

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

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

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

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2016, 31 December 2015 and 30 June 2015, and the related consolidated statements of comprehensive income for the three-month periods ended 30 June 2016 and 2015, and for the six-month periods ended 30 June 2016 and 2015, changes in equity and cash flows for the six-month periods ended 30 June 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statement by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audits provide a reasonable basis for our opinion.

Based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 30 June 2016, 31 December 2015 and 30 June 2015, the consolidated financial performance for the three-month periods ended 30 June 2016 and 2015, and for the six-month periods ended 30 June 2016 and 2015, and their cash flows for the six-month periods ended 30 June 2016 and 2015, in conformity with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulation Governing the Preparation of Financial Reports by Securities Issuers", and IAS 34 "Interim Financial Reporting" as endorsed by Financial Supervisory Commission of the Republic of China.

Ernst & Young
Taipei, Taiwan
The Republic of China
18 August 2016



Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
As of 30 June 2016, 31 December 2015 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

	Notes	2016.6.30	2015.12.31	2015.6.30
Assets				
Cash and cash equivalents	4, 6	\$222,101,661	\$191,780,120	\$372,119,468
Due from the Central Bank and call loans to banks		81,400,184	100,169,436	112,290,016
Financial assets at fair value through profit or loss	4, 7	316,287,366	296,117,926	195,710,500
Available-for-sale financial assets - net	4, 8	1,437,239,061	1,486,393,125	1,400,955,397
Derivative financial assets for hedging	4	520,063	447,326	439,100
Securities purchased under agreements to resell	4	66,514,592	55,880,471	35,679,580
Receivables - net	4, 9	155,121,033	141,665,344	157,516,768
Current income tax assets	4	5,025,756	4,323,586	4,322,279
Loans - net	4, 10	1,894,907,410	1,766,476,353	1,785,464,539
Reinsurance assets - net		10,013,702	7,000,785	6,509,331
Held-to-maturity financial assets - net	4, 11	73,668,221	81,708,446	80,468,255
Investments accounted for using the equity method - net	4, 12	26,319,139	25,500,488	23,967,500
Other financial assets - net	4, 13	2,908,561,922	2,790,400,892	2,406,919,427
Investment properties - net	4, 14	379,247,908	381,149,809	380,818,127
Property and equipment - net	4, 15	99,270,999	97,488,736	93,033,402
Intangible assets - net	4, 16	59,884,422	56,943,768	9,372,025
Deferred tax assets - net	4	8,898,240	14,425,707	12,827,314
Other assets - net		62,717,110	71,102,715	44,125,549
Total assets		\$7,807,698,789	\$7,568,975,033	\$7,122,538,577

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 June 2016, 31 December 2015 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Liabilities & equity	Notes	2016.6.30	2015.12.31	2015.6.30
Liabilities				
Due to the Central Bank and call loans from banks		\$70,592,764	\$41,226,909	\$58,056,657
Financial liabilities at fair value through profit or loss	4, 17	90,386,282	137,471,418	74,579,183
Securities sold under agreements to repurchase	4	43,922,335	55,523,982	78,456,022
Commercial paper payable - net	4, 18	36,688,966	35,677,634	27,787,344
Payables		103,528,236	43,680,334	67,746,465
Current income tax liabilities	4	1,775,428	946,549	2,311,242
Deposits	19	1,913,646,971	1,854,495,831	1,753,509,341
Bonds payable	4, 20	71,800,000	71,800,000	107,195,124
Provisions	4, 22	4,410,740,549	4,262,002,527	3,939,159,951
Other financial liabilities	4, 21	556,189,358	549,564,053	540,706,290
Deferred tax liabilities	4	30,459,728	34,775,271	25,272,007
Other liabilities		21,313,048	20,748,323	14,658,083
Total liabilities		7,351,043,665	7,107,912,831	6,689,437,709
Equity attributable to owners of parent				
Capital stock				
Common stock	24	125,632,102	125,632,102	125,632,102
Capital surplus	25	88,781,195	88,781,174	88,782,304
Retained earnings	26			
Legal reserve		30,577,724	24,820,095	24,820,095
Special reserve		149,108,336	140,185,120	105,420,809
Undistributed earnings		39,266,759	65,190,213	48,571,931
Other equity		17,115,946	10,448,290	34,039,120
Non-controlling interests	4, 27	6,173,062	6,005,208	5,834,507
Total equity		456,655,124	461,062,202	433,100,868
Total liabilities and equity		\$7,807,698,789	\$7,568,975,033	\$7,122,538,577

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 June 2016 and 2015, and six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

	Notes	2016.4.1~2016.6.30	2015.4.1~2015.6.30	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Interest income	4	\$42,339,458	\$37,724,950	\$83,909,941	\$74,842,908
Less: Interest expenses		(3,853,899)	(4,293,984)	(7,836,589)	(8,532,581)
Net interest income	4	38,485,559	33,430,966	76,073,352	66,310,327
Net income other than interest					
Net commission and handling fee		(683,066)	(1,635,986)	(3,694,048)	(1,298,952)
Net premiums from insurance business		84,350,143	65,979,811	154,955,404	113,634,380
Gains on financial assets and liabilities at fair value through profit or loss		1,116,726	4,933,452	26,726,810	8,457,874
Gains from investment properties		5,357,474	13,310,310	8,238,102	15,536,816
Realized gains on available-for-sale financial assets		9,827,385	21,178,466	20,670,131	42,104,258
Realized (losses) gains on held-to-maturity financial assets		(2,025)	487	53,927	(47,477)
Losses on foreign exchange		(5,553,279)	(8,438,623)	(35,942,174)	(22,517,552)
Impairment losses on assets		(86,508)	-	(87,262)	-
Share of profit of associates and joint ventures accounted for using the equity method		260,489	232,792	761,767	284,488
Net other non-interest gains		5,195,943	3,759,677	10,815,775	14,444,993
Total income		138,268,841	132,751,352	258,571,784	236,909,155
Bad debt expenses and provision for premiums reserve		(1,672,544)	(54,515)	(2,309,528)	(166,808)
Changes in insurance liabilities and provisions		(106,242,015)	(88,887,228)	(200,572,296)	(159,252,974)
Operating expenses	28				
Employee benefits expenses		(11,038,407)	(9,513,839)	(22,583,760)	(18,586,837)
Depreciation and amortizations expenses		(1,276,930)	(608,738)	(2,523,557)	(1,221,177)
Other general and administration expenses		(6,587,690)	(4,515,012)	(10,830,647)	(8,603,792)
Subtotal		(18,903,027)	(14,637,589)	(35,937,964)	(28,411,806)
Profit before income tax from continuing operations		11,451,255	29,172,020	19,751,996	49,077,567
Income tax expense	4, 30	(5,545,886)	(6,047,038)	(5,508,761)	(7,843,913)
Net income		5,905,369	23,124,982	14,243,235	41,233,654
Other comprehensive income	4, 29				
Not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods		(1,735)	757	(3,059)	757
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk		(49,126)	544,863	899,448	257,703
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods		8,647	(92,755)	(152,386)	(43,938)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation		(1,692,173)	546,118	(5,104,580)	(985,019)
Unrealized gains (losses) from available-for-sale financial assets		7,185,166	(27,910,608)	8,533,670	(23,510,983)
Gains on cash flow hedges		28,579	6,075	71,331	2,868
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		(146,180)	(213,044)	(242,543)	(195,702)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods		(261,100)	2,903,807	2,368,932	2,347,500
Other comprehensive income, net of tax		5,072,078	(24,214,787)	6,370,813	(22,126,814)
Total comprehensive income		\$10,977,447	\$(1,089,805)	\$20,614,048	\$19,106,840
Net income attributable to:					
Owners of parent		\$5,716,979	\$22,972,772	\$13,883,811	\$40,895,290
Non-controlling interests		188,390	152,210	359,424	338,364
Subtotal		\$5,905,369	\$23,124,982	\$14,243,235	\$41,233,654
Total comprehensive income attributable to:					
Owners of parent		\$10,851,137	\$(1,140,418)	\$20,551,467	\$18,912,176
Non-controlling interests		126,310	50,613	62,581	194,664
Subtotal		\$10,977,447	\$(1,089,805)	\$20,614,048	\$19,106,840
Earnings per share (expressed in dollars) :	31				
Basic earnings per share:					
Net income		\$0.46	\$1.83	\$1.11	\$3.26

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Statements of Changes in Equity
For the six-month periods ended 30 June 2016 and 2015
(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 2015	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,332	\$10,030,820	\$(781)	\$433,480,605	\$5,639,845	\$439,120,450
Appropriations and distribution for 2014															
Legal reserve			5,035,694		(5,035,694)								-		-
Special reserve				23,148,991	(23,148,991)								-		-
Cash dividends					(25,126,420)								(25,126,420)		(25,126,420)
Reversal of special reserve				(33,796)	33,796								-		-
Net income for the six-month periods ended 30 June 2015					40,895,290								40,895,290	338,364	41,233,654
Other comprehensive income for the six-month periods ended 30 June 2015						(974,662)	(21,224,718)	1,744	213,894	628	-	-	(21,983,114)	(143,700)	(22,126,814)
Comprehensive income for the six-month periods ended 30 June 2015	-	-	-	-	40,895,290	(974,662)	(21,224,718)	1,744	213,894	628	-	-	18,912,176	194,664	19,106,840
Decrease in non-controlling interests														(2)	(2)
Others					14,173						(14,173)		-		-
Balance on 30 June 2015	\$125,632,102	\$88,782,304	\$24,820,095	\$105,420,809	\$48,571,931	\$(372,876)	\$23,032,928	\$182,197	\$262,045	\$918,960	\$10,016,647	\$(781)	\$427,266,361	\$5,834,507	\$433,100,868
Balance on 1 January 2016	\$125,632,102	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994	\$6,005,208	\$461,062,202
Appropriations and distribution for 2015															
Legal reserve			5,757,629		(5,757,629)								-		-
Special reserve				8,923,216	(8,923,216)								-		-
Cash dividends					(25,126,420)								(25,126,420)		(25,126,420)
Other additional paid-in capital															
Share of changes in net assets of associates and joint ventures accounted for using the equity method		21											21		21
Net income for the six-month periods ended 30 June 2016					13,883,811								13,883,811	359,424	14,243,235
Other comprehensive income for the six-month periods ended 30 June 2016						(5,008,648)	10,873,096	59,205	746,542	(2,539)	-	-	6,667,656	(296,843)	6,370,813
Comprehensive income for the six-month periods ended 30 June 2016	-	-	-	-	13,883,811	(5,008,648)	10,873,096	59,205	746,542	(2,539)	-	-	20,551,467	62,581	20,614,048
Increase in non-controlling interests														105,273	105,273
Balance on 30 June 2016	\$125,632,102	\$88,781,195	\$30,577,724	\$149,108,336	\$39,266,759	\$(3,143,282)	\$10,456,023	\$430,729	\$830,004	\$(1,565,294)	\$10,108,783	\$(1,017)	\$450,482,062	\$6,173,062	\$456,655,124

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries

Statements of cash flows

For the six-month periods ended 30 June 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30	Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Cash flows from operating activities			Cash generated from operations	(60,884,570)	(139,634,629)
Profit before income tax from continuing operations	\$19,751,996	\$49,077,567	Interest received	78,908,724	67,491,506
Adjustments :			Dividends received	7,432,974	6,221,901
Income and other adjustments with no cash flow effects			Interest paid	(8,065,736)	(8,229,551)
Depreciation expenses	1,111,192	1,054,249	Income taxes (paid) received	(2,650,250)	4,486,728
Amortizations expenses	1,412,365	166,928	Net cash flows from (used in) operating activities	14,741,142	(69,664,045)
Bad debt expense	2,309,528	166,808	Cash flows from investing activities		
Net gains on financial assets and liabilities at fair value through profit or loss	(24,325,729)	(7,475,701)	Acquisition of financial assets at fair value through profit or loss	(1,397,970)	(532,187)
Interest expenses	7,836,589	8,532,581	Disposal of financial assets at fair value through profit or loss	2,837,410	1,772,124
Interest revenue	(83,909,941)	(74,842,908)	Acquisition of financial assets available for sale	(516,737)	(857,252)
Dividend income	(7,261,926)	(6,008,955)	Disposal of financial assets available for sale	281,779	485,346
Net changes in insurance liabilities and provisions	155,760,150	143,962,339	Acquisition of financial assets carried at cost	(5,745)	-
Net changes of other liabilities and provisions	(2,674,362)	(5,210,987)	Acquisition of bond investments with no active market	-	(3,000)
Share of gain of associates and joint ventures accounted for using the equity method	(761,767)	(284,488)	Acquisition of investments accounted for using the equity method	(616,752)	(19,651,951)
(Gains) losses on disposal or scrapping of property and equipment	(236,238)	1,648	Acquisition of subsidiaries	(4,708,708)	-
Gains on disposal of investment properties	(860,045)	(37,571)	Cash returned by capital deduction from investments accounted for using equity method	47,811	-
Losses on disposal or intangible assets	391	35,492	Acquisition of property and equipment	(3,243,419)	(509,060)
Gains on disposal of investments	(17,118,622)	(43,288,184)	Disposal of property and equipment	268,559	3,563
Impairment losses on financial assets	87,262	-	Increase in clearing and settlement funds	(249)	(144)
Unrealized foreign exchange losses (gains)	41,467	(62,825)	Increase in guarantee deposits paid	-	(5,279)
Revaluation gains on investment properties	(2,130,773)	(11,269,589)	Decrease in guarantee deposits paid	24,530	-
Subtotal	<u>29,279,541</u>	<u>5,438,837</u>	Acquisition of intangible assets	(222,257)	(135,623)
Changes in operating assets and liabilities			Acquisition of investment properties	(1,412,340)	(31,853,177)
Changes in operating assets			Disposal of investment properties	1,068,000	193,927
Increase in due from the Central Bank and call loans to banks	(671,737)	(3,141,601)	Increase in other assets	(127,513)	(3,060,689)
Decrease in financial assets at fair value through profit or loss	42,256,238	57,008,403	Decrease in other assets	9,799,268	32,338
Decrease in available-for-sale financial assets	69,480,561	15,598,220	Dividends received	1,107	6,481
(Increase) decrease in derivative financial assets for hedging	(1,405)	229,159	Net cash from (used in) investing activities	2,076,774	(54,114,583)
Increase in accounts receivable	(8,000,754)	(18,960,046)	Cash flows from financing activities		
(Increase) decrease in loans	(130,828,440)	26,602,807	Increase (decrease) in short-term borrowings	292,431	(590,000)
Increase in reinsurance contract assets	(3,029,773)	(165,982)	Decrease in funds borrowed from Central Bank and banks	-	(1,585,900)
Decrease in financial assets held to maturity	8,464,671	1,165,413	Increase in commercial paper payable	1,011,331	997,344
Increase in other financial assets	(104,002,665)	(262,240,365)	Decrease in bank debentures	-	(418,824)
Increase in other assets	(1,327,696)	(4,044,075)	Increase in bills and bonds sold under agreements to repurchase	249,925	64,503
Subtotal	<u>(127,661,000)</u>	<u>(187,948,067)</u>	Increase in other liabilities	2,575,311	701,945
Changes in operating liabilities			Net cash flows from (used in) financing activities	4,128,998	(830,932)
Increase (decrease) in due to the Central Bank and call loans from banks	29,493,336	(655,516)	Effects of exchange rate changes on cash and cash equivalents	575,834	(1,254,425)
Decrease in financial liabilities at fair value through profit or loss	(86,040,158)	(57,267,755)	Increase (decrease) in cash and cash equivalents	21,522,748	(125,863,985)
(Decrease) increase in securities purchased under agreements to repurchase	(11,851,571)	16,369,598	Cash and cash equivalents at the beginning of periods	296,935,688	597,008,819
Increase (decrease) in payables	35,492,337	(8,083,737)	Cash and cash equivalents at the end of periods	\$318,458,436	\$471,144,834
Increase in deposits	59,905,499	52,122,166			
Decrease in provisions for the liabilities of employee benefits	(4,429,243)	(65,674)	The components of cash and cash equivalents		
Decrease in reserves for the operations and liabilities	(38,647)	-	Cash and cash equivalents presented in balance sheet	\$222,101,661	\$372,119,468
Decrease in other financial liabilities	(1,794,226)	(6,263,207)	Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	29,842,183	63,345,786
Decrease in other liabilities	(2,992,434)	(2,358,841)	Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	66,514,592	35,679,580
Subtotal	<u>17,744,893</u>	<u>(6,202,966)</u>	Cash and cash equivalents at the end of periods	\$318,458,436	\$471,144,834
Subtotal of Changes in operating assets and liabilities	<u>(109,916,107)</u>	<u>(194,151,033)</u>			
Subtotal of Adjustment	<u>(80,636,566)</u>	<u>(188,712,196)</u>			

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

English Translation of Financial Statement Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries Note to Audited Consolidated Financial Statements 30 June 2016 and 2015 (Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

1. Organization and business scope

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

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

As of 30 June 2016, 31 December 2015 and 30 June 2015 the total numbers of the employees of the Company and Subsidiaries (the Group) were 47,470, 46,633, and 44,426, 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 six-month periods ended 30 June 2016 and 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 18 August 2016.

3. Newly issued or revised standards and interpretations

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

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

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

B. IFRIC 21 “Levies”

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

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

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

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

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

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

IFRS 2 “Share-based Payment”

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

IFRS 3 “Business Combinations”

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

IFRS 8 “Operating Segments”

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

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IFRS 13 “Fair Value Measurement”

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

IAS 16 “Property, Plant and Equipment”

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

IAS 24 “Related Party Disclosures”

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

IAS 38 “Intangible Assets”

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

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

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

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

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IFRS 3 “Business Combinations”

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

IFRS 13 “Fair Value Measurement”

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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.

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IAS 19 “Employee Benefits”

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

IAS 34 “Interim Financial Reporting”

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

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

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

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

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

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

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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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.

B. IFRS 9 "Financial Instruments"

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

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

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

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

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

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

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

D. *IFRS 16“Leases”*

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

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

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

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

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

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G. IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15

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

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

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

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

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4. Summary of significant accounting policies

(1) Statement of compliance

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

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

If the Group loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2016.6.30	2015.12.31	2015.6.30	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.

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Investor	Subsidiary	Business nature	2016.6.30	2015.12.31	2015.6.30	Notes
The Company	Cathay Century Insurance Co., Ltd. (“Cathay Century”)	Property and casualty insurance	100.00	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on 2 August 2002.
The Company	Cathay Securities Corporation (“Cathay Securities”)	Securities	100.00	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.
The Company	Cathay Venture Inc. (“Cathay Venture”)	Venture capital investment	100.00	100.00	100.00	Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”)	Securities investment trust	100.00	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. (“Cathay Lujiazui Life”)	Life insurance	50.00	50.00	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Tradezone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.

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Investor	Subsidiary	Business nature	2016.6.30	2015.12.31	2015.6.30	Notes
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.
Cathay Life	Conning Holdings Limited	Holding company	100.00	100.00	-	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	-	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Asset Management Ltd.	Wealth Management	100.00	100.00	-	Conning Asset Management Ltd. was incorporated on 16 October 1998.
Conning Holdings Limited	Conning Japan Ltd.	Wealth Management	100.00	100.00	-	Conning Japan Ltd. was incorporated on 7 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	-	Conning (Germany) GmbH was incorporated on 1 October 2012.
The Company & Conning Holdings Limited	Cathay Conning Asset Management Ltd. (Note 1)	Wealth Management	100.00	100.00	-	Cathay Conning Asset Management Ltd. was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	-	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Corp.	Conning Holdco (UK) Ltd. (Note 2)	Holding company	100.00	100.00	-	Conning Holdco (UK) Ltd. was incorporated on 14 June 2011.

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Investor	Subsidiary	Business nature	2016.6.30	2015.12.31	2015.6.30	Notes
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	-	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	-	Conning Inc. was incorporated on 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	-	Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	-	Conning Investments Products, Inc. was incorporated on 13 February 2012.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	82.06	-	-	Octagon Credit Investors, LLC was incorporated on 19 December 2011.
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	82.06	-	-	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	82.06	-	-	Octagon Funds GP LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	92.06	-	-	Octagon Funds GP II LLC was incorporated on 26 November 2014.
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd (“Lin Yuan”)	Office equipment leasing company	100.00	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (“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	2016.6.30	2015.12.31	2015.6.30	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	100.00	-	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition.

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

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

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

Investor	Investee	Business	2016.6.30 Ownership interest	2015.12.31 Ownership interest	2015.6.30 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”))	Class 3 general business insurers and a long-term insurer	100.00	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 24 January 2000.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. (“Cathay Securities Investment Consulting”))	Securities investment consulting	100.00	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”))	Temporary employment	100.00	100.00	100.00	Seaward Card was incorporated on 9 April 1999.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	100.00	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

(4) Foreign currency transactions

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

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

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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.

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.

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(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.

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.

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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.

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.

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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.

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.

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Derivative financial assets for hedging

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

Investments in debt securities with no active market

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

Impairment of financial assets

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

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

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

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

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

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Derecognition of financial assets

Financial asset is derecognized when:

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

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

The reclassification of financial assets

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

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

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B. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

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

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

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

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

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

Derivative financial liabilities for hedging

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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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.

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.

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(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.

(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.

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

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

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

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

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

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

(12) Property, plant and equipment

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

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

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

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

(13) Investment property

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

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

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

(14) Leases

Group as a lessee

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

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

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

Group as a lessor

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

(15) Intangible assets

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

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

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

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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.

Licenses

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

Customer relationships

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

Computer software

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

Other intangible assets

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

(16) Impairment of non-financial assets

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

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

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

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

(17) Provisions

Insurance liabilities

A. Cathay Life

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

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

a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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.

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

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

d. Special reserve

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

i. Special capital reserve—Special reserve for major incidents

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.

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

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

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

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

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

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

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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 June 2016, the amount set aside was \$13,352,087 thousand.

j. Liability adequacy test

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

B. Cathay Century

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

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a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

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

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

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(A) Special reserve for major incident

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

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

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

(B) Special reserve for fluctuation of risks

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

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

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

d. Premiums deficiency reserve

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

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C. Cathay Lujiazui Life and Cathay Century (China)

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

Other provisions

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

(18) Treasury stocks

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

(19) Post-employment benefits

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

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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 oversea subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Defined benefit plan

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

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

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

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

(20) Revenue recognition

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

Interest income

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

Handling fee revenue

The Group charge customers by providing a variety of services.

Dividends

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.

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(21) Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

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

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(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.

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. The classification of financial assets

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

B. Investment properties

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

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C. Operating lease commitment—Group as the lessor

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

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

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

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

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

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

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

The risk ratio of re-insurance policy=(Σ PV amount to assumed re-insurer occur net loss × the ratio of occurrence / PV of premium that assumed re-insurer expected) × 100%

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

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(2) Estimates and assumptions

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

A. Impairment losses on loans and receivables

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

B. Fair value of financial instruments

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

C. Fair value of investment property

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

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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 flow is projected based on reasonable assumptions of the cash-generating unit and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. (The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis.)

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

E. Pension benefits

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

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

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

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

Cathay Life bases are assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect Cathay Life's unique risk exposure, product characteristics and own experiences from target markets.

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

G. Revenue recognition – Customer loyalty program

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

H. Income tax

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

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

6. Cash and cash equivalents

	<u>2016.6.30</u>	<u>2015.12.31</u>	<u>2015.6.30</u>
Petty cash and cash on hand	\$14,496,749	\$16,226,920	\$14,676,372
Cash in banks	67,636,226	66,653,887	52,495,460
Time deposits	78,159,366	58,779,451	174,067,990
Cash equivalents	8,961,376	2,648,472	28,851,631
Checks for clearance	2,191,706	3,573,643	2,670,462
Due from commercial banks	50,656,238	43,897,747	99,357,553
Total	<u>\$222,101,661</u>	<u>\$191,780,120</u>	<u>\$372,119,468</u>

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

7. Financial assets at fair value through profit or loss

	<u>2016.6.30</u>	<u>2015.12.31</u>	<u>2015.6.30</u>
Held for trading:			
Common stock	\$10,689,819	\$7,815,575	\$13,176,452
Funds and beneficiary certificates	9,674,078	16,731,948	22,798,892
Government bonds	41,747,678	15,350,216	7,936,220
Corporate bonds	7,234,540	5,062,664	6,027,204
Financial debentures	386,514	250,902	-
Overseas debentures	1,614,311	349,821	349,073
Structured time deposits	2,314,913	2,483,485	2,301,547
Short-term notes	171,832,449	173,356,042	108,189,737
Margin for futures trading-own funds	574,394	356,624	321,765
Derivative financial instruments	70,218,670	74,360,649	34,609,610
Total	<u>\$316,287,366</u>	<u>\$296,117,926</u>	<u>\$195,710,500</u>

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- (1) As of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of \$1,425,000 thousand, \$1,425,000 thousand, and \$1,900,000 thousand, respectively.
- (2) Please refer to 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 30 June 2016, 31 December 2015 and 30 June 2015.

8. Available-for-sale financial assets

	2016.6.30	2015.12.31	2015.6.30
Common stock	\$582,507,946	\$546,953,106	\$524,961,305
Beneficiary certificates	246,028,172	269,930,523	189,603,302
Funds and beneficiary Securities	8,175,458	5,063,450	2,908,381
Real Estate Investment Trust	16,554,150	12,316,437	11,657,562
Government bonds	173,449,137	211,411,693	213,455,353
Corporate bonds	53,697,573	51,723,389	51,252,966
Financial debentures	96,142,324	110,475,386	122,444,300
Asset-backed securities	963,804	1,111,868	1,212,217
Overseas debentures	261,781,764	278,541,388	285,522,543
Short-term notes	-	1,360,701	129,692
Less: Litigation deposits	(131,151)	(541,163)	(40,009)
Less: Securities serving as deposits paid-bonds	(1,930,116)	(1,953,653)	(2,152,215)
Total	\$1,437,239,061	\$1,486,393,125	\$1,400,955,397

- (1) As of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of \$9,207,734 thousand, \$43,477,428 thousand, and \$36,645,410 thousand, respectively. Such repurchase agreements amounting to \$9,783,934 thousand, \$32,587,559 thousand and \$21,508,495 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements were settled at \$11,037,928 thousand, \$32,604,469 thousand and \$21,519,260 thousand, as 31 December 2016, 30 June 2016, and 31 December 2015, respectively; as of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreement with notional amounts of \$0 thousand, \$11,004,293 thousand and \$13,882,266 thousand, recorded in the account “Securities sold under agreements to repurchase” on the balance sheets, without a repurchase date agreed.

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- (2) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with domestic stocks and financial property beneficiary Securities held by Cathay Life and its subsidiaries. As of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to \$202,272 thousand, \$153,884 thousand and \$914,621 thousand, respectively.
- (3) Cathay United Bank has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of \$140,985 thousand, \$140,985 thousand and \$163,785 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015 respectively, due to the existence of objective impairment evidence.
- (4) Please refer to Note 34 for related information on the above available-for-sale financial assets being pledged as collaterals as of 30 June 2016, 31 December 2015 and 30 June 2015.

9. Receivable - net

	2016.6.30	2015.12.31	2015.6.30
Notes receivable	\$1,820,141	\$2,120,489	\$1,671,679
Accounts receivable	67,594,747	60,632,960	62,272,872
Interest receivable	44,819,732	39,686,374	40,263,851
Foreign currency receivable	70,969	347,755	183,842
Acceptances	1,328,075	1,595,287	1,234,873
Factoring receivable	4,210,120	17,036,810	32,118,276
Others	38,888,506	23,223,989	21,874,913
Subtotal	158,732,290	144,643,664	159,620,306
Adjustment for discounts and premiums	(19,832)	(6,296)	(6,501)
Less: Allowance for bad debts	(3,591,425)	(2,972,024)	(2,097,037)
Total	<u>\$155,121,033</u>	<u>\$141,665,344</u>	<u>\$157,516,768</u>

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

	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Balance, beginning of the period	\$2,972,024	\$1,997,217
Provision of doubtful accounts	714,927	12,105
Write-offs	(274,817)	(162,895)
Debt counseling recoveries	60,246	61,705
Recoveries	228,953	253,841
Reclassification	(70,861)	(61,705)
Effect of exchange rates change	(39,047)	(3,231)
Balance, end of the period	<u>\$3,591,425</u>	<u>\$2,097,037</u>

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

Item		Accounts Receivable		
		2016.6.30	2015.12.31	2015.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$874,056	\$1,416,183	\$954,029
	Collective assessment of impairment	186,290	192,560	185,259
Objective evidence of impairment does not exist individually	Collective assessment of impairment	157,671,944	143,034,921	158,481,018

Item		Allowance for doubtful account		
		2016.6.30	2015.12.31	2015.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$25,912	\$585,958	\$86,068
	Collective assessment of impairment	135,691	143,609	137,578
Objective evidence of impairment does not exist individually	Collective assessment of impairment	3,429,822	2,242,457	1,873,391

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

	2016.6.30	2015.12.31	2015.6.30
Inward-outward documentary bills	\$1,538,852	\$986,975	\$2,199,410
Loans	1,911,993,912	1,781,935,122	1,798,132,916
Overdrafts	2,616,588	2,345,273	1,842,385
Delinquent accounts	2,592,679	3,196,270	3,310,341
Subtotal	1,918,742,031	1,788,463,640	1,805,485,052
Adjustment for discounts and premiums	710,977	817,604	931,776
Less: Allowance for bad debts	(24,545,598)	(22,804,891)	(20,952,289)
Total	<u>\$1,894,907,410</u>	<u>\$1,766,476,353</u>	<u>\$1,785,464,539</u>

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

	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Balance, beginning of the period	\$22,804,891	\$22,149,554
Provision of doubtful accounts	1,778,144	318,072
Write-offs	(417,275)	(2,133,795)
Debt counseling recoveries	55,128	57,520
Recoveries	326,194	563,865
Reclassification	70,861	61,705
Effect of exchange rates change	(72,345)	(64,632)
Balance, end of the period	<u>\$24,545,598</u>	<u>\$20,952,289</u>

(2) Assessment for loans are showed as followed:

		Total loans		
		2016.6.30	2015.12.31	2015.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$7,905,888	\$6,973,801	\$8,671,085
	Collective assessment of impairment	10,640,499	11,563,586	10,009,119
Objective evidence of impairment does not exist individually	Collective assessment of impairment	1,900,195,644	1,769,926,253	1,786,804,848

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Item		Allowance for bad debts		
		2016.6.30	2015.12.31	2015.6.30
Objective evidence of impairment exists individually	Individual assessment of impairment	\$1,901,643	\$1,678,130	\$2,187,743
	Collective assessment of impairment	2,208,770	2,343,624	1,839,187
Objective evidence of impairment does not exist individually	Collective assessment of impairment	20,435,185	18,783,137	16,925,359

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

11. Held-to-maturity financial assets

	2016.6.30	2015.12.31	2015.6.30
Government bonds	\$33,940,990	\$33,962,390	\$32,702,764
Corporate bonds	10,970,067	11,722,890	11,558,331
Financial debentures	18,909,972	25,230,940	24,804,377
Asset-backed securities	13,841,418	15,165,099	15,302,692
Overseas debentures	6,472,625	5,710,859	5,014,167
Short-term notes	-	-	38,828
Subtotal	84,135,072	91,792,178	89,421,159
Less: Litigation deposits	(3,306,397)	(2,924,198)	(1,992,242)
Less: Securities serving as deposits paid-bonds	(7,160,454)	(7,159,534)	(6,960,662)
Total	\$73,668,221	\$81,708,446	\$80,468,255

- (1) As of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of \$39,928,687 thousand, \$13,259,466 thousand and \$43,147,477 thousand, respectively. Such repurchase agreements amounting to \$32,402,270 thousand, \$10,446,025 thousand and \$36,838,167 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements were settled at \$32,422,459 thousand, \$10,452,556 thousand and \$36,849,238 thousand, prior to 31 July 2016, 31 January 2016, and 31 August 2015, respectively; as of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreement with notional amounts of \$0 thousand, \$0 thousand and \$570,034 thousand, recorded in the account "Securities sold under agreements to repurchase" on the balance sheets, without a repurchase date agreed.
- (2) Please refer to Note 34 for related information on the above held-to-maturity financial assets being pledged as collaterals as of 30 June 2016, 31 December 2015 and 30 June 2015.

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12. Investments accounted for using the equity method

Investee	2016.6.30		2015.12.31		2015.6.30	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:						
Cathay Securities Investment Consulting	\$195,358	100.00	\$225,526	100.00	\$178,174	100.00
Seaward Card	38,979	100.00	39,226	100.00	38,822	100.00
Cathay Insurance (Bermuda)	125,838	100.00	129,945	100.00	120,510	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	20,525	100.00	25,991	100.00	28,707	100.00
Subtotal	<u>380,700</u>		<u>420,688</u>		<u>366,213</u>	
Investments in associates:						
WK Technology Fund VI Co., Ltd	163,431	21.43	217,290	21.43	269,885	21.43
Taiwan Real-estate Management Corp.	93,492	30.15	93,988	30.15	93,366	30.15
Taiwan Finance Corp.	1,599,137	24.57	1,589,963	24.57	1,501,441	24.57
IBT Venture Capital Corp.	3,915	24.96	4,061	24.96	3,965	24.96
Tien-Tai Energy Corp.	39,136	44.44	38,770	44.44	41,281	44.44
Tien-Tai One Energy Corp.	27,516	33.33	27,311	33.33	28,552	33.33
Tien-Tai Management Consulting Co., Ltd.	3,163	30.00	3,486	30.00	210	30.00
CDBS Cathay Asset Management Co., Ltd	270,954	33.30	291,178	33.30	283,218	33.30
Conning Asia Pacific Ltd.	-	-	-	-	77,943	50.00
Symphox Information Co., Ltd.	430,206	49.12	455,088	49.12	431,189	49.12
Da Sheng Venture Inc.	1,437,935	25.00	1,490,707	25.00	1,274,866	25.00
KHL IV Venture Capital Co., Ltd.	366,817	25.00	-	-	-	-
Chi-Chia Energy Corp.	37,384	29.08	37,051	29.08	43,475	29.08
Chao-Yang Energy Corp.	36,169	29.08	35,770	29.08	43,302	29.08
Dun-Yang Energy Corp.	54,342	32.20	50,763	32.20	50,000	32.20
Yong-Chang Energy Corp.	51,759	32.32	48,969	32.32	50,000	32.32
Ri-Zhao Energy Corp.	51,935	32.32	49,365	32.32	50,000	32.32
Nan-Gang International 1 Corp.	675,638	45.00	675,371	45.00	675,059	45.00
Nan-Gang International 2 Corp.	674,987	45.00	675,381	45.00	675,059	45.00
CM Enery Co., Ltd.	13,481	45.00	13,500	45.00	-	-
Rizal Commercial Banking Corporation	13,873,131	22.71	13,459,290	21.93	12,895,582	21.57
PT Bank Mayapada Internasional Tbk	6,033,911	24.90	5,822,498	24.90	5,112,894	24.90
Subtotal	<u>25,938,439</u>		<u>25,079,800</u>		<u>23,601,287</u>	
Total	<u>\$26,319,139</u>		<u>\$25,500,488</u>		<u>\$23,967,500</u>	

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Cathay Conning Asset Management Ltd. became a consolidated subsidiary on 18 September 2015 and has been renamed Conning Asia Pacific Ltd. on 18 April 2016.

