Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For the years ended
31 December 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

To Cathay Financial Holding Co., Ltd.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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

Measurement of insurance liabilities

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

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

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

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Investment properties measured at fair value

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

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

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

The Provision of Allowance for Loans

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

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

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

Assessment of goodwill impairment

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

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

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Ernst & Young

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

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

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

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

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

<u>**English Translation of Financial Statements Originally Issued in Chinese**</u>

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

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

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

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

Note2: For the year ended 2016, the remuneration to directors and supervisors in the amount of $1,800 thousand and employees' compensation in the amount of $4,920 thousand have been deducted from the Statement of Comprehensive Income.

Cathay Financial Holding Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	$50,184,505	$67,132,202
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation expenses	2,295,745	2,184,189
Amortizations expenses	2,893,403	1,457,120
Bad debt expense	5,231,640	2,467,452
Net (gains) losses on financial assets and liabilities at fair value through profit or loss	(15,117,537)	64,467,092
Interest expenses	15,405,207	17,081,656
Interest revenue	(168,883,110)	(157,079,850)
Dividend income	(23,847,539)	(21,327,538)
Net changes in insurance liabilities and provisions	347,690,617	334,637,365
Net changes of other liabilities and provisions	(6,154,971)	(1,068,276)
Share of gains of associates and joint ventures accounted for using the equity method	(1,202,103)	(1,107,708)
(Gains) losses on disposal or scrapping of property and equipment	(225,342)	9,485
(Gains) losses on disposal of investment properties	(1,028,782)	137,004
Losses on disposal of intangible assets	391	35,492
Gains on disposal of investments	(48,017,674)	(43,408,125)
Impairment losses on financial assets	117,002	32,160
Impairment losses on non-financial assets	58,162	-
Unrealized foreign exchange (gains) losses	(71,422)	48,609
Revaluation gains on investment properties	(1,847,034)	(11,236,452)
Others	(2,730,769)	(8,346)
Subtotal	104,565,884	187,321,329
Changes in operating assets and liabilities		
Changes in operating assets		
Increase in due from the Central Bank and call loans to banks	(2,636,468)	(4,996,676)
Decrease (increase) in financial assets at fair value through profit or loss	150,814,074	(24,811,830)
Increase in available-for-sale financial assets	(83,009,152)	(87,477,240)
(Increase) decrease in derivative financial assets for hedging	(1,798)	449,037
Increase in accounts receivable	(11,544,098)	(1,386,901)
(Increase) decrease in loans	(283,277,168)	55,380,486
Increase in reinsurance contract assets	(2,322,525)	(502,663)
Decrease in financial assets held to maturity	283,195	7,332
Increase in other financial assets	(200,653,210)	(573,530,812)
Increase in other assets	(4,785,493)	(23,256,988)
Subtotal	(437,132,643)	(660,126,255)
Changes in operating liabilities		
Increase (decrease) in due to the Central Bank and call loans from banks	36,402,468	(17,797,575)
Decrease in financial liabilities at fair value through profit or loss	(107,752,312)	(68,995,003)
Increase (decrease) in securities sold under agreements to repurchase	3,629,737	(6,326,428)
Increase (decrease) in payables	10,152,404	(13,185,305)
Increase in deposits	146,256,116	151,147,103
(Decrease) increase in provisions for the liabilities of employee benefits	(3,415,115)	3,105
Decrease in reserves for the operations and liabilities	(136,830)	(16,427)
Decrease in other financial liabilities	(5,660,297)	(12,615,246)
(Decrease) increase in other liabilities	(160,965)	4,186,538
Subtotal	79,315,206	36,400,762
Subtotal of Changes in operating assets and liabilities	(357,817,437)	(623,725,493)
Subtotal of Adjustment	(253,251,553)	(436,404,164)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Cash generated from operations	(203,067,048)	(369,271,962)
Interest received	164,523,945	151,683,427
Dividends received	24,352,712	21,713,620
Interest paid	(15,141,591)	(13,698,505)
Income taxes (paid) received	(2,735,091)	597,697
Net cash flows used in operating activities	(32,067,073)	(208,975,723)
Cash flows from investing activities		
Acquisition of financial assets at fair value through profit or loss	(1,523,051)	(4,137,871)
Disposal of financial assets at fair value through profit or loss	3,019,067	3,940,176
Acquisition of financial assets available for sale	(1,389,511)	(1,795,459)
Disposal of financial assets available for sale	843,738	1,500,642
Acquisition of financial assets carried at cost	(5,745)	-
Acquisition of investments accounted for using the equity method	(6,670,889)	(20,147,622)
Acquisition of subsidiary	(4,708,708)	(6,994,994)
Disposal of subsidiaries	(4,609,822)	
Cash returned by capital deduction from investments accounted for using equity method	70,299	86,501
Acquisition of property and equipment	(4,325,933)	(1,287,488)
Disposal of property and equipment	319,802	16,017
Increase in clearing and settlement funds	(4,458)	(2,703)
Decrease in clearing and settlement funds	15,884	-
Increase in guarantee deposits paid	(1,126)	(2,348)
Decrease in guarantee deposits paid	23,030	-
Acquisition of intangible assets	(415,279)	(350,822)
Generalized foreclosed collects net cash from other company	-	16,157,186
Generalized foreclosed collects compensation from other company	-	30,300,000
Acquisition of investment properties	(3,254,915)	(34,643,780)
Disposal of investment properties	2,146,998	291,927
Increase in other assets	(134,176)	(22,035,719)
Decrease in other assets	7,135,933	80,373
Dividends received	96,607	73,692
Net cash used in investing activities	(13,372,255)	(38,952,292)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	87,229	(900,000)
Decrease in funds borrowed from Central Bank and banks	-	(1,585,900)
Increase in commercial paper payable	5,900,000	8,890,000
Decrease in bonds payable	(20,000,000)	(20,000,000)
Decrease in bank debentures	-	(15,713,949)
Decrease in securities sold under agreements to repurchase	(14,660)	(171,511)
Increase in other liabilities	1,108,978	1,516,069
Payment of cash dividend	(25,223,449)	(25,659,094)
Increase in cash capital	49,998,000	-
Net cash flows from (used in) financing activities	11,856,098	(53,624,385)
Effects of exchange rate changes on cash and cash equivalents	1,245,500	1,479,269
Decrease in cash and cash equivalents	(32,337,730)	(300,073,131)
Cash and cash equivalents at the beginning of periods	296,935,688	597,008,819
Cash and cash equivalents at the end of periods	$264,597,958	$296,935,688
The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	$196,549,185	$191,780,120
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS No.7	18,524,091	49,275,097
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	49,524,682	55,880,471
Cash and cash equivalents at the end of periods	$264,597,958	$296,935,688

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

English Translation of Financial Statement Originally issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries
Notes to Consolidated Interim Financial Statements
31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

1. Organization and business scope

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

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

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

3. Newly issued or revised standards and interpretations

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

(a) *IAS 36 "Impairment of Assets" (Amendment)*

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

(b) *IFRIC 21 "Levies"*

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

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

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

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

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

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

IFRS 2 "Share-based Payment"

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

IFRS 3 "Business Combinations"

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

IFRS 8 "Operating Segments"

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

IFRS 13 "Fair Value Measurement"

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

IAS 16 "Property, Plant and Equipment"

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

IAS 24 "Related Party Disclosures"

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

IAS 38 "Intangible Assets"

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

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

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

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

IFRS 3 "Business Combinations"

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

IFRS 13 "Fair Value Measurement"

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

IAS 40 "Investment Property"

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

(g) *IFRS 14 "Regulatory Deferral Accounts"*

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

(h) *IFRS 11 "Joint Arrangements" (Accounting for Acquisitions of Interests in Joint Operations)*

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

(i) *IAS 16"Property, Plant and Equipment and IAS 38 "Intangible Assets" — Clarification of Acceptable Methods of Depreciation and Amortization*

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

(j) *IAS 16"Property, Plant and Equipment and IAS 41 "Agriculture"* — Agriculture: Bearer Plants

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

(k) *IAS 27"Separate Financial Statements" — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendments remove the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendments are effective for annual periods beginning on or after 1 January 2016.

