014.9.30	%
Subsidiary						
Seaward Card	\$22,913	0.04	\$22,894	0.05	\$23,550	0.04
Cathay Insurance (Bermuda)	16,107	0.03	-	-	-	-
Associate						
Symphox Information	68,112	0.12	19,266	0.04	73,137	0.13
Other related party						
Lin Yuan Property Management Co., Ltd.	51,808	0.09	1,984	-	55,920	0.10
Vietinbank	-	-	301,321	0.60	289,142	0.49
San Ching Engineering Co., Ltd	-	-	7,479	0.01	-	-
Total	<u>\$158,940</u>		<u>\$352,944</u>		<u>\$441,749</u>	

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M. Investment balance of related parties' discretionary investment

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Charity Foundation of Cathay Life	\$60,509	\$60,941	\$59,644
Cathay Cultural Foundation	47,042	49,722	48,542
Total	<u>\$107,551</u>	<u>\$110,663</u>	<u>\$108,186</u>

N. Net commission and handling fee

(A) Handling fee income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Securities Investment Consulting	<u>\$6,732</u>	<u>\$4,583</u>	<u>\$20,948</u>	<u>\$16,987</u>

(B) Reinsurance service expense

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Insurance (Bermuda)	<u>\$2,012</u>	<u>\$3,303</u>	<u>\$5,426</u>	<u>\$7,602</u>

O. Net premiums from insurance business

(A) Insurance income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Other related party				
Cathay Real Estate Development Co., Ltd.	\$2,320	\$4,612	\$5,278	\$6,647
Cathay General Hospital	12,881	12,703	34,626	33,836
San Ching Engineering Co., Ltd.	5,671	9,833	7,360	14,611
Others	65,001	45,852	128,902	104,635
Total	<u>\$85,873</u>	<u>\$73,000</u>	<u>\$176,166</u>	<u>\$159,729</u>

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(B) Reinsurance income

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Name				
Subsidiary				
Cathay Insurance (Bermuda)	\$37,193	\$59,714	\$98,051	\$99,535

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 nine-month periods ended 30 September 2015 and 2014, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Name				
Subsidiary				
Cathay Insurance (Bermuda)	\$49,594	\$31,833	\$104,227	\$83,704

(D) Reinsurance commission expense

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Name				
Subsidiary				
Cathay Insurance (Bermuda)	\$1,670	\$1,984	\$2,531	\$3,229

(E) Insurance claims payment

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Name				
Other related party				
San Ching Engineering Co., Ltd.	\$-	\$-	\$3,000	\$-

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(16) Net other non-interest income

① Management fee income

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Other related party Cathay Dragon Fund etc.	\$303,908	\$261,550	\$838,804	\$760,324

② Other income

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Other related party Cathay General Hospital	\$1,154	\$922	\$3,921	\$3,689

Q. Operating expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Seaward Card	\$66,668	\$66,178	\$217,052	\$219,219
Associate				
Symphox Information	204,529	173,918	593,189	553,456
Other related party				
Cathay Real Estate Development Co., Ltd.	3,906	5,377	12,200	16,554
Lin Yuan Property Management Co., Ltd.	176,723	181,911	511,257	548,809
Cathay Healthcare Management Co., Ltd.	3,806	7,061	12,817	18,930
Cathay Conning Asset Management Ltd. (Note)	1,553	3,168	5,179	3,168
Total	\$457,185	\$437,613	\$1,351,694	\$1,360,136

Note: Cathay Conning Asset Management Ltd. was not a consolidated subsidiary until 18 September 2015.

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R. Key management personnel compensation

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Short-term employee benefits	\$115,258	\$110,578	\$450,278	\$394,266
Post-employment pension	2,672	6,603	11,950	13,592
Total	<u>\$117,930</u>	<u>\$117,181</u>	<u>\$462,228</u>	<u>\$407,858</u>

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

(3) The Company

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

A. Cash in bank

Name	Item	Ending balance		
		2015.9.30	2014.12.31	2014.9.30
Subsidiary				
Cathay United Bank	Cash in bank	<u>\$719,821</u>	<u>\$12,271</u>	<u>\$10,375</u>

Interest income from Subsidiary Cathay United Bank for three-month and nine-month periods ended 30 September 2015 and 2014 were \$69 thousand, \$84 thousand, \$88 thousand, and \$107 thousand, respectively.

B. Receivables

Name	Item	2015.9.30	2014.12.31	2014.9.30
Subsidiaries				
Cathay Life	Interest	\$679,134	\$4,366,995	\$4,138,129
Cathay Century	Receivables due to consolidated income tax and interest	225,442	171,856	120,235
Cathay United Bank	Receivables due to consolidated income tax	601,795	229,509	-
Cathay Securities	Receivables due to consolidated income tax	52,969	-	-
Cathay Securities Investment	Receivables due to consolidated income tax	49,853	70,778	61,206
Cathay Venture	Receivables due to consolidated income tax	9,124	-	14,651
Total		<u>\$1,618,317</u>	<u>\$4,839,138</u>	<u>\$4,334,221</u>

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C. Guarantee deposits paid

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Life	\$8,046	\$8,046	\$8,046

D. Held-to-maturity financial asset

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiaries			
Cathay Life	\$30,000,000	\$30,000,000	\$30,000,000
Cathay Century	1,000,000	1,000,000	1,000,000
Total	\$31,000,000	\$31,000,000	\$31,000,000

E. Payables

Name	Item	2015.9.30	2014.12.31	2014.9.30
Subsidiaries				
Cathay Life	Payable due to consolidated income tax	\$6,595,524	\$8,926,622	\$7,896,466
Cathay Venture	Payable due to consolidated income tax	-	4,053	-
Total		\$6,595,524	\$8,930,675	\$7,896,466

F. Interest income

Name	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Subsidiaries				
Cathay Life	\$228,866	\$228,866	\$679,134	\$679,134
Cathay Century	4,688	4,688	13,912	13,912
Total	\$233,554	\$233,554	\$693,046	\$693,046

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G. Operating expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$9,909	\$9,688	\$31,799	\$30,757
Cathay United Bank	1,735	1,656	6,116	4,710
Total	<u>\$11,644</u>	<u>\$11,344</u>	<u>\$37,915</u>	<u>\$35,467</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	2015.9.30	2014.12.31	2014.9.30
Subsidiaries				
Cathay United Bank	Time deposit	\$7,482	\$4,482	\$4,482
	Cash in bank	21,277,323	29,399,162	20,596,794
	Check deposit	2,184,345	540,490	957,364
	Security deposit	2,186	6	6
Indovina Bank	Cash in bank	30,380	9,086	23,569
Total		<u>\$23,501,716</u>	<u>\$29,953,226</u>	<u>\$21,582,215</u>

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2015 and 2014, were \$5,379 thousand, \$5,319 thousand, \$18,283 thousand, and \$16,437 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month periods ended 30 September 2015 and 2014 were \$98 thousand, \$65 thousand, \$180 thousand, and \$150 thousand, respectively.

As of 30 September 2015, 31 December 2014, and 30 September 2014, time deposit pledged were \$4,482 thousand, \$4,482 thousand, and \$4,482 thousand, respectively.

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b. Investments in debt securities with no active market

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay United Bank	\$-	\$3,000	\$3,000

c. Other receivables

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding (Note)	\$6,595,524	\$8,926,622	\$7,896,466
Subsidiary			
Cathay Century	165,135	264,638	232,087
Total	\$6,760,659	\$9,191,260	\$8,128,553

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

d. Secured loans

Name	2015.1.1~2015.9.30		
	Maximum amount	Rate	Ending balance
Other related party			
Cathay General Hospital	\$2,634,550	2.01%~2.55%	\$-
Others	938,335	1.34%~3.78%	928,932
Total			\$928,932

Name	2014.1.1~2014.9.30		
	Maximum amount	Rate	Ending balance
Other related party			
Cathay General Hospital	\$2,926,691	2.01%~2.55%	\$2,708,180
Others	833,196	1.34%~3.78%	768,176
Total			\$3,476,356

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Interest income from Cathay United Bank for the three-month and nine-month period ended 30 September 2015 and 2014, were \$0 thousand, \$15,200 thousand, \$19,895 thousand and \$46,783 thousand, respectively.

Interest income from Indovina Bank for the three-month and nine-month period ended 30 September 2015 and 2014 were \$4,698 thousand, \$3,661 thousand, \$12,833 thousand and \$10,567 thousand, respectively.

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

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$1,873,674	\$3,031,486	\$2,799,661

f. Investment balance of related parties' discretionary investment

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Securities Investment Trust	\$195,763,910	\$210,144,489	\$213,549,042

g. Guarantee deposits paid

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Futures	\$1,389,044	\$515,748	\$573,524

The guarantee deposits are futures margins of Cathay Futures. The imputed interest income of guarantee deposit paid from Cathay Futures for the three-month and nine-month periods ended 30 September 2015 and 2014 were \$432 thousand, \$214 thousand, \$761 thousand, and \$778 thousand respectively.

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h. Other payables

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding (Note)	\$679,134	\$4,366,995	\$4,138,129
Subsidiary			
Cathay United Bank	518,638	455,244	490,864
Total	\$1,197,772	\$4,822,239	\$4,628,993

Note: Interest payable accrued from preferred stock liability and tax payable under the consolidated income tax system.

i. Preferred stock liability

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding	\$30,000,000	\$30,000,000	\$30,000,000

j. Property transactions

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

Real estate contracted projects of Cathay Life:

Name	2015.1.1~2015.9.30	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$1,445,323
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	155,181
Ally Logistic Property	Ruifang Logistic Park	1,112,846
Total		\$2,713,350

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Name	2014.1.1~2014.9.30	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$496,540
Ally Logistic Property	Ruifang Logistic Park	504,882
	Total	<u>\$1,001,422</u>

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and San Ching Engineering Co., Ltd. were \$7,294,139 thousand, \$5,575,823 thousand and \$5,662,922 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,708,592 thousand, \$49,306 thousand and \$49,306 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 September 2015, 31 December 2014, and 30 September 2014, between Cathay Life and Ally Logistic Property were \$2,756,476 thousand, \$2,756,476 thousand and \$1,408,380 thousand, respectively.

k. Rental income

Name	Item	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
		2015.9.30	2014.9.30	2015.9.30	2014.9.30
Subsidiary					
Cathay United Bank	Real-estate rental income	\$108,228	\$99,247	\$319,597	\$298,800
Other related party					
Cathay Hospitality Management	Real-estate rental income	48,077	34,834	139,264	100,053
		<u>\$156,305</u>	<u>\$134,081</u>	<u>\$458,861</u>	<u>\$398,853</u>

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

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l. Guarantee deposits paid

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay United Bank	\$101,764	\$99,771	\$99,771
Other related party			
Ally Logistic Property	238,500	308,950	167,400
Total	\$340,264	\$408,721	\$267,171

m. Insurance income

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Others	\$65,001	\$45,852	\$128,902	\$104,635

n. Reinsurance claims payment

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Cathay Insurance (Bermuda)	\$49,594	\$31,833	\$104,227	\$83,704

o. Handling fees income

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Cathay Securities Investment Trust	\$21,166	\$50,467	\$69,480	\$100,248

p. Miscellaneous income

Name	104.7.1~ 104.9.30	103.7.1~ 103.9.30	104.1.1~ 104.9.30	103.1.1~ 103.9.30
Subsidiary				
Cathay Century	\$343,686	\$408,330	\$1,064,104	\$1,169,536
Cathay United Bank	29,471	27,422	102,162	116,886
Total	\$373,157	\$435,752	\$1,166,266	\$1,286,422

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

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q. Insurance expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Century	\$13,238	\$32,052	\$134,444	\$153,772

r. Operating expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay United Bank	\$1,918,511	\$1,265,441	\$5,256,578	\$2,999,670
Cathay Securities Investment Trust	2,516	46,513	94,548	129,065
Associate				
Symphox Information	78,701	61,614	215,314	194,028
Other related party				
Lin Yuan Property Management Co., Ltd.	174,546	180,008	505,184	543,086
Total	\$2,174,274	\$1,553,576	\$6,071,624	\$3,865,849

s. Non-operating income and expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Financial Holding	\$228,866	\$228,866	\$679,134	\$679,134

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

q. Other disclosures

As of 30 September 2015, 31 December 2014, and 30 September 2014, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

Item	2015.9.30	2014.12.31	2014.9.30
CS contracts	USD 2,663,000	USD 250,000	USD 830,000

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B. Cathay United Bank and its subsidiaries

a. Loans and deposits

Account/Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Loans			
Associate			
Tien-Tai Energy Corp.	\$106,590	\$112,866	\$114,958
Other related party			
Cathay Real Estate Development Co., Ltd.	50,000	280,000	770,000
Others	1,219,568	1,257,566	1,256,030
Total	\$1,376,158	\$1,650,432	\$2,140,988

Account/Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Deposits			
The company			
Cathay Financial Holding	\$719,821	\$12,271	\$10,375
Subsidiaries			
Cathay Life	23,471,336	29,947,140	21,561,646
Cathay Century	1,146,461	1,380,309	1,150,511
Cathay Securities	1,576,112	2,932,284	1,749,985
Cathay Futures	2,459,749	2,006,007	1,960,437
Cathay Securities Investment Trust	200,356	297,623	318,845
Cathay Venture	30,075	17,749	33,416
Cathay Life (Vietnam)	30,380	9,086	23,569
Cathay Century (Vietnam)	128,965	118,655	143,331
Associate			
Symphox Information	186,962	153,609	16,707
Other related party			
Cathay Real Estate Development Co., Ltd.	83,297	375,029	241,952
Cathay Dragon Fund etc.	175,872	28,854	179,269
Others	13,233,545	9,742,777	9,939,748
Total	\$43,442,931	\$47,021,393	\$37,329,791

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Name	Interest income			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Loans				
Associate				
Tien-Tai Energy Corp.	\$951	\$1,024	\$2,875	\$3,093
Other related party				
Cathay Real Estate Development Co., Ltd.				
	1,657	436	2,082	1,257
Others				
	6,172	6,411	19,488	18,229
Total	\$8,780	\$7,871	\$24,445	\$22,579

Name	Interest expense			
	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Deposits				
The company				
Cathay Financial Holding	\$69	\$84	\$88	\$107
Subsidiaries				
Cathay Life	5,379	5,319	18,283	16,437
Cathay Century	2,231	2,215	6,573	7,388
Cathay Securities	1,439	1,340	4,166	3,846
Cathay Futures	5,991	5,978	17,482	17,793
Cathay Venture	44	51	125	251
Cathay Securities Investment Trust				
	198	1,094	1,384	2,883
Cathay Life (Vietnam)	98	65	180	150
Cathay Century (Vietnam)	2,147	3,065	3,335	8,824
Associate				
Symphox Information	379	36	1,036	440
Other related party				
Cathay Real Estate Development Co., Ltd.				
	16	28	77	93
Cathay Dragon Fund etc.	-	21	2	4,873
Others				
	29,480	25,996	85,724	76,718
Total	\$47,471	\$45,292	\$138,455	\$139,803

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Account/Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Call loans to banks			
Other related party			
Vietinbank	\$5,909,998	\$5,035,169	\$7,109,089
Due to commercial banks			
Other related party			
Vietinbank	1,513,385	301,321	3,581,380

Account/Name	Interest income			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Call loans to banks				
Other related party				
Vietinbank	\$43,403	\$51,105	\$84,109	\$121,676

Account/Name	Interest expense			
	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Due to commercial banks				
Other related party				
Vietinbank	\$28,506	\$40,336	\$41,966	\$49,703

Cathay United Bank and its subsidiaries' transaction terms with related parties are similar to those with third parties except that employees are given favorable interest rates within specified limit for savings and loans.

b. Receivables due to commission of insurance agency

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Life	\$518,638	\$455,244	\$490,864

c. Dividends payable

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Vietinbank	\$-	\$301,321	\$289,142

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d. Combined tax payable

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding	\$601,795	\$229,509	\$-

e. Rental expense

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$108,228	\$99,247	\$319,597	\$298,800

f. Guarantee deposits paid

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Life	\$101,764	\$99,771	\$99,771

g. Handling fees income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$1,918,511	\$1,265,441	\$5,256,578	\$2,999,670

h. Operating expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiaries				
Seaward Card	\$42,515	\$41,439	\$143,865	\$149,507
Cathay Life	29,471	27,422	102,162	116,886
Associate				
Symphox Information	110,819	100,186	336,988	322,585
Total	\$182,805	\$169,047	\$583,015	\$588,978

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C. Cathay Century and its subsidiaries

a. Cash in banks

Name	Item	2015.9.30	2014.12.31	2014.9.30
Subsidiaries				
Cathay United Bank	Time deposit	\$628,200	\$623,200	\$631,525
	Cash in bank	396,833	655,281	405,721
	Check deposit	121,428	101,828	113,265
Indovina Bank	Time deposit	125,479	104,195	130,355
	Cash in bank	3,486	14,460	12,976
	Total	<u>\$1,275,426</u>	<u>\$1,498,964</u>	<u>\$1,293,842</u>

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2015 and 2014 were \$2,231 thousand, \$2,215 thousand, \$6,573 thousand and \$7,388 thousand, respectively.