The Group's investments in the associates are not significant. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of investments in associates accounted for using the equity method amounted to \$25,938,439 thousand, \$25,079,800 thousand and \$23,601,287 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Profit or loss from continuing operations	\$233,609	\$215,547	\$711,253	\$246,264
Other comprehensive income (post-tax)	(146,838)	(211,000)	(241,520)	(192,388)
Total comprehensive income	<u>\$86,771</u>	<u>\$4,547</u>	<u>\$469,733</u>	<u>\$53,876</u>

(1) The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to \$21,798,761 thousand and \$21,773,318 thousand, as at 30 June 2016 and 2015, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to \$218,997 thousand and \$225,289 thousand for the three-month periods ended 30 June 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(136,725) thousand and \$(216,384) thousand for the three-month periods ended 30 June 2016 and 2015, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to \$687,220 thousand and \$256,553 thousand for the six-month periods ended 30 June 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(225,446) thousand and \$(197,279) thousand for the six-month periods ended 30 June 2016 and 2015, respectively.

(2) No investment in the associates was pledged.

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13. Other financial assets

	2016.6.30	2015.12.31	2015.6.30
Financial assets carried at cost	\$5,745	\$-	\$-
Investments in debt securities with no active market	2,405,226,540	2,289,311,099	1,906,618,787
Separate account product assets	488,475,296	480,568,361	465,511,867
Structured time deposits	9,500,000	18,000,000	32,900,000
Other miscellaneous financial assets	5,354,341	2,521,432	1,888,773
Total	\$2,908,561,922	\$2,790,400,892	\$2,406,919,427

Investments in debt securities with no active market

	2016.6.30	2015.12.31	2015.6.30
Common stocks	\$4,067,895	\$6,437,617	\$7,984,017
Government bonds	57,138	-	-
Corporate bonds	14,227,500	10,494,774	7,450,193
Financial debentures	55,965,852	38,565,157	34,249,833
Structured debentures	645,720	661,320	621,400
Asset-backed securities	9,739,583	12,307,158	6,076,718
Overseas debentures	1,916,037,824	1,785,661,462	1,377,545,727
Time deposit	402,799,028	433,396,038	471,104,899
Beneficial right of real estate	300,000	300,000	200,000
Beneficiary Securities	1,386,000	1,487,573	1,386,000
Total	\$2,405,226,540	\$2,289,311,099	\$1,906,618,787

- (1) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks, beneficiary certificates and asset-backed securities held by Cathay Life and Subsidiaries. As of 30 June 2016, 31 December 2015 and 30 June 2015, Cathay Life and its subsidiaries recognized impairment losses amounting to \$419,718 thousand, \$429,858 thousand and \$403,910 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 \$1,383,270 thousand, \$1,416,689 thousand and \$1,331,172 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015 respectively, due to credit deterioration of securitization and financial debentures.

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

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- (3) As of 30 June 2015, Cathay United Bank and its subsidiaries sold certain investments in debt securities with no active market classified as bonds under repurchase agreements with the notional amounts of \$10,608,139 thousand. Such repurchase agreements amounting to \$3,459,942 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 \$3,460,367 thousand no later than 31 July 2015 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 June 2016, 31 December 2015 and 30 June 2015.

14. Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2016	\$273,361,957	\$101,716,508	\$3,313,056	\$2,758,288	\$381,149,809
Additions from acquisitions	-	-	1,620,519	2,191,596	3,812,115
Additions from subsequent expenditure	-	-	65,406	-	65,406
Transfers to property and equipment	-	(18,526)	-	-	(18,526)
Transfers to investment property under construction and prepayments for buildings and land	2,191,115	78,422	(78,422)	(4,656,296)	(2,465,181)
Profits generated from fair value adjustments	1,039,288	1,091,485	-	-	2,130,773
Disposals	(207,955)	-	-	-	(207,955)
Exchange differences	(1,872,904)	(3,345,629)	-	-	(5,218,533)
30 June 2016	<u>\$274,511,501</u>	<u>\$99,522,260</u>	<u>\$4,920,559</u>	<u>\$293,588</u>	<u>\$379,247,908</u>

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2015	\$249,711,339	\$74,393,081	\$12,437,283	\$1,795,276	\$338,336,979
Additions from acquisitions	-	26,033,559	5,124,284	366,027	31,523,870
Additions from subsequent expenditure	-	200	316,754	-	316,954
Transfers to property and equipment	-	(794,306)	-	-	(794,306)
Transfers to investment property under construction and prepayments for buildings and land	-	16,041,542	(16,032,660)	(8,882)	-
Profits (Losses) generated from fair value adjustments	13,585,083	(2,315,494)	-	-	11,269,589
Disposals	(130,742)	(25,615)	-	-	(156,357)
Exchange differences	(58,269)	379,667	-	-	321,398
30 June 2015	<u>\$263,107,411</u>	<u>\$113,712,634</u>	<u>\$1,845,661</u>	<u>\$2,152,421</u>	<u>\$380,818,127</u>

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	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Rental income from investment properties	\$2,340,130	\$2,015,306	\$4,983,155	\$4,222,457
Less: Direct operating expense incurred from investment properties generating rental income	(177,784)	(164,993)	(302,768)	(241,596)
Direct operating expense incurred from investment properties not generating rental income	(56,859)	(46,634)	(86,392)	(63,591)
Total	\$2,105,487	\$1,803,679	\$4,593,995	\$3,917,270

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

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

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The inputs used are as follows:

	2016.6.30	2015.12.31	2015.6.30
Direct capitalization rate (net)	0.45%~5.76%	0.42%~5.76%	0.32%~5.76%
Discount rate	3.2%~4.1%	3.3%~4.2%	3.3%~4.6%

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

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

- (2) Cathay United Bank appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng, Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2016 and 31 December 2015.

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

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

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

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

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

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

The replacement allowance is calculated renovation cost base on 15% construction cost, presume the useful life of 20 years, according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

The main parameters are as follows:

	2016.6.30	2015.12.31	2015.6.30
Discounted rates	-	-	4.625%
Capitalization rate	1.31-3.09%	1.6%-2.85%	-
Overall capital interest rate	1.65%-2.02%	-	-

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

	2016.6.30	2015.12.31	2015.6.30
Rate of return	30%	30%	25%
Overall capital interest rate	18.08%	19.20%	23.05%

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

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- (3) Cathay Futures appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2015 and 31 December 2014. According to the appraiser’s review and evaluation on the current market condition of the underlying property, there was no significant difference between the fair values of the investment property on 30 June 2016 and the fair value on 31 December 2015 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. Future cash inflows and outflows were estimated as follows:

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

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

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

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

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

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

The parameters used are as followed:

	<u>2016.6.30</u>	<u>2015.12.31</u>	<u>2015.6.30</u>
Direct Capitalization rate (net)	2.50%	2.50%	2.50%
Discount Rate	2.225%	2.225%	2.225%

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

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

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

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15. Property and equipment

	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Cost:									
1 January 2016	\$67,171,611	\$45,559,141	\$7,124,334	\$133,979	\$11,606,206	\$618,476	\$423,731	\$650,162	\$133,287,640
Additions	-	-	260,396	2,277	178,147	62,784	-	243,320	746,924
Transfers	1,995,478	448,708	13,960	235	127,476	71,743	-	(338,082)	2,319,518
Disposal	(15,825)	(15,577)	(326,415)	(7,439)	(96,726)	-	-	(92)	(462,074)
Exchange difference	(3,382)	(75,418)	(71,557)	(2,730)	(14,527)	(19,598)	15	(5,187)	(192,384)
30 June 2016	<u>\$69,147,882</u>	<u>\$45,916,854</u>	<u>\$7,000,718</u>	<u>\$126,322</u>	<u>\$11,800,576</u>	<u>\$733,405</u>	<u>\$423,746</u>	<u>\$550,121</u>	<u>\$135,699,624</u>
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	-	1,268	153,753	8,870	142,728	48,789	-	153,656	509,064
Transfers	-	636,818	32,733	1,128	378,512	-	-	(293,794)	755,397
Disposal	-	(427)	(224,529)	(4,226)	(58,273)	(2,060)	-	-	(289,515)
Reclassification	-	-	-	-	(101)	-	-	-	(101)
Exchange difference	(2,809)	(34,262)	(17,007)	(2,133)	(9,197)	(5,547)	-	(3,555)	(74,510)
30 June 2015	<u>\$63,570,027</u>	<u>\$44,418,840</u>	<u>\$7,214,909</u>	<u>\$130,821</u>	<u>\$11,408,846</u>	<u>\$494,729</u>	<u>\$423,217</u>	<u>\$609,273</u>	<u>\$128,270,662</u>
Depreciation and impairment:									
1 January 2016	\$105,610	\$19,502,834	\$5,950,235	\$90,631	\$9,497,297	\$336,679	\$315,618	\$-	\$35,798,904
Depreciation	-	484,527	236,630	5,216	291,031	40,928	52,860	-	1,111,192
Transfers	-	(1,533)	(1,250)	(997)	(1,078)	3,594	-	-	(1,264)
Disposal	-	(8,539)	(325,537)	(6,179)	(89,500)	-	-	-	(429,755)
Others	-	(39,166)	-	-	-	39,166	-	-	-
Exchange difference	-	1,317	(56,611)	(1,143)	17,800	(11,815)	-	-	(50,452)
30 June 2016	<u>\$105,610</u>	<u>\$19,939,440</u>	<u>\$5,803,467</u>	<u>\$87,528</u>	<u>\$9,715,550</u>	<u>\$408,552</u>	<u>\$368,478</u>	<u>\$-</u>	<u>\$36,428,625</u>
1 January 2015	\$105,610	\$18,533,321	\$6,197,185	\$86,252	\$9,053,275	\$307,258	\$209,797	\$-	\$34,492,698
Depreciation	-	488,043	204,611	5,438	278,953	24,453	52,751	-	1,054,249
Transfers	-	-	18	-	(18)	-	-	-	-
Disposal	-	(427)	(224,464)	(3,229)	(54,162)	(2,018)	-	-	(284,300)
Exchange difference	-	(2,964)	(11,223)	(1,362)	(5,532)	(4,306)	-	-	(25,387)
30 June 2015	<u>\$105,610</u>	<u>\$19,017,973</u>	<u>\$6,166,127</u>	<u>\$87,099</u>	<u>\$9,272,516</u>	<u>\$325,387</u>	<u>\$262,548</u>	<u>\$-</u>	<u>\$35,237,260</u>
30 June 2016	<u>\$69,042,272</u>	<u>\$25,977,414</u>	<u>\$1,197,251</u>	<u>\$38,794</u>	<u>\$2,085,026</u>	<u>\$324,853</u>	<u>\$55,268</u>	<u>\$550,121</u>	<u>\$99,270,999</u>
31 December 2015	<u>\$67,066,001</u>	<u>\$26,056,307</u>	<u>\$1,174,099</u>	<u>\$43,348</u>	<u>\$2,108,909</u>	<u>\$281,797</u>	<u>\$108,113</u>	<u>\$650,162</u>	<u>\$97,488,736</u>
30 June 2015	<u>\$63,464,417</u>	<u>\$25,400,867</u>	<u>\$1,048,782</u>	<u>\$43,722</u>	<u>\$2,136,330</u>	<u>\$169,342</u>	<u>\$160,669</u>	<u>\$609,273</u>	<u>\$93,033,402</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:			Customer		Computer		
	Franchise	Trademark	Goodwill	relationship	software	Others	Total
1 January 2016	\$37,659,600	\$218,864	\$16,894,345	\$2,095,194	\$4,064,624	\$234,128	\$61,166,755
Addition-individual acquisition	-	-	-	-	222,256	-	222,256
Reduction	-	-	-	-	(379,168)	-	(379,168)
Acquisition from business combination	-	175,084	2,896,265	1,465,318	-	-	4,536,667
Transfers	-	-	(202,593)	-	158,482	16,810	(27,301)
Exchange difference	-	(12,360)	(250,357)	(109,655)	(15,278)	(5,510)	(393,160)
30 June 2016	<u>\$37,659,600</u>	<u>\$381,588</u>	<u>\$19,337,660</u>	<u>\$3,450,857</u>	<u>\$4,050,916</u>	<u>\$245,428</u>	<u>\$65,126,049</u>
1 January 2015	\$-	\$-	\$8,598,542	\$-	\$3,774,398	\$-	\$12,372,940
Addition-individual acquisition	-	-	-	-	152,745	-	152,745
Reduction	-	-	-	-	(109,305)	-	(109,305)
Transfers	-	-	-	-	147,700	-	147,700
Exchange difference	-	-	(6,849)	-	(9,550)	-	(16,399)
30 June 2015	<u>\$-</u>	<u>\$-</u>	<u>\$8,591,693</u>	<u>\$-</u>	<u>\$3,955,988</u>	<u>\$-</u>	<u>\$12,547,681</u>
Depreciation and impairment:							
1 January 2016	\$1,039,692	\$-	\$-	\$45,634	\$3,121,813	\$15,848	\$4,222,987
Amortization	1,039,692	-	-	168,322	176,598	27,753	1,412,365
Reduction	-	-	-	-	(378,777)	-	(378,777)
Exchange difference	-	-	-	(3,775)	(10,354)	(819)	(14,948)
30 June 2016	<u>\$2,079,384</u>	<u>\$-</u>	<u>\$-</u>	<u>\$210,181</u>	<u>\$2,909,280</u>	<u>\$42,782</u>	<u>\$5,241,627</u>
1 January 2015	\$-	\$-	\$-	\$-	\$3,089,915	\$-	\$3,089,915
Amortization	-	-	-	-	166,928	-	166,928
Reduction	-	-	-	-	(73,813)	-	(73,813)
Exchange difference	-	-	-	-	(7,374)	-	(7,374)
30 June 2015	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,175,656</u>	<u>\$-</u>	<u>\$3,175,656</u>
30 June 2016	<u>\$35,580,216</u>	<u>\$381,588</u>	<u>\$19,337,660</u>	<u>\$3,240,676</u>	<u>\$1,141,636</u>	<u>\$202,646</u>	<u>\$59,884,422</u>
31 December 2015	<u>\$36,619,908</u>	<u>\$218,864</u>	<u>\$16,894,345</u>	<u>\$2,049,560</u>	<u>\$942,811</u>	<u>\$218,280</u>	<u>\$56,943,768</u>
30 June 2015	<u>\$-</u>	<u>\$-</u>	<u>\$8,591,693</u>	<u>\$-</u>	<u>\$780,332</u>	<u>\$-</u>	<u>\$9,372,025</u>

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As of 30 June 2016, the book value of goodwill was \$10,724,485 thousand. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 82.06% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

Cathay United Bank's impairment testing of goodwill:

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

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

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

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.

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

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17. Financial liabilities at fair value through profit or loss

	2016.6.30	2015.12.31	2015.6.30
Designated financial assets at fair value through profit or loss at initial recognition:			
Bond Investment	\$42,427,363	\$40,598,667	\$37,573,783
Held for trading:			
Derivative financial instruments	46,389,650	95,733,002	35,913,300
Security lending payables hedging	445,855	377,376	253,354
Security lending payables non-hedging	1,123,414	762,373	838,746
Subtotal	47,958,919	96,872,751	37,005,400
Total	\$90,386,282	\$137,471,418	\$74,579,183

(1) Cathay United Bank was authorized to issue subordinated financial debentures amounting to USD\$990 million in September 2014, which were issued in amounts of US\$660 million (perpetual) and US\$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00%, respectively on 8 October 2014 with interests paid annually. Cathay United Bank was approved by the competent authorities to redeem the US\$660 million bonds at its book value upon maturity of 12 years.

(2) Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (maturity of thirty years) on 30 March 2015. In addition to redemption by exercising callable rights, the principal of the debentures is repaid in lump sum on maturity in the form of zero-coupon bonds with internal rate of return of 4.20%.

18. Commercial paper payables

	2016.6.30	2015.12.31	2015.6.30
Commercial paper payable	\$36,690,000	\$35,680,000	\$27,790,000
Less: Discount on commercial paper payable	(1,034)	(2,366)	(2,656)
Total	\$36,688,966	\$35,677,634	\$27,787,344
Average interest rates	0.31%~0.60%	0.38%~0.958%	0.56%~0.86%

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19. Deposits

	2016.6.30	2015.12.31	2015.6.30
Check deposits	\$13,283,776	\$13,244,467	\$13,060,907
Demand deposits	396,343,917	382,071,327	351,538,315
Demand savings deposits	712,287,172	704,544,214	681,233,575
Time deposits	400,455,470	375,594,219	353,640,453
Negotiable Certificates of Deposit	4,262,100	4,489,200	4,620,100
Fixed savings deposits	384,675,961	373,406,772	347,805,711
Remittances	2,338,575	1,145,632	1,610,280
Total	<u>\$1,913,646,971</u>	<u>\$1,854,495,831</u>	<u>\$1,753,509,341</u>

20. Bonds payable

	2016.6.30	2015.12.31	2015.6.30
Subordinated bonds payable-net	\$19,900,000	\$19,900,000	\$40,000,000
Subordinated financial debentures	51,900,000	51,900,000	67,071,696
Discount on financial debentures	-	-	(3,718)
Valuation adjustment	-	-	127,146
Total	<u>\$71,800,000</u>	<u>\$71,800,000</u>	<u>\$107,195,124</u>

(1) Cathay United Bank issued a 15-year US\$500,000 thousand subordinated financial debenture with a stated interest rate of 5.5% in 5 October 2005, and the interest is payable semiannually. Cathay United Bank can redeem the debenture after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for the subordinated financial debenture. Cathay United Bank had bought back the debenture amounting to US\$172,620 in May 2009 and bought back the debenture in full in October 2015.

(2) Cathay United Bank issued seven-year subordinated financial debentures totaling \$1,200,000 thousand and \$1,000,000 thousand with a stated interest rate of 2.95% and floating rate, respectively in September 2008, and the interests are payable quarterly. Cathay United Bank had bought back all these debentures in September 2015.

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- (3) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in October 2015.
- (4) The Company issued seven-year unsecured subordinated bonds totaling \$20,000,000 thousand with a stated interest rate of 3.10% in December 2008, and the interest is payable annually. The Company had bought back the debentures in December 2015.
- (5) Cathay United Bank issued an eight-year subordinated financial debenture totaling \$3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.
- (6) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.
- (7) The Company issued a seven-year unsecured subordinated financial debenture totaling \$20,000,000 thousand with a stated interest rate of 2.65% in September 16, 2009. The subordinated financial debenture will be paid at maturity and the interest is payable annually.
- (8) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.
- (9) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.
- (10) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.
- (11) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$2,500,000

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thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

- (12) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.
- (13) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.
- (14) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.
- (15) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.
- (16) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.
- (17) Cathay United Bank issued a seven-year subordinated financial debenture totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.
- (18) Cathay United Bank issued a ten-year subordinated financial debenture totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.
- (19) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

21. Other financial liabilities

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	2016.6.30	2015.12.31	2015.6.30
Separate account insurance products-liabilities	\$488,475,296	\$480,568,361	\$465,511,867
Principle received from the sale of structured products	65,432,880	67,227,106	73,579,145
Other financial liabilities	2,281,182	1,768,586	1,615,278
Total	\$556,189,358	\$549,564,053	\$540,706,290

22. Provisions

	2016.6.30	2015.12.31	2015.6.30
Unearned premium reserve	\$26,818,018	\$26,428,864	\$24,956,993
Reserve for life insurance liabilities	4,271,251,110	4,088,918,602	3,776,266,425
Special reserve	24,034,924	28,996,289	34,004,238
Reserve for claims	17,404,314	14,230,818	13,432,273
Premium deficiency reserve	25,752,697	22,609,864	18,436,342
Reserve for insurance contracts with feature of financial instruments	25,580,935	54,002,965	54,563,773
Foreign exchange volatility reserve	13,352,087	16,026,449	11,635,420
Reserve for Guarantees	75,971	104,895	118,568
Reserve for employee benefits liabilities	3,517,712	7,826,660	5,031,083
Contingent liabilities reserve	982,246	862,981	692,156
Other operating reserve	30,645	26,316	22,680
Other reserve	1,939,890	1,967,824	-
Total	\$4,410,740,549	\$4,262,002,527	\$3,939,159,951

(1) Life insurance subsidiaries

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

A. Reserve for life insurance liabilities:

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	2016.6.30			2015.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Life insurance(Note)	\$3,728,232,988	\$2,900,908	\$3,731,133,896	\$3,565,702,442	\$5,913,047	\$3,571,615,489
Injury insurance	7,714,939	-	7,714,939	7,781,512	-	7,781,512
Health insurance	488,056,906	-	488,056,906	459,714,950	-	459,714,950
Annuity insurance	1,390,063	42,206,374	43,596,437	1,375,262	47,592,078	48,967,340
Investment-linked insurance	748,932	-	748,932	839,311	-	839,311
Subtotal	4,226,143,828	45,107,282	4,271,251,110	4,035,413,477	53,505,125	4,088,918,602
Less ceded reserve for life insurance liabilities :						
Life insurance	225,470	-	225,470	162,951	-	162,951
Total	\$4,225,918,358	\$45,107,282	\$4,271,025,640	\$4,035,250,526	\$53,505,125	\$4,088,755,651

	2015.6.30		
	Financial instruments with discretionary participation		
	Insurance contract	feature	Total
Life insurance(Note)	\$3,309,097,377	\$5,920,868	\$3,315,018,245
Injury insurance	7,800,742	-	7,800,742
Health insurance	396,866,422	-	396,866,422
Annuity insurance	1,367,450	54,250,017	55,617,467
Investment-linked insurance	963,549	-	963,549
Subtotal	3,716,095,540	60,170,885	3,776,266,425
Less ceded reserve for life insurance liabilities :			
Life insurance	147,244	-	147,244
Total	\$3,715,948,296	\$60,170,885	\$3,776,119,181

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

Reserve for life insurance liabilities is summarized below:

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	2016.1.1~2016.6.30			2015.1.1~2015.6.30		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Beginning balance	\$4,035,413,477	\$53,505,125	\$4,088,918,602	\$3,558,170,764	\$69,956,566	\$3,628,127,330
Reserve	320,939,833	65,397	321,005,230	269,171,755	389,561	269,561,316
Recover	(110,792,982)	(8,450,487)	(119,243,469)	(97,499,057)	(9,648,475)	(107,147,532)
Losses(gains) on foreign exchange	(19,416,500)	(12,753)	(19,429,253)	(13,747,922)	(526,767)	(14,274,689)
Ending balance	4,226,143,828	45,107,282	4,271,251,110	3,716,095,540	60,170,885	3,776,266,425
Less ceded reserve for life insurance liabilities:						
Beginning balance (net)	162,951	-	162,951	74,461	-	74,461
Increase	70,134	-	70,134	73,578	-	73,578
Losses(gains) on foreign exchange	(7,615)	-	(7,615)	(795)	-	(795)
Ending balance (net)	225,470	-	225,470	147,244	-	147,244
Total	\$4,225,918,358	\$45,107,282	\$4,271,025,640	\$3,715,948,296	\$60,170,885	\$3,776,119,181

B. Unearned premium reserve:

	2016.6.30			2015.12.31		
	Financial instruments with discretionary participation		Total	Financial instruments with discretionary participation		Total
	Insurance contract	feature		Insurance contract	feature	
Individual life insurance	\$527,885	\$-	\$527,885	\$504,234	\$-	\$504,234
Individual injury insurance	5,149,846	-	5,149,846	5,251,722	-	5,251,722
Individual health insurance	7,377,174	-	7,377,174	7,451,220	-	7,451,220
Group insurance	1,255,662	-	1,255,662	1,047,955	-	1,047,955
Investment-linked insurance	107,301	-	107,301	108,783	-	108,783
Total	14,417,868	-	14,417,868	14,363,914	-	14,363,914
Less ceded unearned premium reserve:						
Individual life insurance	175,049	-	175,049	156,623	-	156,623
Individual injury insurance	10,295	-	10,295	6,697	-	6,697
Individual health insurance	441	-	441	6,873	-	6,873
Group insurance	7,062	-	7,062	12,132	-	12,132
Total	192,847	-	192,847	182,325	-	182,325
Net	\$14,225,021	\$-	\$14,225,021	\$14,181,589	\$-	\$14,181,589

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	Financial instruments with discretionary participation		
	Insurance contract	feature	Total
Individual life insurance	\$449,853	\$-	\$449,853
Individual injury insurance	4,827,376	-	4,827,376
Individual health insurance	6,756,644	-	6,756,644
Group insurance	1,034,492	-	1,034,492
Investment-linked insurance	108,332	-	108,332
Total	13,176,697	-	13,176,697
Less ceded unearned premium reserve:			
Individual life insurance	99,746	-	99,746
Individual injury insurance	10,051	-	10,051
Individual health insurance	4,344	-	4,344
Group insurance	691	-	691
Total	114,832	-	114,832
Net	\$13,061,865	\$-	\$13,061,865

Unearned premium reserve is summarized below:

	2016.1.1~2016.6.30			2015.1.1~2015.6.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$14,363,914	\$-	\$14,363,914	\$13,202,867	\$-	\$13,202,867
Reserve	14,422,136	-	14,422,136	13,080,464	-	13,080,464
Recover	(14,356,401)	-	(14,356,401)	(13,101,024)	-	(13,101,024)
Losses(gains) on foreign exchange	(11,781)	-	(11,781)	(5,610)	-	(5,610)
Ending balance	14,417,868	-	14,417,868	13,176,697	-	13,176,697
Less ceded unearned premium reserve:						
Beginning balance-Net	182,325	-	182,325	137,914	-	137,914
Increase	11,330	-	11,330	4,868	-	4,868
Decrease	(51)	-	(51)	(27,761)	-	(27,761)
Gains (losses) on foreign exchange	(757)	-	(757)	(189)	-	(189)
Total	192,847	-	192,847	114,832	-	114,832
Ending balance-Net	\$14,225,021	\$-	\$14,225,021	\$13,061,865	\$-	\$13,061,865

C. Reserve for claims:

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	2016.6.30			2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance						
– Reported but not paid claim	\$204,164	\$1,056	\$205,220	\$144,751	\$1,056	\$145,807
– Unreported claim	105,229	-	105,229	62,734	-	62,734
Individual injury insurance						
– Reported but not paid claim	72,483	-	72,483	106,722	-	106,722
– Unreported claim	1,386,773	-	1,386,773	1,336,273	-	1,336,273
Individual health insurance						
– Reported but not paid claim	162,365	-	162,365	192,128	-	192,128
– Unreported claim	2,298,366	-	2,298,366	2,087,909	-	2,087,909
Group insurance						
– Reported but not paid claim	30,364	-	30,364	106,298	-	106,298
– Unreported claim	1,192,571	-	1,192,571	1,134,707	-	1,134,707
Investment-linked insurance						
– Reported but not paid claim	7,030	-	7,030	4,519	-	4,519
– Unreported claim	2,646	-	2,646	-	-	-
Total	5,461,991	1,056	5,463,047	5,176,041	1,056	5,177,097
Less ceded reserve for claims:						
Individual life insurance	24,419	-	24,419	14,632	-	14,632
Individual injury insurance	-	-	-	5	-	5
Individual health insurance	6,149	-	6,149	10,289	-	10,289
Group insurance	14,527	-	14,527	13,707	-	13,707
Total	45,095	-	45,095	38,633	-	38,633
Net	\$5,416,896	\$1,056	\$5,417,952	\$5,137,408	\$1,056	\$5,138,464

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	2015.6.30		
	Financial		
	instruments with		
	discretionary		
	Insurance	participation	
	contract	feature	Total
	-----	-----	-----
Individual life insurance			
— Reported but not paid			
claim	\$152,262	\$-	\$152,262
— Unreported claim	60,356	-	60,356
Individual injury insurance			
— Reported but not paid			
claim	96,425	-	96,425
— Unreported claim	1,272,255	-	1,272,255
Individual health insurance			
— Reported but not paid			
claim	173,306	-	173,306
— Unreported claim	1,975,443	-	1,975,443
Group insurance			
— Reported but not paid			
claim	66,689	-	66,689
— Unreported claim	1,093,300	-	1,093,300
Investment-linked			
insurance			
— Reported but not paid			
claim	16,351	-	16,351
Total	4,906,387	-	4,906,387
Less ceded reserve for claims:			
Individual life insurance	689	-	689
Net	\$4,905,698	\$-	\$4,905,698

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Reserve for claims is summarized below:

	2016.1.1~2016.6.30			2015.1.1~2015.6.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
Beginning balance	\$5,176,041	\$1,056	\$5,177,097	\$4,689,841	\$797	\$4,690,638
Reserve	5,340,744	1,056	5,341,800	4,732,775	-	4,732,775
Recover	(5,038,450)	(1,056)	(5,039,506)	(4,508,718)	(797)	(4,509,515)
Losses (gains) on foreign exchange	(16,344)	-	(16,344)	(7,511)	-	(7,511)
Ending balance	5,461,991	1,056	5,463,047	4,906,387	-	4,906,387
Less ceded reserve for claims:						
Beginning balance-Net	38,633	-	38,633	17,456	-	17,456
Increase	6,630	-	6,630	-	-	-
Decrease	-	-	-	(16,689)	-	(16,689)
Gains (losses) on foreign exchange	(168)	-	(168)	(78)	-	(78)
Total	45,095	-	45,095	689	-	689
Net	\$5,416,896	\$1,056	\$5,417,952	\$4,905,698	\$-	\$4,905,698

D. Special reserve:

	2016.6.30				2015.12.31			
	Financial instruments with discretionary participation				Financial instruments with discretionary participation			
	Insurance contract	feature	Other	Total	Insurance contract	feature	Other	Total
Participating policies								
dividends reserve	\$(125,431)	\$-	\$-	\$(125,431)	\$(36,387)	\$-	\$-	\$(36,387)
Dividends reserve	126,530	-	-	126,530	37,741	-	-	37,741
Special reserve for revaluation increments of property	-	-	20,436,619	20,436,619	-	-	25,416,619	25,416,619
Total	\$1,099	\$-	\$20,436,619	\$20,437,718	\$1,354	\$-	\$25,416,619	\$25,417,973

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	2015.6.30			
	Financial instruments with discretionary insurance participation			
	contract	feature	Other	Total
Participating policies				
dividends reserve	\$1,060	\$-	\$-	\$1,060
Special reserve for revaluation increments of property	-	-	30,436,619	30,436,619
Total	\$1,060	\$-	\$30,436,619	\$30,437,679

Special reserve is summarized below:

	2016.1.1~2016.6.30				2015.1.1~2015.6.30			
	Financial instruments with discretionary insurance participation				Financial instruments with discretionary insurance participation			
	contract	feature	Other	Total	contract	feature	Other	Total
Beginning balance	\$1,354	\$-	\$25,416,619	25,417,973	\$5,639	\$-	\$35,416,619	\$35,422,258
Reserves for participating policies								
dividends reserve	(88,146)	-	-	(88,146)	550	-	-	550
Participating policies								
dividends recover	(898)	-	-	(898)	(1,121)	-	-	(1,121)
Dividends reserve	88,789	-	-	88,789	-	-	-	-
Special reserve for revaluation increments of property (Note)	-	-	(4,980,000)	(4,980,000)	-	-	(4,980,000)	(4,980,000)
Decrease	-	-	-	-	(3,932)	-	-	(3,932)
Exchange difference	-	-	-	-	(76)	-	-	(76)
Ending balance	\$1,099	\$-	\$20,436,619	\$20,437,718	\$1,060	\$-	\$30,436,619	\$30,437,679

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

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E. Premium deficiency reserve:

	2016.6.30			2015.12.31		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
	Individual life insurance	\$23,506,536	\$-	\$23,506,536	\$20,333,625	\$-
Individual health insurance	1,842,486	-	1,842,486	1,908,526	-	1,908,526
Group insurance	421	-	421	426	-	426
Total	\$25,349,443	\$-	\$25,349,443	\$22,242,577	\$-	\$22,242,577

	2015.6.30		
	Financial instruments with discretionary participation		
	Insurance contract	feature	Total
	Individual life insurance	\$17,441,689	\$-
Individual health insurance	712,978	-	712,978
Group insurance	645	-	645
Total	\$18,155,312	\$-	\$18,155,312

Premium deficiency reserve is summarized below:

	2016.1.1~2016.6.30			2015.1.1~2015.6.30		
	Financial instruments with discretionary participation			Financial instruments with discretionary participation		
	Insurance contract	feature	Total	Insurance contract	feature	Total
	Beginning balance	\$22,242,577	\$-	\$22,242,577	\$17,294,564	\$-
Reserve	3,512,704	-	3,512,704	1,578,013	-	1,578,013
Recover	(240,832)	-	(240,832)	(537,140)	-	(537,140)
Losses (gains) on foreign exchange	(165,006)	-	(165,006)	(180,125)	-	(180,125)
Ending balance	\$25,349,443	\$-	\$25,349,443	\$18,155,312	\$-	\$18,155,312

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F. Other reserve:

	2016.6.30		
	Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total
Others	\$1,939,890	\$-	\$1,939,890

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

Other reserve is summarized below:

	2016.1.1~2016.6.30		
	Financial instruments with discretionary participation feature		
	Insurance contract	participation feature	Total
Beginning balance	\$1,967,824	\$-	\$1,967,824
Recover	(27,934)	-	(27,934)
Ending balance	\$1,939,890	\$-	\$1,939,890

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

G. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature		
	2016.6.30	2015.12.31	2015.6.30
Reserve for life insurance liabilities	\$4,271,251,110	\$4,088,918,602	\$3,776,266,425
Unearned premium reserve	14,417,868	14,363,914	13,176,697
Premium deficiency reserve	25,349,443	22,242,577	18,155,312
Other reserve	1,939,890	1,967,824	-
Total	\$4,312,958,311	\$4,127,492,917	\$3,807,598,434
Book value of insurance liabilities	\$4,312,958,311	\$4,127,492,917	\$3,807,598,434
Estimated present value of cash flows	\$3,476,107,823	\$3,062,820,974	\$2,998,739,275
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: Cathay Life has settled the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Thus, the value of acquired business, i.e. other reserve, shall be considered in the book value of insurance liability included in liability adequacy test.