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

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

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

IFRS 7 "Financial Instruments: Disclosures"

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

IAS 19 "Employee Benefits"

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

IAS 34 "Interim Financial Reporting"

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

(m) *Disclosure Initiative — Amendment to IAS 1 "Presentation of Financial Statements":*

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

(n) *IFRS 10"Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IAS 28"Investments in Associates and Joint Ventures" — Investment Entities: Applying the Consolidation Exception*

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

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

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

(a) *IFRS 15 "Revenue from Contracts with Customers"*

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

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

(b) *IFRS 9"Financial Instruments"*

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

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

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

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

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

(c) *IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

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

(d) *IFRS 16“Leases”*

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

(e) *IAS 12“Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

(f) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

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

(g) *IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15*

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

(h) *IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2*

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

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2021). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle)*:

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

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

IAS 28"Investments in Associates and Joint Ventures"

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

(l) IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*"

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

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

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2016 and 2015 have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and " International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee" as endorsed by Financial Supervisory Commission of the Republic of China.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

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

If the Group loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
The Company	Cathay Life Insurance Co., Ltd. ("Cathay Life")	Life insurance	100.00	100.00	Cathay Life was incorporated in Taiwan on 23 October 1962, under the ROC Company Act (the "Company Act").
The Company	Cathay United Bank Co., Ltd. ("Cathay United Bank")	Commercial banking operations	100.00	100.00	UWCCB was enfranchised by the ROC government on 4 January 1975. On 27 October 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank merged with Lucky Bank on 1 January 2007.
The Company	Cathay Century Insurance Co., Ltd. ("Cathay Century")	Property and casualty insurance	100.00	100.00	Cathay Century was incorporated in Taiwan on 19 July 1993, under the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on 2 August 2002.
The Company	Cathay Securities Corporation ("Cathay Securities")	Securities	100.00	100.00	Cathay Securities was incorporated on 12 May 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were assigned to Cathay Securities along with its business, assets and liabilities. The assignment date was 13 August 2004.

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

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
The Company	Cathay Venture Inc. ("Cathay Venture")	Venture capital investment	100.00	100.00	Cathay Venture was incorporated on 16 April 2003, under the Company Act. Cathay Venture is the surviving company from the merger with Cathay Venture, Cathay II Venture and Cathay Capital Management on 10 August 2009.
The Company	Cathay Securities Investment Trust Co., Ltd. ("Cathay Securities Investment Trust")	Securities investment trust	100.00	100.00	Cathay Securities Investment Trust was incorporated on 11 February 2000.
Cathay Life	Cathay Lujiazui Life Insurance Company Limited. ("Cathay Lujiazui Life")	Life insurance	50.00	50.00	Cathay Lujiazui Life was incorporated on 29 December 2004. Cathay Life and Shanghai Lujiazui Finance Tradezone Development Co., Ltd. each owns 50% interest in Cathay Lujiazui Life.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00	Cathay Life (Vietnam) was incorporated on 21 November 2007.
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 1 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Woolgate Exchange Holding 2 Limited was incorporated on 30 July 2014.
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 1 Limited was incorporated on 31 March 2015.
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	Cathay Walbrook Holding 2 Limited was incorporated on 31 March 2015.
Cathay Life	Conning Holdings Limited	Holding company	100.00	100.00	Conning Holdings Limited was incorporated on 10 June 2015.
Conning Holdings Limited	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	Conning U.S. Holdings, Inc. was incorporated on 10 June 2015.
Conning Holdings Limited	Conning Asset Management Ltd.	Wealth Management	100.00	100.00	Conning Asset Management Ltd. was incorporated on 16 October 1998.

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

Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
Conning Holdings Limited	Conning Japan Ltd.	Wealth Management	100.00	100.00	Conning Japan Ltd. was incorporated on 7 September 2015.
Conning Holdings Limited	Conning (Germany) GmbH	Risk management software	100.00	100.00	Conning (Germany) GmbH was incorporated on 1 October 2012.
The Company & Conning Holdings Limited	Conning Asia Pacific Ltd. (Note 1)	Wealth Management	100.00	100.00	Cathay Conning Asset Management Ltd. was incorporated on 6 July 2011.
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	Conning Holdings Corp. was incorporated on 5 June 2009.
Conning Holdings Limited	Conning Holdco (UK) Ltd. (Note 2)	Holding company	-	100.00	Conning Holdco (UK) Ltd. was incorporated on14 June 2011.
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00	Conning & Company was incorporated on 10 July 1986.
Conning & Company	Conning Inc.	Wealth Management	100.00	100.00	Conning Inc. was incorporated on 25 March 2007.
Conning & Company	Goodwin Capital Advisors, Inc.	Wealth Management	100.00	100.00	Goodwin Capital Advisors, Inc. was incorporated on 28 August 2000.
Conning & Company	Conning Investments Products, Inc.	Securities	100.00	100.00	Conning Investments Products, Inc. was incorporated on 13 February 2012.
Conning & Company	Octagon Credit Investors, LLC	Investment consulting services	82.05	-	Octagon Credit Investors, LLC was incorporated on 19 December 2011.
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	-	Octagon Multi-Strategy Corporate Credit GP, LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	-	Octagon Funds GP LLC was incorporated on 26 November 2014.
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	100.00	-	Octagon Funds GP II LLC was incorporated on 26 November 2014.

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Investor	Subsidiary	Business nature	2016.12.31	2015.12.31	Notes
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd ("Lin Yuan")	Office equipment leasing company	100.00	100.00	Lin Yuan was incorporated on 15 August 2012.
Cathay Life, Cathay Century	Cathay Insurance Co., Ltd. (China) (Note 3)("Cathay Century (China)")	Property and casualty insurance	49.00	100.00	Cathay Century (China) was incorporated on 26 August 2008. Cathay Life and Cathay Century owns 24.5% interest of Cathay Century (China), respectively.
Cathy Century	Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Century (Vietnam)")	Property and casualty insurance	100.00	100.00	Cathay Century (Vietnam) was incorporated on 2 November 2010.
Cathay United Bank	Indovina Bank Limited ("Indovina Bank")	Wholesale banking	50.00	50.00	Indovina Bank was incorporated in Vietnam on 21 November 1990. Cathay United Bank and Vietinbank each owns 50% interest of Indovina Bank.
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank")	Wholesale banking	100.00	100.00	SBC Bank was incorporated in Cambodia on 1993 and renamed as CUBC Bank on 14 January 2014.
Cathay Securities	Cathay Futures Co., Ltd. ("Cathay Futures")	Futures related business	99.99	99.99	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on 29 December 1993, under the Company Act and was renamed Seaward Futures Corp. on 6 March 1998. On 24 December 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On 10 February 2006, Cathay United Bank sold all stocks of Cathay Futures to Cathay Securities.
Cathay Securities	Cathay Securities (Hong Kong) Corporation Limited ("Cathay Securities (Hong Kong)")	Securities agent	100.00	100.00	Cathay Securities (Hong Kong), formerly Horizon Securities (Hong Kong) Co., Ltd., was incorporated on 22 March 1997 and was renamed as Cathay Securities (Hong Kong) Co., Ltd. after the acquisition.