Interest income from Indovina Bank for three-month and nine-month periods ended 30 September 2015 and 2014 were \$2,147 thousand, \$3,065 thousand, \$3,335 thousand, and \$8,824 thousand, respectively.

As of 30 September 2015, 31 December 2014 and 30 September 2014, time deposit pledged were \$28,598 thousand, \$23,720 thousand, and \$33,476 thousand, respectively.

b. Financial assets at fair value through profit or loss

Name	Item	2015.9.30	2014.12.31	2014.9.30
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	<u>\$100,523</u>	<u>\$100,136</u>	<u>\$-</u>

c. Available-for-sale financial assets

Name	Item	2015.9.30	2014.12.31	2014.9.30
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	<u>\$291,607</u>	<u>\$292,579</u>	<u>\$305,083</u>

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d. Investment balance of related parties' discretionary investment

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Securities Investment Trust	\$420,792	\$422,222	\$422,877

e. Other payables

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding	\$225,442	\$171,856	\$120,235
Subsidiary			
Cathay Life	165,135	264,638	232,087
Total	\$390,577	\$436,494	\$352,322

f. Preferred stock liability

Name	2015.9.30	2014.12.31	2014.9.30
The Company			
Cathay Financial Holding	\$1,000,000	\$1,000,000	\$1,000,000

g. Insurance income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$13,238	\$32,052	\$134,444	\$153,772

h. Operating expenses

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$343,686	\$408,330	\$1,064,104	\$1,169,536

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i. Other disclosure

As of 30 September 2015, 31 December 2014 and 30 September 2014, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2015.9.30		2014.12.31		2014.9.30	
CS contracts	USD	69,200	USD	58,200	USD	47,200
	EUR	3,350	EUR	1,350	EUR	750
IRS	NTD	-	NTD	200,000	NTD	200,000

D. Cathay Securities and its subsidiaries

a. Cash in bank

Name	Item	2015.9.30	2014.12.31	2014.9.30
Subsidiary				
Cathay United Bank	Time deposits	\$1,511,900	\$2,321,900	\$1,221,900
	Cash in bank	453,895	988,272	864,297
	Check deposits	2	1	1
	Total	<u>\$1,965,797</u>	<u>\$3,310,173</u>	<u>\$2,086,198</u>

Interest income from Cathay United Bank for three-month and nine-month periods ended 30 September 2015 and 2014 were \$7,430 thousand, \$7,318 thousand, \$21,648 thousand, and \$21,639 thousand, respectively.

As of 30 September 2015, 31 December 2014 and 30 September 2014, time deposit pledged were \$900,000 thousand, \$2,000,000 thousand and \$900,000 thousand, respectively.

Note: In accordance with the article 14 of the “Regulations Governing Futures Commission Merchants”, the article 10 of the “Regulations Governing Futures Advisory Enterprises”, the article 7 of the “Regulations Governing Securities Investment Consulting Enterprises” and the article 17 of the “Regulations Governing Managed Futures Enterprises”, Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 30 September 2015, 31 December 2014 and 30 September 2014, the operating bonds were \$350,000 thousand, \$90,000 thousand and \$90,000 thousand, respectively.

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b. Customer's margin accounts

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay United Bank	\$2,070,064	\$1,628,118	\$1,624,224

c. Financial assets at fair value through profit or loss

Name	Ending balance		
	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$-	\$518,404	\$28,046

d. Futures trader's equity

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Life	\$1,389,044	\$515,748	\$573,524
Other related party			
Cathay Dragon Fund etc.	147,092	160,074	159,303
Total	\$1,536,136	\$675,822	\$732,827

E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2015.9.30	2014.12.31	2014.9.30
Subsidiary				
Cathay United Bank	Time deposit (Note)	\$148,600	\$185,744	\$297,003
	Cash in bank	26,278	6,131	4,608
	Check deposits	25,478	105,748	17,234
	Total	\$200,356	\$297,623	\$318,845

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Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 30 September 2015, 31 December 2014 and 30 September 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 30 September 2015, 31 December 2014 and 30 September 2014, Cathay Securities Investment Trust reserved the performance bonds amounted to \$98,600 thousand, \$126,100 thousand and \$142,100 thousand, respectively.

Interest income from Cathay United Bank for the three-month and nine-month periods ended 30 September 2015 and 2014 were \$198 thousand, \$1,094 thousand, \$1,384 thousand, and \$2,883 thousand respectively.

b. Available-for-sale financial assets

Name	2015.9.30	2014.12.31	2014.9.30
Other related party			
Cathay Dragon Fund etc.	\$109,364	\$126,726	\$108,096

c. Management fee income

Name	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Subsidiary				
Cathay Life	\$2,516	\$46,513	\$94,548	\$129,065
Other related party				
Cathay Dragon Fund etc.	303,908	261,550	838,804	760,324
Total	\$306,424	\$308,063	\$933,352	\$889,389

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d. Investment balance of related parties' discretionary investment

Name	2015.9.30	2014.12.31	2014.9.30
Subsidiary			
Cathay Life	\$195,763,910	\$210,144,489	\$213,549,042
Cathay Century	420,792	422,222	422,877
Total	<u>\$196,184,702</u>	<u>\$210,566,711</u>	<u>\$213,971,919</u>

e. Operating expense

Name	2015.7.1~	2014.7.1~	2015.1.1~	2014.1.1~
	2015.9.30	2014.9.30	2015.9.30	2014.9.30
Subsidiary				
Cathay Life	<u>\$21,166</u>	<u>\$50,467</u>	<u>\$69,480</u>	<u>\$100,248</u>

34. Pledged assets

As of 30 September 2015, 31 December 2014, and 30 September 2014, the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount		
		2015.9.30	2014.12.31	2014.9.30
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$3,690,534	\$4,477,720	\$3,774,401
Guarantee deposits paid	Government bonds and court guarantees	13,824,220	10,349,057	10,384,037
Available-for-sale financial assets	Business reserves and guarantees	1,218,515	1,192,331	977,531
Held-to-maturity financial assets	Business reserves and guarantees	5,205,180	1,556,065	1,555,888
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	62,000,000	62,000,000
Total		<u>\$87,738,449</u>	<u>\$79,575,173</u>	<u>\$78,691,857</u>

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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.

(2) Cathay Securities and its subsidiaries

As of 30 September 2015, Cathay Securities and its subsidiaries requested financial institutions issue letters of guarantees for security borrowing of \$750,000 thousand.

(3) As of 30 September 2015, 31 December 2014, and 30 September 2014, Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2015.9.30	2014.12.31	2014.9.30
Trust and security held for safekeeping	\$616,723,941	\$541,504,312	\$512,655,659
Travelers checks for sale	596,649	479,398	490,146
Bills for collection	47,247,723	44,743,087	45,611,246
Book-entry for government bonds and depository for short-term marketable securities under management	416,148,000	473,027,900	511,876,500
Entrusted financial management business	7,461,021	6,697,886	5,926,650
Guarantees on duties and contracts	10,263,154	12,105,996	11,647,351
Unused commercial letters of credit	5,052,063	5,868,097	6,211,471
Irrevocable loan commitments	130,087,076	162,408,907	175,553,475
Credit card lines commitments	448,818,072	418,869,162	411,129,979
Underwriting securities	630,000	-	-
Financial guarantee contracts	2,028,272	1,743,626	1,577,197

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

	2015.9.30	2014.12.31	2014.9.30
Within 1 year	\$1,262,891	\$1,346,672	\$1,097,535
1 to 5 years	2,529,794	2,468,964	1,957,877
Over 5 year	161,569	163,982	141,623
Total	<u>\$3,954,254</u>	<u>\$3,979,618</u>	<u>\$3,197,035</u>

36. Significant disaster losses:

None

37. Subsequent events:

None

38. Other significant matters

- (1) Categories of financial instruments

The Group

	2015.9.30	2014.12.31	2014.9.30
Financial assets			
Financial assets at fair value through profit or loss:	\$301,418,560	\$223,007,168	\$202,941,797
Available-for-sale financial assets -net	1,391,995,900	1,405,300,159	1,301,619,201
Derivative financial assets for hedging	618,196	665,390	799,689
Held-to-maturity financial assets -net	81,056,988	81,658,512	75,387,965
Other financial assets - investments with no active market	2,185,785,088	1,629,251,574	1,460,159,213
Loans and receivables:			
Cash and cash equivalents (petty cash and cash on hand excluded)	294,450,254	418,760,599	494,472,137
Due from the Central Bank and call loans to banks	106,591,988	151,289,044	146,979,030
Securities purchased under agreements to resell	44,986,518	56,515,170	49,522,901
Receivables -net	153,707,207	134,368,376	125,765,347
Loans -net	1,791,823,698	1,812,773,579	1,791,938,582
Other financial assets	496,095,318	502,563,723	483,183,369
Guarantee deposits paid	54,820,490	28,468,971	24,815,702
Subtotal	<u>2,942,475,473</u>	<u>3,104,739,462</u>	<u>3,116,677,068</u>
Total	<u>\$6,903,350,205</u>	<u>\$6,444,622,265</u>	<u>\$6,157,584,933</u>

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	2015.9.30	2014.12.31	2014.9.30
Financial liabilities			
Financial liabilities at fair value through profit or loss:	\$156,158,848	\$108,286,154	\$36,507,336
Derivative financial liabilities for hedging	-	-	13,397
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	37,149,666	58,816,432	71,776,229
Bankers acceptances and funds borrowed	-	1,585,900	1,521,800
Securities sold under agreements to repurchase	81,932,624	62,021,921	62,636,760
Commercial paper payable -net	26,778,973	26,790,000	23,400,000
Payables	55,153,124	50,417,151	58,475,379
Deposits	1,814,400,235	1,702,302,143	1,667,763,366
Bonds payable	105,550,787	107,613,949	107,288,890
Other financial liabilities	544,772,545	543,279,993	516,660,371
Guarantee deposits received	6,288,650	4,082,301	3,618,700
Subtotal	<u>2,672,026,604</u>	<u>2,556,909,790</u>	<u>2,513,141,495</u>
Total	<u>\$2,828,185,452</u>	<u>\$2,665,195,944</u>	<u>\$2,549,662,228</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).
- f. The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

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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		
	2015.9.30	2014.12.31	2014.9.30
Financial assets			
Held-to-maturity financial assets -net	\$81,056,988	\$81,658,512	\$75,387,965
Investments with no active market	2,185,785,088	1,629,251,574	1,460,159,213
Other financial assets - structured time deposits	25,000,000	39,200,000	39,200,000
Total	<u>\$2,291,842,076</u>	<u>\$1,750,110,086</u>	<u>\$1,574,747,178</u>
	Fair value		
	2015.9.30	2014.12.31	2014.9.30
Financial assets			
Held-to-maturity financial assets -net	\$84,055,787	\$83,688,619	\$73,879,324
Investments with no active market	2,165,135,382	1,654,586,314	1,477,491,189
Other financial assets - structured time deposits	24,821,712	39,200,000	39,200,000
Total	<u>\$2,274,012,881</u>	<u>\$1,777,474,933</u>	<u>\$1,590,570,513</u>

(3) Hedge accounting disclosures

A. Cash flow hedges

The following table summarizes the terms of Cathay Life and its subsidiaries' interest rate swaps for bonds used as hedging instruments as of 30 September 2015, 31 December 2014 and 30 September 2014:

2015.9.30				
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$387,698	2015.10.23~2024.5.26	2015.10.23~2024.5.26

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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	2015.1.23~2024.5.26	2015.1.23~2024.5.26

2014.9.30

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$132,870	2014.10.23~2024.5.26	2014.10.23~2024.5.26

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

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:

	2015.7.1~ 2015.9.30	2014.7.1~ 2014.9.30	2015.1.1~ 2015.9.30	2014.1.1~ 2014.9.30
Amount recognized in other comprehensive income	\$169,188	\$(145,837)	\$175,803	\$(315,665)
Amount reclassified from equity to profit or loss	778	(354)	(1,003)	(30)

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 30 September 2014:

2014.9.30

Par value (USD)	Hedged item	Maturity date
\$612,000	Debt instrument investments for which no active market exists	30 April 2036~ 27 June 2044

Note: As of 30 September 2015 and 31 December 2014, Cathay Life and its subsidiaries did not engaged in fair value hedge.

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(4) Offsetting of financial assets and financial liabilities

Cathay Life, Cathay United Bank and Cathay Century own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting financial assets and financial liabilities of Cathay Life and its subsidiaries is disclosed as follows:

2015.9.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$24,989,393	\$-	\$24,989,393	\$(24,989,393)	\$-	\$-

2015.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$65,398,194	\$-	\$65,398,194	\$(24,989,393)	\$-	\$40,408,801

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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	\$17,855,720	\$-	\$17,855,720	\$(17,855,720)	\$-	\$-

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	\$(17,855,720)	\$-	\$31,927,868

2014.9.30

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	\$2,775,890	\$-	\$2,775,890	\$(2,775,890)	\$-	\$-

2014.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$16,312,627	\$-	\$16,312,627	\$(2,775,890)	\$-	\$13,536,737

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:

2015.9.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$58,084,177	\$-	\$58,084,177	\$(52,031,628)	\$(2,334,962)	\$3,717,587

2015.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$52,031,628	\$-	\$52,031,628	\$(52,031,628)	\$-	\$-

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	\$29,686,774	\$-	\$29,686,774	\$(24,956,475)	\$(631,236)	\$4,099,063

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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	\$24,956,475	\$-	\$24,956,475	\$(24,956,475)	\$-	\$-

2014.9.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$17,609,232	\$-	\$17,609,232	\$(17,609,232)	\$-	\$-

2014.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$18,302,530	\$-	\$18,302,530	\$(17,609,232)	\$(693,298)	\$-

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 Century and its subsidiaries is disclosed as follows:

2015.9.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral received	
Derivative financial instrument	\$159	\$-	\$159	\$-	\$-	\$159

2015.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$277,467	\$-	\$277,467	\$-	\$-	\$277,467

Cathay Securities enter with opponent into collateralized bonds sold under repurchase agreements, in which Cathay Securities provide securities as collaterals. Only in the event of default and insolvency or bankruptcy are these transactions allowed to set off, they do not meet the offsetting criterion in international accounting standards. Hence, the related bonds sold under repurchase agreements and bonds purchased under resell agreements are reported separately in the statement of financial position.