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

	2016.6.30	2015.12.31	2015.6.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	<p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2016.</p> <p>(2) Discount rate: Under the assets allocation on 31 March 2016, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.</p>	<p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015.</p> <p>(2) Discount rate: Under the assets allocation on 30 September 2015, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.</p>	<p>(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2015.</p> <p>(2) Discount rate: Under the assets allocation on 31 March 2015, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.</p>

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

	2016.6.30	2015.12.31	2015.6.30
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2016. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2014, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.

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

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

	2016.6.30	2015.12.31	2015.6.30
Life insurance	\$25,512,919	\$53,979,737	\$54,557,218
Investment-linked insurance	68,016	23,228	6,555
Total	\$25,580,935	\$54,002,965	\$54,563,773

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	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Beginning balance	\$54,002,965	\$55,094,699
Premiums received	477,883	803,762
Insurance claim payments	(28,623,725)	(1,237,750)
Net provision of statutory reserve	(52,524)	5,112
Losses (gains) on foreign exchange	(223,664)	(102,050)
Ending balance	<u>\$25,580,935</u>	<u>\$54,563,773</u>

I. Foreign exchange volatility reserve

(A) The hedge strategy and risk exposure:

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

(B) Adjustment in foreign exchange volatility reserve:

	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Beginning balance	\$16,026,449	\$16,846,406
Reserve:		
Compulsory reserve	2,064,433	1,863,861
Extra reserve	364,986	965,356
Subtotal	2,429,419	2,829,217
Recover	(5,103,781)	(8,040,203)
Ending balance:	<u>\$13,352,087</u>	<u>\$11,635,420</u>

(C) Effects due to foreign exchange volatility reserve:

2016.1.1~2016.6.30			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$12,023,515	\$14,243,235	\$2,219,720
Earnings per share	0.93	1.11	0.18
Foreign exchange volatility reserve	-	13,352,087	13,352,087
Equity	463,786,786	456,655,124	(7,131,662)

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2015.1.1~2015.6.30			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	\$36,908,535	\$41,233,654	\$4,325,119
Earnings per share	2.91	3.26	0.35
Foreign exchange volatility reserve	-	11,635,420	11,635,420
Equity	439,013,799	433,100,868	(5,912,931)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

Item	2016.6.30			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	\$2,024,768	\$75,234	\$1,193,875	\$906,127
Marine insurance	134,855	9,871	104,132	40,594
Land and air insurance	4,345,217	15,196	235,400	4,125,013
Liability insurance	619,601	571	207,272	412,900
Bonding insurance	59,545	657	40,120	20,082
Other property insurance	1,324,449	26,493	295,552	1,055,390
Accident insurance	1,478,057	2,539	86,025	1,394,571
Health insurance	55,642	-	5	55,637
Compulsory automobile liability insurance	1,722,083	505,372	770,417	1,457,038
Total	\$11,764,217	\$635,933	\$2,932,798	\$9,467,352

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

2015.6.30				
Item	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	reinsurance business	Ceded reinsurance	
			Assumed	business
	Retained business			
Fire insurance	\$2,070,928	\$80,002	\$1,075,097	\$1,075,833
Marine insurance	177,877	15,664	145,135	48,406
Land and air insurance	4,026,772	6,896	237,034	3,796,634
Liability insurance	540,912	936	168,285	373,563
Bonding insurance	58,922	771	36,933	22,760
Other property insurance	1,337,703	25,598	339,411	1,023,890
Accident insurance	1,504,713	2,465	80,257	1,426,921
Health insurance	45,632	-	-	45,632
Compulsory automobile liability insurance	1,584,294	300,211	609,264	1,275,241
Total	\$11,347,753	\$432,543	\$2,691,416	\$9,088,880

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

Item	2016.1.1~2016.6.30		2015.1.1~2015.6.30	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$12,064,950	\$2,786,250	\$11,950,213	\$2,750,419
Reserve	12,447,426	2,938,293	11,800,674	2,694,818
Recover	(12,054,229)	(2,787,777)	(11,944,743)	(2,748,523)
Effects of exchange rate changes	(57,997)	(3,968)	(25,848)	(5,298)
Ending balance	\$12,400,150	\$2,932,798	\$11,780,296	\$2,691,416

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2016.6.30			
	Claims reserve		Ceded claims reserve	
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	\$7,607,049	\$262,250	\$4,270,966	\$3,598,333
Unreported claims	3,710,443	361,525	937,923	3,134,045
Total	\$11,317,492	\$623,775	\$5,208,889	\$6,732,378

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

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2015.6.30				
Item	Claims reserve		Ceded claims reserve	
	Direct underwriting business	Assumed reinsurance business	Ceded reinsurance business	
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
	Claims reported but not paid off	\$4,166,248	\$266,324	\$1,289,285
Unreported claims	3,863,620	229,694	955,699	3,137,615
Total	\$8,029,868	\$496,018	\$2,244,984	\$6,280,902

b. Net changes for claims reserve and ceded claims reserve

2016.1.1~2016.6.30								
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	\$7,644,306	\$4,549,356	\$262,250	\$334,115	\$3,023,085	\$4,281,825	\$1,549,940	\$2,731,885
Unreported claims	3,729,076	3,882,687	361,588	285,850	(77,873)	940,776	1,036,691	(95,915)
Total	\$11,373,382	\$8,432,043	\$623,838	\$619,965	\$2,945,212	\$5,222,601	\$2,586,631	\$2,635,970

2015.1.1~2015.6.30								
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	\$4,189,263	\$4,061,184	\$266,324	\$223,378	\$171,025	\$1,300,076	\$1,320,122	\$(20,046)
Unreported claims	3,873,059	3,644,249	229,719	211,048	247,481	957,703	919,980	37,723
Total	\$8,062,322	\$7,705,433	\$496,043	\$434,426	\$418,506	\$2,257,779	\$2,240,102	\$17,677

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

Item	2016.6.30		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$4,128,042	\$25,954	\$4,153,996
Marine insurance	425,542	84,036	509,578
Land and air insurance	1,131,030	1,069,997	2,201,027
Liability insurance	434,443	414,305	848,748
Bonding insurance	44,739	37,765	82,504
Other property insurance	817,068	346,211	1,163,279
Accident insurance	127,413	439,853	567,266
Health insurance	6,594	49,847	56,441
Compulsory automobile liability insurance	754,428	1,604,000	2,358,428
Total	\$7,869,299	\$4,071,968	\$11,941,267

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

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Item	2015.6.30		
	Claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$1,078,118	\$59,216	\$1,137,334
Marine insurance	402,611	62,065	464,676
Land and air insurance	995,557	942,215	1,937,772
Liability insurance	280,015	646,355	926,370
Bonding insurance	23,663	70,852	94,515
Other property insurance	752,995	280,220	1,033,215
Accident insurance	117,839	431,200	549,039
Health insurance	11,138	45,990	57,128
Compulsory automobile liability insurance	770,636	1,555,201	2,325,837
Total	\$4,432,572	\$4,093,314	\$8,525,886

d. Reinsurance asset- ceded claims reserve for policyholder

Item	2016.6.30		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$3,250,200	\$13,210	\$3,263,410
Marine insurance	307,142	41,572	348,714
Land and air insurance	66,027	32,431	98,458
Liability insurance	252,342	126,535	378,877
Bonding insurance	27,845	34,306	62,151
Other property insurance	213,061	52,543	265,604
Accident insurance	11,132	37,683	48,815
Health insurance	-	363	363
Compulsory automobile liability insurance	143,217	599,280	742,497
Total	\$4,270,966	\$937,923	\$5,208,889

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

Item	2015.6.30		
	Ceded claims reserve		
	Claim reported but not paid off	Unreported claims	Total
Fire insurance	\$454,415	\$6,487	\$460,902
Marine insurance	255,415	34,377	289,792
Land and air insurance	68,942	28,109	97,051
Liability insurance	78,780	169,003	247,783
Bonding insurance	18,423	59,106	77,529
Other property insurance	230,583	61,264	291,847
Accident insurance	21,093	55,957	77,050
Health insurance	-	(410)	(410)
Compulsory automobile liability insurance	161,634	541,806	703,440
Total	\$1,289,285	\$955,699	\$2,244,984

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e. Reconciliation statement of claims reserve and ceded claims reserve

Item	2016.1.1~2016.6.30		2015.1.1~2015.6.30	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$9,053,720	\$2,575,432	\$8,154,755	\$2,249,673
Reserve	11,997,220	5,222,601	8,558,365	2,257,779
Recover	(9,052,008)	(2,586,631)	(8,139,859)	(2,240,102)
Effects of exchange rate changes	(57,665)	(2,513)	(47,375)	(22,366)
Ending balance	<u>\$11,941,267</u>	<u>\$5,208,889</u>	<u>\$8,525,886</u>	<u>\$2,244,984</u>

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Beginning balance	\$1,487,506	\$1,528,545
Reserve	179,552	81,313
Recover	(27,173)	(153,892)
Ending balance	<u>\$1,639,885</u>	<u>\$1,455,966</u>

b. Special reserve - Non-compulsory automobile liability insurance

	Liability					
	2016.1.1~2016.6.30			2015.1.1~2015.6.30		
	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	\$505,626	\$1,585,184	\$2,090,810	\$524,353	\$1,586,240	\$2,110,593
Reserve	-	-	-	-	-	-
Recover	-	(133,489)	(133,489)	-	-	-
Ending balance	<u>\$505,626</u>	<u>\$1,451,695</u>	<u>\$1,957,321</u>	<u>\$524,353</u>	<u>\$1,586,240</u>	<u>\$2,110,593</u>

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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 impact on Cathay Century’s and its subsidiaries’ income before tax, liability and equity with \$133,489 thousand decreased, \$1,648,821 thousand increased and \$992,706 thousand decreased, respectively.

D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

Item	2016.6.30				
	Direct business	Premiums deficiency reserve		Ceded premiums deficiency reserve	Retained business
		Assumed reinsurance business	Ceded reinsurance business	Ceded reinsurance business	
Fire insurance	\$72	\$-	\$600	\$(528)	
Marine insurance	-	-	18	(18)	
Land and air insurance	-	17,577	(6,906)	24,483	
Liability insurance	14,023	5	6,758	7,270	
Bonding insurance	11	-	5	6	
Other property insurance	302,430	-	105	302,325	
Accident insurance	-	-	-	-	
Health insurance	-	-	-	-	
Compulsory automobile liability insurance	69,136	-	-	69,136	
Total	\$385,672	\$17,582	\$580	\$402,674	

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

2015.6.30

Item	Premiums deficiency reserve		Ceded premiums deficiency reserve	
	Direct business	Assumed	Ceded	Retained business
		business	reinsurance business	
Fire insurance	\$-	\$-	\$174	\$(174)
Marine insurance	-	-	48	(48)
Land and air insurance	-	5,144	-	5,144
Liability insurance	13,697	(17)	6,009	7,671
Bonding insurance	190	-	26	164
Other property insurance	211,711	234	10,050	201,895
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	50,071	-	-	50,071
Total	\$275,669	\$5,361	\$16,307	\$264,723

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

2016.1.1~2016.6.30									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums	Ceded reinsurance business		Net change for ceded premiums	Recognized net loss (gain) for premiums
	Reserve	Recover	Reserve	Recover	deficiency reserve	Reserve	Recover	deficiency reserve	deficiency reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$75	\$-	\$-	\$-	\$75	\$622	\$620	\$2	\$73
Marine insurance	-	-	-	-	-	19	43	(24)	24
Land and air insurance	-	-	17,577	13,988	3,589	(6,906)	(13,586)	6,680	(3,091)
Liability insurance	14,518	12,355	5	(3)	2,171	6,997	5,892	1,105	1,066
Bonding insurance	12	-	-	-	12	5	4	1	11
Other property insurance	313,121	275,423	-	32	37,666	108	36	72	37,594
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	71,580	61,301	-	-	10,279	-	-	-	10,279
Total	\$399,306	\$349,079	\$17,582	\$14,017	\$53,792	\$845	\$(6,991)	\$7,836	\$45,956

2015.1.1~2015.6.30									
Item	Direct underwriting business		Assumed reinsurance business		Net change for premiums	Ceded reinsurance business		Net change for ceded premiums	Recognized net loss (gain) for premiums
	Reserve	Recover	Reserve	Recover	deficiency reserve	Reserve	Recover	deficiency reserve	deficiency reserve
	(1)	(2)	(3)	(4)	(5)=(1)-(2)+(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$176	\$-	\$176	\$(176)
Marine insurance	-	-	-	7	(7)	49	(1,183)	1,232	(1,239)
Land and air insurance	-	-	5,144	1,096	4,048	-	-	-	4,048
Liability insurance	13,923	14,841	(17)	4	(939)	6,109	2,063	4,046	(4,985)
Bonding insurance	194	508	-	-	(314)	27	8	19	(333)
Other property insurance	215,196	136,452	236	1	78,979	10,215	38,435	(28,220)	107,199
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	50,895	46,098	-	-	4,797	-	-	-	4,797
Total	\$280,208	\$197,899	\$5,363	\$1,108	\$86,564	\$16,576	\$39,323	\$(22,747)	\$109,311

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

Item	2016.1.1~2016.6.30		2015.1.1~2015.6.30	
	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	\$367,287	\$(6,912)	\$199,764	\$39,478
Reserve	416,888	845	285,571	16,576
Recover	(363,096)	6,991	(199,007)	(39,323)
Effects of exchange rate changes	(17,825)	(344)	(5,298)	(424)
Ending balance	\$403,254	\$580	\$281,030	\$16,307

- 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 amounting to \$377,082 thousand, \$343,792 thousand, \$763,910 thousand, and \$679,569 thousand for the three-month and six-month periods ended 30 June 2016 and 2015, respectively.

- (2) Defined benefit plans

The Group recognized expenses for defined benefit plans amounting to \$143,969 thousand, \$141,805 thousand, \$296,103 thousand, and \$284,335 thousand for the three-month and six-month periods ended 30 June 2016 and 2015, respectively.

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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 \$79,217 thousand, \$78,380 thousand, \$158,849 thousand and \$156,578 thousand for the three-month and six-month periods ended 30 June 2016 and 2015, respectively, and recorded as “Employee benefits expenses”.

24. Common Stock

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

25. Capital surplus

	2016.6.30	2015.12.31	2015.6.30
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	5,810	5,789	6,919
Total	\$88,781,195	\$88,781,174	\$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 \$88,781,195 thousand, \$88,781,174 thousand and \$88,782,304 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015, 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 8 June 2016, the Board of Shareholders resolved to recognize the legal capital reserves of \$5,757,629 thousand. On 12 June 2015, the Board of Shareholders resolved to recognize the legal capital reserves of \$5,035,694 thousand.

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(2) Special reserve

- A. According to the legal interpretations No.1010012865 issued by FSC on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Group is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Group did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.
- B. Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company appropriated to the special reserve an amount of \$333,598 thousand during the year ended 31 December 2011.
- 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 \$0 thousand and \$33,796 thousand of special reserve to undistributed earnings due to the Group's reclassification of relevant assets which are used, disposed of, reclassified by Cathay Bank for six-month periods ended 30 June 2016 and 2015.

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

- F. On 27 April 2016, Cathay Life's board of directors, acting on behalf of the shareholders, resolved to recognize special capital reserves of \$27,940,507 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,616,451 thousand had been recognized at the end of 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of them will be recognized in 2016.

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G. On 27 April 2016, Cathay Century's board of directors, acting on behalf of the shareholders, resolved to recognize special capital reserves of \$858,776 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$483,754 thousand had been recognized at the end of 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." The rest of them will be recognized in 2016.

H. In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029590, Cathay Life recognized special capital reserve amounting to \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

(3) Undistributed earnings

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

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

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

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- D. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as “employee remuneration”, after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders’ meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. On 8 June 2016, the company amended the related regulations in the Company’s Articles of Incorporation according to the aforementioned addition.
- E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 June 2016, Cathay Life recognized the addition amounting to \$719,909 thousand.
- F. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 June 2016, Cathay Century recognized the addition amounting to \$2,433,579 thousand.
- G. Details of the years ended 31 December 2015 and 2014 earnings distribution and dividends per share as approved by the shareholders’ meeting on 8 June 2016 and 12 June 2015, respectively, are as follows:

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

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

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

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27. Non-controlling interests

	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Beginning balance	\$6,005,208	\$5,639,845
Net income attributed to non-controlling interests	359,424	338,364
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(203,316)	(117,381)
Unrealized gains from available-for-sale financial assets	(93,527)	(26,319)
Changes in non-controlling interests	202,132	-
Others	(96,859)	(2)
Ending balance	<u>\$6,173,062</u>	<u>\$5,834,507</u>

28. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Employee benefits expense				
Salary and wages	\$8,345,213	\$7,654,139	\$17,218,158	\$14,703,488
Labor and health insurance	932,537	709,396	1,951,433	1,621,414
Pension expense	542,995	508,030	1,105,440	1,010,197
Other employee benefits	1,217,662	642,274	2,308,729	1,251,738
Depreciation	559,143	525,755	1,111,192	1,054,249
Amortization	717,787	82,983	1,412,365	166,928

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

Based on the profit for the six-month period ended 30 June 2016, the Company provides that 0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. The Company recognized employees' compensation and remuneration of \$1,552 thousand and \$1,050 thousand for the six-month periods ended 30 June 2016, respectively, recognized as operating expenses. If estimated amount is different from the actual distributable amount passed by the Board of Directors, it will be recognized as the next year loss.

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

As of 30 June 2016 and 30 June 2015, the total numbers of the employees of the Group were 47,470 and 44,426, respectively.

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29. The Components of other comprehensive income

For the three-month periods ended 30 June 2016:

	Reclassification adjustments	Other	Income tax	Other comprehensive	
Arising during the period	during the period	comprehensive income	benefit (expense)	income, net of tax	
Not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(1,735)	\$-	\$(1,735)	\$295	\$(1,440)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(49,126)	-	(49,126)	8,352	(40,774)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(1,692,173)	-	(1,692,173)	7,976	(1,684,197)
Unrealized gains (losses) from available-for-sale financial assets	11,199,627	(4,014,461)	7,185,166	(263,383)	6,921,783
Gains (losses) on cash flow hedges	72,683	(44,104)	28,579	(4,858)	23,721
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(146,180)	-	(146,180)	(835)	(147,015)
Total	\$9,383,096	\$(4,058,565)	\$5,324,531	\$(252,453)	\$5,072,078

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For the three-month periods ended 30 June 2015:

	Reclassification		Income tax	Other	
	adjustments	Other			
Arising during	during the	comprehensive	benefit	comprehensive	
the period	period	income	(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	\$757	\$-	\$757	\$(129)	\$628
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk					
	544,863	-	544,863	(92,626)	452,237
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	546,118	-	546,118	43,295	589,413
Unrealized gains (losses) from available-for-sale financial assets	(11,591,192)	(16,319,416)	(27,910,608)	2,826,138	(25,084,470)
Gains (losses) on cash flow hedges	42,947	(36,872)	6,075	(1,680)	4,395
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(213,044)	-	(213,044)	36,054	(176,990)
Total	\$(10,669,551)	\$(16,356,288)	\$(27,025,839)	\$2,811,052	\$(24,214,787)

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For the six-month period ended 30 June 2016

	Reclassification adjustments	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax	
Arising during the period	during the period	comprehensive income	benefit (expense)	income, net of tax	
Not to be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(3,059)	\$-	\$(3,059)	\$520	\$(2,539)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	899,448	-	899,448	(152,906)	746,542
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(5,104,580)	-	(5,104,580)	123,849	(4,980,731)
Unrealized gains (losses) from available-for-sale financial assets	21,986,726	(13,453,056)	8,533,670	2,251,247	10,784,917
Gains (losses) on cash flow hedges	156,348	(85,017)	71,331	(12,126)	59,205
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(242,543)	-	(242,543)	5,962	(236,581)
Total	\$17,692,340	\$(13,538,073)	\$4,154,267	\$2,216,546	\$6,370,813

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For the six-month period ended 30 June 2015

	Reclassification			Other	
	adjustments	Other	Income tax	comprehensive	
Arising during	during the	comprehensive	benefit	income, net of	
the period	period	income	(expense)	tax	
Not to be reclassified to profit or loss in subsequent periods:					
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	\$757	\$-	\$757	\$(129)	\$628
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	257,703	-	257,703	(43,809)	213,894
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(985,019)	-	(985,019)	98,613	(886,406)
Unrealized gains (losses) from available-for-sale financial assets	12,241,084	(35,752,067)	(23,510,983)	2,213,957	(21,297,026)
Gains (losses) on cash flow hedges	79,283	(76,415)	2,868	(1,124)	1,744
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(195,702)	-	(195,702)	36,054	(159,648)
Total	\$11,398,106	\$(35,828,482)	\$(24,430,376)	\$2,303,562	\$(22,126,814)

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30. Income taxes

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

Income tax expense recognized in profit or loss

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30
Current income tax expense (income):		
Current income tax charge	\$571,472	\$1,235,468
Adjustments in respect of current income tax of prior periods	(72,105)	(119,741)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	2,491,217	2,091,620
Deferred tax income relating to origination and reversal of tax loss and tax credit	850,725	1,088,880
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	(227,508)	99,239
Other components of deferred tax expense	1,932,085	1,651,572
Total income tax expense (benefit)	\$5,545,886	\$6,047,038
	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Current income tax expense (income):		
Current income tax charge	\$1,729,515	\$2,683,485
Adjustments in respect of current income tax of prior periods	(197,388)	(413,221)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	4,617,779	3,489,298
Deferred tax income relating to origination and reversal of tax loss and tax credit	(2,489,939)	(541,484)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	(128,270)	198,477
Other components of deferred tax expense	1,977,064	2,427,358
Total income tax expense (benefit)	\$5,508,761	\$7,843,913

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Income tax relating to components of other comprehensive income

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30
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	(8,352)	92,626
Exchange difference resulting from translating the financial statements of a foreign operation	(7,976)	(43,295)
Unrealized gains(losses) from available-for-sale financial assets	263,383	(2,826,138)
Gains (losses) on cash flow hedges	4,858	1,680
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	540	(35,925)
Income tax relating to components of other comprehensive income	\$252,453	\$(2,811,052)
	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
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	152,906	43,809
Exchange difference resulting from translating the financial statements of a foreign operation	(123,849)	(98,613)
Unrealized gains (losses) from available-for-sale financial assets	(2,251,247)	(2,213,957)
Gains (losses) on cash flow hedges	12,126	1,124
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(6,482)	(35,925)
Income tax relating to components of other comprehensive income	\$(2,216,546)	\$(2,303,562)

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Income tax changed directly to equity

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30
Deferred tax expense (income):		
Capital surplus	\$4	\$-
Income taxes relating to components of equity	\$4	\$-
	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Deferred tax expense (income):		
Capital surplus	\$4	\$-
Income taxes relating to components of equity	\$4	\$-

(2) Income tax returns:

	2016.6.30		
	Income tax returns examined by tax authorities	Notes	
The Company	through 2010	-	
Cathay Life	through 2010	Cathay Life was in the process of administrative remedy for 2007 and 2009.	
Cathay United Bank	through 2010	Cathay United Bank was in the process of administrative remedy for 2008 and 2009.	
Cathay Century	through 2010	Cathay Century was in the process of administrative remedy for 2007.	
Cathay Securities	through 2010	Cathay Securities was in the process of administrative remedy for 2007, 2009 and 2010.	
Cathay Venture	through 2010	-	
Cathay Securities Investment Trust	through 2011	-	
Cathay Futures	through 2014	-	

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

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(3) Information related to imputation credit account:

	2016.6.30	2015.12.31	2015.6.30
Balance of imputation credit account	\$3,294,907	\$201,096	\$1,198,866

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

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

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Basic earnings per share				
Profit attributable to ordinary equity holders of the Company (in thousands)	\$5,716,979	\$22,972,772	\$13,883,811	\$40,895,290
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	12,563,210	12,563,210	12,563,210	12,563,210
Basic earnings per share (in dollars)	\$0.46	\$1.83	\$1.11	\$3.26

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

Cathay Life

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

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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(2) Acquisition of subsidiary

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

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

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- (3) On 1 February 2016, Cathay Life and its subsidiaries acquired 82.06% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with \$4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. The acquisition enabled Cathay Life and its subsidiaries to provide investment solution for clients, maximize the use of various resources and stabilize the investment performance.

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

	<u>Fair value recognized on the acquisition date</u>
Cash and cash equivalents	\$38
Receivables	277,361
Held-to-maturity financial assets	442,435
Intangible assets (Except for goodwill)	1,640,402
Other assets	44,167
Payables	(41,479)
Provisions	(252,525)
Other liabilities	(57,820)
Identifiable net assets	<u><u>\$2,052,579</u></u>

Goodwill of Octagon Credit Investors, LLC is as follows:

Purchase consideration	\$4,708,746
Add: Non-controlling interests at fair value	240,098
Less: Identifiable net assets at fair value	<u>(2,052,579)</u>
Goodwill	<u><u>\$2,896,265</u></u>

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

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Cathay Securities

(1) Acquisition of subsidiary

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

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

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

32. Risk management for insurance contract

(1) Life insurance subsidiaries

Risk management objectives, policies, procedures and methods:

A. Objectives of risk management

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

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B. Framework of risk management, organization structure and responsibilities

(A) Board of directors

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

(B) Risk management committee

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

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(C) Chief Risk Officer

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

(D) Risk management department

- a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
- b. The department should perform the following functions with regard to different business activities:
 - (a) Propose and execute the risk management policies set by the board of directors.
 - (b) Suggest the risk limits based on risk appetite
 - (c) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with 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 by certain ratio. The ratio could be calculated as follows: the total investment amount of certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

(D) Liquidity risk

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

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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 has set the standard operating procedure based on the nature of the operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life's operation and ability to provide customer services while minimizing the losses under emergency events, Cathay Life has established emergency handling mechanism and information system damage preparedness.

(F) Insurance risk

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

(G) Asset and liability matching risk

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

(H) Risk-based capital (RBC) ratio

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.

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

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

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

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

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

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

(A) Insurance risk assessment covers the following topics:

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

(B) The scope of management of insurance risk

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

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

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

G. Asset/liability management

(A) Cathay Life has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.

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

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

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

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

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(A) Capital adequacy management

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

(B) Exception management process

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

I. Risk mitigation and avoidance policies and risk monitoring procedures

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

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

Taking in into consideration the relevant factors affecting credit risk, Cathay Life has set credit and investment limits by business groups, industries and countries. When such limits has been reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant loans or make investment in general. However, if Cathay Life has to undertake the business under certain circumstances, Cathay Life shall follow the internal regulations, including but not limited to “Guidelines on Sovereign Risk Management” and “Guidelines on Credit and Investment Risk Management on Conglomerate and Other Corporate Institutions”.

Information of insurance risk

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

(A) Cathay Life

For the six-month period ended 30 June 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,161,709	Decrease (increase) 964,218
Expense	×1.05 (×0.95)	Decrease (increase) 1,645,670	Decrease (increase) 1,365,906
Surrender rates	×1.05 (×0.95)	Increase (decrease) 214,461	Increase (decrease) 178,002
Rate of return	+0.1%	Increase 2,273,185	Increase 1,886,743
Rate of return	-0.1%	Decrease 2,274,311	Decrease 1,887,678

For the six-month period ended 30 June 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 1,013,541	Decrease (increase) 841,239
Expense	×1.05 (×0.95)	Decrease (increase) 1,311,213	Decrease (increase) 1,088,307
Surrender rates	×1.05 (×0.95)	Increase (decrease) 128,101	Increase (decrease) 106,324
Rate of return	+0.1%	Increase 2,024,067	Increase 1,679,976
Rate of return	-0.1%	Decrease 2,025,067	Decrease 1,680,805

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(B) Cathay Lujiazui Life

For the six-month period ended 30 June 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 173,572	Decrease (increase) 130,179
Expense	×1.05 (×0.95)	Decrease (increase) 102,271	Decrease (increase) 76,704
Surrender rates	×1.10 (×0.90)	Increase (decrease) 89,053	Increase (decrease) 66,790
Rate of return	+0.25%	Increase 325,834	Increase 244,375
Rate of return	-0.25%	Decrease 354,725	Decrease 266,044

For the six-month period ended 30 June 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 59,621	Decrease (increase) 44,716
Expense	×1.05 (×0.95)	Decrease (increase) 42,126	Decrease (increase) 31,595
Surrender rates	×1.10 (×0.90)	Increase (decrease) 18,998	Increase (decrease) 14,248
Rate of return	+0.25%	Increase 160,321	Increase 120,241
Rate of return	-0.25%	Decrease 228,507	Decrease 171,380

(C) Cathay Life (Vietnam)

For the six-month period ended 30 June 2016			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 106	Decrease (increase) 85
Expense	×1.05 (×0.95)	Decrease (increase) 7,268	Decrease (increase) 5,814
Surrender rates	×1.05 (×0.95)	Increase (decrease) 657	Increase (decrease) 525
Rate of return	+0.1%	Increase 2,687	Increase 2,150
Rate of return	-0.1%	Decrease 2,689	Decrease 2,151

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For the six-month period ended 30 June 2015			
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 62	Decrease (increase) 48
Expense	×1.05 (×0.95)	Decrease (increase) 5,126	Decrease (increase) 3,998
Surrender rates	×1.05 (×0.95)	Increase (decrease) 378	Increase (decrease) 295
Rate of return	+0.1%	Increase 1,947	Increase 1,519
Rate of return	-0.1%	Decrease 1,948	Decrease 1,519

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

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

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

B. Interpretation of concentration of insurance risks

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

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							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2009Q3~2010Q2	14,829,634	17,959,493	18,243,613	18,289,784	18,363,485	18,390,558	18,403,084		
2010Q3~2011Q2	15,103,881	18,527,032	18,833,493	18,925,256	18,982,721	19,010,759	19,028,223	17,464	17,499
2011Q3~2012Q2	15,344,577	18,942,860	19,280,694	19,367,147	19,428,157	19,455,647	19,472,489	44,332	44,421
2012Q3~2013Q2	14,207,669	17,538,363	17,859,772	17,908,657	17,956,033	17,977,710	17,990,038	81,381	81,544
2013Q3~2014Q2	14,430,297	17,717,754	18,042,139	18,099,194	18,144,367	18,165,735	18,177,634	135,495	135,766
2014Q3~2015Q2	14,570,990	18,125,403	18,421,694	18,479,458	18,523,145	18,544,840	18,556,852	431,449	432,312
2015Q3~2016Q2	15,617,711	19,061,242	19,368,915	19,428,259	19,473,388	19,495,833	19,508,199	3,890,488	3,898,269
								Expected future payment	\$4,609,811
								Add: Assumed reserve for incurred but not reported claim	60,701
								Reserve for unreported claim	4,670,512
								Add: Reported but not paid claim	456,243
								Claims reserve balance	<u>\$5,126,755</u>

b. Retained business development trend

Accident year	Development year							Unreported claim	Reserve for unreported claim
	1	2	3	4	5	6	7		
2009Q3~2010Q2	14,886,314	18,016,329	18,299,848	18,347,362	18,421,392	18,448,832	18,461,569		
2010Q3~2011Q2	15,151,855	18,574,919	18,882,559	18,974,858	19,032,869	19,061,268	19,078,938	17,670	17,705
2011Q3~2012Q2	15,388,090	18,996,210	19,336,003	19,423,106	19,484,751	19,512,647	19,529,721	44,970	45,060
2012Q3~2013Q2	14,354,686	17,697,671	18,021,468	18,071,415	18,119,595	18,141,862	18,154,527	83,112	83,278
2013Q3~2014Q2	14,483,535	17,792,400	18,120,683	18,178,412	18,224,020	18,245,713	18,257,796	137,113	137,387
2014Q3~2015Q2	14,655,238	18,249,994	18,549,519	18,608,242	18,652,550	18,674,698	18,686,968	436,974	437,848
2015Q3~2016Q2	15,731,109	19,207,195	19,518,842	19,579,252	19,625,068	19,648,011	19,660,661	3,929,552	3,937,412

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

Expected future payment	\$4,658,690
Add: Reported but not paid claim	449,313
Retained claims reserve balance	<u>\$5,108,003</u>

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

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

B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year							Expected future payment	
	1	2	3	4	5	6	7		
2009Q3~2010Q2	243,209	450,087	470,127	470,127	470,192	470,192	470,192		
2010Q3~2011Q2	251,469	465,373	493,175	493,175	509,876	509,876	509,876	-	
2011Q3~2012Q2	267,840	523,078	565,328	569,630	573,218	573,218	573,218	-	
2012Q3~2013Q2	396,010	636,611	676,523	683,946	683,946	683,946	683,946	-	
2013Q3~2014Q2	232,421	435,003	455,316	463,200	463,200	463,200	463,200	7,884	
2014Q3~2015Q2	275,797	432,503	458,403	532,111	532,111	532,111	532,111	99,608	
2015Q3~2016Q2	187,943	331,815	351,686	409,979	409,979	409,979	409,979	222,036	
								Expected future payment	\$329,528
								Less: Expected reported but not paid claim	(15,045)
								Reserve for unreported claim	314,483
								Add: Reported but not paid claim	19,462
								Claims reserve balance	<u>\$333,945</u>

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b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2009Q3~2010Q2	238,947	449,756	470,115	470,127	470,127	470,127	470,127	
2010Q3~2011Q2	247,042	464,993	493,175	493,175	500,680	500,680	500,680	
2011Q3~2012Q2	261,815	521,753	565,305	569,606	573,194	573,194	573,194	
2012Q3~2013Q2	336,277	627,346	667,212	674,634	674,634	674,634	674,634	
2013Q3~2014Q2	208,290	410,421	430,733	438,547	438,547	438,547	438,547	7,814
2014Q3~2015Q2	273,015	429,720	456,166	528,440	528,440	528,440	528,440	98,719
2015Q3~2016Q2	185,420	343,978	365,147	404,897	404,897	404,897	404,897	219,477

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

Expected future payment	\$326,010
Less: Expected reported but not paid claim	(15,045)
Add: Reported but not paid claim	19,462
Retained claims reserve balance	<u>\$330,427</u>

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

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

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C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2011Q3 ~ 2012Q2	853	1,071	1,071	1,071	1,071
2012Q3 ~ 2013Q2	1,127	1,202	1,202	1,202	1,202
2013Q3 ~ 2014Q2	672	733	733	733	733
2014Q3 ~ 2015Q2	1,177	1,302	1,302	1,302	1,302
2015Q3 ~ 2016Q2	1,266	1,439	1,439	1,439	1,439

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

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

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

A. Credit risk

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

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

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

B. Liquidity risk

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

	Unit: 100 million		
	Insurance contracts and financial instruments with discretionary participation features		
	Within 1 year	1 to 5 years	Over 5 years
2016.6.30	\$(1,654)	\$(1,286)	\$163,774
2015.12.31	(1,170)	46	154,465
2015.6.30	(702)	281	140,651

Note: Separate account products are not included.