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

Note 2: Conning Holdco (UK) Ltd. started its liquidation process on 18 December 2015 and finalized the process on 29 March 2016.

Note 3: Cathay Life and Cathay Century did not participate in the capital increase in Cathay Century (China) during July 2016 and Cathay Life and Cathay Century's percentage of ownership over Cathay Century (China) decreased to 24.5%, respectively. Therefore, Cathay Century (China) was not included in the Group's consolidated financial statements since August 2016.

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

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

Investor	Investee	Business	2016.12.31 Ownership interest	2015.12.31 Ownership interest	Notes
Cathay Life	Cathay Insurance (Bermuda) Co., Ltd. ("Cathay Insurance (Bermuda)")	Class 3 general business insurers and Class C long-term insurer	100.00	100.00	Cathay Insurance (Bermuda) was incorporated on 10 November 1999.
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Securities investment research analysis	100.00	100.00	Cathay Securities Investment Consulting was incorporated on 25 November 2002.
Cathay United Bank	Seaward Card Co., Ltd. ("Seaward Card")	Temporary employment	100.00	100.00	Seaward Card was incorporated on 9 April 1999.
Cathay Securities	Cathy Investment Consulting (Shanghai) Co., Ltd.	Investment Consulting	100.00	100.00	Cathy Investment Consulting (Shanghai) Co., Ltd. was incorporated on 11 June 2014.

(4) Foreign currency transactions

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

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

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

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

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

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

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

(6) Cash and cash equivalents

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

(7) The transaction of Repo notes and bonds

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

(8) Financial instruments

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

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

A. Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Derivative financial assets for hedging

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

Investments in debt securities with no active market

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

Impairment of financial assets

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

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

Other loss events include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits 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.

Derecognition of financial assets

Financial asset is derecognized when:

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

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

The reclassification of financial assets

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

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

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*.

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

Derivative financial liabilities for hedging

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

(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 though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(10) Fair value measurement

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

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

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

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

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

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

(11) Investments accounted for using the equity method

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

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

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

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

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

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

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

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

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

(12) Property, plant and equipment

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

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

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

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

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

(13) Investment property

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

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

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

(14) Leases

Group as a lessee

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

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

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

Group as a lessor

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

(15) Intangible assets

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

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

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

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

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

Licenses

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

Trademarks
The trademarks were acquired in business combination, and were assessed to have indefinite useful lives.

Customer relationships

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

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 10 years).

Other intangible assets

Other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 6 years).

(16) Impairment of non-financial assets

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

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

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

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

(17) Provisions

Insurance liabilities

A. Cathay Life

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

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

a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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

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

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

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

d. Special reserve

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

i. Special capital reserve－Special reserve for major incidents

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

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

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

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

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

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

(C) According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the exceeds shall be recognized as special reserve for revaluation increments of property under liabilities.

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve of Cathay Life is $4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2016, the amount set aside was $9,871,478 thousand.

j. Liability adequacy test

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

B. Cathay Century

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

a. Unearned premium reserve

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

b. Claims reserve

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

c. Special reserve

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

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

(A) Special reserve for major incident

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

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

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

(B) Special reserve for fluctuation of risks

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

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

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

d. Premiums deficiency reserve

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

e. Liability reserve

The minimum liability reserve for health insurance that the insurance period is greater than one year is set aside using full preliminary term reserving method. However, the method of setting aside minimum liability reserve for health insurance with special nature should be approved by the competent authority.

C. Cathay Lujiazui Life

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

D. Cathay Life (Vietnam)

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

Other provisions

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

(18) Treasury stocks

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

(19) Post-employment benefits

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

Defined contribution plan

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

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.

(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.

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

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

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

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

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

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

(22) Business combinations and goodwill

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

When the Group acquires business, it will assess the adequacy of classification and appointment of assets and liabilities according to the contract terms, the economic situation and other relevant factors. The evaluation includes whether to separate the embedded derivatives contained in the master contract.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

The transfer price of acquirer will be measured by fair value on the transaction date. After transaction date, the transfer price, classified as asset or liability, will be reevaluated through profit or loss, or other comprehensive income, according to IAS 39 *"Financial instruments: recognition and measurement"*. If the transaction price is classified as equity, it will not be remeasured until it is settled in equity.

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. The classification of financial assets

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

B. Investment properties

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

C. Operating lease commitment－Group as the lessor

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

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

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

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

(a) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);

(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.

(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.

D. Impairment of non-financial assets

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

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

E. Pension benefits

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

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

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 form 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 counties 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

	2016.12.31	2015.12.31
Petty cash and cash on hand	$20,171,989	$16,226,920
Cash in banks	62,597,985	66,653,887
Time deposits	65,879,925	58,779,451
Cash equivalents	4,565,575	2,648,472
Checks for clearance	7,390,035	3,573,643
Due from commercial banks	35,943,676	43,897,747
Total	$196,549,185	$191,780,120

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

	2016.12.31	2015.12.31
Held for trading:		
Common stock	$10,792,048	$7,815,575
Funds and beneficiary certificates	25,839,223	16,731,948
Government bonds	48,245,410	15,350,216
Corporate bonds	10,310,844	5,062,664
Financial debentures	1,408,142	250,902
Overseas debentures	4	349,821
Structured time deposits	2,275,663	2,483,485
Short-term notes	93,126,341	173,356,042
Margin for futures trading-own funds	326,894	356,624
Derivative financial instruments	52,204,695	74,360,649
Total	$244,529,264	$296,117,926

(1) As of 31 December 2016 and 31 December 2015 Cathay Securities and its subsidiaries sold certain financial assets at fair value through profit or loss under repurchase agreements with notional amounts of $2,350,000 thousand and $1,425,000 thousand, respectively.

(2) Please refer to 34 for related information on the above financial assets at fair value through profit or loss being pledged as collaterals as of 31 December 2016 and 31 December 2015.

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

8. Available-for-sale financial assets

	2016.12.31	2015.12.31
Common stock	$627,044,109	$546,953,106
Beneficiary certificates	280,644,739	269,930,523
Funds and beneficiary Securities	9,566,235	5,063,450
Real Estate Investment Trust	19,146,029	12,316,437
Government bonds	183,098,222	211,411,693
Corporate bonds	51,295,049	51,723,389
Financial debentures	117,704,530	110,475,386
Asset-backed securities	831,442	1,111,868
Overseas debentures	303,060,779	278,541,388
Short-term notes	917,355	1,360,701
Less: Litigation deposits	(78,797)	(541,163)
Less: Securities serving as deposits paid-bonds	(1,870,035)	(1,953,653)
Total	$1,591,359,657	$1,486,393,125

(1) As of 31 December 2016 and 31 December 2015 Cathay United Bank and its subsidiaries sold certain available-for-sale financial assets under repurchase agreements with notional amounts of $23,612,678 thousand and $43,477,428 thousand, respectively. Such repurchase agreements amounting to $22,468,724 thousand and $43,591,852 thousand, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements are settled at $22,472,812 thousand and $43,615,618 thousand, prior to 30 June 2017, and 30 June 2016, respectively.

(2) Cathay Life and its subsidiaries recognized an impairment provision as some objective evidences are identified showing impairment indicators associated with domestics stocks and beneficiary certificates held by Cathay Life and its subsidiaries. As of 31 December 2016 and 31 December 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to $202,271 thousand and $153,884 thousand, respectively.