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

2015.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Repurchase bonds	\$1,900,000	\$-	\$1,900,000	\$(1,900,000)	\$-	\$-

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	
Repurchase bonds	\$2,100,000	\$-	\$2,100,000	\$(2,100,000)	\$-	\$-

2014.9.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Repurchase bonds	\$2,250,000	\$-	\$2,250,000	\$(2,250,000)	\$-	\$-

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

(5) Financial instruments related information

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

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

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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 Group's assets and liabilities

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

Financial instruments measured at fair value item	2015.9.30				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	\$2,354,935	\$2,354,935	\$-	\$-	\$ 3,649,136	\$3,649,136	\$-	\$-
Held for trading								
Stocks	9,237,099	9,237,099	-	-	12,169,886	12,169,886	-	-
Bonds	15,886,065	3,486,690	12,399,375	-	14,780,668	2,687,042	12,093,626	-
Others	194,220,956	33,099,546	161,121,410	-	145,521,932	33,268,624	112,253,308	-
Available-for-sale financial assets								
Stocks	496,857,262	480,601,700	3,895,467	12,360,095	501,930,637	484,850,189	3,589,474	13,490,974
Bonds	666,405,859	74,423,046	591,982,813	-	691,525,641	45,007,434	646,518,207	-
Others	228,732,779	183,016,525	16,939,932	28,776,322	211,843,881	167,888,562	21,360,838	22,594,481
Investment properties	377,982,203	-	-	377,982,203	321,261,078	-	-	321,261,078
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value								
through profit or loss at initial recognition	40,451,501	-	40,451,501	-	32,746,635	-	32,746,635	-
Held for trading								
Others	1,136,166	1,136,166	-	-	816,072	816,072	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	79,719,505	625,692	71,442,430	7,651,383	46,885,546	226,944	38,746,742	7,911,860
Derivatives financial assets for hedging	618,196	-	618,196	-	665,390	-	665,390	-
Liabilities								
Financial liabilities at fair value through profit or loss	114,571,181	501,557	106,427,475	7,642,149	74,723,447	573,768	66,295,097	7,854,582

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Financial instruments measured at fair value item	2014.9.30			
	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	\$3,746,133	\$3,746,133	\$-	\$-
Held for trading				
Stocks	10,318,641	10,318,641	-	-
Bonds	28,985,238	11,700,947	17,284,291	-
Others	139,716,267	39,972,554	99,743,713	-
Available-for-sale financial assets:				
Stocks	438,397,095	422,160,364	1,828,824	14,407,907
Bonds	696,397,258	35,172,102	661,225,156	-
Others	166,824,848	126,844,444	20,711,390	19,269,014
Investment properties (Note)	320,933,396	-	-	320,933,396
Liabilities				
Financial liabilities at fair value through profit or				
loss				
Held for trading				
Bond investment	946,304	946,304	-	-
Others	832,749	832,749	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	20,175,518	426,934	13,575,557	6,173,027
Derivatives financial assets for hedging	799,689	-	799,689	-
Liabilities				
Financial liabilities at fair value through profit or				
loss	34,728,283	669,017	27,908,966	6,150,300
Derivative financial liabilities for hedging	13,397	-	13,397	-

Transfers between Level 1 and Level 2 during the period

For the nine-month period ended 30 September 2015, Cathay United Bank transferred corporate bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from level 1 to level 2. A total of \$1,561,496 thousand was transferred as its market price was no longer available.

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Certain central government bonds held by Cathay Life were determined to be debt instruments with no active market according to the Company's internal risk control policy evaluation. Therefore, \$60,383 thousand of it was transferred from 1st level to 2nd level fair value measurements during the nine-month period ended 30 September 2015.

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	\$321,261,078	\$7,854,582
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation loss from financial assets and liabilities at fair value through profit or loss	(1,444,372)	-	-	(1,396,328)
Realized gains from available-for-sale financial assets	-	2,212,501	-	-
Valuation gains from investment property	-	-	11,268,688	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available-for-sale financial assets	-	3,057,122	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	1,327,975	-
Acquisition or issues	3,257,740	6,082,670	29,036,402	3,257,740
Transfers to property and equipment	-	-	(798,027)	-
Transfers from investment property under construction and prepayment for properties	-	-	16,042,444	-
Disposal or settlements	(2,073,845)	(5,430,115)	(156,357)	(2,073,845)
Transfers to 3rd level	-	19,440	-	-
Transfers from 3 rd level	-	(890,656)	-	-
2015.9.30	\$7,651,383	\$41,136,417	\$377,982,203	\$7,642,149

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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	\$266,197,238	\$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	601,823	-	-	579,096
Realized gains from available-for-sale financial assets	-	658,068	-	-
Impairment losses from investment property	-	-	(7,123)	-
Valuation gains from investment property	-	-	16,460,840	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available-for-sale financial assets	-	2,079,526	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	(240,143)	-
Acquisition or issues	3,684,916	10,843,776	15,665,223	3,684,916
Transfers to property and equipment	-	-	10,526,579	-
Transfers from investment property under construction and prepayment for properties	-	-	12,671,559	-
Disposal or settlements	(317,873)	(3,254,737)	(340,777)	(317,873)
Transfers to 3rd level	-	1,509,106	-	-
Transfers from 3rd level	-	(255,574)	-	-
2014.9.30	\$6,173,027	\$33,676,921	\$320,933,396	\$6,150,300

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 30 September 2015 and 2014 in the amount of \$9,824,316 thousand and \$17,055,540 thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to liabilities on hand as of 30 September 2015 and 2014 in the amount of \$(1,396,328) thousand and \$579,096 thousand, respectively.

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Information on 3rd level significant unobservable inputs to valuation

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

Cathay Life and its subsidiaries

		2015.9.30			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability		3%~28%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability		15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax		-65%~85%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio		0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14				

Cathay United Bank and its subsidiaries

		2015.9.30			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability		20%~25%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate		6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets		Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Discounted income approach				
	Discounted Cash Flow Analysis	Discount rate		4.625%	The higher the discount rate, the lower the fair value

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Cathay Century and its subsidiaries

2015.9.30				
	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	0%	The latest quote price is the fair value.

Cathay Securities and its subsidiaries

2015.9.30					
	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.225% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.36%~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

	2015.9.30			
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	\$2,165,135,382	\$10,556,690	\$2,152,814,239	\$1,764,453
Held-to-maturity financial assets	84,055,787	51,503,642	32,552,145	-
Other financial assets	24,821,712	-	24,821,712	-

(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	2015.9.30				
	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	\$746,398	\$732,902	\$757,721	\$732,902	\$24,819
Available for sale financial assets repurchase agreements	35,879,817	39,674,498	36,218,144	39,674,498	(3,456,354)
Held to maturity financial assets repurchase agreements	39,454,283	39,270,868	39,454,283	39,270,868	183,415

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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	2015.9.30				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value	Net fair value	
Financial assets at fair value through profit or loss					
Repurchase bonds	\$1,913,050	\$1,900,000	\$1,913,050	\$1,900,000	\$13,050

(7) Management on financial risks

Cathay Life and its subsidiaries

A. Credit risk analysis

a. Sources of credit risk

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

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

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b. Concentration risk

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

30 September 2015

Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$105,574,379	\$2,038,653	\$10,482,184	\$96,716,745	\$16,785,028	\$231,596,989
Financial assets at fair value through profit or loss	14,569,603	557,047	7,115,779	7,841,983	-	30,084,412
Available-for-sale financial assets	267,946,184	25,782,260	61,444,015	138,289,508	54,083,949	547,545,916
Derivative financial assets for hedging	146,337	-	23,880	217,481	-	387,698
Debt instrument investments for which no active market exists	99,350,457	116,752,199	308,154,677	768,855,405	433,467,454	1,726,580,192
Held-to-maturity financial assets	24,607,280	-	-	-	-	24,607,280
Other financial assets	21,500,000	-	3,500,000	-	-	25,000,000
Total	\$533,694,240	\$145,130,159	\$390,720,535	\$1,011,921,122	\$504,336,431	\$2,585,802,487
Proportion	20.7%	5.6%	15.1%	39.1%	19.5%	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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Financial assets	Taiwan	Asia	Europe	Americas	Emerging markets and others	Total
Cash and cash equivalents	\$178,792,102	\$58,875	\$4,986,966	\$89,014,677	\$140,994,871	\$413,847,491
Financial assets at fair value through profit or loss	6,168,316	1,477,065	2,702,897	2,288,091	-	12,636,369
Available-for-sale financial assets	357,360,233	30,424,080	68,549,107	138,022,935	40,132,362	634,488,717
Derivative financial assets for hedging	61,661	-	64,037	20,569	-	146,267
Debt instrument investments for which no active market exists	59,457,091	79,238,065	233,735,291	428,138,264	287,027,117	1,087,595,828
Held-to-maturity financial assets	19,989,553	-	-	-	-	19,989,553
Other financial assets	35,700,000	-	3,500,000	-	-	39,200,000
Total	\$657,528,956	\$111,198,085	\$313,538,298	\$657,484,536	\$468,154,350	\$2,207,904,225
Proportion	29.8%	5.0%	14.2%	29.8%	21.2%	100.0%

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

30 September 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	\$231,596,989	\$-	\$-	\$-	\$-	\$231,596,989
Financial assets at fair value through profit or loss	28,205,562	1,878,850	-	-	-	30,084,412
Available-for-sale financial assets	544,885,485	2,660,431	-	-	-	547,545,916
Derivative financial assets for hedging	387,698	-	-	-	-	387,698
Debt instrument investments for which no active market exists	1,705,782,779	20,797,413	-	430,664	(430,664)	1,726,580,192
Held-to-maturity financial assets	24,607,280	-	-	-	-	24,607,280
Other financial assets	25,000,000	-	-	-	-	25,000,000
Total	\$2,560,465,793	\$25,336,694	\$-	\$430,664	\$(430,664)	\$2,585,802,487
Proportion	99.0%	1.0%	-	0.0%	0.0%	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%

30 September 2014

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

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:

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Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$347,928,029	\$55,058,130	\$85,056,113	\$17,310,606	\$505,352,878
Overdue receivables	263,770	104,636	43,335	-	411,741
Total	\$348,191,799	\$55,162,766	\$85,099,448	\$17,310,606	\$505,764,619
Proportion	69%	11%	17%	3%	100%

31 December 2014

Location	Northern and eastern areas	Central area	Southern area	Overseas	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%

30 September 2014

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

e. Secured loans and overdue receivables

30 September 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	\$238,174,301	\$165,686,470	\$46,374,202	\$77,624	\$3,727,582	\$454,040,179	\$4,424,927	\$449,615,252
Corporate finance	46,186,572	4,249,341	997,047	-	291,480	51,724,440	437,312	\$51,287,128
Total	\$284,360,873	\$169,935,811	\$47,371,249	\$77,624	\$4,019,062	\$505,764,619	\$4,862,239	\$500,902,380

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31 December 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	\$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

30 September 2014

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$237,997,729	\$165,563,637	\$46,339,822	\$171,703	\$4,282,096	\$454,354,987	\$2,638,515	\$451,716,472
Corporate finance	46,153,929	3,878,324	1,164,584	-	4,389,313	55,586,150	1,479,322	54,106,828
Total	\$284,151,658	\$169,441,961	\$47,504,406	\$171,703	\$8,671,409	\$509,941,137	\$4,117,837	\$505,823,300

f. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, Cathay Life believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
30 September 2015	\$64,575	\$13,049	\$77,624
31 December 2014	67,555	43,004	110,559
30 September 2014	89,443	82,260	171,703

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.

30 September 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	\$354,356	\$-	\$-	\$-	\$-	\$354,356
Payables	20,928,204	286,463	2,757	-	-	21,217,424
Preferred stock liability	15,122,260	-	10,466,859	5,173,005	-	30,762,124

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

30 September 2014	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$209,198	\$-	\$-	\$-	\$-	\$209,198
Payables	28,334,476	4,138,129	136	-	-	32,472,741
Preferred stock liability	-	228,866	15,897,931	15,543,328	-	31,670,125

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d. Maturity analysis of derivative financial liability:

30 September 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	\$20,932	\$23,849	\$42,845	\$29,123	\$-	\$116,749
Forward	7,031,925	435,600	-	-	-	7,467,525
CS	52,684,588	6,355,704	-	-	-	59,040,292
Option	3,568	-	-	-	-	3,568

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

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

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
2015.1.1~2015.9.30

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Stock index)	-10%	\$(45,785,741)
Interest rate risk (Yield curve)	+20bps	(7,740,096)
Exchange risk (Foreign exchange rate)	USD weakens against NTD by \$1	(21,267,454)
Commodity risk (Price)	-10%	-

Table of Stress Testing
2014.1.1~2014.9.30

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

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2015.1.1~2015.9.30

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,294,338	\$3,751,144
	CNY/CNH appreciates 1%	1,749,092	255,635
	HKD appreciates 1%	79,592	662,646
	EUR appreciates 1%	240,111	121,848
	GBP appreciates 1%	296,727	32,245
Interest rate risk	Yield curve (USD) parallelly shifts up 1 bp	4,222	(133,061)
	Yield curve (AUD) parallelly shifts up 1 bp	(59)	(3,354)
	Yield curve (EUR) parallelly shifts up 1 bp	-	(1,592)
	Yield curve (NTD) parallelly shifts up 1 bp	3,633	(235,930)
Equity price risk	Equity price increases 1%	66,788	4,534,981

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Summarization of Sensitivity Analysis

2014.1.1~2014.9.30

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

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.

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Market risk management process

a. Identification and measurement

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

b. Monitoring and reporting

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

Risk management policy of the trading book

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

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a. Strategy

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

b. Policy and procedure

Cathay United Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

c. Valuation policy

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

d. Method of measurement

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

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

Interest risk management of trading book

a. Definition of interest risk

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

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b. Interest risk management procedure of trading book

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

c. Method of measurement

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

Interest risk management of banking book

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

a. Strategy

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

b. Management procedure

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

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

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c. Method of measurement

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

Foreign exchange risk management

a. Definition of foreign exchange risk

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

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

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

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

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Risk management of equity price

a. Definition of risk of equity price

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

b. Purpose of risk management in equity prices

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

c. Procedure of risk management of equity prices

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

d. Measured methodology

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

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

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.

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2015.9.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$736,709	\$975,900	\$515,259
Foreign exchange	363,460	576,443	166,095
Equity Securities price	232,234	314,534	131,033

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

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

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.