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C. Market risk

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

(2) Century insurance subsidiaries

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

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

Responsibility:

(A) Board of directors

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

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(B) Risk Management Committee

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

(C) Chief Risk Officer

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

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

(D) Risk management department

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

Responsibility of risk management division:

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

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(E) Business unit

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

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

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

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

(F) Internal audit room

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

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

(A) Risks reporting

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

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(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

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

F. Methods of asset/liability management

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

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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)		
	2016.6.30	2015.12.31	2015.6.30
Fire insurance	\$765,726	\$760,232	\$741,287
Marine insurance	261,233	243,481	285,472
Land and air insurance	89,726	177,558	230,587
Liability insurance	167,344	173,119	155,590
Bonding insurance	41,256	43,048	54,625
Other property insurance	250,395	293,262	337,433
Accident insurance	153,742	134,114	153,976
Health insurance	12,384	14,718	15,556
Compulsory automobile liability insurance	16,637	19,614	51,351
Total	1,758,443	1,859,146	2,025,877
Less: Allowance for bad debts	(109,709)	(101,470)	(140,154)
Net	\$1,648,734	\$1,757,676	\$1,885,723

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Ageing analysis of receivable:

	2016.6.30	104.12.31	2015.6.30
≤ 90 days	\$1,488,660	\$1,596,096	\$1,789,006
> 90 days	269,783	263,050	236,871
Total	<u>\$1,758,443</u>	<u>\$1,859,146</u>	<u>\$2,025,877</u>

Note: As of 30 June 2016, 31 December 2015 and 30 June 2015, the receivables included overdue receivables amounted to \$209,273 thousand, \$216,525 thousand and \$150,485 thousand, respectively, and the allowance for bad debts amounted to \$65,667 thousand, \$65,494 thousand and \$90,088 thousand, respectively.

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

Item	Claims reported and paid off		
	2016.6.30	2015.12.31	2015.6.30
Fire insurance	\$222,600	\$45,435	\$11,234
Marine insurance	8,762	22,730	16,772
Land and air insurance	40,313	40,360	35,934
Liability insurance	17,139	17,874	46,516
Bonding insurance	181	38,430	313
Other property insurance	26,744	27,756	7,144
Accident insurance	14,159	17,103	13,297
Health insurance	-	-	-
Compulsory automobile liability insurance	149,978	145,137	147,751
Total	<u>479,876</u>	<u>354,825</u>	<u>278,961</u>
Less: Allowance for bad debts	-	-	-
Net	<u>\$479,876</u>	<u>\$354,825</u>	<u>\$278,961</u>

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C. Payables of insurance contract

Item	2016.6.30		
	Commission payables	Other payables	Total
Fire insurance	\$41,007	\$15,575	\$56,582
Marine insurance	10,767	10,128	20,895
Land and air insurance	31,886	176,030	207,916
Liability insurance	22,043	15,287	37,330
Bonding insurance	5,745	651	6,396
Other property insurance	28,196	11,812	40,008
Accident insurance	13,287	81,082	94,369
Health insurance	4,088	5,337	9,425
Compulsory automobile liability insurance	52,000	-	52,000
Total	\$209,019	\$315,902	\$524,921

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

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Item	2015.6.30		
	Commission payables	Other payables	Total
Fire insurance	\$35,569	\$17,601	\$53,170
Marine insurance	12,976	9,579	22,555
Land and air insurance	21,841	154,447	176,288
Liability insurance	17,913	11,716	29,629
Bonding insurance	7,177	670	7,847
Other property insurance	31,947	13,380	45,327
Accident insurance	9,085	73,186	82,271
Health insurance	3,566	3,709	7,275
Compulsory automobile liability insurance	79,241	-	79,241
Total	\$219,315	\$284,288	\$503,603

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

Item	2016.6.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$140,735	\$337,323
Sompo Japan Nipponkoa Insurance (China)	85,081	(30,414)
Marsh	20,828	255,282
Willis	2,193	114,082
Guy Carpenter	56,909	(31,890)
Sompo Japan Nipponkoa	35,666	26,743
Others	282,028	955,537
Total	623,440	1,626,663
Less: Allowance for bad debts	(61,775)	-
Net	\$561,665	\$1,626,663

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

Item	2015.6.30	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$124,182	\$437,613
Sompo Japan Nipponkoa Insurance (China)	17,562	5,487
Guy Carpenter	43,365	54,814
Marsh	43,235	140,894
Others	544,274	965,414
Total	772,618	1,604,222
Less: Allowance for bad debts	(47,675)	-
Net	\$724,943	\$1,604,222

Notes: As of 30 June 2016, 31 December 2015 and 30 June 2015, the due from reinsurers and ceding companies included overdue receivables amounted to \$32,977 thousand, \$29,649 thousand and \$46,953 thousand, respectively, and the allowance for bad debts amounted to \$32,977 thousand, \$29,649 thousand and \$27,630 thousand, respectively.

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Information of management achievements

A. Acquisition cost for insurance contracts

Item	2016.4.1~2016.6.30				
	Commission		Reinsurance		Total
	expense	Surcharge	commission expense	Other cost	
Fire insurance	\$22,057	\$11,577	\$2,937	\$21,074	\$57,645
Marine insurance	2,866	1,304	364	7,897	12,431
Land and air insurance	44,826	-	34	245,126	289,986
Liability insurance	10,793	8,108	317	21,992	41,210
Bonding insurance	1,296	-	44	1,195	2,535
Other property insurance	3,435	147,399	1,115	11,812	163,761
Accident insurance	15,505	-	-	108,013	123,518
Health insurance	4,997	-	-	8,781	13,778
Compulsory automobile liability insurance	-	107,161	-	1	107,162
Total	\$105,775	\$275,549	\$4,811	\$425,891	\$812,026

Item	2015.4.1~2015.6.30				
	Commission		Reinsurance		Total
	expense	Surcharge	commission expense	Other cost	
Fire insurance	\$20,488	\$9,422	\$4,534	\$28,948	\$63,392
Marine insurance	5,180	2,314	399	9,465	17,358
Land and air insurance	37,986	-	514	249,976	288,476
Liability insurance	11,307	5,467	214	21,543	38,531
Bonding insurance	3,278	21	-	1,017	4,316
Other property insurance	4,064	101,333	1,691	16,398	123,486
Accident insurance	11,338	-	-	113,231	124,569
Health insurance	5,550	-	-	7,280	12,830
Compulsory automobile liability insurance	-	121,050	-	-	121,050
Total	\$99,191	\$239,607	\$7,352	\$447,858	\$794,008

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2016.1.1~2016.6.30					
Item	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$30,470	\$22,328	\$7,126	\$45,748	\$105,672
Marine insurance	6,411	1,589	296	17,077	25,373
Land and air insurance	83,769	-	77	492,528	576,374
Liability insurance	20,136	15,781	44	42,468	78,429
Bonding insurance	6,965	157	44	1,771	8,937
Other property insurance	7,854	257,989	3,394	24,913	294,150
Accident insurance	27,759	-	-	210,486	238,245
Health insurance	9,609	-	-	16,020	25,629
Compulsory automobile liability insurance	-	215,282	-	1	215,283
Total	\$192,973	\$513,126	\$10,981	\$851,012	\$1,568,092

2015.1.1~2015.6.30					
Item	Commission		Reinsurance commission		Total
	expense	Surcharge	expense	Other cost	
Fire insurance	\$30,490	\$18,840	\$8,122	\$50,509	\$107,961
Marine insurance	8,188	3,265	899	17,478	29,830
Land and air insurance	56,316	-	592	459,113	516,021
Liability insurance	18,516	10,412	381	37,559	66,868
Bonding insurance	6,414	286	3	1,749	8,452
Other property insurance	6,939	191,737	2,589	28,576	229,841
Accident insurance	18,249	-	-	207,245	225,494
Health insurance	9,552	-	-	12,770	22,322
Compulsory automobile liability insurance	-	221,492	-	-	221,492
Total	\$154,664	\$446,032	\$12,586	\$814,999	\$1,428,281

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B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

Item	2016.4.1~2016.6.30					
	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	\$1,115,970	\$(325,533)	\$(54,708)	\$(335,634)	\$(1,240,458)	\$(840,363)
Marine insurance	161,402	(15,070)	(12,067)	(63,654)	(195,954)	(125,343)
Land and air insurance	2,007,919	(23,613)	(289,952)	(1,164,964)	(84,930)	444,460
Liability insurance	317,901	8,765	(40,893)	(137,458)	(29,700)	118,615
Bonding insurance	18,354	14,660	(2,491)	(9,082)	(5,846)	15,595
Other property insurance	655,457	(40,927)	(162,646)	(196,469)	69,746	325,161
Accident insurance	740,517	12,210	(123,518)	(279,842)	53,101	402,468
Health insurance	68,411	(1,104)	(13,778)	(24,614)	7,111	36,026
Compulsory automobile liability insurance	1,003,458	(20,794)	(107,162)	(579,089)	124,957	421,370
Total	\$6,089,389	\$(391,406)	\$(807,215)	\$(2,790,806)	\$(1,301,973)	\$797,989

Item	2015.4.1~2015.6.30					
	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	\$931,628	\$(223,953)	\$(58,858)	\$(144,363)	\$76,896	\$581,350
Marine insurance	180,732	(33,106)	(16,959)	(62,626)	(41,674)	26,367
Land and air insurance	1,807,286	(103,007)	(287,962)	(1,025,209)	(28,026)	363,082
Liability insurance	293,358	(5,327)	(38,317)	(150,587)	(106,388)	(7,261)
Bonding insurance	21,179	11,016	(4,316)	(7,146)	(55,134)	(34,401)
Other property insurance	602,333	2,406	(121,795)	(259,873)	(52,972)	170,099
Accident insurance	698,321	11,928	(124,569)	(248,141)	37,242	374,781
Health insurance	55,478	(1,189)	(12,830)	(28,990)	2,235	14,704
Compulsory automobile liability insurance	942,220	937	(121,050)	(729,877)	(41,119)	51,111
Total	\$5,532,535	\$(340,295)	\$(786,656)	\$(2,656,812)	\$(208,940)	\$1,539,832

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Item	Net change for		Acquisition	Insurance claims paid	Net change for claims reserve	Net gain (loss)
	Direct premium income	unearned premiums reserve	cost for insurance contract			
Fire insurance	\$1,670,154	\$(107,257)	\$ (98,546)	\$ (711,322)	\$(2,804,261)	\$(2,051,232)
Marine insurance	323,183	(34,405)	(25,077)	(121,408)	(153,337)	(11,044)
Land and air insurance	4,000,293	(83,170)	(576,297)	(2,181,538)	(252,561)	906,727
Liability insurance	656,637	(24,375)	(78,385)	(234,445)	49,318	368,750
Bonding insurance	78,287	(14,757)	(8,893)	(30,170)	25,849	50,316
Other property insurance	1,239,276	37,734	(290,756)	(668,465)	78,895	396,684
Accident insurance	1,463,890	(39,424)	(238,245)	(530,640)	(5,005)	650,576
Health insurance	126,593	(1,000)	(25,629)	(54,929)	2,658	47,693
Compulsory automobile liability insurance	1,958,160	(83,176)	(215,283)	(1,114,825)	117,105	661,981
Total	\$11,516,473	\$(349,830)	\$(1,557,111)	\$(5,647,742)	\$(2,941,339)	\$1,020,451

2015.1.1~2015.6.30

Item	Net change for		Acquisition	Insurance claims paid	Net change for claims reserve	Net gain (loss)
	Direct premium income	unearned premiums reserve	cost for insurance contract			
Fire insurance	\$1,528,429	\$(49,460)	\$ (99,839)	\$ (266,162)	\$79,829	\$1,192,797
Marine insurance	356,992	(59,423)	(28,931)	(119,525)	9,754	158,867
Land and air insurance	3,207,910	212,453	(515,429)	(2,210,348)	(204,036)	490,550
Liability insurance	568,226	(24,796)	(66,487)	(261,873)	(148,417)	66,653
Bonding insurance	75,865	(14,034)	(8,449)	(9,148)	(27,214)	17,020
Other property insurance	1,162,346	35,108	(227,252)	(537,619)	(12,093)	420,490
Accident insurance	1,275,383	110,354	(225,494)	(460,347)	7,500	707,396
Health insurance	103,243	(1,524)	(22,322)	(52,748)	(5,696)	20,953
Compulsory automobile liability insurance	1,686,508	50,381	(221,492)	(1,210,393)	(56,516)	248,488
Total	\$9,964,902	\$259,059	\$(1,415,695)	\$(5,128,163)	\$(356,889)	\$3,323,214

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

Item	2016.4.1~2016.6.30					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	\$37,054	\$(2,960)	\$(2,937)	\$(17,016)	\$24,663	\$38,804
Marine insurance	3,314	100	(364)	887	(2,994)	943
Land and air insurance	12,089	(5,957)	(34)	(88)	(103)	5,907
Liability insurance	89	397	(317)	43	(73)	139
Bonding insurance	224	83	(44)	(148)	(65)	50
Other property insurance	11,332	(3,281)	(1,115)	(7,022)	(1,310)	(1,396)
Accident insurance	1,723	(14)	-	(99)	(464)	1,146
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	174,152	10,602	-	(143,730)	(36,573)	4,451
Total	\$239,977	\$(1,030)	\$(4,811)	\$(167,173)	\$ (16,919)	\$50,044

Item	2015.4.1~2015.6.30					Net (loss) gain for assumed reinsurance business
	Net change for				Net change for claims reserve	
	Reinsurance premium income	unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid		
Fire insurance	\$50,884	\$(12,121)	\$(4,534)	\$(3,312)	\$1,675	\$32,592
Marine insurance	4,138	(1,675)	(399)	(9,119)	10,922	3,867
Land and air insurance	1,703	2,295	(514)	(1,203)	(16,111)	(13,830)
Liability insurance	1,041	(357)	(214)	(1)	(186)	283
Bonding insurance	255	(22)	-	1	(103)	131
Other property insurance	9,048	(1,270)	(1,691)	(2,149)	(965)	2,973
Accident insurance	1,682	(120)	-	-	16	1,578
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	207,259	(72,490)	-	(109,346)	(47,985)	(22,562)
Total	\$276,010	\$(85,760)	\$(7,352)	\$(125,129)	\$ (52,737)	\$5,032

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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	\$71,626	\$(2,754)	\$(7,126)	\$(43,822)	\$49,060	\$66,984
Marine insurance	5,470	(389)	(296)	(18,052)	13,206	(61)
Land and air insurance	11,917	28	(77)	(95)	1,230	13,003
Liability insurance	(329)	874	(44)	(5)	26	522
Bonding insurance	730	100	(44)	(150)	71	707
Other property insurance	17,677	327	(3,394)	(8,745)	7,156	13,021
Accident insurance	3,315	(149)	-	(102)	(34)	3,030
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	384,050	(41,404)	-	(279,158)	(74,588)	(11,100)
Total	\$494,456	\$(43,367)	\$(10,981)	\$(350,129)	\$(3,873)	\$86,106

2015.1.1~2015.6.30

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	\$81,745	\$(8,236)	\$(8,122)	\$(20,875)	\$620	\$45,132
Marine insurance	7,936	(5,596)	(899)	(10,317)	33,336	24,460
Land and air insurance	9,291	(1,642)	(592)	(79,911)	(4,709)	(77,563)
Liability insurance	1,588	58	(381)	(69)	(242)	954
Bonding insurance	585	127	(3)	(64)	(24)	621
Other property insurance	15,348	(478)	(2,589)	(3,963)	3,767	12,085
Accident insurance	3,143	(88)	-	-	31	3,086
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	328,799	(99,135)	-	(177,878)	(94,396)	(42,610)
Total	\$448,435	\$(114,990)	\$(12,586)	\$(293,077)	\$(61,617)	\$(33,835)

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

Item	2016.4.1~2016.6.30						
	Reinsurance expense	Net change for unearned premiums		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded					
Fire insurance	\$846,116	\$(268,085)	\$ (54,381)	\$ (295,792)	\$(990,223)	\$(762,365)	
Marine insurance	129,341	(18,637)	(11,322)	(40,755)	(161,767)	(103,140)	
Land and air insurance	118,436	23,336	(28,392)	(50,489)	(12,088)	50,803	
Liability insurance	132,107	3,820	(30,754)	(38,700)	(14,637)	51,836	
Bonding insurance	9,329	12,714	(1,566)	(7,307)	(5,173)	7,997	
Other property insurance	50,181	13,076	(13,017)	(37,875)	43,993	56,358	
Accident insurance	35,113	7,575	(11,955)	(21,906)	3,098	11,925	
Health insurance	(13)	4	3	-	172	166	
Compulsory automobile liability insurance	316,321	(5,025)	-	(218,254)	43,032	136,074	
Total	\$1,636,931	\$(231,222)	\$(151,384)	\$(711,078)	\$(1,093,593)	\$(550,346)	

Item	2015.4.1~2015.6.30						
	Reinsurance expense	Net change for unearned premiums		Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
		reserve ceded					
Fire insurance	\$592,418	\$(168,650)	\$ (46,655)	\$ (40,636)	\$18,364	\$354,841	
Marine insurance	127,176	(38,439)	(12,432)	(26,495)	(27,990)	21,820	
Land and air insurance	101,958	25,302	(29,251)	(36,782)	(9,933)	51,294	
Liability insurance	106,804	(1,797)	(24,277)	(61,964)	(24,936)	(6,170)	
Bonding insurance	16,281	6,986	(2,697)	(7,005)	(45,048)	(31,483)	
Other property insurance	68,012	90,669	(17,234)	(102,883)	4,782	43,346	
Accident insurance	45,792	4,202	(13,567)	(18,575)	(8,106)	9,746	
Health insurance	21	-	-	-	(424)	(403)	
Compulsory automobile liability insurance	315,424	(52,326)	-	(248,412)	198,760	213,446	
Total	\$1,373,886	\$(134,053)	\$(146,113)	\$(542,752)	\$105,469	\$656,437	

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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	\$1,254,824	\$(145,260)	\$(88,711)	\$(425,036)	\$(2,590,815)	\$(1,994,998)
Marine insurance	241,829	(32,047)	(28,642)	(86,874)	(122,841)	(28,575)
Land and air insurance	186,621	66,157	(49,935)	(85,162)	(21,180)	96,501
Liability insurance	258,197	(11,376)	(57,693)	(83,433)	4,007	109,702
Bonding insurance	54,100	(11,963)	(9,695)	(28,394)	31,580	35,628
Other property insurance	100,592	56,820	(23,587)	(75,892)	45,816	103,749
Accident insurance	155,281	(29,989)	(37,640)	(38,849)	6,528	55,331
Health insurance	(5)	4	-	-	(288)	(289)
Compulsory automobile liability insurance	620,137	(42,862)	-	(427,404)	11,223	161,094
Total	\$2,871,576	\$(150,516)	\$(295,903)	\$(1,251,044)	\$(2,635,970)	\$(1,461,857)

2015.1.1~2015.6.30

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	\$1,000,024	\$(80,699)	\$(77,172)	\$(109,384)	\$30,981	\$763,750
Marine insurance	245,181	(58,429)	(28,873)	(73,255)	14,958	99,582
Land and air insurance	150,108	84,312	(43,528)	(336,703)	(23,473)	(169,284)
Liability insurance	204,407	(13,970)	(36,323)	(101,898)	(30,925)	21,291
Bonding insurance	53,434	(12,417)	(10,036)	(8,219)	(26,327)	(3,565)
Other property insurance	126,600	211,765	(30,315)	(144,900)	80,159	243,309
Accident insurance	143,367	(6,159)	(34,350)	(59,903)	(17,411)	25,544
Health insurance	21	-	-	-	95	116
Compulsory automobile liability insurance	553,251	(70,698)	-	(398,035)	(45,734)	38,784
Total	\$2,476,393	\$53,705	\$(260,597)	\$(1,232,297)	\$(17,677)	\$1,019,527

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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	\$1,437,425	60.84	\$71,871	\$35,884
Marine insurance	304,041	63.61	15,202	4,362
Land and air insurance	3,962,883	66.22	198,144	122,274
Liability insurance	548,426	66.20	27,421	11,151
Bonding insurance	77,175	67.07	3,859	275
Other property insurance	265,443	60.82	13,272	6,341
Accident insurance	1,454,577	75.86	72,729	49,441
Health insurance	126,593	72.20	6,330	4,563
Compulsory automobile liability insurance	1,496,507	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	\$149,335	\$7,467	\$2,588
Marine insurance	15,659	783	701
Liability insurance	106,701	5,335	2,009
Bonding insurance	1,113	55	28
Other property insurance	972,342	48,617	48,082
Compulsory automobile liability insurance	461,654	23,083	23,083

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

b. Exposure to unanticipated change in trend

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

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the six-month period ended 30 June 2016, no material lawsuit or legal risks has taken place.

d. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely endangered by these derived risks, Cathay Century has established “Operation standards under crisis” that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to guard financial order. For the six-month period ended 30 June 2016, 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	2016.4.1~2016.6.30				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$981,399	\$36,094	\$739,284	\$278,209	7.20%
Marine insurance	152,643	2,867	120,849	34,661	0.90%
Land and air insurance	1,989,287	12,060	118,408	1,882,939	48.77%
Liability insurance	268,185	29	96,135	172,079	4.46%
Bonding insurance	18,349	215	9,327	9,237	0.24%
Other property insurance	127,985	12,080	47,106	92,959	2.41%
Accident insurance	735,465	1,724	35,114	702,075	18.18%
Health insurance	71,225	-	(13)	71,238	1.84%
Compulsory automobile liability insurance	759,821	174,151	316,321	617,651	16.00%
Total	\$5,104,359	\$239,220	\$1,482,531	\$3,861,048	100.00%

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Insurance type	2016.1.1~2016.6.30				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$1,436,596	\$70,747	\$1,076,843	\$430,500	5.70%
Marine insurance	304,041	6,418	234,508	75,951	1.01%
Land and air insurance	3,962,883	11,888	186,571	3,788,200	50.14%
Liability insurance	548,426	150	191,175	357,401	4.73%
Bonding insurance	77,175	722	53,544	24,353	0.32%
Other property insurance	265,443	17,855	94,544	188,754	2.50%
Accident insurance	1,454,577	3,316	155,281	1,302,612	17.24%
Health insurance	126,593	-	(5)	126,598	1.68%
Compulsory automobile liability insurance	1,496,507	384,049	620,137	1,260,419	16.68%
Total	\$9,672,241	\$495,145	\$2,612,598	\$7,554,788	100.00%

(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 six-month period ended 30 June 2016.

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

Insurance type	2016.4.1~2016.6.30				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$68,066	\$872	\$41,841	\$27,097	3.36%
Marine insurance	7,370	447	7,223	594	0.07%
Liability insurance	49,623	80	35,914	13,789	1.72%
Bonding insurance	5	7	2	10	0.00%
Other property insurance	527,031	(767)	4,362	521,902	64.90%
Compulsory automobile liability insurance	240,825	-	-	240,825	29.95%
Total	\$892,920	\$639	\$89,342	\$804,217	100.00%

Insurance type	2015.1.1~2016.6.30				
	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	\$149,335	\$561	\$98,141	\$51,755	3.38%
Marine insurance	15,657	(948)	4,554	10,155	0.66%
Liability insurance	106,701	(479)	66,045	40,177	2.63%
Bonding insurance	1,113	7	556	564	0.04%
Other property insurance	972,344	(178)	6,645	965,521	63.11%
Compulsory automobile liability insurance	461,654	-	-	461,654	30.18%
Total	\$1,706,804	\$(1,037)	\$175,941	\$1,529,826	100.00%

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Claim development table

A. Cathay Century

	-2010.6.30	2010.7.1- 2011.6.30	2011.7.1- 2012.6.30	2012.7.1- 2013.6.30	2013.7.1- 2014.6.30	2014.7.1- 2015.6.30	2015.7.1- 2016.6.30	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$10,316,711	\$5,408,275	\$4,851,463	\$5,576,672	\$6,483,154	\$7,170,324	\$10,927,997	
One year later	12,992,396	5,667,748	5,603,829	5,804,078	6,675,204	7,441,579		
Two year later	13,221,749	5,849,408	5,722,516	5,725,506	6,617,394			
Three year later	13,129,395	5,850,808	5,735,543	5,691,140				
Four year later	13,199,933	5,832,373	5,854,710					
Five year later	13,356,179	5,824,559						
Six year later	13,144,817							
Estimate of cumulative claims incurred	13,144,817	5,824,559	5,854,710	5,691,140	6,617,394	7,441,579	10,927,997	\$55,502,196
Cumulative payment to date	13,109,569	5,768,620	5,799,471	5,519,627	6,248,400	6,570,480	4,351,825	47,367,992
Subtotal	35,248	55,939	55,239	171,513	368,994	871,099	6,576,172	8,134,204
Reconciliation	-	-	-	-	-	-	112,445	112,445
Recorded in balance sheet	\$35,248	\$55,939	\$55,239	\$171,513	\$368,994	\$871,099	\$6,688,617	\$8,246,649

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

It is excluded claim reserve of compulsory automobile liability insurance \$1,909,696 thousand and assumed reinsurance from the upper table (except compulsory automobile liability insurance) \$93,569 thousand.

B. Cathay Century (China)

	-2011.6.30	2011.7.1- 2012.6.30	2012.7.1- 2013.6.30	2013.7.1- 2014.6.30	2014.7.1- 2015.6.30	2015.7.1- 2016.6.30	Total
Estimated accumulation amount of claim							
As to 2011/12/31	\$355,211						
As to 2012/12/31	318,125	\$988,066					
As to 2013/12/31	334,827	830,023	\$1,444,788				
As to 2014/12/31	345,377	790,324	1,308,103	\$1,960,965			
As to 2015/12/31	332,129	790,705	1,295,357	1,766,271	\$2,148,520		
As to 2016/6/30	328,932	788,660	1,283,198	1,745,558	1,973,924	\$1,122,548	
Estimated accumulation of claim	328,932	788,660	1,283,198	1,745,558	1,973,924	1,122,548	\$7,242,820
Accumulated claim paid	328,681	771,946	1,248,459	1,657,081	1,463,329	432,286	5,901,782
Subtotal	251	16,714	34,739	88,477	510,595	690,262	1,341,038
Indirect claim expense, discount and risk margin							60,471
Recognized amount on balance sheet							\$1,401,509

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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.	"
Conning Holdco (UK) Ltd. (Note 1)	"
Conning Asset Management Ltd	"
Conning (Germany) GmbH	"
Conning Japan Ltd.	"
Octagon Credit Investors, LLC	Subsidiary of the Company

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Name	Relationship
Octagon Multi-Strategy Corporate Credit GP, LLC	//
Octagon Funds GP LLC	//
Octagon Funds GP II LLC	//
Conning Asia Pacific Ltd. (Note 2)	//
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.	//
Taiwan Finance Corp.	//
Vietinbank	Other related party
Cathay Dragon Fund etc.	//
Lin Yuan Property Management Co., Ltd.	//
Cathay Medical Care Corporate	//
Cathay Real Estate Development Co., Ltd.	//
San Ching Engineering Co., Ltd.	//
Cathay Healthcare Management Co., Ltd.	//
Cathay Hospitality Management Co., Ltd.	//
Liang-Ting Co., Ltd.	//
Ally Logistic Property	//
Charity Foundation of Cathay Life	//
Cathay Cultural Foundation	//
Others	//

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

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

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(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Call loans to banks

Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Other related party			
Vietinbank	\$3,137,911	\$4,404,972	\$6,974,994

Name	Interest income			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party				
Vietinbank	\$550	\$24,928	\$14,411	\$40,706

(B) Due to commercial banks

Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Other related party			
Vietinbank	\$590,427	\$-	\$2,867,162

Name	Interest expense			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party				
Vietinbank	\$377	\$12,056	\$530	\$13,460

B. Financial assets at fair value through profit or loss

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	\$114,999	\$1,248,893	\$1,733,659

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C. Receivables

Name	2016.6.30	2015.12.31	2015.6.30
Associate			
Taiwan Finance Corp.	\$76,093	\$-	\$67,211
Other related party			
Cathay Dragon Fund etc.	99,349	97,496	84,124
Total	\$175,442	\$97,496	\$151,335

D. Reinsurance assets

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Insurance (Bermuda)	\$7,031	\$1,035	\$30,135

E. Loans

Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Associate			
Taiwan Real-estate Management Corp.	\$3,000	\$-	\$-
Tien-Tai Energy Corp.	100,314	104,498	108,682
Other related party			
Cathay Real Estate Development Co., Ltd.	20,000	10,000	590,000
Liang-Ting Co., Ltd.	43,940	44,935	81,015
Others	2,293,549	2,210,134	2,133,331
Total	\$2,460,803	\$2,369,567	\$2,913,028

Name	Interest income			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Associate				
Taiwan Real-estate Management Corp.	\$15	\$22	\$15	\$300
Tien-Tai Energy Corp.	830	958	1,695	1,924
Other related party				
Cathay Real Estate Development Co., Ltd.	6	275	12	425
Cathay Medical Care Corporate	-	5,725	-	20,847
Liang-Ting Co., Ltd.	200	407	406	813
Others	10,586	11,040	20,556	21,776
Total	\$11,637	\$18,427	\$22,684	\$46,085

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F. Available-for-sale financial assets

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	\$407,393	\$1,218,738	\$799,259
Cathay Healthcare Management Co., Ltd.	67,568	65,610	62,033
Total	\$474,961	\$1,284,348	\$861,292

G. Deposit

Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Associate			
Symphox Information Co., Ltd.	\$150,269	\$170,947	\$162,358
Other related party			
Cathay Real Estate Development Co., Ltd.	205,902	80,649	123,880
Cathay Dragon Fund etc.	138,987	24,098	163,070
Others	13,889,088	13,039,785	10,379,046
Total	\$14,384,246	\$13,315,479	\$10,828,354

Name	Interest expense			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
	Associate			
Symphox Information Co., Ltd.	\$243	\$326	\$538	\$657
Other related party				
Cathay Real Estate Development Co., Ltd.	22	25	35	61
Cathay Dragon Fund etc.	1	1	1	2
Others	29,068	28,639	57,726	56,244
Total	\$29,334	\$28,991	\$58,300	\$56,964

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H. Property transactions

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

Name	2016.1.1~2016.6.30	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Dunnan Xinyi Building, etc.	\$21,743
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	221,376
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	210,246
Ally Logistic Property	Jui-Fang Logistic Park, etc.	644,203
	Total	<u>\$1,097,568</u>

Name	2015.1.1~2015.6.30	
	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	\$21,306
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	901,499
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	75,882
Ally Logistic Property	Jui-Fang Logistic Park, etc.	838,553
	Total	<u>\$1,837,240</u>

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015 between Cathay Life and Lin Yuan Property Management Co., Ltd. were \$14,921 thousand, \$19,778 thousand and \$32,762 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015 between Cathay Life and San Ching Engineering Co., Ltd. were \$1,853,332 thousand, \$8,222,939 thousand and \$5,571,026 thousand, respectively.

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The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015 between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand, \$1,728,876 thousand and \$49,306 thousand, respectively.