(3) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the available-for-sale financial assets in the amount of $140,985 thousand and $140,985 thousand as of 31 December 2016 and 31 December 2015 respectively, due to the existence of objective impairment evidence.

(4) Please refer to Note 34 for related information on the above available-for-sale financial assets being pledged as collaterals as of 31 December 2016 and 31 December 2015.

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9. Receivable - net

	2016.12.31	2015.12.31
Notes receivable	$1,993,999	$2,120,489
Accounts receivable	71,881,409	60,632,960
Interest receivable	44,122,675	39,686,374
Foreign currency receivable	101,928	347,755
Acceptances	1,045,109	1,595,287
Factoring receivable	4,073,377	17,036,810
Others	34,940,382	23,208,514
Subtotal	158,158,879	144,628,189
Adjustment for discounts and premiums	(14,395)	(6,296)
Less: Allowance for bad debts	(3,932,424)	(2,972,024)
Total	$154,212,060	$141,649,869

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Balance, beginning of the period	$2,972,024	$1,997,217
Allowance of doubtful accounts	1,762,969	797,355
Write-offs	(1,216,817)	(349,348)
Debt counseling recoveries	119,404	121,328
Recoveries	456,119	509,114
Reclassification	(115,627)	(110,266)
Effect of exchange rates change	(25,850)	6,624
Loss of control of a subsidiary	(19,798)	-
Balance, end of the period	$3,932,424	$2,972,024

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

Item		Accounts Receivable	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	$756,613	$1,427,714
	Collective assessment of impairment	232,745	192,560
Objective evidence of impairment does not exist individually	Collective assessment of impairment	157,169,521	143,007,915

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Item		Allowance for doubtful account	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	$47,629	$585,958
	Collective assessment of impairment	176,955	143,609
Objective evidence of impairment does not exist individually	Collective assessment of impairment	3,707,840	2,242,457

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

10. Loans - net

	2016.12.31	2015.12.31
Inward-outward documentary bills	$2,303,674	$986,975
Loans	2,062,966,561	1,781,935,122
Overdrafts	3,239,367	2,345,273
Delinquent accounts	2,433,949	3,196,270
Subtotal	2,070,943,551	1,788,463,640
Adjustment for discounts and premiums	575,212	817,604
Less: Allowance for bad debts	(25,985,968)	(22,804,891)
Total	$2,045,532,795	$1,766,476,353

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Balance, beginning of the period	$22,804,891	$22,149,554
Provision of doubtful accounts	3,825,304	1,997,235
Write-offs	(1,618,723)	(2,621,964)
Debt counseling recoveries	108,587	112,524
Recoveries	830,800	963,606
Reclassification	115,627	110,266
Effect of exchange rates change	(80,518)	93,670
Balance, end of the period	$25,985,968	$22,804,891

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

(2) Assessment for loans are showed as followed:

Item		Total loans	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	$9,444,290	$7,530,959
	Collective assessment of impairment	10,675,829	11,563,586
Objective evidence of impairment does not exist individually	Collective assessment of impairment	2,050,823,432	1,769,369,095

Item		Allowance for bad debts	
		2016.12.31	2015.12.31
Objective evidence of impairment exists individually	Individual assessment of impairment	$1,820,169	$2,007,412
	Collective assessment of impairment	2,090,600	2,343,624
Objective evidence of impairment does not exist individually	Collective assessment of impairment	22,075,199	18,453,855

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

11. Held-to-maturity financial assets

	2016.12.31	2015.12.31
Government bonds	$35,419,298	$33,962,390
Corporate bonds	12,144,260	11,722,890
Financial debentures	18,517,820	25,230,940
Asset-backed securities	12,296,939	15,165,099
Overseas debentures	6,536,637	5,710,859
Short-term notes	5,422,099	-
Subtotal	90,337,053	91,792,178
Less: Court security deposit	(1,348,913)	(2,924,198)
Less: Securities serving as deposits paid-bonds	(7,161,401)	(7,159,534)
Total	$81,826,739	$81,708,446

(1) As of 31 December 2016 and 31 December 2015 Cathay United Bank and its subsidiaries sold certain held-to-maturity financial assets under repurchase agreements with notional amounts of $40,499,233 thousand and $13,259,466 thousand, respectively. Such repurchase agreements amounting to $31,066,277 thousand and $10,446,025 thousand, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements were settled at $31,129,794 thousand and $10,452,556 thousand as of as of 31 March 2017 and 31 January 2016, respectively.

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

(2) Cathay Life and its subsidiaries recognized impairment as there was objective evidence that the overseas debentures held by Cathay Life and its subsidiaries were showing signs of impairment. As of 31 December 2016 and 31 December 2015 Cathay Life and its subsidiaries recognized impairment losses amounting to $29,740 thousand and $0 thousand, respectively.

(3) Please refer to Note 34 for related information on the above held-to-maturity financial assets as of 31 December 2016 and 31 December 2015, being pledged as collaterals.

12. Investments accounted for using the equity method

	2016.12.31		2015.12.31	
Investee	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Investments in subsidiaries exclude from consolidated:				
Cathay Securities Investment Consulting	$249,902	100.00	$225,526	100.00
Seaward Card	39,793	100.00	39,226	100.00
Cathay Insurance (Bermuda)	129,896	100.00	129,945	100.00
Cathy Investment Consulting (Shanghai) Co., Ltd.	16,027	100.00	25,991	100.00
Subtotal	435,618		420,688	
Investments in associates:				
WK Technology Fund VI Co., Ltd	148,679	21.43	217,290	21.43
Taiwan Real-estate Management Corp.	98,066	30.15	93,988	30.15
Taiwan Finance Corp.	1,570,490	24.57	1,589,963	24.57
IBT Venture Capital Corp.	3,916	24.96	4,061	24.96
Tien-Tai Energy Corp.	36,040	44.44	38,770	44.44
Tien-Tai One Energy Corp.	24,482	33.33	27,311	33.33
Tien-Tai Management Consulting Co., Ltd.	134	30.00	3,486	30.00
CDBS Cathay Asset Management Co., Ltd	263,243	33.30	291,178	33.30
Symphox Information Co., Ltd.	433,635	49.12	455,088	49.12
Da Sheng Venture Inc.	1,455,635	25.00	1,490,707	25.00
KHL IV Venture Capital Co., Ltd.	360,729	21.43	-	-
Chi-Chia Energy Corp.	34,442	29.08	37,051	29.08
Chao-Yang Energy Corp.	34,133	29.08	35,770	29.08
Dun-Yang Energy Corp.	47,095	32.20	50,763	32.20
Yong-Chang Energy Corp.	47,365	32.32	48,969	32.32
Ri-Zhao Energy Corp.	48,072	32.32	49,365	32.32
Nan-Gang International 1 Corp.	675,258	45.00	675,371	45.00
Nan-Gang International 2 Corp.	674,959	45.00	675,381	45.00
CM Energy Co., Ltd.	53,959	45.00	13,500	45.00
Rizal Commercial Banking Corporation	13,622,794	22.71	13,459,290	21.93
PT Bank Mayapada Internasional Tbk	11,740,568	40.00	5,822,498	24.90
Hsin Jih Tai Corporation	673,845	45.00	-	-
Cathay Century (China)	2,726,633	49.00	-	-
Subtotal	34,774,172		25,079,800	
Total	$35,209,790		$25,500,488	

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

The Group lost control over Cathay Century (China) on 26 July 2016 and reclassified the investee as the investment in associate accounted for using the equity method.