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Stress Test				
Market/ Product	Scenarios	2015.9.30	2014.12.31	2014.9.30
Stock Market	Major Stock Exchanges +15%	\$870,270	\$1,765,050	\$1,312,640
	Major Stock Exchanges -15%	(870,270)	(1,765,050)	(1,312,640)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(9,641,870)	(5,908,080)	(5,608,630)
	Major Interest Rate - 100bp	10,027,810	5,970,250	5,522,130
Foreign Exchange Market	Major Currencies + 3%	3,956,568	3,056,861	2,461,923
	Major Currencies - 3%	(3,956,567)	(3,056,861)	(2,461,922)
Composite	Major Stock Exchanges -15%	(6,555,572)	(4,616,269)	(4,459,347)
	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.

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.

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Market risk factor sensitivity of Cathay United Bank

		2015.9.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$714,982	\$-
	HKD+1%	3,383	1,149
	JPY+1%	251	-
	AUD+1%	54,732	-
	CNY+1%	409,411	23,633
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	504	(30,940)
	Yield curves (HKD) parallel shift+1bp	-	(67)
	Yield curves (JPY) parallel shift+1bp	(2)	-
	Yield curves (AUD) parallel shift+1bp	-	(4,000)
	Yield curves (CNY) parallel shift+1bp	(498)	(24,335)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	58,000
		2014.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$630,713	\$1,529
	HKD+1%	3,242	2,891
	JPY+1%	505	1,376
	AUD+1%	23,342	-
	CNY+1%	285,215	47,906
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)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	117,670

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		2014.9.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$614,782	\$1,188
	HKD+1%	3,144	-
	JPY+1%	121	2,433
	AUD+1%	28,003	-
	CNY+1%	155,309	25,817
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	(580)	(27,584)
	Yield curves (HKD) parallel shift+1bp	-	(6)
	Yield curves (AUD) parallel shift+1bp	-	(1,210)
	Yield curves (CNY) parallel shift+1bp	24	(5,984)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	87,505

C. Credit risk

Credit risk represents the risk of loss that Cathay United Bank and its subsidiaries would incur if counterparty fails to perform its contractual obligations.

To centralize risk management functions currently handled by different departments, Cathay United Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Cathay United Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. Cathay United Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

Cathay United Bank and its subsidiaries maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and Cathay United Bank and its subsidiaries retain the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

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The management procedure and measurement methodology of credit risk in Cathay United Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

a. Category of credit risk

The credit risk of Cathay United Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, Cathay United Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

b. Grade of credit quality

Cathay United Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed the risk management.

In order to measure the credit risk of the clients, Cathay United Bank employs the statistic methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conformed to the reality and revised every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

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The credit quality of Cathay United Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and test in the model according to the actual default every year so that the calculated results will be close to actual default.

Due from and call loans to other banks

Cathay United Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

c. Hedge of credit risk and easing policy

(A) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. For ensure the creditor's rights, Cathay United Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

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(B) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

(C) Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

d. Cathay United Bank's maximum exposures to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

(A) Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk		
	2015.9.30	2014.12.31	2014.9.30
Irrevocable loan commitments	\$129,635,837	\$162,105,192	\$175,298,046
Credit card commitments	501,270,622	468,810,255	458,728,110
Unused commercial letters of credit	3,714,076	4,903,594	4,834,696
Guarantees on duties and contracts	10,263,154	12,105,996	11,647,351
Total	\$644,883,689	\$647,925,037	\$650,508,203

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(B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2015.9.30	2014.12.31	2014.9.30
Finance guarantee contracts	\$1,934,938	\$1,727,450	\$1,561,354
Unused commercial letters of credit	1,336,157	964,503	1,373,761
Total	\$3,271,095	\$2,691,953	\$2,935,115

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2015.9.30	2014.12.31	2014.9.30
Finance guarantee contracts	\$93,334	\$16,176	\$15,843
Irrevocable loan commitments	451,239	303,715	255,429
Credit card commitments	346,309	264,908	247,830
Unused commercial letters of credit	1,830	-	3,014
Total	\$892,712	\$584,799	\$522,116

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.

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Credit risk concentration of Cathay United Bank and its subsidiaries derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. Cathay United Bank and its subsidiaries do not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for Cathay United Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of Cathay United Bank and its subsidiaries according to industry, country are listed below:

Item	2015.9.30		2014.12.31		2014.9.30	
	amount	%	amount	%	amount	%
Industry type						
Manufacturing	\$76,891,008	6.59	\$91,268,082	7.93	\$110,477,493	9.64
Financial institutions and insurance	41,109,061	3.52	40,065,497	3.48	38,791,297	3.39
Leasing and real estate	90,893,388	7.79	89,080,389	7.74	90,961,073	7.94
Individuals	575,249,184	49.30	552,513,647	47.99	533,499,379	46.56
Others	382,668,893	32.80	378,383,937	32.86	372,049,783	32.47
Total	\$1,166,811,534	100.00	\$1,151,311,552	100.00	\$1,145,779,025	100.00

Item	2015.9.30		2014.12.31		2014.9.30	
	amount	%	amount	%	amount	%
Geographic Region						
Domestic	\$1,016,580,810	87.12	\$969,952,473	84.25	\$950,068,732	82.92
Asia	78,982,621	6.77	75,168,904	6.53	87,137,825	7.60
America	23,057,077	1.98	27,630,814	2.40	24,508,268	2.14
Others	48,191,026	4.13	78,559,361	6.82	84,064,200	7.34
Total	\$1,166,811,534	100.00	\$1,151,311,552	100.00	\$1,145,779,025	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.

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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

2015.9.30	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	\$38,728,212	\$8,367,207	\$3,127,694	\$50,223,113	\$130,048	\$153,522	\$50,506,683	\$124,562	\$1,328,980	\$49,053,141
Others	12,900,544	25,522,998	92,313	38,515,855	4,314	35,677	38,555,846	13,641	286,028	38,256,177
Loans	760,056,741	314,793,469	38,125,458	1,112,975,668	1,031,281	13,847,626	1,127,854,575	3,042,552	13,763,060	1,111,048,963

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
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

2014.9.30	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	\$36,291,186	\$7,829,314	\$2,970,379	\$47,090,879	\$126,403	\$139,979	\$47,357,261	\$115,044	\$1,493,337	\$45,748,880
Others	23,449,958	2,458,272	249,650	26,157,880	3,392	38,580	26,199,852	10,820	192,426	25,996,606
Loans	665,494,336	381,681,831	40,685,491	1,087,861,658	444,901	22,126,370	1,110,432,929	4,274,933	11,507,056	1,094,650,940

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

2015.9.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$221,787,987	\$48,641,062	\$8,718,884	\$279,147,933
Unsecured personal loans	19,672,085	12,026,601	3,471,943	35,170,629
Other	241,799,545	42,395,468	7,129,804	291,324,817
Corporate banking				
Secured	49,880,799	118,534,680	12,104,280	180,519,759
Unsecured	226,916,325	93,195,658	6,700,547	326,812,530
Total	<u>\$760,056,741</u>	<u>\$314,793,469</u>	<u>\$38,125,458</u>	<u>\$1,112,975,668</u>

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	<u>\$699,208,322</u>	<u>\$350,838,296</u>	<u>\$40,974,472</u>	<u>\$1,091,021,090</u>

2014.9.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$218,382,044	\$49,863,127	\$9,437,702	\$277,682,873
Unsecured personal loans	12,105,565	8,804,197	2,597,249	23,507,011
Other	199,418,301	41,007,957	5,795,844	246,222,102
Corporate banking				
Secured	34,546,364	165,478,628	14,501,327	214,526,319
Unsecured	201,042,062	116,527,922	8,353,369	325,923,353
Total	<u>\$665,494,336</u>	<u>\$381,681,831</u>	<u>\$40,685,491</u>	<u>\$1,087,861,658</u>

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(C) Credit quality analysis on securities investment

2015.9.30	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$107,451,600	\$500,000	\$107,951,600	\$-	\$-	\$107,951,600	\$-	\$107,951,600
Stocks	1,347,834	5,850,969	7,198,803	-	140,985	7,339,788	140,985	7,198,803
Others	314,346	946,552	1,260,898	-	-	1,260,898	-	1,260,898
Held-to-maturity financial assets								
Bonds	47,741,127	1,343,133	49,084,260	-	-	49,084,260	-	49,084,260
Others	41,409	-	41,409	-	-	41,409	-	41,409
Investments in debt securities with no active market								
Bonds	8,174,698	156,270	8,330,968	-	1,514,931	9,845,899	1,514,931	8,330,968
Others	440,890,000	-	440,890,000	-	-	440,890,000	-	440,890,000

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 grade	Non-investment grade or 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

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2014.9.30	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$54,188,618	\$1,225,578	\$55,414,196	\$-	\$-	\$55,414,196	\$-	\$55,414,196
Stocks	492,148	11,658,231	12,150,379	-	163,785	12,314,164	163,785	12,150,379
Others	52,557	409,877	462,434	-	-	462,434	-	462,434
Held-to-maturity financial assets								
Bonds	49,769,286	605,094	50,374,380	-	-	50,374,380	-	50,374,380
Investments in debt securities with no active market								
Bonds	7,998,964	162,719	8,161,683	-	1,314,374	9,476,057	1,314,374	8,161,683
Preferred Stocks	-	549,730	549,730	-	-	549,730	-	549,730
Others	357,543,656	-	357,543,656	-	-	357,543,656	-	357,543,656

(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.

2015.9.30	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$79,835	\$50,213	\$130,048
Others	2,396	1,918	4,314
Loans			
Consumer banking			
Residential mortgage loans	202,389	109,437	311,826
Unsecured personal loans	42,734	29,808	72,542
Others	102,924	69,497	172,421
Corporate banking			
Secured	469,067	-	469,067
Unsecured	5,425	-	5,425

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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
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
2014.9.30	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$76,903	\$49,500	\$126,403
Others	2,062	1,330	3,392
Loans			
Consumer banking			
Residential mortgage loans	178,248	58,103	236,351
Unsecured personal loans	22,816	13,867	36,683
Others	91,752	46,599	138,351
Corporate banking			
Secured	274	33,125	33,399
Unsecured	117	-	117

f. Impairment analysis of financial assets of Cathay United Bank

- (A) Cathay United Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$140,985, \$163,785 and \$163,785 as of 30 September 2015, 31 December 2014 and 30 September 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 \$1,419,345, \$1,358,935 and \$1,218,788 as of 30 September 2015, 31 December 2014 and 30 September 2014, respectively, due to credit deterioration of securitization products and financial debentures.

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Cathay United Bank has recognized accumulated impairment loss for investment in debt securities with no active market in the amount of \$95,586, \$95,586 and \$95,586 as of 30 September 2015, 31 December 2014 and 30 September 2014, respectively, due to the default on the convertible bonds.

(C) For Cathay United Bank's impairment assessment of discounts, loans and receivables, please refer to Note 9 and Note 10.

(D) Foreclosed properties management policy

The carrying amount of foreclosed properties in CUBC Bank were \$59,630, \$57,092 and \$55,505 at 30 September 2015, 31 December 2014 and 30 September 2014.

Foreclosed properties will be sold when are available for sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

D. Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. The Management Committee of Assets and Liabilities is responsible for planning liquidity risk management strategy. The Financial Trading Division is responsible for daily operation and execution, including measuring liquidity risk, performing sensitivity analysis of interest rates, scenario analysis and planning emergency responses. Liquidity is also managed by quantitatively managing and adjusting liquidity gap according to variation of cash flows and economy. Expectation of or exposure to significant changes in liquidity risk are immediately reported to the board of directors.

a. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

(A) Financial assets were held to manage liquidity risk

Cathay United Bank and its subsidiaries hold highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

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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.

2015.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$18,397,030	\$9,496,159	\$5,840,665	\$69,561	\$33,803,415
Securities sold under agreements to repurchase	64,077,704	11,316,979	-	4,309,986	79,704,669
Payables	15,239,242	6,943,936	52,634	468,837	22,704,649
Deposits and remittances	287,772,509	757,894,807	664,991,641	104,378,655	1,815,037,612
Financial debentures payable	13,963,095	7,711	211,933	51,900,000	66,082,739
Other capital outflow at maturity	14,274,823	38,106,856	15,716,096	7,242,427	75,340,202

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

2014.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$37,553,909	\$18,981,296	\$10,596,820	\$19,105	\$67,151,130
Funds borrowed from Central Bank and other banks	1,522,193	-	-	-	1,522,193
Financial liabilities at fair value through profit or loss	-	-	-	946,850	946,850
Securities sold under agreements to repurchase	57,813,221	2,383,085	-	-	60,196,306
Payables	10,244,771	1,878,166	3,692,659	438,613	16,254,209
Deposits and remittances	263,191,202	702,739,350	628,666,905	78,866,872	1,673,464,329
Financial debentures payable	22,736	9,308	2,412,513	64,935,107	67,379,664
Other capital outflow at maturity	34,595,711	27,197,391	7,225,550	4,035,103	73,053,755

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b. Maturity analysis of derivative financial liabilities

(A) Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

- i Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- ii Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivation financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2015.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$40,413	\$(1,023,561)	\$296,731	\$(3,476,545)	\$(4,756,424)
- Interest rate derivative instruments	5,366	32,603	193,744	23,391,598	23,623,311
Total	\$45,779	\$(990,958)	\$(102,987)	\$19,915,053	\$18,866,887

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

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2014.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$155,510	\$15,351	\$(40,568)	\$(1,121,281)	\$(990,988)
- Interest rate derivative instruments	10,289	22,857	40,784	7,592,555	7,666,485
Total	\$165,799	\$38,208	\$216	\$6,471,274	\$6,675,497

(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:

2015.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(3,151,129)	\$(9,355,351)	\$(1,900,029)	\$359,789	\$(14,046,720)
- Cash inflow	130,655	350,028	259,474	172,464	912,621
- Interest rate derivative instruments					
- Cash outflow	(189,845)	(498,774)	(645,264)	(1,894,200)	(3,228,083)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,340,974)	(9,854,125)	(2,545,293)	(1,534,411)	(17,274,803)
Cash inflow subtotal	130,655	350,028	259,474	172,464	912,621
Net cash flow	\$(3,210,319)	\$(9,504,097)	\$(2,285,819)	\$(1,361,947)	\$(16,362,182)

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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)

2014.9.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(2,753,780)	\$(1,865,702)	\$22,566	\$692,911	\$(3,904,005)
- Cash inflow	125,679	714,411	660,310	113,689	1,614,089
- Interest rate derivative instruments					
- Cash outflow	(35,029)	(217,125)	(27,569)	(306,407)	(586,130)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,788,809)	(2,082,827)	(5,003)	386,504	(4,490,135)
Cash inflow subtotal	125,679	714,411	660,310	113,689	1,614,089
Net cash flow	\$(2,663,130)	\$(1,368,416)	\$655,307	\$500,193	\$(2,876,046)

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.