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

(B) Real estate rental income from Cathay Life:

Name	Rental income			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Securities Investment				
Consulting Co., Ltd.	\$2,244	\$2,211	\$4,454	\$4,421
Associate				
Symphox Information Co., Ltd.	8,636	8,595	17,264	17,214
Other related party				
Cathay Real Estate				
Development Co., Ltd.	4,266	3,140	8,446	7,465
Cathay Medical Care Corporate	78,740	78,498	90,044	89,095
Cathay Healthcare Management				
Co., Ltd.	14,038	13,134	27,555	26,280
Cathay Hospitality				
Management Co., Ltd.	50,728	47,546	101,030	91,187
Ally Logistic Property	38,430	22,060	64,625	40,249
Total	\$197,082	\$175,184	\$313,418	\$275,911

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Name	Guarantee deposits received		
	2016.6.30	2015.12.31	2015.6.30
Associate			
Symphox Information Co., Ltd.	\$8,870	\$8,343	\$8,343
Other related party			
Cathay Real Estate Development Co., Ltd.	3,998	3,751	4,028
Cathay Medical Care Corporate	10,655	10,566	10,166
Cathay Healthcare Management Co., Ltd.	12,775	12,289	12,192
Cathay Hospitality Management Co., Ltd.	213,992	212,511	211,580
Ally Logistic Property	18,749	18,650	18,650
Total	<u>\$269,039</u>	<u>\$266,110</u>	<u>\$264,959</u>

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

(C) Real estate rental expense from Cathay Life:

Name	Rental expense			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>\$1,853</u>	<u>\$1,963</u>	<u>\$3,706</u>	<u>\$3,926</u>

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

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

Name	Rental expense			
	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>\$5,433</u>	<u>\$5,957</u>	<u>\$10,643</u>	<u>\$12,092</u>

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Name	Guarantee deposits paid		
	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Real Estate Development Co., Ltd.	\$4,605	\$4,605	\$4,040

I. Guarantee deposits received

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Lin Yuan Property Management Co., Ltd.	\$5,000	\$5,000	\$5,000
San Ching Engineering Co., Ltd.	275,286	275,286	172
Cathay Hospitality Management Co., Ltd.	120,257	120,257	120,257
Ally Logistic Property	382,618	382,705	275,127
Total	\$783,161	\$783,248	\$400,556

J. Futures traders' equity

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	\$168,167	\$153,252	\$146,105

K. Payables

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Seaward Card Co., Ltd.	\$23,418	\$23,872	\$22,918
Associate			
Symphox Information Co., Ltd.	81,660	56,799	72,900
Other related party			
Lin Yuan Property Management Co., Ltd.	7,112	5,594	10,000
Cathay Real Estate Development Co., Ltd.	38,669	-	-
Vietinbank	96,858	-	295,165
Total	\$247,717	\$86,265	\$400,983

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L. Investment balance of related parties' discretionary investment

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Charity Foundation of Cathay Life	\$61,931	\$62,249	\$65,297
Cathay Cultural Foundation	49,083	48,879	50,953
Total	\$111,014	\$111,128	\$116,250

M. Net commission and handling fee

(A) Handling fee income

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Securities Investment Consulting Co., Ltd.	\$3,975	\$9,165	\$8,690	\$14,216

(B) Reinsurance service expense

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Insurance (Bermuda)	\$3,448	\$1,472	\$5,465	\$3,414

N. Net premiums from insurance business

(A) Insurance income

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party				
Cathay Real Estate Development Co., Ltd.	\$939	\$1,492	\$3,057	\$2,958
Cathay Medical Care Corporate	10,581	10,384	21,289	20,898
Others	50,345	26,368	86,594	63,901
Total	\$61,865	\$38,244	\$110,940	\$87,757

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(B) Reinsurance income

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Name				
Subsidiary				
Cathay Insurance (Bermuda)	\$30,557	\$25,871	\$66,674	\$60,858

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 six-month periods ended 30 June 2016 and 2015, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Name				
Subsidiary				
Cathay Insurance (Bermuda)	\$56,298	\$19,301	\$84,218	\$54,633

(D) Insurance claims payment

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Name				
Other related party				
San Ching Engineering Co., Ltd.	\$-	\$3,000	\$-	\$3,000

O. Net other non-interest income

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Name				
Other related party				
Cathay Dragon Fund etc.	\$306,247	\$267,824	\$602,187	\$534,896

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P. Operating expenses

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Seaward Card Co., Ltd.	\$66,967	\$71,511	\$153,248	\$148,253
Cathay Securities Investment Consulting Co., Ltd.				
	8,750	-	17,500	-
Associate				
Symphox Information Co., Ltd.	182,512	180,019	449,448	386,642
Conning Asia Pacific Limited (Note)				
	-	1,571	-	3,626
Other related party				
Cathay Real Estate Development Co., Ltd.				
	1,878	2,994	3,578	6,079
Lin Yuan Property Management Co., Ltd.				
	180,610	162,839	381,126	334,534
Cathay Healthcare Management Co., Ltd.				
	5,356	5,915	8,778	9,011
Cathay Medical Care Corporate	438	252	6,720	514
Charity Foundation of Cathay Life	403	-	5,703	-
Total	\$446,914	\$425,101	\$1,026,101	\$888,659

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

Q. Key management personnel compensation

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Short-term employee benefits	\$163,017	\$120,570	\$413,240	\$335,020
Post-employment pension	3,984	7,031	7,731	9,870
Other long-term employee benefits	-	-	96	-
Total	\$167,001	\$127,601	\$421,067	\$344,890

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

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(3) The Company

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

A. Cash in bank

Name	Item	Ending balance		
		2016.6.30	2015.12.31	2015.6.30
Subsidiary				
Cathay United Bank	Cash in bank	\$711,024	\$728,634	\$8,164

Interest income from Cathay United Bank for three-month and six-month periods ended 30 June 2016 and 2015 were \$147 thousand, \$16 thousand, \$297 thousand, and \$19 thousand, respectively.

B. Receivables

Name	Item	2016.6.30	2015.12.31	2015.6.30
Subsidiaries				
Cathay Life	Interest	\$573,453	\$383,000	\$4,817,263
Cathay Century	Receivables due to consolidated income tax and interest	158,334	274,450	192,450
Cathay United Bank	Receivables due to consolidated income tax	-	419,607	210,948
Cathay Securities	Receivables due to consolidated income tax	-	101,275	53,223
Cathay Securities	Receivables due to consolidated income tax			
Investment				
Trust		30,386	58,709	38,685
Cathay Venture	Receivables due to consolidated income tax	556	3,775	11,251
Total		\$762,729	\$1,240,816	\$5,323,820

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C. Guarantee deposits paid

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Life	\$8,046	\$8,046	\$8,046

D. Held-to-maturity financial asset

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiaries			
Cathay Life	\$15,000,000	\$15,000,000	\$30,000,000
Cathay Century	1,000,000	1,000,000	1,000,000
Total	\$16,000,000	\$16,000,000	\$31,000,000

E. Payables

Name	Item	2016.6.30	104.12.31	2015.6.30
Subsidiary				
Cathay Life	Payable due to consolidated income tax	\$7,534,942	\$7,748,130	\$5,659,630
Cathay	Payable due to consolidated			
United Bank	income tax	502,125	-	-
Cathay	Payable due to consolidated			
Securities	income tax	11,447	-	-
Total		\$8,048,514	\$7,748,130	\$5,659,630

F. Bonds payable

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Life	\$100,000	\$100,000	\$-

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G. Interest income

Name	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
Subsidiaries				
Cathay Life	\$95,227	\$226,378	\$190,454	\$450,268
Cathay Century	4,624	4,638	9,249	9,224
Total	\$99,851	\$231,016	\$199,703	\$459,492

H. Operating expenses

Name	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
Subsidiary				
Cathay Life	\$11,623	\$12,332	\$21,255	\$21,890
Cathay United Bank	457	2,726	2,192	4,381
Total	\$12,080	\$15,058	\$23,447	\$26,271

I. Other receivables

Name	2016.6.30	104.12.31	2015.6.30
Subsidiary			
Cathay Life	\$15,251,110	\$-	\$8,127,481
Cathay United Bank	10,421,940	-	10,066,914
Cathay Securities Investment Trust	280,636	-	310,888
Total	\$25,953,686	\$-	\$18,505,283

Note: Other receivables are dividends receivable.

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

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

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A. Cathay Life and its subsidiaries

a. Cash in banks

Name	Item	2016.6.30	2015.12.31	2015.6.30
Subsidiaries				
Cathay United Bank	Time deposit	\$2,004,482	\$9,961	\$7,482
	Cash in bank	18,751,903	19,052,573	22,734,318
	Check deposit	444,394	465,562	688,529
	Security deposit	187	2,187	720
Indovina Bank	Cash in bank	8,380	9,241	21,740
	Total	<u>\$21,209,346</u>	<u>\$19,539,524</u>	<u>\$23,452,789</u>

Interest income from Cathay United Bank for the three-month and six-month periods ended 30 June 2016 and 2015, were \$4,998 thousand, \$7,240 thousand, \$10,192 thousand, and \$12,904 thousand, respectively.

Interest income from Indovina Bank for the three-month and six-month periods ended 30 June 2016 and 2015 were \$57 thousand, \$38 thousand, \$167 thousand, and \$82 thousand, respectively.

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

b. Investments in debt securities with no active market

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$-</u>

c. Other receivables

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding (Note)	\$7,534,942	\$7,748,130	\$5,659,630
Subsidiary			
Cathay Century	262,535	240,495	262,904
Total	<u>\$7,797,477</u>	<u>\$7,988,625</u>	<u>\$5,922,534</u>

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

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d. Secured loans

Name	2016.1.1~2016.6.30		
	Maximum amount	Rate	Ending balance
Other related party			
Others	\$994,053	1.15%~3.53%	<u>\$927,114</u>

Name	2015.1.1~2015.6.30		
	Maximum amount	Rate	Ending balance
Other related party			
Others	\$851,859	1.34%~3.78%	<u>\$846,757</u>

Interest income from Others for three-month and six-month periods ended 30 June 2016 and 2015 were \$3,764 thousand, \$4,163 thousand, \$7,998 thousand and \$8,135 thousand, respectively.

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

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	<u>\$-</u>	<u>\$1,126,851</u>	<u>\$1,503,186</u>

f. Available-for-sale financial assets

Name	2016.6.30	2015.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	<u>\$101,457</u>	<u>\$1,018,874</u>	<u>\$324,792</u>

g. Investment balance of related parties' discretionary investment

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Securities Investment Trust	<u>\$184,053,966</u>	<u>\$174,054,401</u>	<u>\$213,347,051</u>

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h. Guarantee deposits paid

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Futures Co., Ltd.	<u>\$2,503,192</u>	<u>\$1,180,845</u>	<u>\$603,105</u>

The guarantee deposits are futures margins of Cathay Futures Co., Ltd. The imputed interest income of guarantee deposit paid from Cathay Futures Co., Ltd. for the three-month and six-month periods ended 30 June 2016 and 2015 were \$503 thousand, \$170 thousand, \$986 thousand, and \$329 thousand respectively.

i. Other payables

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding (Note)	\$15,824,563	\$383,000	\$12,944,744
Subsidiary			
Cathay United Bank	<u>234,103</u>	<u>362,393</u>	<u>574,158</u>
Total	<u>\$16,058,666</u>	<u>\$745,393</u>	<u>\$13,518,902</u>

Note: Dividends payable and interest payable accrued from preferred stock liability.

j. Preferred stock liability

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	<u>\$15,000,000</u>	<u>\$15,000,000</u>	<u>\$30,000,000</u>

k. Property transactions

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

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Real estate contracted projects of Cathay Life:

Name	2016.1.1~2016.6.30	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$221,376
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	210,246
Ally Logistic Property	Jui-Fang Logistic Park, etc	644,203
	Total	<u>\$1,075,825</u>

Name	2015.1.1~2015.6.30	
	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	\$901,499
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	75,882
Ally Logistic Property	Jui-Fang Logistic Park, etc	838,553
	Total	<u>\$1,815,934</u>

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015 between Cathay Life and San Ching Engineering Co., Ltd. were \$1,853,332 thousand, \$8,222,939 thousand and \$5,571,026 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015 between Cathay Life and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand, \$1,728,876 thousand and \$49,306 thousand, respectively.

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

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1. Rental income

Name	Item	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary					
Cathay United Bank	Real-estate rental income	\$114,534	\$105,730	\$221,267	\$211,369
Other related party					
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	50,728	47,546	101,030	91,187
Total		<u>\$165,262</u>	<u>\$153,276</u>	<u>\$322,297</u>	<u>\$302,556</u>

According to contracts, leasing periods are generally 2-5 years, and rental incomes are collected on a monthly basis.

m. Guarantee deposits paid

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay United Bank	\$122,609	\$101,838	\$101,764
Other related party			
San Ching Engineering Co., Ltd.	275,286	275,286	172
Cathay Hospitality Management Co., Ltd.	334,249	332,768	331,837
Ally Logistic Property	401,367	401,355	293,777
Total	<u>\$1,133,511</u>	<u>\$1,111,247</u>	<u>\$727,550</u>

n. Miscellaneous income

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Century	<u>\$322,314</u>	<u>\$386,119</u>	<u>\$645,892</u>	<u>\$720,418</u>

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

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o. Insurance expenses

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Century	\$6,056	\$23,024	\$101,895	\$121,206

p. Operating expenses

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay United Bank	\$2,181,316	\$2,098,748	\$4,867,333	\$3,338,067
Associate				
Symphox Information Co., Ltd.	66,882	65,776	204,605	136,613
Other related party				
Lin Yuan Property Management Co., Ltd.	178,038	160,741	376,349	330,638
Total	\$2,426,236	\$2,325,265	\$5,448,287	\$3,805,318

q. Non-operating expenses

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
The Company				
Cathay Financial Holding	\$95,227	\$226,378	\$190,454	\$450,268

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

r. Other disclosures

As of 30 June 2016, 31 December 2015 and 30 June 2015, the nominal amounts (in thousand) of the financial instruments transactions between Cathay Life and Cathay United Bank are summarized as below:

Item	2016.6.30	2015.12.31	2015.6.30
CS contracts	USD 2,965,000	USD 2,893,000	USD 200,000

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B. Cathay United Bank and its subsidiaries

a. Loans and deposits

Account/Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Loans			
Associate			
Tien-Tai Energy Corp.	\$100,314	\$104,498	\$108,682
Other related party			
Cathay Real Estate Development Co., Ltd.	20,000	10,000	590,000
Others	1,326,507	1,198,989	1,252,786
Total	<u>\$1,446,821</u>	<u>\$1,313,487</u>	<u>\$1,951,468</u>

Account/Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Deposits			
The Company			
Cathay Financial Holding	\$711,024	\$728,634	\$8,164
Subsidiaries			
Cathay Life	21,109,360	19,438,526	23,431,049
Cathay Century	1,319,975	1,391,722	1,162,067
Cathay Securities	2,727,901	2,603,833	1,196,701
Cathay Futures Co., Ltd.	1,769,252	2,514,909	2,252,357
Cathay Venture	51,458	63,471	25,487
Cathay Securities Investment Trust	171,797	142,854	196,132
Cathay Life (Vietnam)	8,380	9,241	21,740
Cathay Century (Vietnam)	199,303	176,432	214,179
Conning Asia Pacific Limited	91,606	91,757	-
Associate			
Symphox Information Co., Ltd.	150,269	170,947	162,358
Other related party			
Cathay Real Estate Development Co., Ltd.	205,902	80,649	123,880
Cathay Dragon Fund etc.	138,987	24,098	163,070
Others	13,889,088	13,039,785	10,379,046
Total	<u>\$42,544,302</u>	<u>\$40,476,858</u>	<u>\$39,336,230</u>

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Name	Interest income			
	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
<u>Loans</u>				
Associate				
Tien-Tai Energy Corp.	\$830	\$958	\$1,695	\$1,924
Other related party				
Cathay Real Estate				
Development Co., Ltd.	6	275	12	425
Others	6,681	6,718	12,209	13,316
Total	\$7,517	\$7,951	\$13,916	\$15,665

Name	Interest expense			
	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
<u>Deposits</u>				
The Company				
Cathay Financial Holding	\$147	\$16	\$297	\$19
Subsidiaries				
Cathay Life	4,923	7,240	9,999	12,904
Cathay Century	1,870	2,173	3,800	4,342
Cathay Securities	1,089	1,342	2,119	2,727
Cathay Futures Co., Ltd.	4,375	5,646	9,727	11,491
Cathay Securities Investment				
Trust	128	298	287	1,186
Cathay Venture	5	40	33	81
Cathay Life (Vietnam)	57	38	167	82
Cathay Century (Vietnam)	2,365	709	4,915	1,188
Conning Asia Pacific				
Limited	75	-	193	-
Associate				
Syphon Information Co., Ltd.	243	326	538	657
Other related party				
Cathay Real Estate				
Development Co., Ltd.	22	25	35	61
Cathay Dragon Fund etc.	1	1	1	2
Others	29,068	28,639	57,726	56,244
Total	\$44,368	\$46,493	\$89,837	\$90,984

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Account/Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
<u>Call loans to banks</u>			
Other related party			
Vietinbank	\$3,137,911	\$4,404,972	\$6,974,994
<u>Due to commercial banks</u>			
Other related party			
Vietinbank	590,427	-	2,867,162

Account/Name	Interest income			
	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
<u>Call loans to banks</u>				
Other related party				
Vietinbank	\$550	\$24,928	\$14,411	\$40,706

Account/Name	Interest income			
	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
<u>Due to commercial banks</u>				
Other related party				
Vietinbank	\$377	\$12,056	\$530	\$13,460

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

b. Receivables due to commission of insurance agency

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Life	\$234,103	\$362,393	\$574,158

c. Combined tax receivable

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	\$502,125	\$-	\$-

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d. Dividends payable

Name	2016.6.30	104.12.31	2015.6.30
The Company			
Cathay Financial Holding	\$10,421,940	\$-	\$10,066,914
Other related party			
Vietinbank	96,858	-	295,165
Total	<u>\$10,518,798</u>	<u>\$-</u>	<u>\$10,362,079</u>

e. Combined tax payable

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	<u>\$-</u>	<u>\$419,607</u>	<u>\$210,948</u>

f. Rental expense

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Life	<u>\$114,534</u>	<u>\$105,730</u>	<u>\$221,267</u>	<u>\$211,369</u>

g. Guarantee deposits paid

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Life	<u>\$122,609</u>	<u>\$101,838</u>	<u>\$101,764</u>

h. Handling fees income

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Cathay Life	<u>\$2,181,316</u>	<u>\$2,098,748</u>	<u>\$4,867,333</u>	<u>\$3,338,067</u>

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i. Operating expenses

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Subsidiary				
Seaward Card Co., Ltd.	\$44,086	\$42,035	\$105,712	\$101,350
Associate				
Symphox Information Co., Ltd.	102,920	101,452	219,336	226,169
Total	\$147,006	\$143,487	\$325,048	\$327,519

C. Cathay Century and its subsidiaries

a. Cash in banks

Name	Item	2016.6.30	2015.12.31	2015.6.30
Subsidiaries				
Cathay United Bank	Time deposit	\$623,200	\$623,200	\$628,200
	Cash in bank	582,161	652,474	409,159
	Check deposit	114,614	116,048	124,708
Indovina Bank	Time deposit	191,177	159,199	128,032
	Cash in bank	8,126	17,233	86,147
	Total	\$1,519,278	\$1,568,154	\$1,376,246

Interest income from Cathay United Bank for three-month and six-month periods ended 30 June 2016 and 2015 were \$1,870 thousand, \$2,173 thousand, \$3,800 thousand and \$4,342 thousand, respectively.

Interest income from Indovina Bank for three-month and six-month periods ended 30 June 2016 and 2015 were \$2,365 thousand, \$709 thousand, \$4,915 thousand, and \$1,188 thousand, respectively.

As of 30 June 2016, 31 December 2015 and 30 June 2015, time deposit pledged were \$28,855 thousand, \$28,598 thousand and \$28,384 thousand, respectively.

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b. Financial assets at fair value through profit or loss

Name	Item	2016.6.30	2015.12.31	2015.6.30
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	\$49,336	\$100,620	\$100,396

c. Available-for-sale financial assets

Name	Item	2016.6.30	2015.12.31	2015.6.30
Other related party				
Cathay Dragon Fund etc.	Beneficiary certificates	\$215,311	\$139,118	\$327,682

d. Investment balance of related parties' discretionary investment

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Securities Investment Trust	\$1,051,471	\$433,188	\$451,779

e. Other payables

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	\$158,334	\$274,450	\$192,450
Subsidiary			
Cathay Life	262,535	240,495	262,904
Total	\$420,869	\$514,945	\$455,354

f. Preferred stock liability

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	\$1,000,000	\$1,000,000	\$1,000,000

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g. Insurance income

Name	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
Subsidiary				
Cathay Life	\$6,056	\$23,024	\$101,895	\$121,206

h. Operating expenses

Name	2016.4.1~	2015.4.1~	2016.1.1~	2015.1.1~
	2016.6.30	2015.6.30	2016.6.30	2015.6.30
Subsidiary				
Cathay Life	\$322,314	\$386,119	\$645,892	\$720,418

i. Other disclosure

As of 30 June 2016, 31 December 2015 and 30 June 2015, the nominal amounts (in thousand) of the derivative financial instruments transactions with Cathay United Bank are summarized as below:

Item	2016.6.30		2015.12.31		2015.6.30	
CS contracts	USD	74,200	USD	74,200	USD	69,200
	EUR	5,850	EUR	4,350	EUR	3,350

D. Cathay Securities and its subsidiaries

a. Cash in bank

Name	Item	2016.6.30	2015.12.31	2015.6.30
Subsidiary				
Cathay United Bank	Time deposits	\$2,081,044	\$1,541,900	\$1,251,900
	Cash in bank	954,876	1,433,449	305,663
	Check deposits	1	1	2
	Total	\$3,035,921	\$2,975,350	\$1,557,565

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Interest income from Cathay United Bank for three-month and six-month periods ended 30 June 2016 and 2015 were \$5,464 thousand, \$6,988 thousand, \$11,846 thousand, and \$14,218 thousand, respectively.

As of 30 June 2016, 31 December 2015 and 30 June 2015, time deposit pledged were all \$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 June 2016, 31 December 2015 and 30 June 2015, the operating bonds were \$355,000 thousand, \$325,000 thousand and \$90,000 thousand, respectively.

b. Customer’s margin accounts

Name	Ending balance		
	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay United Bank	\$1,461,232	\$2,143,392	\$1,891,493

c. Financial assets at fair value through profit or loss

Name	2016.6.30	104.12.31	2015.6.30
Other related party			
Cathay Dragon Fund etc.	\$65,485	\$21,182	\$129,760

d. Futures trader’s equity

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiary			
Cathay Life	\$2,503,192	\$1,180,845	\$603,105
Other related party			
Cathay Dragon Fund etc.	168,167	153,252	146,105
Total	\$2,671,359	\$1,334,097	\$749,210

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e. Other payables

Name	2016.6.30	2015.12.31	2015.6.30
The Company			
Cathay Financial Holding	\$-	\$101,275	\$53,223

E. Cathay Securities Investment Trust

a. Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2016.6.30	2015.12.31	2015.6.30
Subsidiary				
Cathay United Bank	Time deposit (Note)	\$124,600	\$136,100	\$151,100
	Cash in bank	34,674	267	20,547
	Check deposits	12,523	6,487	24,485
	Total	<u>\$171,797</u>	<u>\$142,854</u>	<u>\$196,132</u>

Note: In accordance with “Standards Governing the Establishment of Futures Trust Enterprises” and “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises”, Cathay Securities Investment Trust lodges the time deposits in Cathay United Bank as operating bonds. As of 30 June 2016, 31 December 2015 and 30 June 2015, the operating bonds were \$50,000 thousand, respectively.

And in accordance with “Discretionary Investment Services Contract”, as of 30 June 2016, 31 December 2015 and 30 June 2015, Cathay Securities Investment Trust reserved the performance bonds amounted to \$70,600 thousand, \$86,100 thousand and \$98,600 thousand, respectively.

Interest income from Cathay United Bank for three-month and six-month periods ended 30 June 2016 and 2015 were \$128 thousand, \$298 thousand, \$287 thousand and \$1,186 thousand respectively.

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b. Management fee income

Name	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Other related party Cathay Dragon Fund etc.	\$306,247	\$267,824	\$602,187	\$534,896

c. Other payables

Name	2016.6.30	2015.12.31	2015.6.30
The Company Cathay Financial Holding	\$311,022	\$58,709	\$349,573

d. Investment balance of related parties' discretionary investment

Name	2016.6.30	2015.12.31	2015.6.30
Subsidiaries			
Cathay Life	\$184,053,966	\$174,054,401	\$213,347,051
Cathay Century	1,051,471	433,188	451,779
Total	\$185,105,437	\$174,487,589	\$213,798,830

34. Pledged assets

As of 30 June 2016, 31 December 2015 and 30 June 2015 the Group's pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount		
		2016.6.30	2015.12.31	2015.6.30
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loans, business reserves and guarantees	\$16,982,856	\$17,149,515	\$16,073,647
Available-for-sale financial assets	Business reserves and guarantees	89,089	953,126	1,224,424
Held-to-maturity financial assets	Business reserves and guarantees	2,373,244	1,592,966	1,515,699
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	63,800,000	63,800,000
Total		\$83,245,189	\$83,495,607	\$82,613,770

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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) As of 30 June 2016, 31 December 2015 and 30 June 2015 Cathay United Bank and its subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

Item	2016.6.30	2015.12.31	2015.6.30
Trust and security held for safekeeping	\$603,745,454	\$606,837,259	\$585,129,209
Travelers checks for sale	472,287	553,863	508,901
Bills for collection	47,084,958	49,774,146	48,187,938
Book-entry for government bonds and depository for short-term marketable securities under management	419,465,174	459,375,951	440,964,300
Entrusted financial management business	6,882,748	8,325,261	8,733,442
Guarantees on duties and contracts	7,422,956	10,285,103	11,831,745
Unused commercial letters of credit	4,514,869	5,671,428	5,948,902
Irrevocable loan commitments	131,665,148	187,772,192	115,239,846
Credit card lines commitments	484,536,804	458,482,468	440,324,872
Underwriting securities	-	8,230,000	-
Financial guarantee contracts	1,963,582	1,814,095	1,814,325

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

	2016.6.30	2015.12.31	2015.6.30
Within 1 year	\$2,189,443	\$1,273,870	\$1,164,256
1 to 5 years	4,513,826	2,094,007	1,747,392
Over 5 year	398,434	133,940	147,686
Total	<u>\$7,101,703</u>	<u>\$3,501,817</u>	<u>\$3,059,334</u>

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(4) Investment commitment for private equity fund

As of 30 June 2016, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was US\$1,355,454 thousand and EUR\$167,519 thousand.

36. Significant disaster losses:

None

37. Subsequent events:

Cathay Century agreed on 14 September 2015 that Cathay Insurance (China), one of its subsidiaries increases capital. Zhejiang Ant Financial Service Company Co., Ltd. (Ant Financial) acquired all the newly issued shares as strategic investor, which was authorized by China Insurance Regulatory Commission (CIRC) on 26 July 2016.

38. Other significant matters

(1) Categories of financial instruments

The Group

	2016.6.30	2015.12.31	2015.6.30
Financial assets			
Financial assets at fair value through profit or loss:	\$316,287,366	\$296,117,926	\$195,710,500
Available-for-sale financial assets -net	1,437,239,061	1,486,393,125	1,400,955,397
Derivative financial assets for hedging	520,063	447,326	439,100
Held-to-maturity financial assets -net	73,668,221	81,708,446	80,468,255
Other financial assets - investments with no active market	2,405,226,540	2,289,311,099	1,906,618,787
Loans and receivables:			
Cash and cash equivalents (petty cash and cash on hand excluded)	207,604,912	175,553,200	357,443,096
Due from the Central Bank and call loans to banks	81,400,184	100,169,436	112,290,016
Securities purchased under agreements to resell	66,514,592	55,880,471	35,679,580
Receivables -net	155,121,033	141,665,344	157,516,768
Loans -net	1,894,907,410	1,766,476,353	1,785,464,539
Other financial assets	503,335,382	501,089,793	500,300,640
Guarantee deposits paid	49,313,380	58,069,777	35,076,405
Subtotal	2,958,196,893	2,798,904,374	2,983,771,044
Total	\$7,191,138,144	\$6,952,882,296	\$6,567,963,083

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	2016.6.30	2015.12.31	2015.6.30
Financial liabilities			
Financial liabilities at fair value through profit or loss:	\$90,386,282	\$137,471,418	\$74,579,183
Financial liabilities at amortized cost:			
Due to the Central Bank and call loans from banks	70,592,764	41,226,909	58,056,657
Securities sold under agreements to repurchase	43,922,335	55,523,982	78,456,022
Commercial paper payable -net	36,688,966	35,677,634	27,787,344
Payables	103,528,236	43,680,334	67,746,465
Deposits	1,913,646,971	1,854,495,831	1,753,509,341
Bonds payable	71,800,000	71,800,000	107,195,124
Other financial liabilities	556,189,358	549,564,053	540,706,290
Guarantee deposits received	8,439,551	5,800,365	5,166,948
Subtotal	2,804,808,181	2,657,769,108	2,638,624,191
Total	\$2,895,194,463	\$2,795,240,526	\$2,713,203,374

(2) Fair value of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

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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. Financial instruments not measured at fair value:

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured:

	Book value		
	2016.6.30	2015.12.31	2015.6.30
Financial assets			
Held-to-maturity financial assets –net (Note)	\$84,135,072	\$91,792,178	\$89,421,159
Investments with no active market	2,405,226,540	2,289,311,099	1,906,618,787
Other financial assets - structured time deposits	9,500,000	18,000,000	32,900,000
Total	<u>\$2,498,861,612</u>	<u>\$2,399,103,277</u>	<u>\$2,028,939,946</u>

	Fair value		
	2016.6.30	2015.12.31	2015.6.30
Financial assets			
Held-to-maturity financial assets -net (Note)	\$91,679,153	\$97,214,828	\$91,349,810
Investments with no active market	2,483,892,990	2,252,415,754	1,894,780,698
Other financial assets - structured time deposits	9,470,166	17,857,932	32,220,483
Total	<u>\$2,585,042,309</u>	<u>\$2,367,488,514</u>	<u>\$2,018,350,991</u>

Note: Guarantee deposits paid in bonds are included.

(3) Hedge accounting disclosures

A. Cash flow hedges

The following table summarizes the terms of Cathay Life and its subsidiaries' interest rate swaps for bonds used as hedging instruments as of 30 June 2016, 31 December 2015 and 30 June 2015:

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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	\$520,063	2016.7.25~2024.5.26	2016.7.25~2024.5.26

2015.12.31

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	\$447,326	2016.1.25~2024.5.26	2016.1.25~2024.5.26

2015.6.30

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	\$217,733	2015.7.23~2024.5.26	2015.7.23~2024.5.26

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

Interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

	2016.4.1~ 2016.6.30	2015.4.1~ 2015.6.30	2016.1.1~ 2016.6.30	2015.1.1~ 2015.6.30
Amount recognized in other comprehensive income	\$28,579	\$6,075	\$71,331	\$2,868
Amount reclassified from equity to profit or loss	702	1,213	1,405	(532)

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(4) Offsetting of financial assets and financial liabilities

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

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

2016.6.30						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial			Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	\$24,216,917	\$-	\$24,216,917	\$(1,589,391)	\$-	\$22,627,526

2016.6.30						
Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial			Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	\$1,589,391	\$-	\$1,589,391	\$(1,589,391)	\$-	\$-

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2015.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset		Net financial assets	Relevant amount that has not been offset on balance sheet		Net amount
	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet		Financial instruments	Cash collateral received	
Derivative financial instrument	\$13,206,554	\$-	\$13,206,554	\$(13,206,554)	\$-	\$-

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset		Net financial liabilities	Relevant amount that has not been offset on balance sheet		Net amount
	Gross amount of recognized financial liabilities	financial assets recognized on balance sheet		Financial instruments	Cash collateral pledged	
Derivative financial instrument	\$38,829,479	\$-	\$38,829,479	\$(13,206,554)	\$-	\$25,622,925

2015.6.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset		Net financial assets	Relevant amount that has not been offset on balance sheet		Net amount
	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet		Financial instruments	Cash collateral received	
Derivative financial instrument	\$7,089,472	\$-	\$7,089,472	\$(7,089,472)	\$-	\$-

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2015.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial liabilities	financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	\$8,608,547	\$-	\$8,608,547	\$(7,089,472)	\$-	\$1,519,075

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

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

2016.6.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	\$48,071,125	\$-	\$48,071,125	\$(46,159,506)	\$(1,911,619)	\$-

2016.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial liabilities	financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	\$46,159,506	\$-	\$46,159,506	\$(46,159,506)	\$-	\$-

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2015.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	\$64,845,136	\$-	\$64,845,136	\$(59,799,330)	\$(1,752,225)	\$3,293,581

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial liabilities	financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	\$59,799,330	\$-	\$59,799,330	\$(59,799,330)	\$-	\$-

2015.6.30

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of offset			Relevant amount that has not been offset on balance sheet		
	Gross amount of recognized financial assets	financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	\$27,637,310	\$-	\$27,637,310	\$(26,532,074)	\$(1,105,236)	\$-

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2015.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount			Relevant amount that has not		
	Gross amount of recognized financial liabilities	of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial instrument	\$26,532,074	\$-	\$26,532,074	\$(26,532,074)	\$-	\$-

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

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

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

2016.6.30

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of			Relevant amount that has not		
	Gross amount of recognized financial liabilities	offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Repurchase bonds	\$1,425,103	\$-	\$1,425,103	\$(1,425,103)	\$-	\$-

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2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet		Net amount
				Financial instruments (Note)	Cash collateral pledged	
Repurchase bonds	\$1,425,000	\$-	\$1,425,000	\$(1,425,000)	\$-	\$-

2015.6.30

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

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

(5) Financial instruments related information

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

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

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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B. Fair value measurement hierarchy of the Group's assets and liabilities

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

Financial instruments measured at fair value item	2016.6.30				2015.12.31			
	Total	1 st Level	2 nd Level	3 rd Level	Total	1 st Level	2 nd Level	3 rd Level
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Held for trading								
Stocks	\$11,057,795	\$11,057,795	\$-	\$-	\$8,515,996	\$8,515,996	\$-	\$-
Bonds	50,768,370	10,170,289	40,598,081	-	20,486,224	7,060,621	13,425,603	-
Others	183,772,148	9,706,605	174,065,543	-	192,508,872	16,745,000	175,763,872	-
Available-for-sale financial assets								
Stocks	582,507,120	564,904,864	4,955,971	12,646,285	546,952,259	531,236,110	4,232,205	11,483,944
Bonds (Note 1)	585,494,919	42,009,783	543,485,136	-	652,723,156	77,164,661	575,558,495	-
Others	271,298,289	218,633,525	16,640,151	36,024,613	289,212,526	238,699,465	17,562,421	32,950,640
Investment properties (Note 2)	367,555,196	-	-	367,555,196	370,583,060	-	-	370,583,060
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value								
through profit or loss at initial recognition	42,427,363	-	42,427,363	-	40,598,667	-	40,598,667	-
Held for trading								
Others	1,569,269	1,569,269	-	-	1,139,749	1,139,749	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	70,689,053	648,500	51,382,496	18,658,057	74,606,834	405,549	51,683,355	22,517,930
Derivatives financial assets for hedging	520,063	-	520,063	-	447,326	-	447,326	-
Liabilities								
Financial liabilities at fair value through profit or loss	46,389,650	412,872	27,318,721	18,658,057	95,733,002	347,180	72,867,892	22,517,930

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Financial instruments measured at fair value item	2015.6.30			
	Total	1 st Level	2 nd Level	3 rd Level
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
Stocks	\$13,251,685	\$13,251,685	\$-	\$-
Bonds	14,341,497	8,772,656	5,568,841	-
Others	133,251,872	22,828,658	110,423,214	-
Available-for-sale financial assets				
Stocks	524,940,642	504,833,411	4,230,144	15,877,087
Bonds (Note 1)	673,219,272	67,460,731	605,758,541	-
Others	204,987,707	161,437,589	17,630,464	25,919,654
Investment properties (Note 2)	373,976,703	-	-	373,976,703
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated financial liabilities at fair value				
through profit or loss at initial recognition	\$37,573,783	\$-	\$37,573,783	\$-
Others	1,092,100	1,092,100	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	34,865,446	337,846	21,802,545	12,725,055
Derivatives financial assets for hedging	439,100	-	439,100	-
Liabilities				
Financial liabilities at fair value through profit or loss	35,913,300	791,996	22,405,563	12,715,741

Note 1 : Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

Transfers between 1st Level and 2nd Level during the period

For the six-month period ended 30 June 2016, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of \$150,875 thousand was transferred as its market price was obtainable. For the six-month period ended 30 June 2015, Cathay Life transferred corporate bonds held for trading which were measured at fair value on a recurring basis, from level 1 to level 2. A total of \$152,145 thousand was transferred as its market price was no longer available.