The Group's investments in the associates are not significant. As of 31 December 2016 and 31 December 2015, the carrying amount of investments in associates accounted for using the equity method amounted to $34,774,172 thousand and $25,079,800 thousand. The aggregate financial information of the Group's investments in the associates is as follows:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Profit or loss from continuing operations	$1,096,416	$1,021,974
Other comprehensive income (post-tax)	(727,920)	178,976
Total comprehensive income	$368,496	$1,200,950

(1) There are no public prices at the Group's investment in the associates and the associates are not restricted to issue cash dividends, repay the borrowings or transfer the capital to the investors in the way of advance.

(2) The share of the profits (losses) of these associates accounted for using the equity method in investees whose financial statements were unaudited amounted to $1,246,472 thousand and $834,120 thousand for the year ended 31 December 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to $(582,597) thousand and $(71,212) thousand for the year ended 31 December 2016 and 2015, respectively. The remaining balance of related investment amounted to $27,911,446 thousand and $19,299,349 thousand as of 31 December 2016 and 2015, respectively. The Company believes that no significant influence would arise from the abovementioned unaudited investments accounted for using the equity method.

(3) No investment in the associates was pledged.

13. Other financial assets

	2016.12.31	2015.12.31
Financial assets carried at cost	$5,745	$-
Investments in debt securities with no active market	2,526,608,201	2,289,311,099
Separate account product assets	498,014,211	480,568,361
Structured time deposits	7,661,395	18,000,000
Other miscellaneous financial assets	4,091,661	2,521,432
Total	$3,036,381,213	$2,790,400,892

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

Investments in debt securities with no active market

	2016.12.31	2015.12.31
Common stocks	$2,667,893	$6,437,617
Government bonds	53,717	-
Corporate bonds	21,237,777	10,494,774
Financial debentures	81,171,116	38,565,157
Structured debentures	3,873,480	661,320
Asset-backed securities	28,079,749	12,307,158
Overseas debentures	2,069,824,850	1,785,661,462
Time deposit	316,870,441	433,396,038
Beneficial right of real estate	300,000	300,000
Beneficiary Securities	2,529,178	1,487,573
Total	$2,526,608,201	$2,289,311,099

(1) An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas debentures held by Cathay Life and its subsidiaries. As of 31 December 2016 and 31 December 2015, Cathay Life and its subsidiaries recognized impairment losses amounting to $419,627 thousand and $429,858 thousand, respectively.

(2) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for the investments in debt securities with no active market in the amount of $1,382,970 thousand and $1,416,689 thousand as of 31 December 2016 and 31 December 2015, respectively, due to credit deterioration of securitization and financial debentures.

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

(3) As of 31 December 2016, Cathay United Bank and its subsidiaries sold certain investments in debt securities with no active market classified as bonds under repurchase agreements with the notional amounts of $5,543,771 thousand. Such repurchase agreements amounting to $3,217,750 thousand were recorded in the account “securities sold under agreements to repurchase” on the balance sheet. The repurchase agreements will be settled at $3,222,577 prior to 31 January 2017 pursuant to the agreed terms.

(4) Please refer to Note 34 for related information on the above investments in debt securities with no active market being pledged as collaterals as of 31 December 2016 and 31 December 2015.

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14. Investment property

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2016	$273,361,957	$101,716,508	$3,313,056	$2,758,288	$381,149,809
Additions from acquisitions	-	-	3,315,438	2,292,955	5,608,393
Additions from subsequent expenditure	-	-	111,703	-	111,703
Transfers to property and equipment	(52,932,438)	(12,386,539)	-	-	(65,318,977)
Transfers from (to) investment property under construction and prepayments for buildings and land	2,191,115	3,442,088	(3,431,045)	(4,667,339)	(2,465,181)
Gains generated from fair value adjustments	1,568,946	278,088	-	-	1,847,034
Disposals	(1,117,116)	(1,100)	-	-	(1,118,216)
Exchange differences	(3,134,605)	(5,665,833)	-	-	(8,800,438)
31 December 2016	$219,937,859	$87,383,212	$3,309,152	$383,904	$311,014,127

	Land	Buildings	Construction	Prepayments for buildings	Total
1 January 2015	$249,711,339	$74,393,081	$12,437,283	$1,795,276	$338,336,979
Additions from acquisitions	10,770,599	15,790,681	6,691,373	946,873	34,199,526
Additions from subsequent expenditure	1,373	2,214	440,667	-	444,254
Additions from business combination	2,472,177	112,347	-	25,021	2,609,545
Transfers to property and equipment	(3,475,230)	(1,791,139)	-	-	(5,266,369)
Transfers from (to) investment property under construction and prepayments for buildings and land	-	16,265,149	(16,256,267)	(8,882)	-
Gains (losses) generated from fair value adjustments	14,031,346	(2,794,894)	-	-	11,236,452
Disposal	(173,227)	(255,704)	-	-	(428,931)
Exchange differences	23,580	(5,227)	-	-	18,353
31 December 2015	$273,361,957	$101,716,508	$3,313,056	$2,758,288	$381,149,809

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Rental income from investment properties	$9,614,725	$8,604,604
Less: direct operating expense from investment properties generating rental income	(709,578)	(356,497)
direct operating expense from investment properties not generating rental income	(191,384)	(125,920)
Total	$8,713,763	$8,122,187

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

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

The key inputs used are as follows:

	2016.12.31	2015.12.31
Direct capitalization rate (net)	0.83%~5.73%	0.42%~5.76%
Discount rate	3.14%~4.1%	3.3%~4.2%

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate. In 2013, the land of Cathay Land Mark was recognized at fair value. During the construction period, the land was valued by sales comparison approach and the method of land development analysis. During the year ended 31 December 2015, subsequent to the completion of the building and receipt of operating license, both the land and buildings were valued by sales comparison method and income approach － direct capitalization method. The change of the appraisal approach during the year resulted in an increase of $13,786,133 thousand net of tax in fair value.

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

(2) Cathay United Bank appointed appraisers from China Real Estate Appraising Firm to evaluate the fair value of investment property based on the "Regulations on Real Estate Appraisal" on 31 December 2016 and 31 December 2015.

The fair value has been determined by income approach (such as discounted cash flow (DCF) method and direct capitalization method), sales comparison approach and cost approach.

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

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

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

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

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

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

The main parameters are as follows:

	2016.12.31	2015.12.31
Discounted rates	1.60%-2.75%	1.60%-2.75%
Capitalization rate	0.84%-2.23%	0.92%-2.75%

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

	2016.12.31	2015.12.31
Rate of return	25%-30%	25%-30%
Overall capital interest rate	4.99%-16.98%	5.6%-19.20%

(3) Cathay Futures appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen and Guo-Shi Wu) to evaluate the fair value of the investment property based on the “Regulations on Real Estate Appraisal” on 31 December 2016 and 31 December 2015, respectively.

The recognized fair value is supported by observable evidence in the market. The fair value has been determined by discounted cash flow (DCF) method.

Office building has market liquidity and their rent level is more comparable with similar items from the same neighborhood. The fair value has been determined by discounted cash flow method. Future cash inflows and outflows were estimated as follows:

	2016.12.31	2015.12.31
Estimated future cash inflows	$440,377	$441,043
Estimated future cash outflows	(22,082)	(22,092)
Estimated future net cash flows	$418,295	$418,951

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.