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(C) Leasing commitments: Cathay United Bank acts as a lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2015.9.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$126,439,932	\$238,443,932	\$266,022,595	\$630,906,459
Financial guarantee contracts	11,686,735	2,271,803	18,692	13,977,230
Leasing commitments				
Non-cancellable operating lease payments	810,350	1,403,350	98,872	2,312,572
Total	\$138,937,017	\$242,119,085	\$266,140,159	\$647,196,261

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	\$185,993,560	\$208,131,857	\$256,413,254	\$650,538,671

2014.9.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$171,100,926	\$203,552,175	\$259,373,055	\$634,026,156
Financial guarantee contracts	14,366,931	2,096,719	18,397	16,482,047
Leasing commitments				
Non-cancellable operating lease payments	697,361	1,087,961	95,279	1,880,601
Total	\$186,165,218	\$206,736,855	\$259,486,731	\$652,388,804

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' principal financial risk management objective are to manage the market risk, credit risk and liquidity risk related to its operating activities. Cathay Century and its subsidiaries identify measures and manage the aforementioned risks based on the Company's policy and risk appetite.

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Cathay Century and its subsidiaries have established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. Cathay Century and its subsidiaries comply with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable; there is usually interdependency between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

a. Foreign currency risk

Cathay Century and its subsidiaries are exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, Cathay Century and its subsidiaries engage in forward foreign exchange contracts for hedging purposes.

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.

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b. Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. Cathay Century and its subsidiaries' interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

c. Equity price risk

Cathay Century and its subsidiaries hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by Cathay Century and its subsidiaries are classified under held for trading financial assets or available-for-sale financial assets. Cathay Century and its subsidiaries manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

a. Credit risk management policies

Cathay Century and its subsidiaries trade only with established and creditworthy third parties. Cathay Century and its subsidiaries' policy is that all customers who trade on credit terms are subject to credit verification procedures and that premium receivable and notes receivable collections are monitored on an ongoing basis. Therefore, Cathay Century and its subsidiaries' bad debt are insignificant. On the other hand, in the event counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

Cathay Century and its subsidiaries' secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty's creditworthiness deteriorates, Cathay Century and its subsidiaries may exercise under their own discretion the relevant security rights upon presentation, to protect the Cathay Century and its subsidiaries' interests.

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Cathay Century and its subsidiaries' credit risk exposure of financial transaction include: issuer risk, counterparty risk and the credit risk of underlying assets.

(A) Issuer risk is the risk that the issuer of the debt instrument held by Cathay Century and its subsidiaries or banks with which Cathay Century and its subsidiaries maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and Cathay Century and its subsidiaries incur financial losses as a result.

(B) Counterparty risk is the risk that a counterparty of Cathay Century and its subsidiaries to deliver as obligated before the settlement date which then cause losses to Cathay Century and its subsidiaries

(C) Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

b. Credit concentration risk analysis

(A) The amounts of credit risk exposure of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	The amount of credit risk exposure - by area					
	2015.9.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,565,474	-	\$63,254	\$551,515	\$1,972,686	\$8,152,929
Financial assets at fair value through profit or loss	1,394,197	-	-	-	534,053	1,928,250
Available-for-sale financial assets	5,863,653	-	324,223	270,497	1,630,202	8,088,575
Debt instruments investments with no active market exists	1,600,000	-	355,928	674,410	1,052,259	3,682,597
Held-to-maturity investments	205,340	-	1,074,771	1,473,692	1,196,071	3,949,874
Total	\$14,628,664	-	\$1,818,176	\$2,970,114	\$6,385,271	\$25,802,225
Each area percentage	56.70%	0.00%	7.04%	11.51%	24.75%	100.00%

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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%

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

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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				
	2015.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,152,929	\$-	\$-	\$-	\$8,152,929
Financial assets at fair value through profit or loss	1,928,250	-	-	-	1,928,250
Available-for-sale financial assets	8,088,575	-	-	-	8,088,575
Debt instruments investments with no active market exists	3,682,597	-	-	-	3,682,597
Held-to-maturity investments	3,949,874	-	-	-	3,949,874
Total	\$25,802,225	\$-	\$-	\$-	\$25,802,225

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

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Financial assets	Credit quality of financial assets				
	2014.9.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$8,761,578	\$-	\$-	\$-	\$8,761,578
Financial assets at fair value through profit or loss	1,353,913	-	-	-	1,353,913
Available-for-sale financial assets	8,312,641	-	-	-	8,312,641
Derivative financial assets for hedging	3,639	-	-	-	3,639
Debt instruments investments with no active market exists	3,114,618	-	-	-	3,114,618
Held-to-maturity investments	1,577,684	-	-	-	1,577,684
Total	\$23,124,073	\$-	\$-	\$-	\$23,124,073

Note: Investment level means the credit rating above BBB- and non-investment level means the credit rating less than BBB-.

(B) Secured loans

Secured loans	2015.9.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$173,321	\$-	\$-	\$-	\$113,624	\$286,945	\$3,012	\$283,933
Corporate Finance	60,580	-	-	-	22,500	83,080	1,482	81,598
Total	\$233,901	\$-	\$-	\$-	\$136,124	\$370,025	\$4,494	\$365,531

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

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C. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Century adapts and implements the internal control regulations and sheets. Cathay Century and its subsidiaries establish the information systems to accommodate the aforementioned policies.

D. Liquidity risk

a. Source of liquidity risk

Liquidity risk includes ‘Funding liquidity risk’ and ‘Market liquidity risk’. The ‘funding liquidity risk’ is the risk of insufficient funding or inability to realize the assets to meet Cathay Century’s commitment when due. ‘Market liquidity risk’ occurs when drastic change of market price is triggered by market turmoil or lack of market depth to dispose of or offset the holding positions.

b. Liquidity risk management

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

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

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

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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	2015.9.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,654,970	\$1,335,037	\$1,298,184	\$28,292	\$4,104	\$4,457	\$-
Financial liabilities at fair value through profit or loss	277,467	277,467	155,723	114,205	7,539	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

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

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E. Market risk analysis

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

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

a. Value-at-risk

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

Value-at-risk model must reasonably completely and accurately measure the maximum potential risk that can be Cathay Century and its subsidiaries' risk management model. The use of risk management model must continue to conduct back testing daily to ensure the model can effectively measure financial instrument and what the maximum potential risk of a portfolio is.

b. Stress testing

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

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

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(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

2015.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(712,386)
Interest rate risk (Yield curve)	20bp	(128,119)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(103,046)
Commodity risk (Price)	-10%	-

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2015.9.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$183	\$602
	CNY appreciate 1 %	16,413	821
	HKD appreciate 1 %	247	2,937
	NTD appreciate 1 %	(34,351)	(6,692)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,053)	(123)
	Yield curve (CNY) flat rises 1bp	(62)	(73)
	Yield curve (NTD) flat rises 1bp	(808)	(1,288)
Equity securities price sensitivity	Increase 1% in equity price	71	71,239

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

2014.9.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(227,035)
Interest rate risk (Yield curve)	20bp	(70,301)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(111,772)
Commodity risk (Price)	-10%	-

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

c. Cathay Securities and its subsidiaries

(A) Risk management policies

i. Risk management objectives

Adhere to the risk management policies of the Company, Cathay Financial Holding, Cathay Securities and its subsidiaries manage the risks efficiently and elastically on operating activities to maximize the profit in conformity with domestic and foreign regulations.

ii. Risk management policies

Cathay Securities uses “risk management policies” as a guiding principle to establish risk management objectives, coverage, organization duties and operating, management principles and reports etc.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operation risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management in accordance with the management policies before operating business.

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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, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

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.

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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.

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.

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iv. Risk Management Workflows

Risk management workflows for Cathay Securities and its subsidiaries include risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

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.

(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.

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(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.

(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.

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④ Liquidity Risk

(a) Definition

Liquidity is defined as the capability of the company to acquire the sufficient capital and to support assets growth and payout the liabilities.

(b) Controls

Measurement index for liquidity risk is established and Cathay Securities compile the liquidity risk management report periodically to review capital conditions and cash flow gap as of balance dates. Capital allocation planning is based on the compiled structure analysis as of balance sheet dates. Meanwhile, acquiring the credit line of short-term financing from other financial institutions and managing receipts and payments properly to sustain appropriate liquidity and ensure the ability to make the payment.

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.

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(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.

(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.

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v. Hedge and Mitigation of Risk Strategy

The hedge and mitigation of risk strategy for Cathay Securities and its subsidiaries are implemented the dynamic hedge through investment products to duplicate the same cash flows when derivatives are matured. The hedge for outstanding stock warrants and structured products are used Delta Neutral as a principle. If the prices of those investment positions fluctuate wildly in the financial market, the violation of hedge operating due to the impact from the significant events, or the violation of the hedge operating rules from the operators, the business department is required to explain by written and report to the risk management department.

Cathay Securities establish the approval limit and stop-loss mechanism by each attributes of the product. When the position meets the prevention point, the risk management department will inform the supervisor or position administrator in time and monitor the change of the position. Besides, the business department should operate in accordance with approval limits. If the stop-loss point is met, the investment position should be sold or the business department is required to provide the exception report. The reason and specific responses are also need to be informed.

(B) Credit risk analysis

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

- i Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest.
- 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

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iii Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which make Cathay Securities face the credit risk include bank accounts, debt securities, the trading from Over-the Counter derivatives, repurchase and resell debts, trading from the securities lending, refundable deposits, futures deposit in bank, other refundable deposits and account receivables etc.

(C) Capital Liquidity Risk Analysis:

i Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire the sufficient capital at the reasonable cost within the reasonable time and results in cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirement.

2015.9.30					
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	\$300,000	\$-	\$-	\$-	\$300,000
Bonds payables	3,738,974	-	-	-	3,738,974
Financial liabilities at fair value through profit or loss -current	1,637,723	-	-	-	1,637,723
Liabilities for bonds with repurchase agreements	1,900,000	-	-	-	1,900,000
Deposits for securities borrowed	68,018	79,282	118,923	475,695	741,918
Futures trader's equity	3,109,794	-	-	-	3,109,794
Account payables	4,782,535	-	-	354,011	5,136,546
Others	205	-	-	24,539	24,744
Total	\$15,537,249	\$79,282	\$118,923	\$854,245	\$16,589,699
% to the total	93.66%	0.48%	0.72%	5.15%	100%

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

2015.9.30					
Cash Flow Gap					
Received Terms					
Financial Assets	Less than			More than	
	1 month	1 to 3 months	3 to 6 months	6 months	Total
Cash and cash equivalents	\$1,279,661	\$-	\$-	\$-	\$1,279,661
Financial assets at fair value through profit or loss -current					
Operations Security	5,449,087	-	-	-	5,449,087
Open-end Funds	43,268	-	-	-	43,268
Call option-futures	-	-	-	47,500	47,500
Futures trading margin	-	-	-	519,771	519,771
Available for sale financial assets	433,226	-	-	265,737	698,963
Other current assets-time deposit	-	-	-	900,000	900,000
Client margin accounts	3,110,611	-	-	-	3,110,611
Account Receivables	6,826,553	5,984	8,976	35,904	6,877,417
Securities financing receivables	167,771	327,572	491,358	1,965,437	2,952,138
Others	-	-	-	736,147	736,147
Subtotal	<u>17,310,177</u>	<u>333,556</u>	<u>500,334</u>	<u>4,470,496</u>	<u>22,614,563</u>
Residual cash	<u>\$1,772,928</u>	<u>\$254,274</u>	<u>\$381,411</u>	<u>\$3,616,251</u>	<u>\$6,024,864</u>

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.

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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:

- 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.

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ii Value at Risk

Value at Risk (“VaR”) is the risk of the most probable loss on the portfolio in position arising from the movements in market risk simples by measuring portfolio over a specific time frame and at a certain confidence level. Cathay Securities measures VaR for the next day within an investment portfolio over a week and at 99% confidence level. Also, Back Test at VaR is performed each year to ensure the accuracy of this model.

VaR at one single trading day within 99% confidence level

<u>2015.1.1~2015.9.30</u>	<u>NT\$ (in thousands)</u>
Period Ended	46,921
Average	34,349
Lowest	11,444
Highest	83,638

iii Stress Test

Cathay Securities and its subsidiaries perform monthly Stress Test to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk simples which have more significant influence on the asset portfolio. Follow-up and review report will be documented. Customized or extreme scenario which take rapid changes in foreign and domestic financial environment into consideration are also performed irregularly and measured the maximized losses arising from these scenarios for ensuring that Cathay Securities and its subsidiaries manage each potential scenario effectively.

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.

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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.

2015.9.30
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	<u>-10%</u>	\$(69,468)
Interest Risk	Yield Curve	<u>+100bps</u>	(64,619)
Exchange Risk	Exchange Rate	<u>+3%</u>	813
Product Risk	Price	<u>-10%</u>	-

(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 30 September 2015, Cathay life and its subsidiaries provide loans of non-contractual obligation amounting to GBP £345,000 thousand to the consolidated structured entities.

B. Unconsolidated structured entities

a. Cathay Century, Cathay Life, and their subsidiaries do not provide financial support or other support to the unconsolidated structured entities. Cathay Century, Cathay Life, and their subsidiaries' maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets Cathay Century, Cathay Life, and their subsidiaries recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

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b. As of 30 September 2015, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	Private equity funds	Asset-backed securities
Available-for-sale financial assets	\$25,550,247	\$125,393,684
Debt instrument investments for which no active market exists	-	194,467,673
Total	\$25,550,247	\$319,861,357

c. As of 30 September 2015, the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$-
Debt instrument investments for which no active market exists	-	-
Held-to-maturity financial assets	-	1,121,652
Total	\$-	\$1,121,652

d. As of 30 September 2015, the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$95,067	\$1,186,423
Debt instrument investments for which no active market exists	-	7,668,408
Held-to-maturity financial assets	-	15,700,230
Total	\$95,067	\$24,555,061

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

	2015.9.30			2014.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$62,296,120	33.1280	\$2,063,745,863	\$51,149,609	31.7180	\$1,622,363,298
CNY	48,635,586	5.2184	253,799,942	67,501,391	5.1035	344,493,349
<u>Non-Monetary Items</u>						
USD	8,149,484	33.1280	269,976,106	7,870,375	31.7180	249,632,554
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	8,252,284	33.1280	273,381,664	7,937,171	31.7180	251,751,190
<u>2014.9.30</u>						
	Foreign Currency	Exchange Rate	NT\$			
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	49,277,562	30.4360	1,499,811,877			
CNY	71,841,200	4.9382	354,766,214			
<u>Non-Monetary Items</u>						
USD	5,611,494	30.4360	170,791,431			
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	7,197,115	30.4360	219,051,392			

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 for the three-month and nine-month periods ended 30 September 2015 and 2014 were \$80,716,094 thousand, \$14,745,643 thousand, \$58,198,542 thousand, and \$10,188,717 thousand, respectively.

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(10) Discretionary account management for Cathay Life

Item	2015.9.30		2014.12.31		2014.9.30	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$105,205,500	\$105,205,500	\$125,190,176	\$125,190,176	\$124,010,613	\$124,010,613
Overseas stocks	38,351,473	38,351,473	44,606,537	44,606,537	49,855,932	49,855,932
Repurchase bonds	13,600,070	13,600,070	14,093,000	14,093,000	13,848,000	13,848,000
Cash in banks	36,289,076	36,289,076	23,123,022	23,123,022	21,738,344	21,738,344
Beneficiary certificates	2,455,105	2,455,105	5,615,021	5,615,021	5,881,690	5,881,690
Futures and options	1,585,444	1,585,444	746,019	746,019	687,225	687,225
Corporate bonds			-	-	727,602	727,602
Total	\$197,486,668	\$197,486,668	\$213,373,775	\$213,373,775	\$216,749,406	\$216,749,406

As of 30 September 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$121,800,000 thousand, US\$1,277,000 thousand, and HK\$1,780,000 thousand. 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 30 September 2014, the amounts are \$132,000,000 thousand, US\$1,470,000 thousand and HK\$1,550,000 thousand.