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For the six-month period ended 30 June 2016, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from level 1 to level 2. A total of \$5,627,229 thousand was transferred as its market price was no longer available.

For the six-month period ended 30 June 2015, Cathay United Bank transferred government bonds which measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of \$1,561,496 thousand was transferred as its market price was obtainable.

Reconciliation for fair value measurements in 3rd level for movements

Reconciliation for fair value measurements in 3rd level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2016.1.1	\$22,517,930	\$44,434,584	\$370,583,060	\$22,517,930
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	(2,460,459)	-	-	(2,460,459)
Realized gains from available-for-sale financial assets	-	891,442	-	-
Valuation gains from investment property	-	-	2,130,773	-
Amount recognized in other comprehensive income				
Unrealized valuation losses from available-for-sale financial assets	-	(612,149)	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	(5,218,533)	-
Acquisition or issues	141,236	7,898,694	-	141,236
Transfers to property and equipment	-	-	(18,526)	-
Transfers from investment property under construction and prepayment for properties	-	-	78,422	-
Disposal or settlements	(1,540,650)	(3,576,822)	-	(1,540,650)
Transfers from 3 rd level	-	(364,851)	-	-
2016.6.30	\$18,658,057	\$48,670,898	\$367,555,196	\$18,658,057

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	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2015.1.1	\$7,911,860	\$36,085,455	\$321,261,078	\$7,854,582
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	3,906,656	-	-	3,954,620
Realized gains from available-for-sale financial assets	-	538,392	-	-
Valuation gains from investment property	-	-	11,269,589	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available-for-sale financial assets	-	1,823,288	-	-
Exchange differences resulting from translating the financial statements of foreign operations	-	-	321,398	-
Acquisition or issues	2,759,534	5,520,348	26,033,759	2,759,534
Transfers to property and equipment	-	-	(794,306)	-
Transfers from investment property under construction and prepayment for properties	-	-	16,041,542	-
Disposal or settlements	(1,852,995)	(1,806,850)	(156,357)	(1,852,995)
Transfers to 3 rd level	-	19,440	-	-
Transfers from 3 rd level	-	(383,332)	-	-
2015.6.30	\$12,725,055	\$41,796,741	\$373,976,703	\$12,715,741

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 June 2016 and 2015 in the amount of \$(329,686) thousand and \$15,176,245 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 June 2016 and 2015 in the amount of \$(2,460,459) thousand and \$3,954,620 thousand, respectively.

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Information on 3rd level significant unobservable inputs to valuation

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

Cathay Life and its subsidiaries

		2016.6.30				
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value	
Financial assets						
Available- for-sale	Market approach	discount for lack of marketability		12%~35%	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		-72%~150%	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					
		2015.12.31				
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value	
Financial assets						
Available- for-sale	Market approach	discount for lack of marketability		11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
	Income approach	discount for lack of marketability		15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks	
			growth rate of adjusted net profit after tax		-65%~163%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
			dividend payout ratio		0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14					

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		2015.6.30			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available- for-sale	Market approach	discount for lack of marketability		12%~35%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability		16%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax		-65%~85%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio		0%~90%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14				

Cathay United Bank and its subsidiaries

		2016.6.30			
		Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets					
Available-for-sale	Stocks	Market approach	discount for lack of marketability	15% ~ 20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
		Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate		1.31% ~ 3.09%	The higher the capitalization rate, the lower the fair value
	Land development approach	Composite interest rate for capital interest		1.65% ~ 18.08%	The higher the composite interest rate for capital interest, the lower the fair value

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2015.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	20% ~ 25%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~2.85%	The higher the capitalization rate, the lower the fair value
2015.6.30				
	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	12% ~ 15%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6% ~ 7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Discounted income approach	Capitalization rate	4.625%	The higher the capitalization rate, the lower the fair value
	Discounted Cash Flow Analysis			

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Cathay Century and its subsidiaries

2016.6.30				
	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	35%	5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in Cathay Century's profit or loss by \$48,000 thousand
2015.12.31				
	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market comparison approach	discount for lack of marketability	0%	None
2015.6.30				
	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	35%	None

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Cathay Securities and its subsidiaries

2016.6.30

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by FSC, the discount rate 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%

2015.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by FSC, the discount rate 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%

2015.6.30

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by FSC, the discount rate 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%

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

The Group's Risk Management Department is responsible for validating the fair value measurements of financial assets and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company and Subsidiaries' accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

	2016.6.30			
	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	\$2,483,892,990	\$27,862,123	\$2,454,216,306	\$1,814,561
Held-to-maturity financial assets (Note)	91,679,153	43,525,292	47,738,368	415,493
Other financial assets - structured time deposits	9,470,166	-	9,470,166	-
	2015.12.31			
	Total	1 st level	2 nd level	3 rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	\$2,252,415,754	\$15,116,580	\$2,235,586,834	\$1,712,340
Held-to-maturity financial assets (Note)	97,214,828	51,394,455	45,820,373	-
Other financial assets - structured time deposits	17,857,932	-	17,857,932	-

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	2015.6.30			
	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	\$1,894,780,698	\$8,759,375	\$1,883,725,943	\$2,295,380
Held-to-maturity financial assets (Note)	91,349,810	51,078,691	40,271,119	-
Other financial assets - structured time deposits	32,220,483	-	32,220,483	-

Note : Guarantee deposits paid in bonds are included.

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

Transferred financial assets that are part of Cathay United Bank's daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where Cathay United Bank is obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay United Bank will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay United Bank is still exposed to interest rate risk and credit risk, hence the assets are not removed.

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

Categories of financial assets	2016.6.30				
	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Available for sale financial assets repurchase agreements	\$8,082,445	\$9,783,934	\$8,284,403	\$9,783,934	\$(1,499,531)
Held to maturity financial assets repurchase agreements	32,432,531	32,402,270	32,325,431	32,402,270	(76,839)

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Categories of financial assets	2015.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Available for sale financial					
assets repurchase agreements	\$34,522,584	\$43,591,852	\$33,452,121	\$43,591,852	\$(10,139,731)
Held to maturity financial					
assets repurchase agreements	10,571,555	10,446,025	10,571,555	10,446,025	125,530
Categories of financial assets	2015.6.30				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Available for sale financial					
assets repurchase agreements	\$29,679,153	\$35,390,761	\$29,289,328	\$35,390,761	\$(6,101,433)
Held to maturity financial					
assets repurchase agreements	37,870,964	37,408,201	37,870,964	37,408,201	462,763
Debt instrument investments					
for which no active market					
exists repurchase					
agreements	3,976,241	3,459,942	3,976,241	3,459,942	516,299

Transferred financial assets that are part of Cathay Securities' daily operations that do not meet the criteria for full removal are mostly made up of corporate bonds with repurchase agreements or equity securities lent out as part of securities lending agreement. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities will not be able to use, sell or pledge said transferred financial assets during the effective period however Cathay Securities are still exposed to interest rate risk and credit risk, hence the assets are not removed.

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

Categories of financial assets	2016.6.30				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Financial assets at fair value					
through profit or loss					
Repurchase bonds	\$1,445,367	\$1,425,103	\$1,445,367	\$1,425,103	\$20,264

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Categories of financial assets	2015.12.31				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Financial assets at fair value through profit or loss					
Repurchase bonds	\$1,437,139	\$1,425,000	\$1,437,139	\$1,425,000	\$12,139

Categories of financial assets	2015.6.30				
	Transferred	Related Financial	Transferred	Related Financial	Net fair value
	Financial Assets	Liabilities	Financial Assets	Liabilities Fair	
Carrying Value	Carrying value	Fair Value	value		
Financial assets at fair value through profit or loss					
Repurchase bonds	\$1,908,062	\$1,900,000	\$1,908,062	\$1,900,000	\$8,062

(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.

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(C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

b. Concentration risk

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

2016.6.30

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$120,876,874	\$53,612	\$75,606	\$46,439,251	\$13,041,963	\$180,487,306
Financial assets at fair value through profit or loss	15,324,525	805,116	8,350,863	5,216,562	-	29,697,066
Available-for-sale financial assets	235,036,755	15,791,990	48,893,701	121,144,801	68,433,099	489,300,346
Derivative financial assets for hedging	187,055	-	14,783	318,225	-	520,063
Debt instrument investments for which no active market exists	92,269,533	126,236,208	391,829,068	845,525,386	501,177,823	1,957,038,018
Held-to-maturity financial assets	23,099,345	-	-	-	-	23,099,345
Other financial assets	6,000,000	-	3,500,000	-	-	9,500,000
Total	\$492,794,087	\$142,886,926	\$452,664,021	\$1,018,644,225	\$582,652,885	\$2,689,642,144
Proportion	18.3%	5.3%	16.8%	37.9%	21.7%	100.0%

2015.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$64,853,928	\$2,147,370	\$56,256	\$64,773,482	\$5,106,030	\$136,937,066
Financial assets at fair value through profit or loss	9,495,723	414,072	4,397,284	3,449,765	-	17,756,844
Available-for-sale financial assets	257,587,956	25,905,623	53,160,015	135,352,201	58,186,751	530,192,546
Derivative financial assets for hedging	163,545	-	21,009	262,772	-	447,326
Debt instrument investments for which no active market exists	96,324,443	121,222,038	351,900,002	824,204,673	442,381,303	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	14,500,000	-	3,500,000	-	-	18,000,000
Total	\$466,404,405	\$149,689,103	\$413,034,566	\$1,028,042,893	\$505,674,084	\$2,562,845,051
Proportion	18.2%	5.9%	16.1%	40.1%	19.7%	100.0%

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Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	\$151,464,015	\$2,300,302	\$10,039,152	\$59,499,985	\$58,725,291	\$282,028,745
Financial assets at fair value through profit or loss	7,640,192	668,706	1,703,196	1,956,874	-	11,968,968
Available-for-sale financial assets	286,346,449	24,519,593	70,811,638	135,113,904	51,126,338	567,917,922
Derivative financial assets for hedging	89,203	-	24,201	104,329	-	217,733
Debt instrument investments for which no active market exists	81,635,902	107,305,545	251,667,137	622,769,322	360,026,792	1,423,404,698
Held-to-maturity financial assets	24,605,989	-	-	-	-	24,605,989
Other financial assets	29,400,000	-	3,500,000	-	-	32,900,000
Total	\$581,181,750	\$134,794,146	\$337,745,324	\$819,444,414	\$469,878,421	\$2,343,044,055
Proportion	24.8%	5.8%	14.4%	35.0%	20.0%	100.0%

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2016.6.30

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$180,487,306	\$-	\$-	\$-	\$-	\$180,487,306
Financial assets at fair value through profit or loss	28,164,187	1,532,879	-	-	-	29,697,066
Available-for-sale financial assets	470,463,593	18,836,753	-	-	-	489,300,346
Derivative financial assets for hedging	520,063	-	-	-	-	520,063
Debt instrument investments for which no active market exists	1,904,062,374	52,975,644	-	419,718	(419,718)	1,957,038,018
Held-to-maturity financial assets	23,099,345	-	-	-	-	23,099,345
Other financial assets	9,500,000	-	-	-	-	9,500,000
Total	\$2,616,296,868	\$73,345,276	\$-	\$419,718	\$(419,718)	\$2,689,642,144
Proportion	97.3%	2.7%	-	-	-	100.0%

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2015.12.31

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$136,937,066	\$-	\$-	\$-	\$-	\$136,937,066
Financial assets at fair value through profit or loss	16,288,641	1,468,203	-	-	-	17,756,844
Available-for-sale financial assets	513,509,125	16,683,421	-	-	-	530,192,546
Derivative financial assets for hedging	447,326	-	-	-	-	447,326
Debt instrument investments for which no active market exists	1,790,495,682	45,536,777	-	429,858	(429,858)	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	18,000,000	-	-	-	-	18,000,000
Total	\$2,499,156,650	\$63,688,401	\$-	\$429,858	\$(429,858)	\$2,562,845,051
Proportion	97.5%	2.5%	-	-	-	100.0%

2015.6.30

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	\$282,028,745	\$-	\$-	\$-	\$-	\$282,028,745
Financial assets at fair value through profit or loss	10,027,397	1,941,571	-	-	-	11,968,968
Available-for-sale financial assets	565,469,324	2,448,598	-	-	-	567,917,922
Derivative financial assets for hedging	217,733	-	-	-	-	217,733
Debt instrument investments for which no active market exists	1,401,866,923	21,537,775	-	403,910	(403,910)	1,423,404,698
Held-to-maturity financial assets	24,605,989	-	-	-	-	24,605,989
Other financial assets	32,900,000	-	-	-	-	32,900,000
Total	\$2,317,116,111	\$25,927,944	\$-	\$403,910	\$(403,910)	\$2,343,044,055
Proportion	98.9%	1.1%	-	-	-	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:

2016.6.30

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$325,307,729	\$51,182,982	\$79,610,075	\$14,994,321	\$471,095,107
Overdue receivables	277,377	113,071	95,266	-	485,714
Total	\$325,585,106	\$51,296,053	\$79,705,341	\$14,994,321	\$471,580,821
Proportion	69%	11%	17%	3%	100%

2015.12.31

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$335,318,324	\$53,377,019	\$82,410,898	\$16,920,004	\$488,026,245
Overdue receivables	222,445	104,417	81,846	-	408,708
Total	\$335,540,769	\$53,481,436	\$82,492,744	\$16,920,004	\$488,434,953
Proportion	69%	11%	17%	3%	100%

2015.6.30

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	\$361,955,101	\$57,223,736	\$87,920,870	\$16,836,569	\$523,936,276
Overdue receivables	149,365	102,426	39,798	-	291,589
Total	\$362,104,466	\$57,326,162	\$87,960,668	\$16,836,569	\$524,227,865
Proportion	69%	11%	17%	3%	100%

e. Secured loans and overdue receivables

2016.6.30

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$248,953,562	\$120,038,730	\$53,679,291	\$251,921	\$3,546,569	\$426,470,073	\$5,233,369	\$421,236,704
Corporate finance	40,313,704	3,866,977	700,001	-	230,066	45,110,748	327,226	44,783,522
Total	\$289,267,266	\$123,905,707	\$54,379,292	\$251,921	\$3,776,635	\$471,580,821	\$5,560,595	\$466,020,226

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2015.12.31

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$230,933,600	\$160,649,461	\$44,964,387	\$153,819	\$4,685,286	\$441,386,553	\$4,717,185	\$436,669,368
Corporate finance	41,645,215	4,176,027	997,061	-	230,097	47,048,400	327,286	46,721,114
Total	\$272,578,815	\$164,825,488	\$45,961,448	\$153,819	\$4,915,383	\$488,434,953	\$5,044,471	\$483,390,482

2015.6.30

Secured loans and Overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	\$245,681,651	\$170,908,975	\$47,835,936	\$53,729	\$3,903,575	\$468,383,866	\$4,107,180	\$464,276,686
Corporate finance	50,365,232	4,179,430	1,147,011	-	152,326	55,843,999	357,462	55,486,537
Total	\$296,046,883	\$175,088,405	\$48,982,947	\$53,729	\$4,055,901	\$524,227,865	\$4,464,642	\$519,763,223

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

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

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
2016.6.30	\$221,275	\$30,646	\$251,921
2015.12.31	114,996	38,823	153,819
2015.6.30	37,651	16,078	53,729

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

2016.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$311,029	\$-	\$-	\$-	\$-	\$311,029
Payables	66,885,333	896,239	53,923	34,651	-	67,870,146
Preferred stock liability	10,133,115	46,754	93,000	5,080,005	-	15,352,874

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$61,104	\$-	\$-	\$-	\$-	\$61,104
Payables	19,720,148	383,000	40,191	-	-	20,143,339
Preferred stock liability	-	10,277,322	-	5,266,005	-	15,543,327

2015.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	\$297,118	\$-	\$-	\$-	\$-	\$297,118
Payables	33,862,058	450,268	135	-	-	34,312,461
Preferred stock liability	15,254,589	-	10,563,397	5,173,005	-	30,990,991

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d. Maturity analysis of derivative financial liability:

2016.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$28,941	\$32,153	\$89,261	\$30,219	\$-	\$180,574
Forward	340,702	520	-	-	-	341,222
CS	1,244,350	-	-	-	-	1,244,350

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$25,644	\$27,691	\$53,552	\$45,216	\$-	\$152,103
Forward	2,591,911	511,500	-	-	-	3,103,411
CS	36,097,075	-	-	-	-	36,097,075
Option	29,649	-	-	-	-	29,649

2015.6.30	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	\$19,409	\$17,625	\$21,095	\$(16,110)	\$-	\$42,019
Forward	1,802,352	45,950	-	-	-	1,848,302
CS	6,308,912	980,883	-	-	-	7,289,795

C. Market risk analysis

a. Sources of market risk

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

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

(A) Value at Risk

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

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(B) Stress testing

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

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

i. Simple Sensitivity

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

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
2016.1.1~2016.6.30

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	\$(50,548,496)
Interest rate risk (Yield curve)	+100bps	(34,245,952)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(7,207,099)

Table of Stress Testing
2015.1.1~2015.6.30

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	\$(49,910,329)
Interest rate risk (Yield curve)	+100bps	(38,843,047)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(6,171,731)

Note1: Impacts of credit spread changes are not included

Note2: Effects of hedging are included

Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2016.1.1~2016.6.30

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,161,953	\$4,378,741
	CNY/CNH appreciates 1%	1,066,794	298,071
	HKD appreciates 1%	(4,789)	694,389
	EUR appreciates 1%	2,205	110,275
	GBP appreciates 1%	(691)	21,551
Interest rate risk	Yield curve (USD) parallel shift+1bp	(210)	(117,532)
	Yield curve (AUD) parallel shift+1bp	-	(22)
	Yield curve (EUR) parallel shift+1bp	-	(3,032)
	Yield curve (NTD) parallel shift+1bp	2,256	(211,728)
Equity price risk	Equity price increases 1%	51,223	5,032,588

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Summarization of Sensitivity Analysis

2015.1.1~2015.6.30

Risk Factors	Variables (+/-)	Change in Income	Change in Equity
Foreign currency risk	USD appreciates 1%	\$3,034,338	\$3,247,574
	CNY/CNH appreciates 1%	1,995,124	223,601
	HKD appreciates 1%	28,809	537,261
	EUR appreciates 1%	54,391	139,135
	GBP appreciates 1%	122,741	38,422
Interest rate risk	Yield curve (USD) parallel shift+1bp	-	(142,279)
	Yield curve (AUD) parallel shift+1bp	(68)	(136)
	Yield curve (EUR) parallel shift+1bp	-	(6,599)
	Yield curve (NTD) parallel shift+1bp	2,139	(228,994)
Equity price risk	Equity price increases 1%	67,399	4,923,634

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.

Note5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

Cathay United Bank and its subsidiaries

A. Risk control and hedging strategy

Cathay United Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

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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 base on DV01, monthly.

Interest risk management of banking book

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

a. Strategy

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

b. Management procedure

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

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

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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. Cathay United Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

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2016.6.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$954,499	\$1,058,200	\$707,624
Foreign exchange	467,144	564,817	395,496
Equity Securities price	284,075	534,899	131,033

2015.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$825,482	\$1,058,200	\$596,450
Foreign exchange	374,638	528,143	224,569
Equity Securities price	298,800	534,899	131,033

2015.6.30			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	\$650,622	\$903,036	\$459,837
Foreign exchange	302,640	576,443	143,533
Equity Securities price	256,544	314,534	151,414

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	2016.6.30	2015.12.31	2015.6.30
Stock Market	Major Stock Exchanges +15%	\$2,537,640	\$2,572,190	\$1,763,480
	Major Stock Exchanges -15%	(2,537,640)	(2,496,740)	(1,763,480)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(3,974,854)	(9,315,360)	(8,749,910)
	Major Interest Rate - 100bp	8,432,025	9,622,370	8,949,100
Foreign Exchange Market	Major Currencies + 3%	3,121,899	4,053,156	3,681,203
	Major Currencies - 3%	(3,122,207)	(4,053,156)	(3,681,203)
Composite	Major Stock Exchanges -15%			
	Major Interest Rate + 100bp	(3,390,595)	(7,758,944)	(6,832,187)
	Major Currencies +3%			

Sensitivity analysis

a. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

b. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

c. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

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Market risk factor sensitivity of Cathay United Bank

		2016.6.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$646,359	\$204
	HKD+1%	3,501	3,667
	JPY+1%	7,023	-
	AUD+1%	45,800	-
	CNY+1%	188,395	23,200
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	3,085	(25,383)
	Yield curves (HKD) parallel shift+1bp	(3)	(40)
	Yield curves (JPY) parallel shift+1bp	(5)	(332)
	Yield curves (AUD) parallel shift+1bp	-	(680)
	Yield curves (CNY) parallel shift+1bp	53	(9,930)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	167,792
		2015.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$791,614	\$820
	HKD+1%	3,279	2,193
	JPY+1%	1,159	-
	AUD+1%	50,243	-
	CNY+1%	366,353	46,370
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	2,400	(40,000)
	Yield curves (HKD) parallel shift+1bp	-	(58)
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	-	(3,470)
	Yield curves (CNY) parallel shift+1bp	(979)	(19,893)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	177,200

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		2015.6.30	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity			
(FX Delta)	USD+1%	\$664,817	\$1,154
	HKD+1%	3,168	3,177
	JPY+1%	843	3,735
	AUD+1%	58,526	-
	CNY+1%	363,595	26,764
Interest rate factor sensitivity (PVBP)			
	Yield curves (USD) parallel shift+1bp	298	(35,041)
	Yield curves (HKD) parallel shift+1bp	15	(70)
	Yield curves (AUD) parallel shift+1bp	-	(4,076)
	Yield curves (CNY) parallel shift+1bp	(16)	(21,315)
Equity securities price factor sensitivity			
(Equity Delta)	Equity securities price parallel shift+1bp	-	117,566

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.

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

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

Credit business (including the loan commitments and guarantees)

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

a. Category of credit risk

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

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.

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

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

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

Due from and call loans to other banks

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

c. Hedge of credit risk and easing policy

(A) Collateral

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

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		
	2016.6.30	2015.12.31	2015.6.30
Irrevocable loan commitments	\$131,058,284	\$187,213,293	\$114,836,523
Irrevocable credit card commitments	543,474,504	512,030,862	495,159,208
Unused commercial letters of credit	3,475,842	4,465,001	4,427,346
Guarantees on duties and contracts	7,422,956	10,285,103	11,831,745
Total	\$685,431,586	\$713,994,259	\$626,254,822

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(B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2016.6.30	2015.12.31	2015.6.30
Finance guarantee contracts	\$1,928,623	\$1,790,458	\$1,798,790
Unused commercial letters of credit	1,039,027	1,206,427	1,521,556
Total	\$2,967,650	\$2,996,885	\$3,320,346

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2016.6.30	2015.12.31	2015.6.30
Finance guarantee contracts	\$34,959	\$23,637	\$15,535
Irrevocable loan commitments	606,864	558,899	403,323
Irrevocable credit card commitments	375,750	353,016	-
Total	\$1,017,573	\$935,552	\$418,858

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	2016.6.30		2015.12.31		2015.6.30	
	amount	%	amount	%	amount	%
Industry type						
Manufacturing	\$80,311,070	6.16	\$73,003,215	6.30	\$77,144,445	6.70
Financial institutions and insurance	39,727,332	3.04	31,617,868	2.73	36,993,786	3.21
Leasing and real estate	100,176,535	7.68	88,419,187	7.63	93,373,681	8.11
Individuals	640,641,793	49.10	605,118,646	52.21	566,960,891	49.23
Others	443,838,239	34.02	360,808,227	31.13	377,186,346	32.75
Total	<u>\$1,304,694,969</u>	<u>100.00</u>	<u>\$1,158,967,143</u>	<u>100.00</u>	<u>\$1,151,659,149</u>	<u>100.00</u>

Item	2016.6.30		2015.12.31		2015.6.30	
	amount	%	amount	%	amount	%
Geographic Region						
Domestic	\$1,162,739,664	89.12	\$1,011,651,589	87.29	\$991,239,599	86.07
Asia	71,418,128	5.47	79,624,712	6.87	65,410,672	5.68
America	21,101,751	1.62	21,253,210	1.83	41,601,839	3.61
Others	49,435,426	3.79	46,437,632	4.01	53,407,039	4.64
Total	<u>\$1,304,694,969</u>	<u>100.00</u>	<u>\$1,158,967,143</u>	<u>100.00</u>	<u>\$1,151,659,149</u>	<u>100.00</u>

f. Credit quality analysis of the financial assets

Some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

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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

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2016.6.30										
Receivables										
Credit card business	\$45,321,130	\$9,685,222	\$3,393,352	\$58,399,704	\$147,180	\$158,007	\$58,704,891	\$127,998	\$1,292,972	\$57,283,921
Others	15,319,901	3,029,623	152,164	18,501,688	4,460	46,303	18,552,451	17,111	2,022,873	16,512,467
Loans	880,814,614	329,697,198	37,417,443	1,247,929,255	926,922	14,711,768	1,263,567,945	3,330,830	15,372,717	1,244,864,398

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2015.12.31										
Receivables										
Credit card business	\$38,577,214	\$8,630,623	\$3,289,491	\$50,497,328	\$165,012	\$168,628	\$50,830,968	\$136,844	\$1,306,411	\$49,387,713
Others	28,917,139	3,474,241	49,961	32,441,341	5,756	535,472	32,982,569	513,752	822,681	31,646,136
Loans	665,556,901	411,800,443	26,279,299	1,103,636,643	810,525	13,570,559	1,118,017,727	3,111,620	14,211,023	1,100,695,084

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	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal(A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2015.6.30										
Receivables										
Credit card business	\$42,507,998	\$8,364,714	\$3,246,881	\$54,119,593	\$146,549	\$163,326	\$54,429,468	\$132,769	\$1,372,256	\$52,924,443
Others	42,954,875	2,066,500	61,634	45,083,009	3,863	37,275	45,124,147	13,377	356,893	44,753,877
Loans	756,552,253	301,494,913	40,990,990	1,099,038,156	516,269	14,571,205	1,114,125,630	3,305,134	12,861,254	1,097,959,242

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

2016.6.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$239,491,138	\$54,506,312	\$9,872,596	\$303,870,046
Unsecured personal loans	24,474,245	13,612,207	3,776,966	41,863,418
Other	266,901,094	51,016,906	7,331,837	325,249,837
Corporate banking				
Secured	58,295,128	119,430,934	10,125,458	187,851,520
Unsecured	291,653,009	91,130,839	6,310,586	389,094,434
Total	\$880,814,614	\$329,697,198	\$37,417,443	\$1,247,929,255
2015.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$231,852,442	\$51,262,021	\$9,253,262	\$292,367,725
Unsecured personal loans	21,694,792	12,696,768	3,634,766	38,026,326
Other	205,744,426	93,884,652	6,697,306	306,326,384
Corporate banking				
Secured	21,990,638	145,217,277	3,373,012	170,580,927
Unsecured	184,274,603	108,739,725	3,320,953	296,335,281
Total	\$665,556,901	\$411,800,443	\$26,279,299	\$1,103,636,643

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2015.6.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$226,349,255	\$43,420,765	\$7,782,773	\$277,552,793
Unsecured personal loans	18,949,944	10,353,859	2,946,463	32,250,266
Other	228,705,858	40,122,865	5,533,472	274,362,195
Corporate banking				
Secured	60,156,099	115,214,854	13,955,009	189,325,962
Unsecured	222,391,097	92,382,570	10,773,273	325,546,940
Total	\$756,552,253	\$301,494,913	\$40,990,990	\$1,099,038,156

(C) Credit quality analysis on securities investment

2016.6.30	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	\$81,784,084	\$-	\$81,784,084	\$-	\$-	\$81,784,084	\$-	\$81,784,084
Stocks	7,458,674	10,306,720	17,765,394	-	140,985	17,906,379	140,985	17,765,394
Others	-	1,322,989	1,322,989	-	-	1,322,989	-	1,322,989
Held-to-maturity financial assets								
Bonds	39,404,864	40,471	39,445,335	-	-	39,445,335	-	39,445,335
Investments in debt securities with no active market								
Bonds	35,025,023	507	35,025,530	-	1,478,856	36,504,386	1,478,856	35,025,530
Others	401,855,000	-	401,855,000	-	-	401,855,000	-	401,855,000

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2015.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$108,611,424	\$-	\$108,611,424	\$-	\$-	\$108,611,424	\$-	\$108,611,424
Stocks	8,578,743	9,661,916	18,240,659	-	140,985	18,381,644	140,985	18,240,659
Others	1,360,701	2,344,845	3,705,546	-	-	3,705,546	-	3,705,546
Held-to-maturity financial assets								
Bonds	49,571,588	40,519	49,612,107	-	-	49,612,107	-	49,612,107
Investments in debt securities with no active market								
Bonds	13,298,479	659	13,299,138	-	1,512,275	14,811,413	1,512,275	13,299,138
Others	429,465,000	-	429,465,000	-	-	429,465,000	-	429,465,000

2015.6.30	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	\$92,745,379	\$-	\$92,745,379	\$-	\$-	\$92,745,379	\$-	\$92,745,379
Stocks	2,642,936	11,744,034	14,386,970	-	163,785	14,550,755	163,785	14,386,970
Others	129,692	1,077,274	1,206,966	-	-	1,206,966	-	1,206,966
Held-to-maturity financial assets								
Bonds	47,525,056	618,654	48,143,710	-	-	48,143,710	-	48,143,710
Others	38,828	-	38,828	-	-	38,828	-	38,828
Investments in debt securities with no active market								
Bonds	6,531,634	166,484	6,698,118	-	1,426,758	8,124,876	1,426,758	6,698,118
Others	466,690,000	549,730	467,239,730	-	-	467,239,730	-	467,239,730

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(D) Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2016.6.30	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$91,525	\$55,655	\$147,180
Others	3,192	1,268	4,460
Loans			
Consumer banking			
Residential mortgage loans	269,043	32,128	301,171
Unsecured personal loans	64,542	41,129	105,671
Others	179,518	34,007	213,525
Corporate banking			
Secured	10,719	-	10,719
Unsecured	295,836	-	295,836
2015.12.31	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$105,952	\$59,060	\$165,012
Others	4,002	1,754	5,756
Loans			
Consumer banking			
Residential mortgage loans	347,742	53,921	401,663
Unsecured personal loans	56,856	40,630	97,486
Others	211,634	49,070	260,704
Corporate banking			
Secured	-	1,918	1,918
Unsecured	40,293	8,461	48,754

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2015.6.30	Less than 30 days	31 - 60 days	Total
Receivables			
Credit card business	\$90,243	\$56,306	\$146,549
Others	2,550	1,313	3,863
Loans			
Consumer banking			
Residential mortgage loans	180,668	53,774	234,442
Unsecured personal loans	45,675	31,400	77,075
Others	126,670	23,358	150,028
Corporate banking			
Secured	9,000	915	9,915
Unsecured	44,809	-	44,809

f. Impairment analysis of financial assets of Cathay United Bank

(A) Cathay United Bank has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$140,985 thousand, \$140,985 thousand and \$163,785 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015, respectively, due to the existence of objective impairment evidence.

(B) Cathay United Bank has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$1,383,270 thousand, \$1,416,689 thousand and \$1,331,172 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015, respectively, due to credit deterioration of securitization products and financial debentures.

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

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

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(D) Foreclosed properties management policy

The carrying amount of foreclosed properties in CUBC Bank were \$55,953 thousand, \$59,519 thousand and \$55,926 thousand as of 30 June 2016, 31 December 2015 and 30 June 2015.

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

D. Liquidity risk

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

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.