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

Net income is based on the current market practices, assuming an annual rent increase of 1% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

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

Land value tax is based on the changes in the announced land values of the underlying

The replacement allowance is calculated based on the significant construction maintenance expense, which is 15% of the construction fee, under the assumption of 20 useful years, according to the ROC Real Estate Appraisers Association Gazette No. 5.

The parameters used are as followed:

	2016.12.31	2015.12.31
Direct Capitalization rate (net)	2.50%	2.50%
Discount Rate	2.045%	2.225%

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

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

(4) The real estate investments are held mainly for leasing purposes.

(5) All lease agreements of the Group’s lease business are operating leases. The primary terms of lease agreements are the same with general lease agreement.

(6) Rents from real estate investment are received monthly.

(7) As of 31 December 2016 and 31 December 2015, no investments in real estate were pledged as collateral.

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

15. Property and equipment

	Land	Building and construction	Computer equipment	Transport equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate	Total
Cost:									
1 January 2016	$67,171,611	$45,559,141	$7,124,334	$133,979	$11,606,206	$618,476	$423,731	$650,162	$133,287,640
Additions	-	-	504,132	3,090	421,115	157,242	-	751,133	1,836,712
Transfers	54,927,916	12,849,667	26,315	1,909	326,045	66,265	(147,564)	(602,283)	67,448,270
Disposal	(52,014)	(23,111)	(1,072,642)	(8,328)	(177,391)	(6,559)	-	-	(1,340,045)
Others	-	-	-	-	(166,923)	(91,663)	-	-	(258,586)
Exchange difference	(3,412)	(137,777)	(90,632)	(2,930)	10,197	(65,382)	(5,327)	(6,160)	(301,423)
31 December 2016	$122,044,101	$58,247,920	$6,491,507	$127,720	$12,019,249	$678,379	$270,840	$792,852	$200,672,568
1 January 2015	$63,572,836	$43,815,443	$7,269,959	$127,182	$10,950,267	$453,547	$423,217	$757,876	$127,370,327
Additions	-	5,688	365,015	12,073	337,716	155,495	511	446,048	1,322,546
Acquisition from business combination	36,190	7,535	91,127	800	12,385	39,017	-	-	187,054
Transfers	3,564,401	1,723,072	75,371	1,200	457,103	-	-	(468,228)	5,352,919
Disposal	(7,660)	(918)	(704,547)	(11,479)	(157,703)	(29,094)	-	(67,926)	(979,327)
Exchange difference	5,844	8,321	27,409	4,203	6,438	(489)	3	(17,608)	34,121
31 December 2015	$67,171,611	$45,559,141	$7,124,334	$133,979	$11,606,206	$618,476	$423,731	$650,162	$133,287,640
Depreciation and impairment:									
1 January 2016	$105,610	$19,502,834	$5,950,235	$90,631	$9,497,297	$336,679	$315,618	$-	$35,798,904
Depreciation	-	1,028,919	497,216	11,102	592,056	92,369	74,083	-	2,295,745
Transfers	-	(31,606)	(7,740)	(6,434)	116,176	40,566	(113,916)	-	(2,954)
Disposal	-	(8,901)	(1,069,214)	(7,067)	(155,018)	(5,418)	-	-	(1,245,618)
Others	-	-	-	-	(130,788)	(76,323)	-	-	(207,111)
Exchange difference	-	(11,072)	(59,421)	(1,785)	11,830	(96,500)	76,319	-	(80,629)
31 December 2016	$105,610	$20,480,174	$5,311,076	$86,447	$9,931,553	$291,373	$352,104	$-	$36,558,337
1 January 2015	$105,610	$18,533,321	$6,197,185	$86,252	$9,053,275	$307,258	$209,797	$-	$34,492,698
Depreciation	-	975,137	445,161	11,676	588,405	57,989	105,821	-	2,184,189
Transfers	-	(7,795)	18	-	(18)	-	-	-	(7,795)
Disposal	-	(617)	(703,095)	(10,296)	(144,533)	(27,579)	-	-	(886,120)
Exchange difference	-	2,788	10,966	2,999	168	(989)	-	-	15,932
31 December 2015	$105,610	$19,502,834	$5,950,235	$90,631	$9,497,297	$336,679	$315,618	$-	$35,798,904
31 December 2016	$121,938,491	$37,767,746	$1,180,431	$41,273	$2,087,696	$387,006	$(81,264)	$792,852	$164,114,231
31 December 2015	$67,066,001	$26,056,307	$1,174,099	$43,348	$2,108,909	$281,797	$108,113	$650,162	$97,488,736

(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.

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

16. Intangible assets

Cost:	Franchise	Trademark	Goodwill	Customer relationship	Computer 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	-	-	-	-	408,365	6,913	415,278
Reduction	-	-	-	-	(433,587)	-	(433,587)
Acquisition from business combination	-	218,855	2,461,974	1,835,015	-	-	4,515,844
Transfers	-	-	-	-	245,677	-	245,677
Others	-	-	(199,698)	-	(96,359)	-	(296,057)
Exchange difference	-	(14,251)	(237,077)	(125,677)	(28,122)	(5,583)	(410,710)
31 December 2016	$37,659,600	$423,468	$18,919,544	$3,804,532	$4,160,598	$235,458	$65,203,200
1 January 2015	$-	$-	$8,598,542	$-	$3,774,398	$-	$12,372,940
Addition-individual acquisition	-	-	-	-	338,700	1,384	340,084
Reduction	-	-	-	-	(361,860)	-	(361,860)
Acquisition from business combination	37,659,600	212,051	8,114,861	2,029,968	52,250	225,565	48,294,295
Transfers	-	-	-	-	258,507	-	258,507
Exchange difference	-	6,813	180,942	65,226	2,629	7,179	262,789
31 December 2015	$37,659,600	$218,864	$16,894,345	$2,095,194	$4,064,624	$234,128	$61,166,755
Depreciation and impairment:							
1 January 2016	$1,039,692	$-	$-	$45,634	$3,121,813	$15,848	$4,222,987
Amortization	2,079,383	-	-	397,785	361,521	54,714	2,893,403
Reduction	-	-	-	-	(433,196)	-	(433,196)
Transfer from loss of control of a subsidiary	-	-	-	-	(56,089)	-	(56,089)
Exchange difference	-	-	-	(1,874)	(18,789)	(485)	(21,148)
31 December 2016	$3,119,075	$-	$-	$441,545	$2,975,260	$70,077	$6,605,957
1 January 2015	$-	$-	$-	$-	$3,089,915	$-	$3,089,915
Amortization	1,039,692	-	-	45,366	356,306	15,756	1,457,120
Reduction	-	-	-	-	(326,368)	-	(326,368)
Exchange difference	-	-	-	268	1,960	92	2,320
31 December 2015	$1,039,692	$-	$-	$45,634	$3,121,813	$15,848	$4,222,987
31 December 2016	$34,540,525	$423,468	$18,919,544	$3,362,987	$1,185,338	$165,381	$58,597,243
31 December 2015	$36,619,908	$218,864	$16,894,345	$2,049,560	$942,811	$218,280	$56,943,768

As of 31 December 2016 and 2015, the book value of goodwill was $10,306,443 thousand and $8,272,925 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. Cathay Life and its subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

Cathay United Bank's impairment testing of goodwill:

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

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

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

j Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Capital Assets Pricing Model (CAPM).

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

Assumptions are based on published industry research.