(11) Capital management:

Currently, the Company and its subsidiaries' capital adequacy ratios meet the statutory requirements. Under the pretext that the Company and its subsidiaries meet the statutory capital adequacy requirement, dynamic capital management mechanism is employed to increase the capital efficiency of the subsidiaries. After the redistribution of capital, the subsidiaries' ability to take risks will not be affected. Under such scenario, the Company will conduct overall planning based on the distribution of the subsidiaries' capital in order to strengthen the efficiency of capital operation within the Group.

(12) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 33 for further details.

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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 739 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

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

D. Locations and business utilities:

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

All the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business. And 3 mini-branches may engage in life insurance business and property and casualty insurance business.

Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (182 locations).

Cathay Security may engage in cross-selling activities in Cathay United Bank’s Banxin branch (and other 23 branches) and Cathay Life’s Taitung branch. The shared business locations are available for account opening.

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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.

(13) Significant contracts:

Cathay Century agreed on 14 September 2015 that Cathay Insurance (China), one of its subsidiaries increases capital. Zhejiang Ant Financial Service Group Co., Ltd. (Ant Financial) acquired all the newly issued shares as a strategic investor.

(14) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US\$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 30 September 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 30 September 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, MOEAIC authorized Cathay Life to remit CNY¥300,000 (US\$47,000) thousand and CNY¥500,000 (US\$80,000) thousand, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY¥700,000 (US\$111,000) thousand to increase the share capital. As of 30 September 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 and Cathay Life have received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company in China. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 30 September 2015, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.

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

- E. MOEAIC approved Cathay United Bank to remit to China CNY¥400,000 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY¥600,000 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥1,000,000 (US\$164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US\$94,310) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY¥400,000 thousand on 5 January 2015.
- F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY¥66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY¥200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 30 September 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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(15) Segment information

The Group separated operating segments based on the natures of business and they classified into five reportable segments for the purpose of management:

- A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.
- C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.
- D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.
- E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

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.

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

A. Income information of reporting segment

2015.7.1~2015.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,941,805	\$29,554,910	\$139,481	\$28,689	\$(274,058)	\$36,390,827
Net income other than interest	235,378	71,170,414	2,348,744	433,724	1,090,778	75,279,038
Total income	7,177,183	100,725,324	2,488,225	462,413	816,720	111,669,865
Bad debt expenses and Provision for premiums reserve	(107,554)	(292,657)	12,848	-	-	(387,363)
The net change of insurance liabilities	-	(79,429,764)	(376,110)	-	-	(79,805,874)
Operating expenses	(6,347,148)	(8,563,115)	(1,192,771)	(430,562)	(736,661)	(17,270,257)
Income (loss) from continuing operations before income taxes	722,481	12,439,788	932,192	31,851	80,059	14,206,371
Income taxes (expense) benefit	(738,753)	460,680	(97,127)	3,114	(183,186)	(555,272)
Consolidated net income	(16,272)	12,900,468	835,065	34,965	(103,127)	13,651,099

2014.7.1~2014.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,487,724	\$24,692,597	\$146,821	\$24,302	\$(289,628)	\$31,061,816
Net income other than interest	2,204,143	82,418,411	1,879,633	359,554	390,350	87,252,091
Total income	8,691,867	107,111,008	2,026,454	383,856	100,722	118,313,907
Bad debt expenses and Provision for premiums reserve	(617,402)	(128,158)	(1,567)	-	-	(747,127)
The net change of insurance liabilities	-	(85,271,556)	(290,650)	-	-	(85,562,206)
Operating expenses	(5,891,606)	(7,364,892)	(976,115)	(321,620)	(487,681)	(15,041,914)
Income (loss) from continuing operations before income taxes	2,182,859	14,346,402	758,122	62,236	(386,959)	16,962,660
Income taxes (expense) benefit	(790,239)	(1,613,433)	(52,715)	4,640	(394,172)	(2,845,919)
Consolidated net income	1,392,620	12,732,969	705,407	66,876	(781,131)	14,116,741

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

2015.1.1~2015.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$20,345,163	\$82,751,947	\$403,504	\$101,307	\$(900,767)	\$102,701,154
Net income other than interest	7,397,291	228,524,432	6,087,184	1,511,374	2,357,585	245,877,866
Total income	27,742,454	311,276,379	6,490,688	1,612,681	1,456,818	348,579,020
Bad debt expenses and Provision for premiums reserve	(173,450)	(390,939)	10,218	-	-	(554,171)
The net change of insurance liabilities	-	(238,245,177)	(813,671)	-	-	(239,058,848)
Operating expenses	(17,594,263)	(22,204,692)	(3,306,201)	(1,134,881)	(1,442,026)	(45,682,063)
Income (loss) from continuing operations before income taxes	9,974,741	50,435,571	2,381,034	477,800	14,792	63,283,938
Income taxes (expense) benefit	(2,220,803)	(4,524,123)	(229,234)	(43,148)	(1,381,877)	(8,399,185)
Consolidated net income	7,753,938	45,911,448	2,151,800	434,652	(1,367,085)	54,884,753

2014.1.1~2014.9.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$19,099,932	\$73,840,435	\$412,082	\$74,921	\$(857,340)	\$92,570,030
Net income other than interest	11,941,219	173,089,653	5,439,554	1,150,457	1,235,006	192,855,889
Total income	31,041,151	246,930,088	5,851,636	1,225,378	377,666	285,425,919
Bad debt expenses and Provision for premiums reserve	(744,974)	(430,821)	(13,973)	-	-	(1,189,768)
The net change of insurance liabilities	-	(191,589,031)	(1,030,991)	-	-	(192,620,022)
Operating expenses	(16,029,358)	(20,425,836)	(2,937,218)	(891,660)	(1,087,512)	(41,371,584)
Income (loss) from continuing operations before income taxes	14,266,819	34,484,400	1,869,454	333,718	(709,846)	50,244,545
Income taxes (expense) benefit	(2,361,017)	(2,457,291)	(97,634)	(24,018)	(638,558)	(5,578,518)
Consolidated net income	11,905,802	32,027,109	1,771,820	309,700	(1,348,404)	44,666,027

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Balance sheet

As of 30 September 2015, 31 December 2014, 30 September 2014 and 1 January 2014
(30 September 2015 and 2014 reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

	2015.9.30	2014.12.31 (adjusted)	2014.9.30 (adjusted)	2014.1.1 (adjusted)
Assets				
Cash and cash equivalents	\$4,642,111	\$3,420,967	\$3,581,052	\$3,464,767
Available-for-sale financial assets - net	78,905	706,037	669,379	556,865
Securities purchased under agreements to resell	-	500,871	359,312	465,060
Receivables - net	1,017,854	4,626,627	4,346,070	3,731,473
Current income tax assets	4,323,085	7,373,549	6,571,777	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	468,813,575	456,529,860	419,221,132	386,086,620
Property and equipment - net	6,446	6,728	6,655	6,245
Intangible assets - net	18,617	22,607	23,936	-
Deferred tax assets - net	972,550	1,250,386	1,184,555	1,265,427
Other assets - net	8,475	146,133	89,565	170,126
Total assets	\$510,881,618	\$505,583,765	\$467,053,433	\$432,331,258
Liabilities & Equity				
Liabilities				
Commercial paper payable - net	\$23,040,000	\$20,350,000	\$18,330,000	\$5,960,000
Payables	7,759,249	10,849,206	10,619,215	8,340,650
Current income tax liabilities	1,955,159	176,336	176,336	37,003
Bonds payable	40,000,000	40,000,000	40,000,000	40,000,000
Provisions	656,845	718,055	664,932	673,304
Deferred tax liabilities	3,270	22	-	1
Other liabilities	81,848	9,541	9,861	14,237
Total liabilities	73,496,371	72,103,160	69,800,344	55,025,195
Equity				
Capital stock				
Common stock	125,632,102	125,632,102	125,632,102	119,649,621
Capital surplus	88,781,174	88,782,304	88,782,304	89,063,184
Retained earnings				
Legal reserve	24,820,095	19,784,401	19,784,401	16,922,773
Special reserve	140,185,120	82,305,614	82,305,614	82,314,780
Undistributed earnings	62,107,315	60,939,777	55,165,601	37,273,569
Other equity	(4,140,559)	56,036,407	25,583,067	32,082,136
Total equity	437,385,247	433,480,605	397,253,089	377,306,063
Total liabilities and equity	\$510,881,618	\$505,583,765	\$467,053,433	\$432,331,258

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Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the three-month periods ended 30 September 2015 and 2014, and nine-month periods ended 30 September 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)

	2015.7.1~2015.9.30	2014.7.1~2014.9.30	2015.1.1~2015.9.30	2014.1.1~2014.9.30
		(adjusted)		(adjusted)
Income				
Gains on investment - equity method	\$13,659,919	\$14,699,801	\$56,062,142	\$45,656,936
Other operating income	482,889	260,583	966,955	734,190
	<u>14,142,808</u>	<u>14,960,384</u>	<u>57,029,097</u>	<u>46,391,126</u>
Expenses and loss				
Operating expenses	(178,558)	(202,500)	(478,472)	(476,242)
Other expenses and losses	(333,792)	(414,104)	(1,010,133)	(1,013,301)
	<u>(512,350)</u>	<u>(616,604)</u>	<u>(1,488,605)</u>	<u>(1,489,543)</u>
Profit before income tax from continuing operations	13,630,458	14,343,780	55,540,492	44,901,583
Income tax expense	(95,074)	(337,744)	(1,109,818)	(494,883)
Profit after income tax from continuing operations	<u>13,535,384</u>	<u>14,006,036</u>	<u>54,430,674</u>	<u>44,406,700</u>
Net Income	<u>13,535,384</u>	<u>14,006,036</u>	<u>54,430,674</u>	<u>44,406,700</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	629,098	23,557	843,620	851,166
To be reclassified to profit or loss in subsequent periods:				
Unrealized (losses) gains from available-for-sale financial assets	(185,814)	33,631	(141,882)	112,514
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	(38,654,810)	(24,452,892)	(60,888,680)	(7,446,678)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	31,847	(4,885)	24,149	(15,568)
Other comprehensive income, net of tax	<u>(38,179,679)</u>	<u>(24,400,589)</u>	<u>(60,162,793)</u>	<u>(6,498,566)</u>
Total comprehensive income	<u><u>\$(24,644,295)</u></u>	<u><u>\$(10,394,553)</u></u>	<u><u>\$(5,732,119)</u></u>	<u><u>\$37,908,134</u></u>
Earnings per share (expressed in dollars)				
Basic earnings per share:				
Net income	<u>\$1.07</u>	<u>\$1.11</u>	<u>\$4.33</u>	<u>\$3.53</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Financial Holding Co., Ltd.
Statements of Changes in Equity
For the nine-month periods ended 30 September 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
	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
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
Appropriations and distribution for 2013 (Note1)													
Legal reserve			2,861,628		(2,861,628)								-
Cash dividends					(17,947,443)								(17,947,443)
Stock dividends	5,982,481				(5,982,481)								-
Reversal of special reserve				(9,166)	9,166								-
Other additional paid-in capital													
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(13,665)											(13,665)
The capital reserve set aside for the first-time adoption of TIFRS		(267,215)			267,215								-
Net income for the nine-month periods ended 30 September 2014 (adjusted)					44,406,700								44,406,700
Other comprehensive income for the nine-month periods ended 30 September 2014 (adjusted)						(118,017)	(6,963,330)	(268,385)			851,166		(6,498,566)
Comprehensive income for the nine-month periods ended 30 September 2014 (adjusted)	-	-	-	-	44,406,700	(118,017)	(6,963,330)	(268,385)	-	-	851,166	-	37,908,134
Others					503						(503)		-
Balance on 30 September 2014 (adjusted)	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$55,165,601	\$(646,051)	\$13,267,161	\$113,921	\$-	\$1,990,588	\$10,858,401	\$(953)	\$397,253,089
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
Appropriations and distribution for 2014 (Note2)													
Legal reserve			5,035,694		(5,035,694)								-
Special reserve				23,148,991	(23,148,991)								-
Cash dividends					(25,126,420)								(25,126,420)
Reversal of special reserve				(33,796)	33,796								-
Other additional paid-in capital													
Share of changes in net assets of associates and joint ventures accounted for using the equity method		(1,130)											(1,130)
Net income for the nine-month periods ended 30 September 2015					54,430,674								54,430,674
Other comprehensive income for the nine-month periods ended 30 September 2015						1,819,107	(62,967,689)	142,169	848,313	(4,693)			(60,162,793)
Comprehensive income for the nine-month periods ended 30 September 2015	-	-	-	-	54,430,674	1,819,107	(62,967,689)	142,169	848,313	(4,693)	-	-	(5,732,119)
Others				34,764,311	14,173						(14,173)		34,764,311
Balance on 30 September 2015	\$125,632,102	\$88,781,174	\$24,820,095	\$140,185,120	\$62,107,315	\$2,420,893	\$(18,710,043)	\$322,622	\$896,464	\$914,295	\$10,016,647	\$(1,437)	\$437,385,247

Note1: As of 31 December 2013, directors' remuneration \$3,300 thousand and employees' bonuses \$2,394 thousand have been deducted from current year's Statements of Comprehensive Income.

Note2: As of 31 December 2014, directors' remuneration \$2,100 thousand and employees' bonuses \$2,513 thousand have been deducted from current year's Statements of Comprehensive Income.