2016.6.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$38,744,976	\$12,597,721	\$9,307,311	\$82,910	\$60,732,918
Securities sold under agreements to repurchase	40,887,487	1,309,897	-	-	42,197,384
Payables	11,572,844	7,517,167	3,566,665	989,149	23,645,825
Deposits and remittances	258,898,617	801,134,745	732,185,658	118,186,599	1,910,405,619
Financial debentures payable	7,672	90,791	3,718,754	48,250,000	52,067,217
Other capital outflow at maturity	19,667,724	34,789,637	8,520,154	2,659,930	65,637,445

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$18,302,306	\$10,012,450	\$10,387,327	\$76,893	\$38,778,976
Securities sold under agreements to repurchase	37,882,342	5,166,967	-	11,005,959	54,055,268
Payables	10,963,288	8,487,879	111,856	799,521	20,362,544
Deposits and remittances	261,487,276	717,033,377	757,807,236	113,396,994	1,849,724,883
Financial debentures payable	7,779	336,018	37,111	51,900,000	52,280,908
Other capital outflow at maturity	22,467,662	32,764,319	6,434,595	5,732,362	67,398,938

2015.6.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$2,958,283	\$28,929,247	\$16,687,855	\$6,433,718	\$55,009,103
Securities sold under agreements to repurchase	45,232,935	17,211,531	-	13,829,164	76,273,630
Payables	12,756,232	2,261,137	5,820,391	1,240,780	22,078,540
Deposits and remittances	272,505,269	733,520,178	652,527,970	95,997,728	1,754,551,145
Financial debentures payable	156,048	2,292,320	2,868,566	62,071,697	67,388,631
Other capital outflow at maturity	33,058,901	23,735,480	8,587,896	8,399,399	73,781,676

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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:

2016.6.30	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	\$146,443	\$730,037	\$1,488,747	\$1,288,758	\$3,653,985
- Interest rate derivative instruments	357,461	89,790	465,739	25,290,822	26,203,812
Total	\$503,904	\$819,827	\$1,954,486	\$26,579,580	\$29,857,797

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$89,376	\$112,235	\$1,436,061	\$4,267,106	\$5,904,778
- Interest rate derivative instruments	12,016	51,356	156,012	26,549,494	26,768,878
Total	\$101,392	\$163,591	\$1,592,073	\$30,816,600	\$32,673,656

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2015.6.30	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	\$76,405	\$(98,214)	\$(143,409)	\$(122,578)	\$(287,796)
- Interest rate derivative instruments	6,240	21,089	51,665	15,328,153	15,407,147
Total	\$82,645	\$(77,125)	\$(91,744)	\$15,205,575	\$15,119,351

(B) Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

- i. Foreign exchange derivative instruments: currency futures and swaps;
- ii. Interest rate derivative instruments: cross currency swaps;
- iii. Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets. Maturity analysis of gross settled derivative financial liabilities was as follows:

2016.6.30	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	\$(4,133,719)	\$(5,765,063)	\$(1,344,491)	\$(254,589)	\$(11,497,862)
- Cash inflow	68,390	640,022	116,348	428,044	1,252,804
- Interest rate derivative instruments					
- Cash outflow	(188,455)	(198,511)	(850,002)	(826,092)	(2,063,060)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(4,322,174)	(5,963,574)	(2,194,493)	(1,080,681)	(13,560,922)
Cash inflow subtotal	68,390	640,022	116,348	428,044	1,252,804
Net cash flow	\$(4,253,784)	\$(5,323,552)	\$(2,078,145)	\$(652,637)	\$(12,308,118)

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2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	\$(5,831,519)	\$(7,551,584)	\$(2,169,857)	\$(461,724)	\$(16,014,684)
- Cash inflow	59,346	52,955	134,790	45,820	292,911
- Interest rate derivative instruments					
- Cash outflow	(309,781)	(579,714)	(572,038)	(2,254,893)	(3,716,426)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(6,141,300)	(8,131,298)	(2,741,895)	(2,716,617)	(19,731,110)
Cash inflow subtotal	59,346	52,955	134,790	45,820	292,911
Net cash flow	\$(6,081,954)	\$(8,078,343)	\$(2,607,105)	\$(2,670,797)	\$(19,438,199)

2015.6.30	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	\$(1,217,818)	\$(2,790,603)	\$(139,513)	\$119,682	\$(4,028,252)
- Cash inflow	370,880	727,076	189,453	85,707	1,373,116
- Interest rate derivative instruments					
- Cash outflow	(20,415)	(153,671)	(204,341)	(1,001,531)	(1,379,958)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,238,233)	(2,944,274)	(343,854)	(881,849)	(5,408,210)
Cash inflow subtotal	370,880	727,076	189,453	85,707	1,373,116
Net cash flow	\$(867,353)	\$(2,217,198)	\$(154,401)	\$(796,142)	\$(4,035,094)

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:

2016.6.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$110,533,587	\$275,847,651	\$288,151,550	\$674,532,788
Financial guarantee contracts	9,747,960	1,132,997	17,841	10,898,798
Leasing commitments				
Non-cancellable operating lease payments	1,741,862	3,967,103	364,515	6,073,480
Total	\$122,023,409	\$280,947,751	\$288,533,906	\$691,505,066

2015.12.31	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$201,118,028	\$237,814,681	\$260,311,446	\$699,244,155
Financial guarantee contracts	12,520,417	2,209,659	20,028	14,750,104
Leasing commitments				
Non-cancellable operating lease payments	851,937	1,439,316	90,579	2,381,832
Total	\$214,490,382	\$241,463,656	\$260,422,053	\$716,376,091

2015.6.30	Not later than		Later than	Total
	1 year	1~5 year	5 year	
Irrevocable commitments	\$96,206,506	\$241,093,131	\$272,696,094	\$609,995,731
Financial guarantee contracts	13,934,035	2,299,518	25,538	16,259,091
Leasing commitments				
Non-cancellable operating lease payments	855,386	1,185,492	83,945	2,124,823
Total	\$110,995,927	\$244,578,141	\$272,805,577	\$628,379,645

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					
	2016.6.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,550,626	\$106	\$62,775	\$275,080	\$5,825,345	\$11,713,932
Financial assets at fair value through profit or loss	1,452,802	-	-	-	193,279	1,646,081
Available-for-sale financial assets	6,961,503	-	389,831	262,680	1,860,489	9,474,503
Debt instruments investments with no active market exists	1,600,000	-	347,067	654,095	767,523	3,368,685
Held-to-maturity investments	206,451	-	832,472	2,655,630	1,188,560	4,883,113
Total	\$15,771,382	\$106	\$1,632,145	\$3,847,485	\$9,835,196	\$31,086,314
Each area percentage	50.73%	0.00%	5.25%	12.38%	31.64%	100.00%

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Financial assets	The amount of credit risk exposure - by area					
	2015.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,485,530	\$-	\$58,273	\$841,130	\$6,119,560	\$12,504,493
Financial assets at fair value through profit or loss	1,408,854	-	-	-	579,506	1,988,360
Available-for-sale financial assets	5,799,270	-	398,491	247,748	1,655,216	8,100,725
Debt instruments investments with no active market exists	1,600,000	-	355,325	672,062	1,059,296	3,686,683
Held-to-maturity investments	207,094	-	852,253	2,208,347	1,194,394	4,462,088
Total	\$14,500,748	\$-	\$1,664,342	\$3,969,287	\$10,607,972	\$30,742,349
Each area percentage	47.17%	0.00%	5.41%	12.91%	34.51%	100.00%

Financial assets	The amount of credit risk exposure - by area					
	2015.6.30					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$4,455,918	\$254	\$40,077	\$669,871	\$2,584,867	\$7,750,987
Financial assets at fair value through profit or loss	1,425,035	-	-	-	253,618	1,678,653
Available-for-sale financial assets	7,018,859	-	240,813	202,314	1,259,317	8,721,303
Debt instruments investments with no active market exists	1,600,000	-	333,757	633,536	1,026,266	3,593,559
Held-to-maturity investments	190,595	-	1,008,910	1,114,372	1,063,877	3,377,754
Total	\$14,690,407	\$254	\$1,623,557	\$2,620,093	\$6,187,945	\$25,122,256
Each area percentage	58.48%	0.00%	6.46%	10.43%	24.63%	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				
	2016.6.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investme nt level			
Cash and cash equivalents	\$11,713,932	\$-	\$-	\$-	\$11,713,932
Financial assets at fair value through profit or loss	1,646,081	-	-	-	1,646,081
Available-for-sale financial assets	9,474,503	-	-	-	9,474,503
Debt instruments investments with no active market exists	3,368,685	-	-	-	3,368,685
Held-to-maturity investments	4,883,113	-	-	-	4,883,113
Total	\$31,086,314	\$-	\$-	\$-	\$31,086,314

Financial assets	Credit quality of financial assets				
	2015.12.31				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investme nt level			
Cash and cash equivalents	\$12,504,493	\$-	\$-	\$-	\$12,504,493
Financial assets at fair value through profit or loss	1,988,360	-	-	-	1,988,360
Available-for-sale financial assets	8,100,725	-	-	-	8,100,725
Debt instruments investments with no active market exists	3,686,683	-	-	-	3,686,683
Held-to-maturity investments	4,462,088	-	-	-	4,462,088
Total	\$30,742,349	\$-	\$-	\$-	\$30,742,349

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Financial assets	Credit quality of financial assets				
	2015.6.30				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment level	Non-investment level			
Cash and cash equivalents	\$7,750,987	\$-	\$-	\$-	\$7,750,987
Financial assets at fair value through profit or loss	1,678,653	-	-	-	1,678,653
Available-for-sale financial assets	8,721,303	-	-	-	8,721,303
Debt instruments investments with no active market exists	3,593,559	-	-	-	3,593,559
Held-to-maturity investments	3,377,754	-	-	-	3,377,754
Total	\$25,122,256	\$-	\$-	\$-	\$25,122,256

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

(B) Secured loans

Secured loans	2016.6.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$151,972	\$-	\$-	\$-	\$136,065	\$288,037	\$2,799	\$285,238
Corporate Finance	62,390	-	-	-	16,200	78,590	1,443	77,147
Total	\$214,362	\$-	\$-	\$-	\$152,265	\$366,627	\$4,242	\$362,385

Secured loans	2015.12.31							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$170,367	\$-	\$-	\$-	\$121,836	\$292,203	\$3,023	\$289,180
Corporate Finance	62,280	-	-	-	16,200	78,480	1,405	77,075
Total	\$232,647	\$-	\$-	\$-	\$138,036	\$370,683	\$4,428	\$366,255

Secured loans	2015.6.30							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$166,832	\$-	\$-	\$-	\$119,899	\$286,731	\$2,846	\$283,885
Corporate Finance	60,440	-	-	-	22,500	82,940	851	82,089
Total	\$227,272	\$-	\$-	\$-	\$142,399	\$369,671	\$3,697	\$365,974

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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 risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

Liabilities	2016.6.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,984,771	\$1,626,663	\$1,607,065	\$8,933	\$3,377	\$7,288	\$-
Financial liabilities at fair value through profit or loss	16,951	16,951	10,951	5,420	580	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

Liabilities	2015.12.31						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$3,084,816	\$1,510,574	\$1,483,552	\$14,998	\$6,207	\$5,817	\$-
Financial liabilities at fair value through profit or loss	192,554	194,195	160,082	26,722	7,391	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

Liabilities	2015.6.30						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	\$2,973,220	\$1,604,222	\$1,587,766	\$8,441	\$3,860	\$4,155	\$-
Financial liabilities at fair value through profit or loss	50,203	50,203	39,605	9,381	1,217	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

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E. Market risk analysis

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

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

a. Value-at-risk

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

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

b. Stress testing

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

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

(A) Simple Sensitivity

Simple sensitivity mainly evaluate changes in value of portfolio caused by specific risk factor

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(B) Scenario Analysis

Scenario Analysis is a measure utilized for the evaluation of the change in value of portfolio under stress events occurred. The measures include:

i Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

ii Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for Cathay Century and its subsidiaries to perform risk analysis, risk alert and business management based on the stress test report

2016.6.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(506,051)
Interest rate risk (Yield curve)	20bp	(154,691)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(99,571)
Commodity risk (Price)	-10%	-

2016.6.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$113	\$674
	CNY appreciate 1 %	11,448	751
	HKD appreciate 1 %	222	3,198
	NTD appreciate 1 %	(30,514)	(6,745)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,403)	(108)
	Yield curve (CNY) flat rises 1bp	(24)	(66)
	Yield curve (NTD) flat rises 1bp	(879)	(1,255)
Equity securities price sensitivity	Increase 1% in equity price	-	50,605

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2015.12.31	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(426,608)
Interest rate risk (Yield curve)	20bp	(145,720)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(116,285)
Commodity risk (Price)	-10%	-

2015.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$132	\$831
	CNY appreciate 1 %	16,208	792
	HKD appreciate 1 %	737	2,923
	NTD appreciate 1 %	(37,243)	(7,934)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,691)	(118)
	Yield curve (CNY) flat rises 1bp	(49)	(71)
	Yield curve (NTD) flat rises 1bp	(1,087)	(1,271)
Equity securities price sensitivity	Increase 1% in equity price	-	42,661

2015.6.30	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(460,774)
Interest rate risk (Yield curve)	20bp	(124,463)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(115,748)
Commodity risk (Price)	-10%	-

2015.6.30		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$132	\$478
	CNY appreciate 1 %	18,811	829
	HKD appreciate 1 %	112	2,578
	NTD appreciate 1 %	(36,692)	(5,589)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(3,051)	(122)
	Yield curve (CNY) flat rises 1bp	(514)	(73)
	Yield curve (NTD) flat rises 1bp	(1,147)	(1,317)
Equity securities price sensitivity	Increase 1% in equity price	-	46,077

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c. Cathay Securities and its subsidiaries

(A) Risk management policies

i. Risk management objectives

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

ii. Risk management policies

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

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

iii. Risk management organizational structure

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.

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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.

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.

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⑥ Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

⑦ Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

⑧ Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

iv. Risk Management Workflows

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

① Market Risk

(a) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

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(b)Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

② Credit Risk

(a)Definition

Credit risk is the risk that counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

(b)Controls

Cathay Securities and its subsidiaries check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch).

③ Operational Risk

(a)Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

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(b)Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

Besides, auditing office is established and belongs to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

④ Liquidity Risk

(a)Definition

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

(b)Controls

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

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⑤ Legal Risk

(a) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the qualification.

(b) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer' opinions.

⑥ Capital adequacy management

(a) Definition

Cathay Securities and its subsidiaries implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(b) Controls

Cathay Securities establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

⑦ Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation in lost customers or revenues and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fares or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

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(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

v. Hedge and Mitigation of Risk Strategy

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

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

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(B) Credit risk analysis

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

- i Issuer credit risk is a risk that Cathay Securities and its subsidiaries may encounter financial losses because the issuers (guarantors) or banks are not able to pay where it is obligated to do on financial liabilities instruments or bank savings which Cathay Securities and its subsidiaries invest.
- ii Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses
- iii Underlying asset credit risk is a risk that Cathay Securities and its subsidiaries may encounter the losses from the fact that the credit quality turns weak and credit charges increase, credit rating reduces, or the terms of contract are violated from underlying asset which is related to the certain financial instruments.

Financial assets which 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.

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2016.6.30
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	\$192,431	\$-	\$-	\$-	\$192,431
Bonds payables	6,268,966	-	-	-	6,268,966
Financial liabilities at fair value through profit or loss -current	1,907,518	-	-	-	1,907,518
Liabilities for bonds with repurchase agreements	1,425,103	-	-	-	1,425,103
Deposits for securities borrowed	23,038	45,004	67,506	270,026	405,574
Futures trader's equity	4,861,107	-	-	-	4,861,107
Account payables	6,669,967	-	-	286,776	6,956,743
Others	939	-	-	24,882	25,821
Total	\$21,349,069	\$45,004	\$67,506	\$581,684	\$22,043,263
% to the total	96.85%	0.20%	0.31%	2.64%	100%

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

2016.6.30
Cash Flow Gap

Financial Assets	Received Terms				Total
	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	
Cash and cash equivalents	\$2,453,355	\$-	\$-	\$-	\$2,453,355
Financial assets at fair value through profit or loss -current					
Operations Security	5,792,987	-	-	-	5,792,987
Open-end Funds	120,069	-	-	-	120,069
Call option-futures	-	-	-	29,923	29,923
Futures trading margin	-	-	-	574,394	574,394
Available for sale financial assets	453,364	-	-	297,859	751,223
Client margin accounts	4,863,997	-	-	-	4,863,997
Other current assets-time deposit	-	-	-	900,000	900,000
Account Receivables	8,459,621	398	597	2,388	8,463,004
Securities financing receivables	193,171	381,598	572,397	2,289,593	3,436,759
Others	-	-	-	1,052,166	1,052,166
Subtotal	22,336,564	381,996	572,994	5,146,323	28,437,877
Residual cash	\$987,495	\$336,992	\$505,488	\$4,564,639	\$6,394,614

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ii Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- ① Raising money and balance sheet adjustment are made in accordance with the Group “Crisis Management Principles” and “Regulations of Emergency Management”
- ② Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- ③ Balance sheet adjustment: (i) sales of securities (ii) retrieve short-term capital invested in currency market.

(D) Market risk analysis

Cathay Securities and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing continuously

i Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

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- ① Price value of basis point (PVBP): denoting the change in the value of a position given a basis point change in the yield curve.
- ② Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.
- ③ Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.
- ④ Vega: denoting the change in the value of a position given 1% price change of a certain underlying asset.

ii Value at Risk

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

VaR at one single trading day within 99% confidence level

2016.1.1~2016.6.30	NT\$ (in thousands)
Period Ended	\$36,954
Average	40,996
Lowest	30,249
Highest	53,719

iii Stress Test

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

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① Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

② Hypothesis Scenario

Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

2016.6.30

Table of Stress Test

<u>Risk Factors</u>	<u>Price Risk</u>	<u>Changes (+/-)</u>	<u>Changes in profit and loss</u>
Equity Risk	Stock index	<u>-10%</u>	\$(166,645)
Interest Risk	Yield Curve	<u>+100bps</u>	(51,820)
Exchange Risk	Exchange Rate	<u>+3%</u>	(8,473)
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 June 2016, 31 December 2015 and 30 June 2015, Cathay life and its subsidiaries provide loans amounting to GBP £345,000 thousand, £345,000 thousand and £345,000 thousand to the consolidated structured entities.

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B. Unconsolidated structured entities

- a. The Group do not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities are limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

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

- b. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	<u>2016.6.30</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
Available-for-sale financial assets	\$36,024,613	\$108,006,170
Held-to-maturity financial assets	-	446,568
Debt instrument investments with no active market	-	144,145,614
Total	<u>\$36,024,613</u>	<u>\$252,598,352</u>

	<u>2015.12.31</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
Available-for-sale financial assets	\$32,950,640	\$120,360,084
Debt instrument investments with no active market	-	185,055,820
Total	<u>\$32,950,640</u>	<u>\$305,415,904</u>

	<u>2015.6.30</u>	
	<u>Private equity funds</u>	<u>Asset-backed securities</u>
Available-for-sale financial assets	\$22,953,776	\$132,599,913
Debt instrument investments with no active market	-	192,147,916
Total	<u>\$22,953,776</u>	<u>\$324,747,829</u>

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- c. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.6.30	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$1,056,980
Held-to-maturity financial assets	-	13,841,418
Debt instrument investments with no active market	-	9,739,583
Total	\$-	\$24,637,981

	2015.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$1,208,713
Held-to-maturity financial assets	-	15,165,099
Debt instrument investments with no active market	-	12,307,158
Total	\$-	\$28,680,970

	2015.6.30	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$1,308,307
Held-to-maturity financial assets	-	15,302,692
Debt instrument investments with no active market	-	6,076,718
Total	\$-	\$22,687,717

- d. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.6.30	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$31,123
Held-to-maturity financial assets	-	963,051
Total	\$-	\$994,174

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	2015.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	\$-	\$112,549
Held-to-maturity financial assets	-	1,069,768
Total	\$-	\$1,182,317

	2015.6.30	
	Private Fund	Asset Securitization commodity
Held-to-maturity financial assets	\$-	\$1,114,372

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

	2016.6.30			2015.12.31		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>						
<u>Monetary Items</u>						
USD	\$73,695,111	32.2860	\$2,379,320,354	\$65,214,274	33.0660	\$2,156,375,184
CNY	19,480,630	4.8472	94,426,510	35,057,071	5.0326	176,428,216
<u>Non-Monetary Items</u>						
USD	9,932,875	32.2860	320,692,802	9,827,120	33.0660	324,943,550
<u>Financial Liabilities</u>						
<u>Monetary Items</u>						
USD	10,388,304	32.2860	335,396,783	8,839,718	33.0660	292,294,115

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	2015.6.30		
	Foreign Currency	Exchange Rate	NT\$
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$55,677,401	31.0700	\$1,729,896,849
CNY	60,858,800	5.0071	304,726,097
<u>Non-Monetary Items</u>			
USD	7,372,964	31.0700	229,077,991
<u>Financial Liabilities</u>			
<u>Monetary Items</u>			
USD	8,350,672	31.0700	259,455,379

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange losses for the three-month and six-month periods ended 30 June 2016 and 2014 were \$5,553,279 thousand, 8,438,623 thousand, 35,942,174 thousand and \$22,517,552 thousand, respectively.

(10) Discretionary account management

A. Discretionary account management for Cathay Life

	2016.6.30		2015.12.31		2015.6.30	
Item	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	\$112,059,540	\$112,059,540	\$108,750,029	\$108,750,029	\$122,763,600	\$122,763,600
Overseas stocks	44,399,690	44,399,690	46,578,040	46,578,040	35,300,108	35,300,108
Reverse repurchase bonds	12,868,023	12,868,023	4,348,000	4,348,000	11,223,000	11,223,000
Cash in banks	15,225,052	15,225,052	12,738,482	12,738,482	41,897,821	41,897,821
Beneficiary certificates	163,141	163,141	2,233,839	2,233,839	2,667,874	2,667,874
Futures and options	1,150,014	1,150,014	1,157,650	1,157,650	1,334,986	1,334,986
Total	\$185,865,460	\$185,865,460	\$175,806,040	\$175,806,040	\$215,187,389	\$215,187,389

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As of 30 June 2016, Cathay Life entered into discretionary account management contracts in the amounts of \$102,500,000 thousand, US\$1,390,000 thousand, and HK\$1,780,000 thousand. As of 31 December 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$97,000,000 thousand, US\$1,237,000 thousand, and HK\$1,780,000 thousand. As of 30 June 2015, Cathay Life entered into discretionary account management contracts in the amounts of \$128,500,000 thousand, US\$1,240,000 thousand, and HK\$1,780,000 thousand.

B. Discretionary account management for Cathay Century

Item	2016.6.30		2015.12.31		2015.6.30	
	Carrying		Carrying		Carrying	
	amount	Fair value	amount	Fair value	amount	Fair value
Listed stocks	\$483,021	\$483,021	\$410,018	\$410,018	\$765,862	\$765,862
Overseas stocks	123,782	123,782	77,752	77,752	86,751	86,751
Reverse repurchase bonds	595,359	595,359	215,235	215,235	202,665	202,665
Cash in banks	222,427	222,427	47,528	47,528	72,626	72,626
Futures and options	2,007	2,007	2,006	2,006	2,005	2,005
Total	\$1,426,596	\$1,426,596	\$752,539	\$752,539	\$1,129,909	\$1,129,909

As of 30 June 2016, 31 December 2015 and 30 June 2015, Cathay Century entered into discretionary account management contracts in the amounts of \$2,000,000 thousand, \$1,400,000 thousand, and \$1,700,000 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.

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A. Capital adequacy ratio on a consolidated basis:

2016.6.30

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$449,737,446	\$513,205,111
Cathay United Bank	100.00%	208,918,505	118,904,162
Cathay Securities	100.00%	4,919,713	2,197,514
Cathay Life	100.00%	367,651,990	255,259,954
Cathay Century	100.00%	8,040,199	4,403,978
Cathay Venture	100.00%	3,160,841	1,639,119
Cathay Securities Investment Trust	100.00%	1,992,004	1,319,341
Less: Item		(510,960,968)	(486,269,893)
Subtotal		(A) \$533,459,730	(B) \$410,659,286
Consolidated capital adequacy ratios		(C) =(A)/(B)	129.90%

2015.6.30

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	\$430,225,922	\$488,412,196
Cathay United Bank	100.00%	202,518,883	101,920,597
Cathay Securities	100.00%	5,031,432	2,354,921
Cathay Life	100.00%	321,686,996	218,302,780
Cathay Century	100.00%	7,624,269	4,303,112
Cathay Venture	100.00%	2,923,015	1,473,286
Cathay Securities Investment Trust	100.00%	2,059,564	1,356,281
Less: Item		(490,816,624)	(463,929,062)
Subtotal		(A) \$481,253,457	(B) \$354,194,111
Consolidated capital adequacy ratios		(C) =(A)/(B)	135.87%

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B. Eligible capital

2016.6.30

Item	(NT\$)
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	88,781,195
Legal reserve	30,577,724
Special reserve	149,108,336
Accumulated profit	39,266,759
Equity adjustments	17,115,946
Less: Goodwill	-
Less: Deferred assets	(744,616)
Less: Treasury stock	-
Consolidated eligible capital	\$449,737,446

2015.6.30

Item	(NT\$)
Common Stock	\$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-
Preferred Stocks and subordinated financial debenture	4,000,000
Capital collected in advance	-
Capital surplus	88,782,304
Legal reserve	24,820,095
Special reserve	105,420,809
Accumulated profit	48,571,931
Equity adjustments	34,039,120
Less: Goodwill	-
Less: Deferred assets	(1,040,439)
Less: Treasury stock	-
Consolidated eligible capital	\$430,225,922

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(12) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 33 for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 735 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

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

D. Locations and business utilities:

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

All the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank may engage in life insurance business and promote life insurance products.

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Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (179 locations).

Cathay Security may engage in cross-selling activities in Cathay United Bank's Banxin branch (and other 22 branches) and Cathay Life's Taitung branch (and other 2 branches). The shared business locations are available for account opening.

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

(13) Significant contracts:

None

(14) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, MOEAIC authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US\$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 30 June 2016, 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 June 2016, Cathay Life's remittances to this general insurance company totaled approximately CNY¥200,000 thousand and US\$28,140 thousand.
- C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY¥300,000 (US\$47,000) thousand and CNY¥500,000 (US\$80,000) thousand, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY¥700,000 (US\$111,000) thousand to increase the share capital. As of 30 June 2016, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY¥1,500,000 thousand.
- D. On 31 December 2006, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of joint venture with Cathay Life.) Cathay Century and Cathay Life have received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company in China. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 30 June 2016, Cathay Century's remittances to this company totaled approximately US\$60,560 thousand.

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- E. MOEAIC approved Cathay United Bank to remit to China CNY¥400,000 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY¥600,000 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥1,000,000 (US\$164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US\$94,310) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY¥400,000 thousand on 5 January 2015.
- F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY¥66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY¥200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 30 June 2016, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY¥66,600 thousand.
- G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY¥8,000 (NT\$38,970) thousand.

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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.

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A. Income information of reporting segment

2016.4.1~2016.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,138,557	\$32,264,097	\$130,356	\$32,417	\$(79,868)	\$38,485,559
Net income other than interest	3,452,488	89,587,768	2,141,379	469,317	4,132,330	99,783,282
Total income	9,591,045	121,851,865	2,271,735	501,734	4,052,462	138,268,841
Bad debt expenses and Provision for premiums reserve	(1,212,617)	(449,851)	(10,076)	-	-	(1,672,544)
The net change of insurance liabilities	-	(105,973,587)	(268,428)	-	-	(106,242,015)
Operating expenses	(6,279,638)	(9,305,515)	(1,281,996)	(382,260)	(1,653,618)	(18,903,027)
Income (loss) from continuing operations before income taxes	2,098,790	6,122,912	711,235	119,474	2,398,844	11,451,255
Income taxes (expense) benefit	(381,304)	(3,385,470)	(66,257)	(18,191)	(1,694,664)	(5,545,886)
Consolidated net income	1,717,486	2,737,442	644,978	101,283	704,180	5,905,369

2015.4.1~2015.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$6,746,631	\$26,840,169	\$126,374	\$35,020	\$(317,228)	\$33,430,966
Net income other than interest	3,061,083	93,180,511	1,863,783	546,754	668,255	99,320,386
Total income	9,807,714	120,020,680	1,990,157	581,774	351,027	132,751,352
Bad debt expenses and Provision for premiums reserve	119,983	(177,232)	2,734	-	-	(54,515)
The net change of insurance liabilities	-	(88,788,123)	(99,105)	-	-	(88,887,228)
Operating expenses	(5,820,585)	(6,957,420)	(1,113,980)	(374,966)	(370,638)	(14,637,589)
Income (loss) from continuing operations before income taxes	4,107,112	24,097,905	779,806	206,808	(19,611)	29,172,020
Income taxes (expense) benefit	(613,329)	(4,486,418)	(73,864)	(20,721)	(852,706)	(6,047,038)
Consolidated net income	3,493,783	19,611,487	705,942	186,087	(872,317)	23,124,982

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2016.1.1~2016.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$12,358,988	\$63,588,642	\$282,469	\$62,023	\$(218,770)	\$76,073,352
Net income other than interest	9,347,263	162,735,878	3,806,825	909,686	5,698,780	182,498,432
Total income	21,706,251	226,324,520	4,089,294	971,709	5,480,010	258,571,784
Bad debt expenses and Provision for premiums reserve	(1,932,908)	(366,048)	(10,572)	-	-	(2,309,528)
The net change of insurance liabilities	-	(200,198,208)	(374,088)	-	-	(200,572,296)
Operating expenses	(12,246,282)	(17,294,080)	(2,458,625)	(728,618)	(3,210,359)	(35,937,964)
Income (loss) from continuing operations before income taxes	7,527,061	8,466,184	1,246,009	243,091	2,269,651	19,751,996
Income taxes (expense) benefit	(1,177,979)	(2,407,054)	(112,203)	(32,750)	(1,778,775)	(5,508,761)
Consolidated net income	6,349,082	6,059,130	1,133,806	210,341	490,876	14,243,235

2015.1.1~2015.6.30

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	\$13,403,358	\$53,197,037	\$264,023	\$72,618	\$(626,709)	\$66,310,327
Net income other than interest	7,161,913	157,354,018	3,738,440	1,077,650	1,266,807	170,598,828
Total income	20,565,271	210,551,055	4,002,463	1,150,268	640,098	236,909,155
Bad debt expenses and Provision for premiums reserve	(65,896)	(98,282)	(2,630)	-	-	(166,808)
The net change of insurance liabilities	-	(158,815,413)	(437,561)	-	-	(159,252,974)
Operating expenses	(11,247,115)	(13,641,577)	(2,113,430)	(704,319)	(705,365)	(28,411,806)
Income (loss) from continuing operations before income taxes	9,252,260	37,995,783	1,448,842	445,949	(65,267)	49,077,567
Income taxes (expense) benefit	(1,482,050)	(4,984,803)	(132,107)	(46,262)	(1,198,691)	(7,843,913)
Consolidated net income	7,770,210	33,010,980	1,316,735	399,687	(1,263,958)	41,233,654

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.

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Cathay Financial Holding Co., Ltd.