(3) Sensitivity to changes in assumptions:

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

On 4 September 2016, Cathay Securities acquired 100% of the equity of Cathay Securities (Hong Kong). The goodwill arose from the acquisition amounted to $8,629 thousand. An annual impairment test for goodwill is performed regularly. Cathay Securities estimated the recoverable amount for purpose of impairment test based on embedded value of cash-generating unit that the goodwill is allocated to. The embedded value is calculated by applying a proper discount rate. As of 31 December 2016 and 31 December 2015, the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

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

17. Financial liabilities at fair value through profit or loss

	2016.12.31	2015.12.31
Designated financial assets at fair value through profit or loss at initial recognition:		
Bond Investment	$39,491,908	$40,598,667
Held for trading:		
Derivative financial instruments	73,777,749	95,733,002
Security lending payables hedging	284,643	377,376
Security lending payables non-hedging	1,460,526	762,373
Subtotal	75,522,918	96,872,751
Total	$115,014,826	$137,471,418

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

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

18. Commercial paper payables

	2016.12.31	2015.12.31
Commercial paper payable	$41,580,000	$35,680,000
Less: Discount on commercial paper payable	(1,162)	(2,366)
Total	$41,578,838	$35,677,634
Average interest rates	0.38%~0.808%	0.38%~0.958%

19. Deposits

	2016.12.31	2015.12.31
Check deposits	$15,317,858	$13,244,467
Demand deposits	417,609,518	382,071,327
Demand savings deposits	765,842,523	704,544,214
Time deposits	418,512,238	375,594,219
Negotiable Certificates of Deposit	3,554,400	4,489,200
fixed savings deposits	377,702,458	373,406,772
Remittances	1,404,177	1,145,632
Total	$1,999,943,172	$1,854,495,831

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

20. Bonds payable

	2016.12.31	2015.12.31
Subordinated bonds payable-net	$-	$19,900,000
Subordinated financial debentures	51,900,000	51,900,000
Total	$51,900,000	$71,800,000

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

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

(3) Cathay United Bank issued a seven-year subordinated financial debenture totaling $2,800,000 with a stated interest rate of 2.95% in October 2008, and the interest is payable quarterly. Cathay United Bank had bought back the debenture in full in October 2015.

(4) Cathay United Bank issued an eight-year subordinated financial debenture totaling $3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly.

(5) Cathay United Bank issued a ten-year subordinated financial debenture totaling $1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

(6) The Company issued a seven-year unsecured subordinated financial debenture totaling $20,000,000 thousand with a stated interest rate of 2.65% on September 16, 2009. The subordinated financial debenture will be paid at maturity and the interest is payable annually. The Company had bought back the debenture in full in October 2016.

(7) Cathay United Bank issued a seven-year subordinated financial debenture totaling $3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.

(8) Cathay United Bank issued a ten-year subordinated financial debenture totaling $1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.

(9) Cathay United Bank issued a seven-year subordinated financial debenture totaling $3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.

(10) Cathay United Bank issued a ten-year subordinated financial debenture totaling $2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

(11) Cathay United Bank issued a seven-year subordinated financial debenture totaling $200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

(12) Cathay United Bank issued a ten-year subordinated financial debenture totaling $4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

(13) Cathay United Bank issued a ten-year subordinated financial debenture totaling $5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.

(14) Cathay United Bank issued a seven-year subordinated financial debenture totaling $100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.

(15) Cathay United Bank issued a ten-year subordinated financial debenture totaling $9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.

(16) Cathay United Bank issued a seven-year subordinated financial debenture totaling $3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

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

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

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

21. Other financial liabilities

	2016.12.31	2015.12.31
Separate account insurance products-liabilities	$498,014,211	$480,568,361
Principle received from the sale of structured products	61,566,809	67,227,106
Other financial liabilities	1,643,809	1,768,586
Total	$561,224,829	$549,564,053

22. Provisions

	2016.12.31	2015.12.31
Unearned premium reserve	$26,143,298	$26,428,864
Reserve for insurance liabilities	4,478,471,235	4,088,918,602
Special reserve	18,780,783	28,996,289
Reserve for claims	16,343,528	14,230,818
Premium deficiency reserve	29,771,615	22,609,864
Reserve for insurance contracts with feature of financial instruments	10,320,750	54,002,965
Foreign exchange volatility reserve	9,871,478	16,026,449
Reserve for Guarantees	73,181	104,895
Reserve for employee benefits liabilities	3,514,260	7,826,660
Contingent liabilities reserve	1,268,542	862,981
Other operating reserve	27,622	26,316
Other reserve	1,938,792	1,967,824
Total	$4,596,525,084	$4,262,002,527

(1) Life insurance subsidiaries

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

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

A. Reserve for life insurance liabilities:

	2016.12.31			2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance(Note 1)	$3,908,139,238	$2,015,303	$3,910,154,541	$3,565,702,442	$5,913,047	$3,571,615,489
Injury insurance	7,719,298	-	7,719,298	7,781,512	-	7,781,512
Health insurance	520,978,683	-	520,978,683	459,714,950	-	459,714,950
Annuity insurance	1,377,249	37,577,532	38,954,781	1,375,262	47,592,078	48,967,340
Investment-linked insurance	663,891	-	663,891	839,311	-	839,311
Subtotal	4,438,878,359	39,592,835	4,478,471,194	4,035,413,477	53,505,125	4,088,918,602
Less ceded reserve for life insurance liabilities :						
Life insurance	228,765	-	228,765	162,951	-	162,951
Total	$4,438,649,594	$39,592,835	$4,478,242,429	$4,035,250,526	$53,505,125	$4,088,755,651

Reserve for life insurance liabilities is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,035,413,477	$53,505,125	$4,088,918,602	$3,558,170,764	$69,956,566	$3,628,127,330
Reserve	657,657,435	140,118	657,797,553	567,252,464	636,248	567,888,712
Recover	(234,566,488)	(13,976,663)	(248,543,151)	(232,537,129)	(18,555,105)	(251,092,234)
Losses (gains) on foreign exchange	(19,626,065)	(75,745)	(19,701,810)	28,453,002	(454,086)	27,998,916
Others (Note2)	-	-	-	114,074,376	1,921,502	115,995,878
Ending balance	4,438,878,359	39,592,835	4,478,471,194	4,035,413,477	53,505,125	4,088,918,602
Less ceded reserve for life insurance liabilities :						
Beginning balance (net)	162,951	-	162,951	74,461	-	74,461
Increase	84,222	-	84,222	88,879	-	88,879
Gains (losses) on foreign exchange	(18,408)	-	(18,408)	(389)	-	(389)
Ending balance (net)	228,765	-	228,765	162,951	-	162,951
Total	$4,438,649,594	$39,592,835	$4,478,242,429	$4,035,250,526	$53,505,125	$4,088,755,651

Note 1: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

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

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

B. Unearned premium reserve:

	2016.12.31			2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$577,903	$-	$577,903	$504,234	$-	$504,234
Individual injury insurance	5,419,323	-	5,419,323	5,251,722	-	5,251,722
Individual health insurance	7,883,926	-	7,883,926	7,451,220	-	7,451,220
Group insurance	1,054,633	-	1,054,633	1,047,955	-	1,047,955
Investment-linked insurance	107,249	-	107,249	108,783	-	108,783
Total	15,043,034	-	15,043,034	14,363,914	-	14,363,914
Less ceded unearned premium reserve:						
Individual life insurance	191,241	-	191,241	156,623	-	156,623
Individual injury insurance	4,581	-	4,581	6,697	-	6,697
Individual health insurance	-	-	-	6,873	-	6,873
Group insurance	4,007	-	4,007	12,132	-	12,132
Total	199,829	-	199,829	182,325	-	182,325
Net	$14,843,205	$-	$14,843,205	$14,181,589	$-	$14,181,589