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Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the nine-month periods ended 30 September 2015 and 2014

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

(Expressed in thousands of New Taiwan Dollars)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Cash flows from operating activities		
Profit before income tax from continuing operations	\$55,540,492	\$44,901,583
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	1,174	1,062
Amortization	3,989	2,660
Interest expenses	977,458	912,231
Interest income	(713,975)	(731,799)
Share of profit of associates and joint ventures accounted for using the equity method	(56,062,142)	(45,656,936)
Losses on disposal of property and equipment	285	328
Gains on disposal of investments	(220,298)	-
Unrealized foreign exchange (gains) losses	(9,995)	4
Others	(9,183)	-
Changes in operating assets and liabilities		
Decrease in available-for-sale financial assets	705,548	
(Increase) decrease in accounts receivable	(104,382)	78,372
Decrease in other assets	137,658	80,101
(Decrease) increase in payables	(3,950,094)	1,418,427
Decrease in provisions	(61,210)	(8,373)
Increase (decrease) in other liabilities	72,307	(4,376)
Cash generated from operations		
Interest received	4,427,130	38,831
Interest paid	(117,321)	(52,094)
Income taxes received (paid)	4,024,702	(1,277,349)
Net cash flows from (used in) operating activities	4,642,143	(297,328)
Cash flows from investing activities		
Acquisition of property and equipment	(1,177)	(1,800)
Acquisition of intangible assets	-	(26,596)
Decrease in other assets	-	459
Dividends received	18,505,732	5,913,249
Net cash from investing activities	18,504,555	5,885,312
Cash flows from financing activities		
Increase in commercial paper payable	2,690,000	12,370,000
Dividends paid	(25,126,420)	(17,947,443)
Net cash flows used in financing activities	(22,436,420)	(5,577,443)
Effects of exchange rate changes on cash and cash equivalents	9,995	(4)
Increase in cash and cash equivalents	720,273	10,537
Cash and cash equivalents at the beginning of periods	3,921,838	3,929,827
Cash and cash equivalents at the end of periods	\$4,642,111	\$3,940,364
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$4,642,111	\$3,581,052
Bills sold under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	-	359,312
Cash and cash equivalents at the end of periods	\$4,642,111	\$3,940,364

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

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Cash and cash equivalents	\$231,813,897	\$414,070,061
Receivables	60,587,069	50,311,673
Financial asset at fair value through profit or loss	65,318,045	60,407,929
Available-for-sale financial assets	1,252,996,440	1,211,806,072
Derivative financial assets for hedging	387,698	146,267
Investments accounted for using the equity method	72,866,349	32,312,639
Investment in debt securities with no active market	1,726,580,192	1,087,595,828
Held-to-maturity financial assets	24,607,280	19,989,553
Other financial assets	25,000,000	39,200,000
Investment property	410,271,933	397,872,815
Loans	671,576,036	675,778,716
Reinsurance contract assets	967,803	260,703
Property and equipment	25,778,544	26,115,741
Intangible assets	40,184,893	105,846
Deferred tax assets	16,975,912	10,277,905
Other assets	23,169,514	17,397,851
Separate account product assets	467,812,160	442,384,623
Total assets	\$5,116,893,765	\$4,486,034,222
Liabilities		
Payables	\$19,346,157	\$31,778,307
Financial liability at fair value through profit or loss	65,401,762	16,299,230
Derivative financial liabilities for hedging	-	13,397
Preferred stock liability	30,000,000	30,000,000
Insurance liability	4,083,844,966	3,573,066,817
Reserve for insurance contract		
with feature of financial instruments	49,282,493	50,450,080
Foreign exchange volatility reserve	17,567,304	13,173,058
Liability reserve	2,185,809	752,998
Deferred tax liability	40,331,862	23,421,497
Other liability	10,957,095	10,205,975
Separate account product liabilities	467,812,160	442,384,623
Total liabilities	4,786,729,608	4,191,545,982
Stockholders' equity		
Capital stock	53,065,274	53,065,274
Capital surplus	13,028,012	13,029,142
Retained earnings	282,316,526	215,272,395
Others	(18,245,655)	13,121,429
Total stockholders' equity	330,164,157	294,488,240
Total liabilities and stockholders' equity	\$5,116,893,765	\$4,486,034,222

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating income	\$531,710,462	\$565,640,255
Operating costs	(475,745,522)	(524,343,442)
Operating expenses	(14,293,049)	(10,631,461)
Operating profit	41,671,891	30,665,352
Non-operating income and expenses	871,706	1,129,780
Profit from continuing operations before income tax	42,543,597	31,795,132
Income tax expense	(5,455,176)	(2,627,760)
Profit from continuing operations after income tax	37,088,421	29,167,372
Net income	37,088,421	29,167,372
Other comprehensive loss	(59,975,327)	(7,822,336)
Total comprehensive (loss) income	\$(22,886,906)	\$21,345,036
Primary earnings per share	\$6.99	\$5.50

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Cash and cash equivalents	\$7,320,036	\$7,838,551
Receivables	2,041,204	3,285,505
Financial asset at fair value through profit or loss	1,394,197	1,302,619
Available-for-sale financial assets	7,144,284	7,296,753
Derivative financial assets for hedging	-	3,639
Investments accounted for using the equity method	1,031,368	1,178,863
Investment in debt securities with no active market	3,378,588	2,376,191
Held-to-maturity financial assets	3,523,495	1,287,423
Loans	365,531	416,522
Reinsurance contract assets	4,630,637	4,683,053
Property and equipment	132,887	165,812
Intangible assets	6,768	8,938
Deferred tax assets	95,812	80,044
Other assets	661,092	673,975
Total assets	\$31,725,899	\$30,597,888
Liabilities		
Payables	\$2,214,203	\$2,191,842
Financial liability at fair value through profit or loss	277,467	55,051
Preferred stock liability	1,000,000	1,000,000
Insurance liability	20,825,757	20,649,704
Liability reserve	282,891	323,992
Deferred tax liability	41,173	8,666
Other liability	350,253	528,664
Total liabilities	24,991,744	24,757,919
Stockholders' equity		
Capital stock	2,802,202	2,721,879
Capital surplus	-	-
Retained earnings	4,273,042	3,154,497
Others	(341,089)	(36,407)
Total stockholders' equity	6,734,155	5,839,969
Total liabilities and stockholders' equity	\$31,725,899	\$30,597,888

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating income	\$11,362,535	\$10,820,194
Operating costs	(6,612,786)	(6,630,576)
Operating expenses	(3,520,786)	(3,455,661)
Operating profit	1,228,963	733,957
Non-operating income and expenses	(11,685)	(14,337)
Profit from continuing operations before income tax	1,217,278	719,620
Income tax expense	(229,234)	(97,633)
Profit from continuing operations after income tax	988,044	621,987
Net income	988,044	621,987
Other comprehensive loss (income)	(377,647)	132,873
Total comprehensive income	\$610,397	\$754,860
Primary earnings per share	\$3.53	\$2.22

English Translation of Financial Statements Originally Issued in Chinese

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$781,883	\$1,285,440
Receivables	495,642	360,365
Financial asset at fair value through profit or loss	1,307,025	957,138
Available-for-sale financial assets	4,089,074	4,237,734
Investment in debt securities with no active market	6,099,441	3,196,697
Held-to-maturity financial assets	1,624,524	1,791,892
Loans	62,186	36,166
Reinsurance contract assets	10,809	207,756
Property and equipment	109,690	110,259
Intangible assets	54,297	68,293
Other assets	2,001,621	1,875,982
Separate account product assets	180,505	330,494
Total assets	\$16,816,697	\$14,458,216
Liabilities		
Short-term debt	\$354,356	\$209,198
Payables	657,173	537,417
Reserve for insurance contract with feature of financial instruments	5,040,945	4,695,802
Insurance liability	5,894,655	4,855,169
Other liability	25,482	24,541
Separate account product liabilities	180,505	330,494
Total liabilities	12,153,116	10,652,621
Stockholders' equity		
Capital stock	7,067,795	7,067,795
Retained earnings	(3,222,621)	(3,787,969)
Others	818,407	525,769
Total stockholders' equity	4,663,581	3,805,595
Total liabilities and stockholders' equity	\$16,816,697	\$14,458,216

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$3,397,215	\$2,348,144
Operating costs	(1,934,932)	(1,482,287)
Operating expenses	(812,745)	(652,668)
Operating profit	649,538	213,189
Non-operating income and expenses	(23,636)	(1,568)
Profit from continuing operations before income tax	625,902	211,621
Income tax expense	-	-
Profit from continuing operations after income tax	625,902	211,621
Net income	625,902	211,621
Other comprehensive income	104,612	177,823
Total comprehensive income	\$730,514	\$389,444
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$141,038	\$301,360
Receivables	162,442	146,078
Available-for-sale financial assets	3,750,061	3,592,675
Investment in debt securities with no active market	198,891	-
Loans	16,223	11,931
Property and equipment	16,506	21,846
Intangible assets	267	72
Deferred tax assets	1,964	-
Other assets	42,515	42,757
Total assets	\$4,329,907	\$4,116,719
Liabilities		
Payables	\$36,436	\$41,690
Insurance liability	724,802	422,635
Other liability	330	-
Total liabilities	761,568	464,325
Stockholders' equity		
Capital stock	3,424,930	3,424,930
Retained earnings	196,548	159,918
Others	(53,139)	67,546
Total stockholders' equity	3,568,339	3,652,394
Total liabilities and stockholders' equity	\$4,329,907	\$4,116,719

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$464,712	\$366,556
Operating costs	(335,955)	(73,548)
Operating expenses	(138,260)	(122,901)
Operating (loss) profit	(9,503)	170,107
Non-operating income and expenses	4,558	(2,207)
(Loss) profit from continuing operations before income tax	(4,945)	167,900
Income tax profit (expense)	1,952	(46,851)
(Loss) profit from continuing operations after income tax	(2,993)	121,049
Net (loss) income	(2,993)	121,049
Other comprehensive (loss) income	(95,206)	504,339
Total comprehensive (loss) income	\$(98,199)	\$625,388
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Current assets	\$443,330	\$185,393
Investment property	7,015,318	6,673,652
Property and equipment	669,890	656,387
Total assets	<u>\$8,128,538</u>	<u>\$7,515,432</u>
Liabilities		
Current liability	\$1,114	\$682
Deferred tax liability	135,728	82,773
Other liability	96,142	60,799
Total liabilities	<u>232,984</u>	<u>144,254</u>
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	4,109	(139,866)
Others	668,010	287,609
Total stockholders' equity	<u>7,895,554</u>	<u>7,371,178</u>
Total liabilities and stockholders' equity	<u>\$8,128,538</u>	<u>\$7,515,432</u>

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$210,332	\$206,535
Operating expenses	(53,288)	(66,103)
Operating profit	157,044	140,432
Non-operating income and expenses	4,484	(31,224)
Profit from continuing operations before income tax	161,528	109,208
Income tax expense	(35,882)	(54,985)
Profit from continuing operations after income tax	125,646	54,223
Net income	125,646	54,223
Other comprehensive income	149,414	28,902
Total comprehensive income	<u>\$275,060</u>	<u>\$83,125</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 30 September 2015 and as of 31 December 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2013.9.30
Assets		
Current assets	\$1,775,820	\$1,039,725
Investment property	15,438,112	15,232,427
Total assets	<u>\$17,213,932</u>	<u>\$16,272,152</u>
Liabilities		
Current liability	\$187,445	\$113,308
Total liabilities	<u>187,445</u>	<u>113,308</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	616,184	(15,433)
Others	(243,710)	(479,736)
Total stockholders' equity	<u>17,026,487</u>	<u>16,158,844</u>
Total liabilities and stockholders' equity	<u>\$17,213,932</u>	<u>\$16,272,152</u>

Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$605,420	\$99,481
Operating expenses	(384)	(115,364)
Operating profit (loss)	605,036	(15,883)
Non-operating income and expenses	645	450
Profit (loss) from continuing operations before income tax	605,681	(15,433)
Income tax expense	(121,084)	-
Profit (loss) from continuing operations after income tax	484,597	(15,433)
Net income (loss)	484,597	(15,433)
Other comprehensive income (loss)	285,787	(479,736)
Total comprehensive income (loss)	<u>\$770,384</u>	<u>\$(495,169)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 30 September 2015 and as of 31 December 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Current assets	\$17,283	\$10,500
Investment property	155,941	153,863
Total assets	<u>\$173,224</u>	<u>\$164,363</u>
Liabilities		
Current liability	\$2,188	\$1,338
Total liabilities	<u>2,188</u>	<u>1,338</u>
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	5,294	(355)
Others	(2,480)	(4,842)
Total stockholders' equity	<u>171,036</u>	<u>163,025</u>
Total liabilities and stockholders' equity	<u>\$173,224</u>	<u>\$164,363</u>

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	6,115	1,005
Operating expenses	(480)	(1,364)
Operating profit (loss)	5,635	(359)
Non-operating income and expenses	5	4
Profit (loss) from continuing operations before income tax	5,640	(355)
Income tax expense	(1,223)	-
Profit (loss) from continuing operations after income tax	4,417	(355)
Net income (loss)	4,417	(355)
Other comprehensive income (loss)	2,862	(4,842)
Total comprehensive income (loss)	<u>\$7,279</u>	<u>\$(5,197)</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 1 Limited
Condensed Balance Sheet
As of 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30
Assets	
Current assets	\$941,133
Investment property	26,037,313
Total assets	\$26,978,446
Liabilities	
Current liability	\$16,492,270
Total liabilities	16,492,270
Stockholders' equity	
Capital stock	10,189,090
Retained earnings	(230,548)
Others	527,634
Total stockholders' equity	10,486,176
Total liabilities and stockholders' equity	\$26,978,446

Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.4.1~2015.9.30
Operating income	\$144,687
Operating costs	(204,385)
Operating expenses	(142,099)
Operating loss	(201,797)
Loss from continuing operations before income tax	(201,797)
Income tax expense	(28,750)
Loss from continuing operations after income tax	(230,547)
Net loss	(230,547)
Other comprehensive income	527,634
Total comprehensive income	\$297,087
Primary earnings per share	Note 1

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

Note 2: Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015; there is no information about last period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30
Assets	
Current assets	\$49,527
Investment property	1,370,385
Total assets	<u>\$1,419,912</u>
Liabilities	
Current liability	\$868,014
Total liabilities	<u>868,014</u>
Stockholders' equity	
Capital stock	536,268
Retained earnings	(12,140)
Others	27,770
Total stockholders' equity	<u>551,898</u>
Total liabilities and stockholders' equity	<u>\$1,419,912</u>

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.4.1~2015.9.30
Operating income	\$7,615
Operating costs	(10,757)
Operating expenses	(7,485)
Operating loss	<u>(10,627)</u>
Loss from continuing operations before income tax	(10,627)
Income tax expense	(1,513)
Loss from continuing operations after income tax	<u>(12,140)</u>
Net loss	(12,140)
Other comprehensive income	27,770
Total comprehensive income	<u>\$15,630</u>
Primary earnings per share	<u>Note 1</u>

Note 1: Cathay Walbrook Holding 2 Limited is a limited company; there is no information about earnings per share.