Balance sheet

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

(Expressed in thousands of New Taiwan Dollars)

	2016.6.30	2015.12.31	2015.6.30
Assets			
Cash and cash equivalents	\$4,446,451	\$4,143,951	\$3,711,263
Available-for-sale financial assets - net	83,670	79,451	749,969
Securities purchased under agreements to resell	89,872	499,422	219,740
Receivables - net	26,718,417	822,620	23,619,754
Current income tax assets	5,025,756	4,323,586	4,322,279
Held-to-maturity financial assets	16,000,000	16,000,000	31,000,000
Investments accounted for using the equity method - net	483,869,893	487,136,590	458,407,005
Other financial assets	100,004	-	-
Property and equipment - net	6,916	7,249	6,484
Intangible assets - net	14,629	17,288	19,947
Deferred tax assets - net	744,616	875,454	1,040,439
Other assets - net	11,582	8,340	9,037
Total assets	\$537,111,806	\$513,913,951	\$523,105,917
Liabilities & Equity			
Liabilities			
Commercial paper payable - net	\$30,420,000	\$28,820,000	\$20,720,000
Payables	33,714,770	8,278,845	32,202,184
Current income tax liabilities	1,775,428	946,549	2,311,242
Bonds payable	20,000,000	20,000,000	40,000,000
Provisions	636,026	726,597	598,682
Deferred tax liabilities	1,419	2,915	1
Other liabilities	82,101	82,051	7,447
Total liabilities	86,629,744	58,856,957	95,839,556
Equity			
Capital stock			
Common stock	125,632,102	125,632,102	125,632,102
Capital surplus	88,781,195	88,781,174	88,782,304
Retained earnings			
Legal reserve	30,577,724	24,820,095	24,820,095
Special reserve	149,108,336	140,185,120	105,420,809
Undistributed earnings	39,266,759	65,190,213	48,571,931
Other equity	17,115,946	10,448,290	34,039,120
Total equity	450,482,062	455,056,994	427,266,361
Total liabilities and equity	\$537,111,806	\$513,913,951	\$523,105,917

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Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the three-month periods ended 30 June 2016 and 2015, and six-month periods ended 30 June 2016 and 2015

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

	2016.4.1~2016.6.30	2015.4.1~2015.6.30	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Income				
Gains on investment - equity method	\$7,527,216	\$23,969,468	\$16,023,532	\$42,402,223
Other operating income	112,246	246,551	216,826	484,066
	<u>7,639,462</u>	<u>24,216,019</u>	<u>16,240,358</u>	<u>42,886,289</u>
Expenses and loss				
Operating expenses	(151,696)	(146,136)	(361,107)	(299,914)
Other expenses and losses	(168,099)	(343,399)	(360,074)	(676,341)
	<u>(319,795)</u>	<u>(489,535)</u>	<u>(721,181)</u>	<u>(976,255)</u>
Profit before income tax from continuing operations	7,319,667	23,726,484	15,519,177	41,910,034
Income tax expense	(1,602,688)	(753,712)	(1,635,366)	(1,014,744)
Profit after income tax from continuing operations	<u>5,716,979</u>	<u>22,972,772</u>	<u>13,883,811</u>	<u>40,895,290</u>
Net Income	<u>5,716,979</u>	<u>22,972,772</u>	<u>13,883,811</u>	<u>40,895,290</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	(42,214)	452,865	744,003	214,522
To be reclassified to profit or loss in subsequent periods:				
Unrealized gains (losses) from available-for-sale financial assets	2,825	(472)	4,219	43,932
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	5,173,547	(24,566,092)	5,919,434	(22,233,870)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	-	509	-	(7,698)
Other comprehensive income, net of tax	<u>5,134,158</u>	<u>(24,113,190)</u>	<u>6,667,656</u>	<u>(21,983,114)</u>
Total comprehensive income	<u>\$10,851,137</u>	<u>\$(1,140,418)</u>	<u>\$20,551,467</u>	<u>\$18,912,176</u>
Earnings per share (expressed in dollars)				
Basic earnings per share:				
Net income	<u>\$0.46</u>	<u>\$1.83</u>	<u>\$1.11</u>	<u>\$3.26</u>

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Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity

For the six-month periods ended 30 June 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of parent												
	Capital stock		Retained earnings				Other equity						Total
	Common stock	Capital Surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation Surplus	Others	
Balance on 1 January 2015	\$125,632,102	\$88,782,304	\$19,784,401	\$82,305,614	\$60,939,777	\$601,786	\$44,257,646	\$180,453	\$48,151	\$918,332	\$10,030,820	\$(781)	\$433,480,605
Appropriations and distribution for 2014													
Legal reserve			5,035,694		(5,035,694)								-
Special reserve				23,148,991	(23,148,991)								-
Cash dividends					(25,126,420)								(25,126,420)
Reversal of special reserve				(33,796)	33,796								-
Net income for the six-month periods ended 30 June 2015					40,895,290								40,895,290
Other comprehensive income for the six-month periods ended 30 June 2015						(974,662)	(21,224,718)	1,744	213,894	628	-	-	(21,983,114)
Comprehensive income for the six-month periods ended 30 June 2015	-	-	-	-	40,895,290	(974,662)	(21,224,718)	1,744	213,894	628	-	-	18,912,176
Others					14,173						(14,173)		-
Balance on 30 June 2015	\$125,632,102	\$88,782,304	\$24,820,095	\$105,420,809	\$48,571,931	\$(372,876)	\$23,032,928	\$182,197	\$262,045	\$918,960	\$10,016,647	\$(781)	\$427,266,361
Balance on 1 January 2016	\$125,632,102	\$88,781,174	\$24,820,095	\$140,185,120	\$65,190,213	\$1,865,366	\$(417,073)	\$371,524	\$83,462	\$(1,562,755)	\$10,108,783	\$(1,017)	\$455,056,994
Appropriations and distribution for 2015													
Legal reserve			5,757,629		(5,757,629)								-
Special reserve				8,923,216	(8,923,216)								-
Cash dividends					(25,126,420)								(25,126,420)
Other additional paid-in capital													
Share of changes in net assets of associates and joint ventures accounted for using the equity method		21											21
Net income for the six-month periods ended 30 June 2016					13,883,811								13,883,811
Other comprehensive income for the six-month periods ended 30 June 2016						(5,008,648)	10,873,096	59,205	746,542	(2,539)	-	-	6,667,656
Comprehensive income for the six-month periods ended 30 June 2016	-	-	-	-	13,883,811	(5,008,648)	10,873,096	59,205	746,542	(2,539)	-	-	20,551,467
Balance on 30 June 2016	\$125,632,102	\$88,781,195	\$30,577,724	\$149,108,336	\$39,266,759	\$(3,143,282)	\$10,456,023	\$430,729	\$830,004	\$(1,565,294)	\$10,108,783	\$(1,017)	\$450,482,062

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the six-month periods ended 30 June 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Cash flows from operating activities		
Profit before income tax from continuing operations	\$15,519,177	\$41,910,034
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	852	791
Amortization	2,659	2,659
Interest expenses	324,706	653,506
Interest income	(208,475)	(472,685)
Share of profit of associates and joint ventures accounted for using the equity method	(16,023,532)	(42,402,223)
Losses on disposal of property and equipment	-	212
Unrealized foreign exchange losses	16,902	53
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	255,825	(30,197)
Increase in other financial assets	(100,004)	-
(Increase) decrease in other assets	(3,242)	137,098
Increase (decrease) in payables	45,954	(4,343,717)
Decrease in provisions	(90,571)	(119,373)
Increase (decrease) in other liabilities	50	(2,094)
Cash generated from operations		
Interest received	10,540	15,487
Interest paid	(61,155)	(83,232)
Income taxes (paid) received	(1,379,315)	4,373,658
Net cash flows used in operating activities	(1,689,629)	(360,023)
Cash flows from investing activities		
Acquisition of property and equipment	(519)	(759)
Net cash used in investing activities	(519)	(759)
Cash flows from financing activities		
Increase in commercial paper payable	1,600,000	370,000
Net cash flows from financing activities	1,600,000	370,000
Effects of exchange rate changes on cash and cash equivalents	(16,902)	(53)
(Decrease) increase in cash and cash equivalents	(107,050)	9,165
Cash and cash equivalents at the beginning of periods	4,643,373	3,921,838
Cash and cash equivalents at the end of periods	\$4,536,323	\$3,931,003
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	\$4,446,451	\$3,711,263
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	89,872	219,740
Cash and cash equivalents at the end of periods	\$4,536,323	\$3,931,003

English Translation of Financial Statements Originally Issued in Chinese

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

**Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$180,728,474	\$282,251,609
Receivables	74,440,994	55,434,523
Financial asset at fair value through profit or loss	43,406,044	40,728,630
Available-for-sale financial assets	1,310,557,151	1,267,346,892
Derivative financial assets for hedging	520,063	217,733
Investments accounted for using the equity method	80,144,867	62,913,964
Investment in debt securities with no active market	1,957,038,018	1,423,404,698
Held-to-maturity financial assets	23,099,345	24,605,989
Other financial assets	9,500,000	32,900,000
Investment property	414,462,729	406,937,537
Loans	633,733,540	680,642,233
Reinsurance contract assets	810,553	542,327
Property and equipment	27,949,280	25,810,558
Intangible assets	38,649,944	99,826
Deferred tax assets	5,905,704	10,274,452
Other assets	28,981,013	19,065,770
Separate account product assets	488,304,148	465,188,882
Total assets	\$5,318,231,867	\$4,798,365,623
Liabilities		
Payables	\$66,173,978	\$33,557,992
Financial liability at fair value through profit or loss	1,589,391	8,608,547
Preferred stock liability	15,000,000	30,000,000
Insurance liabilities	4,331,775,227	3,836,804,818
Reserve for insurance contract		
with feature of financial instruments	20,894,863	49,515,913
Foreign exchange volatility reserve	13,352,087	11,635,420
Liability reserve	150,489	2,150,629
Deferred tax liabilities	31,638,583	28,306,116
Other liabilities	5,406,436	6,348,400
Separate account product liabilities	488,304,148	465,188,882
Total liabilities	4,974,285,202	4,472,116,717
Stockholders' equity		
Capital stock	53,065,274	53,065,274
Capital surplus	13,028,033	13,029,142
Retained earnings	275,830,361	239,586,144
Other equity	2,022,997	20,568,346
Total stockholders' equity	343,946,665	326,248,906
Total liabilities and stockholders' equity	\$5,318,231,867	\$4,798,365,623

**Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$404,180,470	\$353,856,126
Operating costs	(382,200,960)	(311,408,639)
Operating expenses	(12,475,973)	(8,108,950)
Operating profit	9,503,537	34,338,537
Non-operating income and expenses	967,495	691,931
Profit from continuing operations before income tax	10,471,032	35,030,468
Income tax expense	(2,860,305)	(5,908,118)
Profit from continuing operations after income tax	7,610,727	29,122,350
Net income	7,610,727	29,122,350
Other comprehensive income (loss)	5,679,930	(21,161,326)
Total comprehensive income	\$13,290,657	\$7,961,024
 Primary earnings per share	 \$1.43	 \$5.49

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**Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$6,807,583	\$6,405,474
Receivables	2,090,934	2,210,115
Financial asset at fair value through profit or loss	1,452,802	1,425,035
Available-for-sale financial assets	8,330,257	8,047,743
Investments accounted for using the equity method	772,146	1,108,815
Investment in debt securities with no active market	3,320,085	3,274,907
Held-to-maturity financial assets	4,444,017	3,035,966
Loans	362,385	365,974
Reinsurance contract assets	8,318,516	4,781,837
Property and equipment	99,126	145,546
Intangible assets	20,006	7,599
Deferred tax assets	140,147	97,696
Other assets	652,866	814,038
Total assets	\$36,810,870	\$31,720,745
Liabilities		
Payables	\$2,585,088	\$2,589,388
Financial liability at fair value through profit or loss	16,951	50,203
Preferred stock liability	1,000,000	1,000,000
Insurance liabilities	24,879,866	20,778,081
Liability reserve	381,577	282,891
Deferred tax liabilities	40,889	26,161
Other liabilities	392,855	256,787
Total liabilities	29,297,226	24,983,511
Stockholders' equity		
Capital stock	2,889,552	2,802,202
Retained earnings	4,912,561	3,925,734
Other equity	(288,469)	9,298
Total stockholders' equity	7,513,644	6,737,234
Total liabilities and stockholders' equity	\$36,810,870	\$31,720,745

**Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$7,734,805	\$7,297,455
Operating costs	(4,603,817)	(4,208,440)
Operating expenses	(2,476,627)	(2,309,404)
Operating profit	654,361	779,611
Non-operating income and expenses	(8,782)	(6,768)
Profit from continuing operations before income tax	645,579	772,843
Income tax expense	(112,203)	(132,107)
Profit from continuing operations after income tax	533,376	640,736
Net income	533,376	640,736
Other comprehensive income (loss)	86,553	(27,260)
Total comprehensive income	\$619,929	\$613,476
Primary earnings per share	\$1.85	\$2.22

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$1,547,540	\$890,183
Receivables	449,787	383,207
Financial asset at fair value through profit or loss	456,894	156,332
Available-for-sale financial assets	3,175,135	5,178,667
Investment in debt securities with no active market	7,729,420	5,488,744
Held-to-maturity financial assets	1,142,943	1,636,412
Loans	80,612	54,192
Reinsurance contract assets	19,341	10,393
Property and equipment	102,779	104,427
Intangible assets	36,379	56,716
Other assets	1,651,054	1,911,742
Separate account product assets	171,148	322,985
Total assets	\$16,563,032	\$16,194,000
Liabilities		
Short-term debt	\$311,029	\$297,118
Payables	853,419	565,379
Reserve for insurance contract with feature of financial instruments	4,686,072	5,047,860
Insurance liabilities	6,091,950	5,497,539
Other liabilities	33,869	80,766
Separate account product liabilities	171,148	322,985
Total liabilities	12,147,487	11,811,647
Stockholders' equity		
Capital stock	7,067,795	7,067,795
Retained earnings	(3,129,724)	(3,332,678)
Other equity	477,474	647,236
Total stockholders' equity	4,415,545	4,382,353
Total liabilities and stockholders' equity	\$16,563,032	\$16,194,000

**Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.3.31
Operating income	\$2,450,607	\$2,402,423
Operating costs	(1,519,783)	(1,337,391)
Operating expenses	(612,528)	(525,742)
Operating profit	318,296	539,290
Non-operating income and expenses	120	(23,444)
Profit from continuing operations before income tax	318,416	515,846
Income tax expense	-	-
Profit from continuing operations after income tax	318,416	515,846
Net income	318,416	515,846
Other comprehensive loss	(391,281)	(66,559)
Total comprehensive (loss) income	\$(72,865)	\$449,287
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 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$355,618	\$111,421
Receivables	270,291	178,760
Available-for-sale financial assets	5,881,199	3,623,096
Investment in debt securities with no active market	206,631	193,936
Loans	21,292	14,681
Property and equipment	15,623	17,133
Intangible assets	213	284
Deferred tax assets	-	7,514
Other assets	41,032	38,445
Total assets	\$6,791,899	\$4,185,270
Liabilities		
Payables	\$57,756	\$33,231
Insurance liabilities	991,899	640,143
Other liabilities	476	-
Total liabilities	1,050,131	673,374
Stockholders' equity		
Capital stock	5,410,990	3,424,930
Retained earnings	307,944	176,289
Other equity	22,834	(89,323)
Total stockholders' equity	5,741,768	3,511,896
Total liabilities and stockholders' equity	\$6,791,899	\$4,185,270

**Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$457,380	\$299,935
Operating costs	(218,437)	(246,293)
Operating expenses	(122,011)	(88,867)
Operating profit (loss)	116,932	(35,225)
Non-operating income and expenses	841	4,306
Profit (loss) from continuing operations before income tax	117,773	(30,919)
Income tax (expense) profit	(21,883)	7,667
Profit (loss) from continuing operations after income tax	95,890	(23,252)
Net income (loss)	95,890	(23,252)
Other comprehensive income (loss)	85,710	(131,390)
Total comprehensive income (loss)	\$181,600	\$(154,642)
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 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$575,273	\$360,552
Investment property	6,930,311	6,745,135
Property and equipment	610,690	648,922
Total assets	<u>\$8,116,274</u>	<u>\$7,754,609</u>
Liabilities		
Current liabilities	\$1,228	\$1,102
Deferred tax liabilities	257,631	118,791
Other liabilities	93,118	93,480
Total liabilities	<u>351,977</u>	<u>213,373</u>
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	420,078	(47,559)
Other equity	120,784	365,360
Total stockholders' equity	<u>7,764,297</u>	<u>7,541,236</u>
Total liabilities and stockholders' equity	<u>\$8,116,274</u>	<u>\$7,754,609</u>

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$539,574	\$140,516
Operating expenses	(35,849)	(42,899)
Operating profit	503,725	97,617
Non-operating income and expenses	(10)	167
Profit from continuing operations before income tax	503,715	97,784
Income tax expense	(123,926)	(23,806)
Profit from continuing operations after income tax	379,789	73,978
Net income	379,789	73,978
Other comprehensive loss	(366,410)	(153,236)
Total comprehensive income (loss)	<u>\$13,379</u>	<u>\$(79,258)</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.

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**Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$1,631,158	\$1,525,742
Investment property	13,931,725	15,015,327
Total assets	<u>\$15,562,883</u>	<u>\$16,541,069</u>
Liabilities		
Current liabilities	\$52,248	\$142,007
Total liabilities	<u>52,248</u>	<u>142,007</u>
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	1,455,086	451,192
Other equity	(2,598,464)	(706,143)
Total stockholders' equity	<u>15,510,635</u>	<u>16,399,062</u>
Total liabilities and stockholders' equity	<u>\$15,562,883</u>	<u>\$16,541,069</u>

**Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$936,241	\$399,800
Operating expenses	(666)	(235)
Operating profit	<u>935,575</u>	<u>399,565</u>
Profit from continuing operations before income tax	935,575	399,565
Income tax profit (expense)	47,925	(79,960)
Profit from continuing operations after income tax	<u>983,500</u>	<u>319,605</u>
Net income	983,500	319,605
Other comprehensive loss	(1,968,113)	(176,646)
Total comprehensive (loss) income	<u>\$(984,613)</u>	<u>\$142,959</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.

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**Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$16,874	\$14,778
Investment property	140,724	151,670
Total assets	<u>\$157,598</u>	<u>\$166,448</u>
Liabilities		
Current liabilities	\$471	\$1,578
Total liabilities	<u>471</u>	<u>1,578</u>
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	15,135	3,777
Other equity	(26,230)	(7,129)
Total stockholders' equity	<u>157,127</u>	<u>164,870</u>
Total liabilities and stockholders' equity	<u>\$157,598</u>	<u>\$166,448</u>

**Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$9,454	\$4,038
Operating expenses	(608)	(329)
Operating profit	8,846	3,709
Profit from continuing operations before income tax	8,846	3,709
Income tax profit (expense)	666	(808)
Profit from continuing operations after income tax	9,512	2,901
Net income	9,512	2,901
Other comprehensive loss	(19,869)	(1,787)
Total comprehensive (loss) income	<u>\$(10,357)</u>	<u>\$1,114</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.

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**Cathay Walbrook Holding 1 Limited
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$757,508	\$1,103,734
Investment property	23,658,369	25,321,043
Other non-current assets	28,876	-
Total assets	<u>\$24,444,753</u>	<u>\$26,424,777</u>
Liabilities		
Current liabilities	\$14,320,654	\$16,022,192
Total liabilities	<u>14,320,654</u>	<u>16,022,192</u>
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	893,577	(28,088)
Other equity	(958,568)	241,583
Total stockholders' equity	<u>10,124,099</u>	<u>10,402,585</u>
Total liabilities and stockholders' equity	<u>\$24,444,753</u>	<u>\$26,424,777</u>

**Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2016.6.30
Operating income	\$1,508,576	\$45,184
Operating cost	(271,113)	(64,416)
Operating expenses	(511)	(4)
Operating profit (loss)	<u>1,236,952</u>	<u>(19,236)</u>
Profit (loss) from continuing operations before income tax	1,236,952	(19,236)
Income tax expense	(21,484)	(8,852)
Profit (loss) from continuing operations after income tax	<u>1,215,468</u>	<u>(28,088)</u>
Net income (loss)	1,215,468	(28,088)
Other comprehensive (loss) income	(1,250,837)	241,583
Total comprehensive (loss) income	<u>\$(35,369)</u>	<u>\$213,495</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Walbrook Holding 1 Limited is a limited company; there is no information about earnings per share.

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**Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$38,861	\$58,087
Investment property	1,245,177	1,332,687
Other non-current assets	1,520	-
Total assets	<u>\$1,285,558</u>	<u>\$1,390,774</u>
Liabilities		
Current liabilities	\$753,719	\$843,273
Total liabilities	<u>753,719</u>	<u>843,273</u>
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	45,915	(1,482)
Other equity	(50,344)	12,715
Total stockholders' equity	<u>531,839</u>	<u>547,501</u>
Total liabilities and stockholders' equity	<u>\$1,285,558</u>	<u>\$1,390,774</u>

**Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.3.31	2015.1.1~2015.3.31
Operating income	\$79,399	\$2,378
Operating cost	(14,269)	(3,390)
Operating expenses	(512)	(4)
Operating profit (loss)	<u>64,618</u>	<u>(1,016)</u>
Profit (loss) from continuing operations before income tax	64,618	(1,016)
Income tax expense	(1,131)	(466)
Profit (loss) from continuing operations after income tax	<u>63,487</u>	<u>(1,482)</u>
Net income (loss)	63,487	(1,482)
Other comprehensive (loss) income	(65,724)	12,715
Total comprehensive (loss) income	<u>\$(2,237)</u>	<u>\$11,233</u>
Primary earnings per share	<u>Note</u>	<u>Note</u>

Note: Cathay Walbrook Holding 2 Limited is a limited company; there is no information about earnings per share.

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**Cathay Insurance Co., Ltd (China)
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$4,731,135	\$1,248,938
Receivables	257,365	237,710
Financial asset at fair value through profit or loss	193,279	253,618
Available-for-sale financial assets	1,144,246	673,559
Investment in debt securities with no active market	48,600	225,493
Reinsurance contract assets	541,596	787,181
Property and equipment	74,508	86,391
Intangible assets	41,973	28,282
Other assets	831,172	860,823
Total assets	\$7,863,874	\$4,401,995
Liabilities		
Payables	\$366,958	\$345,674
Insurance liabilities	3,044,960	2,918,846
Other liabilities	4,133,350	81,887
Total liabilities	7,545,268	3,346,407
Stockholders' equity		
Capital stock	3,707,999	3,707,999
Retained earnings	(3,567,186)	(2,839,134)
Other equity	177,793	186,723
Total stockholders' equity	318,606	1,055,588
Total liabilities and stockholders' equity	\$7,863,874	\$4,401,995

**Cathay Insurance Co., Ltd (China)
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$1,635,440	\$1,319,197
Operating costs	(1,241,205)	(1,047,209)
Operating expenses	(700,864)	(599,783)
Operating loss	(306,629)	(327,795)
Non-operating income and expenses	5,476	(676)
Loss from continuing operations before income tax	(301,153)	(328,471)
Income tax expense	-	-
Loss from continuing operations after income tax	(301,153)	(328,471)
Net loss	(301,153)	(328,471)
Other comprehensive loss	(31,008)	(25,832)
Total comprehensive loss	\$(332,161)	\$(354,303)
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 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.3.31	2015.3.31
Assets		
Cash and cash equivalents	\$191,036	\$112,640
Receivables	78,857	110,436
Investment in debt securities with no active market	-	93,160
Held-to-maturity financial assets	439,096	341,788
Reinsurance contract assets	333,393	392,552
Property and equipment	548	7,176
Intangible assets	918	6
Other assets	33,629	28,372
Total assets	\$1,077,477	\$1,086,130
Liabilities		
Payables	\$42,814	\$46,739
Liability reserve	417,050	456,845
Deferred tax liabilities	46	38
Other liabilities	4,724	1,487
Total liabilities	464,634	505,109
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(151,693)	(151,010)
Other equity	(81,049)	(113,554)
Total stockholders' equity	612,843	581,021
Total liabilities and stockholders' equity	\$1,077,477	\$1,086,130

**Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$82,938	\$53,195
Operating costs	(28,439)	(13,150)
Operating expenses	(52,297)	(38,701)
Operating profit	2,202	1,344
Non-operating income and expenses	50	9
Profit from continuing operations before income tax	2,252	1,353
Income tax expense	-	-
Profit from continuing operations after income tax	2,252	1,353
Net income	2,252	1,353
Other comprehensive income (loss)	17,675	(26,934)
Total comprehensive income (loss)	\$19,927	\$(25,581)
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 June 2016
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30
Assets	
Current assets	\$3,855,839
Investment in debt securities with no active market	3,251
Held-to-maturity financial assets	446,568
Property and equipment	177,406
Intangible assets	11,643,332
Other non-current assets	241,126
Total assets	<u>\$16,367,522</u>
Liabilities	
Current liabilities	\$938,567
Liability reserve	262,485
Deferred tax liabilities	534,180
Other non-current liabilities	296,763
Total liabilities	<u>2,031,995</u>
Stockholders' equity	
Capital stock	91,191
Capital surplus	14,415,868
Retained earnings	(118,551)
Other equity	(374,110)
Non-controlling interest	321,129
Total stockholders' equity	<u>14,335,527</u>
Total liabilities and stockholders' equity	<u>\$16,367,522</u>

**Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30
Operating income	\$2,725,335
Operating costs	(370,398)
Operating expenses	(2,334,504)
Operating profit	20,433
Profit from continuing operations before income tax	20,433
Income tax expense	(19,899)
Profit from continuing operations after income tax	534
Net income	534
Other comprehensive loss	(619,124)
Total comprehensive loss	<u>\$(618,590)</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 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$59,365,945	\$114,388,925
Due from the Central Bank and call loans to banks	75,668,175	101,472,159
Financial assets at fair value through profit or loss	265,588,447	144,722,815
Derivative financial assets for hedging	-	221,367
Securities purchased under agreements to resell	38,738,367	16,371,916
Receivables	73,776,556	97,671,819
Discounts and loans	1,245,575,375	1,098,891,018
Available-for-sale financial assets	100,872,467	108,339,315
Held-to-maturity financial assets	39,445,335	48,182,538
Investments accounted for using the equity method	7,779,083	7,392,345
Other financial assets	6,669	2,005
Investment in debt securities with no active market	436,880,530	473,937,848
Property and equipment	24,216,466	24,716,075
Investment property	1,613,159	1,339,839
Intangible assets	7,393,713	7,137,344
Deferred tax assets	2,042,557	1,366,168
Other assets	32,276,616	21,628,963
Total assets	\$2,411,239,460	\$2,267,782,459
Liabilities		
Due to the Central Bank and call loans from banks	\$60,607,894	\$54,865,388
Financial liabilities at fair value through profit or loss	88,594,295	64,105,856
Securities sold under agreements to repurchase	42,186,204	76,258,904
Payables	25,963,427	24,490,845
Deposits and remittances	1,908,596,003	1,752,816,747
Financial debentures payable	51,900,000	67,195,124
Other financial liabilities	65,432,880	73,579,145
Liability reserve	3,060,877	2,758,340
Deferred tax liabilities	2,583,160	987,489
Other liabilities	9,648,592	6,246,111
Total liabilities	2,258,573,332	2,123,303,949
Stockholders' equity		
Capital stock	72,099,815	69,479,605
Capital surplus	23,969,412	23,969,412
Retained earnings	51,856,776	48,199,557
Other equity	4,740,125	2,829,936
Total stockholders' equity	152,666,128	144,478,510
Total liabilities and stockholders' equity	\$2,411,239,460	\$2,267,782,459

**Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Interest income	\$18,465,689	\$20,170,633
Interest expenses	(6,919,383)	(7,412,905)
Operating profit	11,546,306	12,757,728
Non-interest income	12,995,671	11,080,340
Total income	24,541,977	23,838,068
Bad debt expense and reserve for loss on guarantees	(1,843,035)	90,802
Operating expenses	(12,288,218)	(11,287,821)
Profit from continuing operations before income tax	10,410,724	12,641,049
Income tax expense	(1,106,000)	(1,437,400)
Profit from continuing operations after income tax	9,304,724	11,203,649
Net income	9,304,724	11,203,649
Other comprehensive income (loss)	775,450	(602,455)
Total comprehensive income	\$10,080,174	\$10,601,194
Primary earnings per share	\$1.29	\$1.55

English Translation of Financial Statements Originally Issued in Chinese

**Indovina Bank Limited
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$6,856,556	\$1,014,745
Due from the Central Bank and call loans to banks	8,802,635	12,853,298
Financial assets at fair value through profit or loss	380,812	75,232
Securities purchased under agreements to resell	74,218	-
Available-for-sale financial assets	2,999,086	2,907,847
Receivables	253,856	568,373
Discounts and loans	24,061,527	18,968,161
Held-to-maturity financial assets	4,650,916	2,665,562
Property and equipment	536,669	435,866
Intangible assets	20,064	22,779
Deferred tax assets	-	2,591
Other assets	501,166	456,763
Total assets	\$49,137,505	\$39,971,217
Liabilities		
Due to the Central Bank and call loans from banks	\$13,891,166	\$6,606,255
Financial liabilities at fair value through profit or loss	70,910	-
Payables	442,113	638,274
Current income tax liabilities	76,353	219,176
Deposits and remittances	27,025,439	24,850,970
Deferred tax liabilities	42,061	10,605
Other liabilities	158,193	359,475
Total liabilities	41,706,235	32,684,755
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,180,310	1,345,611
Other equity	156,049	(154,060)
Total stockholders' equity	7,431,270	7,286,462
Total liabilities and stockholders' equity	\$49,137,505	\$39,971,217

**Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Interest income	\$1,126,992	\$925,802
Interest expenses	(523,515)	(418,194)
Net interest income	603,477	507,608
Non-interest income	68,069	96,074
Total income	671,546	603,682
Bad debt expense and reserve for loss on guarantees	(66,957)	(140,263)
Operating expenses	(252,734)	(258,239)
Profit from continuing operations before income tax	351,855	205,180
Income tax expense	(66,631)	(44,300)
Profit from continuing operations after income tax	285,224	160,880
Net income	285,224	160,880
Other comprehensive loss	(181,698)	(221,691)
Total comprehensive income (loss)	\$103,526	\$(60,811)
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 June 2016 and 30 June 2015

(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30	2015.6.30
Assets		
Cash and cash equivalents	\$972,464	\$1,368,792
Due from the Central Bank and call loans to banks	1,707,702	1,071,559
Available-for-sale financial assets	826	795
Receivables	99,111	50,721
Discounts and loans	6,067,000	3,364,849
Property and equipment	163,409	154,388
Intangible assets	40,610	9,790
Other assets	124,701	110,308
Total assets	\$9,175,823	\$6,131,202
Liabilities		
Due to the Central Bank and call loans from banks	\$981,933	\$151
Payables	62,546	67,121
Deposits and remittances	6,185,583	4,349,498
Deferred tax liabilities	9,473	-
Other liabilities	35,727	13,982
Total liabilities	7,275,262	4,430,752
Stockholders' equity		
Capital stock	1,786,169	1,786,169
Retained earnings	(16,599)	(152,186)
Other equity	130,991	66,467
Total stockholders' equity	1,900,561	1,700,450
Total liabilities and stockholders' equity	\$9,175,823	\$6,131,202

Cathay United Bank (Cambodia) Corporation Limited

Condensed Statement of Comprehensive Income

For the six-month periods ended 30 June 2016 and 2015

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

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Interest income	\$238,684	\$134,350
Interest expenses	(57,919)	(25,066)
Net interest income	180,765	109,284
Non-interest income	49,823	38,785
Total income	230,588	148,069
Bad debt expense and reserve for loss on guarantees	(22,915)	(16,435)
Operating expenses	(115,932)	(78,458)
Profit from continuing operations before income tax	91,741	53,176
Income tax expense	(3,812)	(1,949)
Profit from continuing operations after income tax	87,929	51,227
Net profit	87,929	51,227
Other comprehensive loss	(44,983)	(34,602)
Total comprehensive income	\$42,946	\$16,625
Primary earnings per share	\$1.44	\$0.86

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$21,464,761	\$19,104,049
Available-for-sale financial assets	18	18
Investments accounted for using the equity method	1,598,374	1,079,626
Property and equipment	156,186	170,891
Intangible assets	52,396	53,812
Deferred tax assets	15,174	3,762
Other non-current assets	458,711	460,042
Total assets	<u>\$23,745,620</u>	<u>\$20,872,200</u>
Liabilities		
Current liabilities	\$16,731,708	\$14,342,859
Deferred tax liabilities	16,559	12,654
Other non-current liabilities	23,472	17,923
Total liabilities	<u>16,771,739</u>	<u>14,373,436</u>
Stockholders' equity		
Capital stock	4,950,000	4,700,000
Stock dividends to be distributed	380,000	250,000
Capital surplus	491,766	491,766
Retained earnings	829,060	858,266
Other equity	323,055	198,732
Total stockholders' equity	<u>6,973,881</u>	<u>6,498,764</u>
Total liabilities and stockholders' equity	<u>\$23,745,620</u>	<u>\$20,872,200</u>

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Revenues	\$1,037,084	\$1,222,861
Service fee expenses	(38,205)	(39,752)
Employee benefit expenses	(392,166)	(399,344)
Share of the profit of associates and joint ventures accounted for using the equity method	(2,206)	11,803
Operating expenses	(401,083)	(396,040)
Non-operating income and expenses	961	4,515
Profit from continuing operations before income tax	204,385	404,043
Income tax expense	(32,749)	(46,262)
Profit from continuing operations after income tax	<u>171,636</u>	<u>357,781</u>
Net income	171,636	357,781
Other comprehensive loss	(36,497)	(14,279)
Total comprehensive income	<u>\$135,139</u>	<u>\$343,502</u>
Primary earnings per share	<u>\$0.32</u>	<u>\$0.67</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 30 June 2016
(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30
Assets	
Current assets	\$840,796
Property and equipment	19,874
Intangible assets	2,070
Other non-current assets	93,775
Total assets	\$956,515
Liabilities	
Current liabilities	\$506,198
Total liabilities	506,198
Stockholders' equity	
Capital stock	728,544
Retained earnings	(261,491)
Other equity	(16,736)
Total stockholders' equity	450,317
Total liabilities and stockholders' equity	\$956,515

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.6.30
Revenues	\$41,913
Service fee expenses	(23,114)
Employee benefit expenses	(16,566)
Operating expenses	(22,129)
Non-operating income and expenses	284
Loss from continuing operations before income tax	(19,612)
Income tax expense	-
Loss from continuing operations after income tax	(19,612)
Net loss	(19,612)
Other comprehensive loss	(16,727)
Total comprehensive loss	\$(36,339)
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 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$163,887	\$401,832
Available-for-sale financial assets	2,812,666	2,236,475
Investments accounted for using the equity method	301,404	306,820
Property and equipment	176	246
Deferred tax assets	1,200	391
Other non-current assets	837	837
Total assets	\$3,280,170	\$2,946,601
Liabilities		
Current liabilities	\$106,970	\$17,536
Deferred tax liabilities	7,463	3,749
Other non-current liabilities	4,897	2,301
Total liabilities	119,330	23,586
Stockholders' equity		
Capital stock	2,403,000	2,403,000
Stock dividends to be distributed	168,250	-
Retained earnings	174,585	193,859
Other equity	415,005	326,156
Total stockholders' equity	3,160,840	2,923,015
Total liabilities and stockholders' equity	\$3,280,170	\$2,946,601

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$90,735	\$151,178
Operating costs	(14,241)	(13,130)
Operating expenses	(9,529)	(6,764)
Non-operating income and expenses	387	-
Profit from continuing operations before income tax	67,352	131,284
Income tax expense	(4,822)	(30,785)
Profit from continuing operations after income tax	62,530	100,499
Net income	62,530	100,499
Other comprehensive income (loss)	174,486	(212,009)
Total comprehensive income (loss)	\$237,016	\$(111,510)
Primary earnings per share	\$0.26	\$0.42

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 30 June 2016 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)**

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$1,939,535	\$2,025,419
Available-for-sale financial assets	90,625	96,474
Financial assets carried at cost	5,745	-
Investments accounted for using the equity method	270,954	283,218
Property and equipment	74,583	23,308
Intangible assets	9,911	8,584
Deferred tax assets	14,286	9,217
Other non-current assets	263,428	305,027
Total assets	\$2,669,067	\$2,751,247
Liabilities		
Current liabilities	\$516,509	\$535,987
Other non-current liabilities	160,554	155,696
Total liabilities	677,063	691,683
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	494,143	522,192
Other equity	(16,047)	23,464
Total stockholders' equity	1,992,004	2,059,564
Total liabilities and stockholders' equity	\$2,669,067	\$2,751,247

**Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)**

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$710,658	\$710,607
Operating expenses	(530,789)	(493,034)
Operating gross profit	179,869	217,573
Non-operating income and expenses	(15,094)	17,165
Profit from continuing operations before income tax	164,775	234,738
Income tax expense	(29,223)	(37,770)
Profit from continuing operations after income tax	135,552	196,968
Net income	135,552	196,968
Other comprehensive loss	(14,573)	(420)
Total comprehensive income	\$120,979	\$196,548
Primary earnings per share	\$0.90	\$1.31

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.

Condensed Balance Sheet

As of 30 June 2016 and 30 June 2015

(Expressed in thousands of New Taiwan Dollars)

Items	2016.6.30	2015.6.30
Assets		
Current assets	\$5,938,046	\$3,492,218
Available-for-sale financial assets	297,841	262,642
Property and equipment	67,838	56,522
Investment property	286,253	285,085
Intangible assets	18,169	8,445
Other non-current assets	158,787	169,175
Total assets	<u>\$6,766,934</u>	<u>\$4,274,087</u>
Liabilities		
Current liabilities	\$5,639,682	\$3,215,244
Deferred tax liabilities	6,788	6,379
Other non-current liabilities	1,456	1,446
Total liabilities	<u>5,647,926</u>	<u>3,223,069</u>
Stockholders' equity		
Capital stock	667,000	650,000
Retained earnings	184,237	171,442
Other equity	267,771	229,576
Total stockholders' equity	<u>1,119,008</u>	<u>1,051,018</u>
Total liabilities and stockholders' equity	<u>\$6,766,934</u>	<u>\$4,274,087</u>

Cathay Futures Co., Ltd.

Condensed Statement of Comprehensive Income

For the six-month periods ended 30 June 2016 and 2015

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

Items	2016.1.1~2016.6.30	2015.1.1~2015.6.30
Operating income	\$110,748	\$72,314
Operating expenses	<u>(121,645)</u>	<u>(78,719)</u>
Operating loss	(10,897)	(6,405)
Non-operating income and expenses	<u>34,681</u>	<u>25,278</u>
Profit from continuing operations before income tax	23,784	18,873
Income tax expense	<u>(1,944)</u>	<u>(1,501)</u>
Profit from continuing operations after income tax	<u>21,840</u>	<u>17,372</u>
Net income	21,840	17,372
Other comprehensive income	<u>19,754</u>	<u>14,522</u>
Total comprehensive income	<u>\$41,594</u>	<u>\$31,894</u>
Primary earnings per share	<u>\$0.33</u>	<u>\$0.26</u>