Note 2: Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015; there is no information about last period.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (China)
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$823,701	\$914,543
Receivables	238,724	194,281
Financial asset at fair value through profit or loss	534,052	51,293
Available-for-sale financial assets	944,291	1,015,889
Investment in debt securities with no active market	208,469	627,627
Reinsurance contract assets	773,371	584,085
Property and equipment	93,809	68,468
Intangible assets	41,109	20,082
Other assets	895,559	1,070,887
Total assets	\$4,553,085	\$4,547,155
Liabilities		
Payables	\$406,496	\$298,430
Insurance liability	3,170,542	2,587,287
Other liability	84,287	106,607
Total liabilities	3,661,325	2,992,324
Stockholders' equity		
Capital stock	3,707,999	3,707,999
Retained earnings	(3,032,174)	(2,318,685)
Others	215,935	165,517
Total stockholders' equity	891,760	1,554,831
Total liabilities and stockholders' equity	\$4,553,085	\$4,547,155

Cathay Insurance Co., Ltd (China)
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$2,113,128	\$1,896,044
Operating costs	(1,684,402)	(1,319,041)
Operating expenses	(948,299)	(782,453)
Operating loss	(519,573)	(205,450)
Non-operating income and expenses	(1,939)	44,867
Loss from continuing operations before income tax	(521,512)	(160,583)
Income tax expense	-	-
Loss from continuing operations after income tax	(521,512)	(160,583)
Net loss	(521,512)	(160,583)
Other comprehensive income	3,380	24,321
Total comprehensive loss	\$(518,132)	\$(136,262)
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 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$24,801	\$24,543
Receivables	126,628	57,531
Investment in debt securities with no active market	95,540	110,800
Held-to-maturity financial assets	426,380	290,260
Reinsurance contract assets	382,668	525,428
Property and equipment	4,148	16,786
Intangible assets	297	1,175
Other assets	26,346	43,910
Total assets	\$1,086,808	\$1,070,433
Liabilities		
Payables	\$42,732	\$33,991
Liability reserve	457,094	633,854
Deferred tax liability	39	1
Other liability	1,455	1,140
Total liabilities	501,320	668,986
Stockholders' equity		
Capital stock	845,585	645,585
Retained earnings	(161,328)	(145,841)
Others	(98,769)	(98,297)
Total stockholders' equity	585,488	401,447
Total liabilities and stockholders' equity	\$1,086,808	\$1,070,433

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Operating income	\$85,889	\$84,057
Operating costs	(34,979)	(102,878)
Operating expenses	(59,882)	(59,300)
Operating loss	(8,972)	(78,121)
Non-operating income and expenses	6	58
Loss from continuing operations before income tax	(8,966)	(78,063)
Income tax expense	-	-
Loss from continuing operations after income tax	(8,966)	(78,063)
Net loss	(8,966)	(78,063)
Other comprehensive (loss) income	(12,149)	4,730
Total comprehensive loss	\$(21,115)	\$(73,333)
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Conning Holdings Limited
Condensed Balance Sheet
As of 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30
Assets	
Current assets	\$1,829,377
Investment in debt securities with no active market	2,998
Property and equipment	130,707
Intangible assets	7,345,800
Other assets	128,097
Total assets	<u>\$9,436,979</u>
Liabilities	
Current liability	\$1,092,896
Liability reserve	67,250
Deferred tax liability	32,991
Other liability	275,096
Total liabilities	<u>1,468,233</u>
Stockholders' equity	
Capital stock	326
Capital surplus	7,841,993
Retained earnings	(37,141)
Others	83,200
Non-controlling interest	80,368
Total stockholders' equity	<u>7,968,746</u>
Total liabilities and stockholders' equity	<u>\$9,436,979</u>

Conning Holdings Limited
Condensed Statement of Comprehensive Income
From 18 September 2015 to 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30
Operating income	\$156,520
Operating costs	(14,722)
Operating expenses	(178,403)
Operating loss	<u>(36,605)</u>
Loss from continuing operations before income tax	(36,605)
Income tax expense	-
Loss from continuing operations after income tax	<u>(36,605)</u>
Net loss	(36,605)
Other comprehensive income	84,272
Total comprehensive loss	<u>\$47,667</u>
Primary earnings per share	<u>Note 1</u>

Note 1: Conning Holdings Limited is a limited company; there is no information about earnings per share.

Note 2: Conning Holdings Limited was incorporated to the consolidated financial statements on 18 September 2015.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Cash and cash equivalents	\$101,127,528	\$119,272,535
Due from the Central Bank and call loans to banks	95,635,264	135,685,170
Financial assets at fair value through profit or loss	230,240,945	133,733,091
Derivative financial assets for hedging	230,497	649,783
Securities purchased under agreements to resell	26,284,686	28,135,430
Receivables	87,302,829	71,738,164
Discounts and loans	1,111,997,438	1,095,558,501
Available-for-sale financial assets	116,411,301	68,027,009
Held-to-maturity financial assets	49,125,669	50,374,380
Investments accounted for using the equity method	7,708,717	7,138,089
Other financial assets	3,047	4,248
Investment in debt securities with no active market	449,220,968	366,255,069
Property and equipment	24,727,274	22,205,146
Investment property	1,339,839	4,295,732
Intangible assets	7,116,481	7,025,581
Deferred tax assets	1,791,700	1,267,437
Other assets	39,195,265	14,872,019
Total assets	\$2,349,459,448	\$2,126,237,384
Liabilities		
Due to the Central Bank and call loans from banks	\$33,616,764	\$66,897,440
Funds borrowed from the Central Bank and other banks	-	1,521,800
Financial liabilities at fair value through profit or loss	92,483,129	19,250,262
Securities sold under agreements to repurchase	79,678,268	60,177,562
Payables	25,986,334	19,453,230
Deposits and remittances	1,812,728,089	1,671,266,795
Financial debentures payable	65,550,788	67,288,890
Other financial liabilities	75,118,387	72,840,621
Liability reserve	2,737,987	2,754,263
Deferred tax liability	1,872,638	770,481
Other liability	8,690,558	4,397,200
Total liabilities	2,198,462,942	1,986,618,544
Stockholders' equity		
Capital stock	69,479,605	67,112,762
Capital surplus	23,969,412	23,969,412
Retained earnings	53,454,025	46,893,129
Others	4,093,464	1,643,537
Total stockholders' equity	150,996,506	139,618,840
Total liabilities and stockholders' equity	\$2,349,459,448	\$2,126,237,384

Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Interest income	\$30,570,565	\$28,558,542
Interest expenses	(11,233,400)	(10,281,945)
Operating profit	19,337,165	18,276,597
Non-interest income	16,919,329	15,803,543
Total income	36,256,494	34,080,140
Bad debt expense and reserve for loss on guarantees	(21,377)	(622,636)
Operating expenses	(17,634,000)	(16,064,143)
Profit from continuing operations before income tax	18,601,117	17,393,361
Income tax expense	(2,143,000)	(2,303,778)
Profit from continuing operations after income tax	16,458,117	15,089,583
Net income	16,458,117	15,089,583
Other comprehensive income	661,073	1,047,092
Total comprehensive income	\$17,119,190	\$16,136,675
Primary earnings per share	\$2.37	\$2.17

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$1,030,650	\$805,725
Due from the Central Bank and call loans to banks	13,611,144	13,103,154
Financial assets at fair value through profit or loss	100,763	78,571
Available-for-sale financial assets	794,686	1,013,838
Receivables	20,643,074	637,890
Discounts and loans	2,925,885	18,132,690
Held-to-maturity financial assets	1,749,640	1,654,456
Property and equipment	474,406	428,714
Intangible assets	24,628	6,802
Deferred tax assets	1,807	-
Other assets	499,079	455,163
Total assets	\$41,855,762	\$36,317,003
Liabilities		
Due to the Central Bank and call loans from banks	\$7,415,232	\$7,563,040
Payables	283,496	911,544
Current income tax liabilities	46,357	75,904
Deposits and remittances	26,346,267	20,616,228
Liability reserve	-	9,547
Deferred tax liability	27,445	46,349
Other liability	269,188	101,192
Total liabilities	34,387,985	29,323,804
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,034,187	1,117,605
Others	338,679	(219,317)
Total stockholders' equity	7,467,777	6,993,199
Total liabilities and stockholders' equity	\$41,855,762	\$36,317,003

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Interest income	\$1,459,727	\$1,440,099
Interest expenses	(676,689)	(746,499)
Net interest income	783,038	693,600
Non-interest income	114,791	109,678
Total income	897,829	803,278
Bad debt expense and reserve for loss on guarantees	(125,493)	(47,665)
Operating expenses	(413,702)	(357,842)
Profit from continuing operations before income tax	358,634	397,771
Income tax expense	(76,381)	(90,743)
Profit from continuing operations after income tax	282,253	307,028
Net income	282,253	307,028
Other comprehensive income	265,511	138,621
Total comprehensive income	\$547,764	\$445,649
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30
Assets		
Cash and cash equivalents	\$1,034,319	\$1,308,684
Due from the Central Bank and call loans to banks	1,155,301	686,457
Available-for-sale financial assets	848	779
Receivables	65,514	156,071
Discounts and loans	4,473,816	2,004,057
Property and equipment	159,262	140,427
Intangible assets	38,777	10,878
Other assets	106,503	209,834
Total assets	\$7,034,340	\$4,517,187
Liabilities		
Due to the Central Bank and call loans from banks	\$18,200	\$149
Payables	55,747	62,558
Deposits and remittances	5,089,134	2,832,457
Other liability	23,663	800
Total liabilities	5,186,744	2,895,964
Stockholders' equity		
Capital stock	1,786,169	1,783,202
Retained earnings	(117,777)	(197,298)
Others	179,204	35,319
Total stockholders' equity	1,847,596	1,621,223
Total liabilities and stockholders' equity	\$7,034,340	\$4,517,187

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30
Interest income	\$220,541	\$105,578
Interest expenses	(45,420)	(30,130)
Net interest income	175,121	75,448
Non-interest income	65,476	38,772
Total income	240,597	114,220
Bad debt expense and reserve for loss on guarantees	(26,580)	(74,672)
Operating expenses	(126,128)	(101,298)
Profit (loss) from continuing operations before income tax	87,889	(61,750)
Income tax expense	(2,253)	(1,678)
Profit (loss) from continuing operations after income tax	85,636	(63,428)
Net profit (loss)	85,636	(63,428)
Other comprehensive income	78,135	25,898
Total comprehensive income (loss)	\$163,771	\$(37,530)
Primary earnings per share	\$1.42	\$(1.51)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Current assets	\$18,110,543	\$18,418,167
Available-for-sale financial assets	18	18
Investments accounted for using the equity method	1,234,243	1,061,114
Property and equipment	170,660	174,494
Intangible assets	53,385	52,531
Deferred tax assets	1,822	6,087
Other non-current assets	429,042	492,316
Total assets	\$19,999,713	\$20,204,727
Liabilities		
Current liability	\$13,360,483	\$14,797,258
Deferred tax liability	7,851	29,408
Other non-current liability	18,569	13,805
Total liabilities	13,386,903	14,840,471
Stockholders' equity		
Capital stock	4,950,000	4,200,000
Capital surplus	491,766	291,766
Retained earnings	895,671	671,796
Others	275,373	200,694
Total stockholders' equity	6,612,810	5,364,256
Total liabilities and stockholders' equity	\$19,999,713	\$20,204,727

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Revenues	\$1,770,622	\$1,340,169
Service fee expenses	(61,411)	(53,287)
Employee benefit expenses	(617,045)	(485,561)
Share of the profit of associates and joint ventures accounted for using the equity method	4,285	24,779
Operating expenses	(678,571)	(539,199)
Non-operating income and expenses	20,454	16,713
Profit from continuing operations before income tax	438,334	303,614
Income tax expense	(43,148)	(24,017)
Profit from continuing operations after income tax	395,186	279,597
Net income	395,186	279,597
Other comprehensive income	62,362	5,428
Total comprehensive income	\$457,548	\$285,025
Primary earnings per share	\$0.80	\$0.63

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Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 30 September 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30
Assets	
Current assets	\$259,259
Property and equipment	14,015
Intangible assets	2,111
Other non-current assets	7,097
Total assets	\$282,482
Liabilities	
Current liability	\$144,908
Total liabilities	144,908
Stockholders' equity	
Capital stock	360,069
Retained earnings	(222,669)
Others	174
Total stockholders' equity	137,574
Total liabilities and stockholders' equity	\$282,482

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
From 4 September 2015 to 30 September 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.9.4~2015.9.30
Revenues	\$193
Service fee expenses	(12)
Employee benefit expenses	(2,989)
Operating expenses	(5,539)
Non-operating income and expenses	(172)
Loss from continuing operations before income tax	(8,519)
Income tax expense	-
Loss from continuing operations after income tax	(8,519)
Net loss	(8,519)
Other comprehensive income	174
Total comprehensive loss	\$(8,345)
Primary earnings per share	Note 1

Note 1: Cathay Securities (Hong Kong) Limited is a limited company; there is no information about earnings per share.

Note 2: Cathay Securities (Hong Kong) Limited was incorporated to the consolidated financial statements on 4 September 2015.

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Venture Inc.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)**

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Current assets	\$362,316	\$686,184
Available-for-sale financial assets	2,129,408	2,295,994
Investments accounted for using the equity method	280,612	136,111
Property and equipment	229	299
Deferred tax assets	6,003	9,762
Other non-current assets	837	837
Total assets	\$2,779,405	\$3,129,187
Liabilities		
Current liability	\$16,640	\$21,163
Deferred tax liability	-	8,586
Other non-current liability	2,509	1,326
Total liabilities	19,149	31,075
Stockholders' equity		
Capital stock	2,403,000	2,174,236
Retained earnings	246,704	299,295
Others	110,552	624,581
Total stockholders' equity	2,760,256	3,098,112
Total liabilities and stockholders' equity	\$2,779,405	\$3,129,187

**Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating income	\$211,990	\$274,354
Operating costs	(19,353)	(11,969)
Operating expenses	(10,672)	(10,440)
Non-operating income and expenses	-	2,701
Profit from continuing operations before income tax	181,965	254,646
Income tax expense	(28,621)	(23,243)
Profit from continuing operations after income tax	153,344	231,403
Net income	153,344	231,403
Other comprehensive (loss) income	(427,613)	29,533
Total comprehensive (loss) income	\$(274,269)	\$260,936
Primary earnings per share	\$0.64	\$0.96

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 30 September 2015 and 30 September 2014
(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Current assets	\$1,785,205	\$1,806,091
Available-for-sale financial assets	109,364	108,096
Investments accounted for using the equity method	307,103	277,153
Property and equipment	23,591	14,449
Intangible assets	7,462	11,524
Deferred tax assets	9,282	9,280
Other non-current assets	309,797	294,853
Total assets	\$2,551,804	\$2,521,446
Liabilities		
Current liability	\$254,931	\$238,802
Other non-current liability	152,683	173,287
Total liabilities	407,614	412,089
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	588,583	586,836
Others	41,699	8,613
Total stockholders' equity	2,144,190	2,109,357
Total liabilities and stockholders' equity	\$2,551,804	\$2,521,446

Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the nine-month periods ended 30 September 2015 and 2014
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating income	\$1,051,380	\$1,002,634
Operating expenses	(772,290)	(648,895)
Operating gross profit	279,090	353,739
Non-operating income and expenses	35,847	5,564
Profit from continuing operations before income tax	314,937	359,303
Income tax expense	(51,578)	(62,831)
Profit from continuing operations after income tax	263,359	296,472
Net income	263,359	296,472
Other comprehensive income (loss)	17,815	(11,650)
Total comprehensive income	\$281,174	\$284,822
Primary earnings per share	\$1.76	\$1.98

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Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 30 September 2015 and 30 September 2014

(Expressed in thousands of New Taiwan Dollars)

Items	2015.9.30	2014.9.30 (adjusted)
Assets		
Current assets	\$4,280,657	\$2,929,805
Available-for-sale financial assets	265,719	235,988
Property and equipment	56,091	58,045
Investment property	285,085	285,002
Intangible assets	8,641	9,814
Other non-current assets	169,999	171,872
Total assets	\$5,066,192	\$3,690,526
Liabilities		
Current liability	\$3,998,493	\$2,657,628
Deferred tax liability	6,379	6,433
Other non-current liability	1,446	1,446
Total liabilities	4,006,318	2,665,507
Stockholders' equity		
Capital stock	650,000	650,000
Retained earnings	174,034	171,352
Others	235,840	203,667
Total stockholders' equity	1,059,874	1,025,019
Total liabilities and stockholders' equity	\$5,066,192	\$3,690,526

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the nine-month periods ended 30 September 2015 and 2014

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

Items	2015.1.1~2015.9.30	2014.1.1~2014.9.30 (adjusted)
Operating income	\$125,351	\$99,170
Operating expenses	(131,428)	(108,718)
Operating loss	(6,077)	(9,548)
Non-operating income and expenses	29,450	40,761
Profit from continuing operations before income tax	23,373	31,213
Income tax expense	(3,409)	(3,176)
Profit from continuing operations after income tax	19,964	28,037
Net income	19,964	28,037
Other comprehensive income	20,786	12,904
Total comprehensive income	\$40,750	\$40,941
Primary earnings per share	\$0.31	\$0.43