Unearned premium reserve is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$14,363,914	$-	$14,363,914	$13,202,867	$-	$13,202,867
Reserve	15,052,767	-	15,052,767	13,960,702	-	13,960,702
Recover	(14,347,747)	-	(14,347,747)	(13,199,868)	-	(13,199,868)
Losses (gains) on foreign exchange	(25,900)	-	(25,900)	(1,098)	-	(1,098)
Others (note)	-	-	-	401,311	-	401,311
Ending balance	15,043,034	-	15,043,034	14,363,914	-	14,363,914
Less ceded unearned premium reserve:						
Beginning balance-Net	182,325	-	182,325	137,914	-	137,914
Increase	30,128	-	30,128	9,047	-	9,047
Decrease	(11,692)	-	(11,692)	(7,868)	-	(7,868)
Gains (losses) on foreign exchange	(932)	-	(932)	(86)	-	(86)
Others (note)	-	-	-	43,318	-	43,318
Total	199,829	-	199,829	182,325	-	182,325
Ending balance-Net	$14,843,205	$-	$14,843,205	$14,181,589	$-	$14,181,589

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

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

C. Reserve for claims:

	2016.12.31			2015.12.31		
	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	$785,456	$1,056	$786,512	$144,751	$1,056	$145,807
－Unreported claim	65,767	-	65,767	62,734	-	62,734
Individual injury insurance						
－Reported but not paid claim	80,286	-	80,286	106,722	-	106,722
－Unreported claim	1,424,157	-	1,424,157	1,336,273	-	1,336,273
Individual health insurance						
－Reported but not paid claim	601,712	-	601,712	192,128	-	192,128
－Unreported claim	2,296,062	-	2,296,062	2,087,909	-	2,087,909
Group insurance						
－Reported but not paid claim	55,870	-	55,870	106,298	-	106,298
－Unreported claim	1,124,078	-	1,124,078	1,134,707	-	1,134,707
Investment-linked insurance						
－Reported but not paid claim	63,850	-	63,850	4,519	-	4,519
－Unreported claim	1,570	-	1,570	-	-	-
Total	6,498,808	1,056	6,499,864	5,176,041	1,056	5,177,097
Less ceded reserve for claims:						
Individual life insurance	34,765	-	34,765	14,632	-	14,632
Individual injury insurance	-	-	-	5	-	5
Individual health insurance	2,741	-	2,741	10,289	-	10,289
Group insurance	4,177	-	4,177	13,707	-	13,707
Total	41,683	-	41,683	38,633	-	38,633
Net	$6,457,125	$1,056	$6,458,181	$5,137,408	$1,056	$5,138,464

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

Reserve for claims is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$5,176,041	$1,056	$5,177,097	$4,689,841	$797	$4,690,638
Reserve	6,456,453	1,056	6,457,509	4,582,831	1,056	4,583,887
Recover	(5,101,313)	(1,056)	(5,102,369)	(4,555,974)	(797)	(4,556,771)
Losses (gains) on foreign exchange	(32,373)	-	(32,373)	(1,018)	-	(1,018)
Others (note)	-	-	-	460,361	-	460,361
Ending balance	6,498,808	1,056	6,499,864	5,176,041	1,056	5,177,097
Less ceded reserve for claims:						
Beginning balance-Net	38,633	-	38,633	17,456	-	17,456
Increase	5,125	-	5,125	-	-	-
Decrease	(1,834)	-	(1,834)	(48,426)	-	(48,426)
Gains (losses) on foreign exchange	(241)	-	(241)	15	-	15
Others (note)	-	-	-	69,588	-	69,588
Total	41,683	-	41,683	38,633	-	38,633
Net	$6,457,125	$1,056	$6,458,181	$5,137,408	$1,056	$5,138,464

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

D. Special reserve:

	2016.12.31				2015.12.31			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(67,018)	$-	$-	$(67,018)	$(36,387)	$-	$-	$(36,387)
dividends reserve	68,657	-	-	68,657	37,741	-	-	37,741
Special reserve for revaluation increments of property	-	-	15,416,619	15,416,619	-	-	25,416,619	25,416,619
Total	$1,639	$-	$15,416,619	$15,418,258	$1,354	$-	$25,416,619	$25,417,973

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

Special reserve is summarized below:

	2016.1.1~2016.12.31				2015.1.1~2015.12.31			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total	Insurance contract	Financial instruments with discretionary participation 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	(7,471)	-	-	(7,471)	26,220	-	-	26,220
Participating policies dividends recover	(23,160)	-	-	(23,160)	(1,122)	-	-	(1,122)
Dividends reserve	30,916	-	-	30,916	-	-	-	-
Dividends recovery	-	-	-	-	(25,375)	-	-	(25,375)
Special reserve for revaluation increments of property (Note1)	-	-	(10,000,000)	(10,000,000)	-	-	(10,000,000)	(10,000,000)
Other- Participating policies dividends reserve (Note2)	-	-	-	-	(63,116)	-	-	(63,116)
Other-Reserves for dividend risk(Note2)	-	-	-	-	63,116	-	-	63,116
Recovery	-	-	-	-	(3,932)	-	-	(3,932)
Exchange difference	-	-	-	-	(76)	-	-	(76)
Ending balance	$1,639	$-	$15,416,619	$15,418,258	$1,354	$-	$25,416,619	$25,417,973

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

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

E. Premium deficiency reserve:

	2016.12.31			2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$27,998,318	$-	$27,998,318	$20,333,625	$-	$20,333,625
Individual health insurance	1,762,497	-	1,762,497	1,908,526	-	1,908,526
Group insurance	266	-	266	426	-	426
Total	$29,761,081	$-	$29,761,081	$22,242,577	$-	$22,242,577

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

Premium deficiency reserve is summarized below:

	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$22,242,577	$-	$22,242,577	$17,294,564	$-	$17,294,564
Reserve	8,147,744	-	8,147,744	3,651,472	-	3,651,472
Recover	(466,838)	-	(466,838)	(1,296,226)	-	(1,296,226)
Losses (gains) on foreign exchange	(162,402)	-	(162,402)	270,545	-	270,545
Others (note)	-	-	-	2,322,222	-	2,322,222
Ending balance	$29,761,081	$-	$29,761,081	$22,242,577	$-	$22,242,577

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

F. Other reserve:

	2016.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Others	$1,938,792	$-	$1,938,792

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

Other reserve is summarized below:

	2016.1.1~2016.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,967,824	$-	$1,967,824
Recover	(29,032)	-	(29,032)
Ending balance	$1,938,792	$-	$1,938,792

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

	2015.1.1~2015.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$-	$-	$-
Recover	(55,869)	-	(55,869)
Others (note)	2,023,693	-	2,023,693
Ending balance	$1,967,824	$-	$1,967,824

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

G. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	2016.12.31	2015.12.31
Reserve for life insurance liabilities	$4,478,471,194	$4,088,918,602
Unearned premium reserve	15,043,034	14,363,914
Premium deficiency reserve	29,761,081	22,242,577
Other reserve	1,938,792	1,967,824
Total	$4,525,214,101	$4,127,492,917
Book value of insurance liabilities	$4,525,214,101	$4,127,492,917
Estimated present value of cash flows	$3,548,719,473	$3,062,820,974
Balance of liability adequacy reserve	$-	$-

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

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

Note 3: Cathay Life has settled the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Thus, the value of acquired business, i.e. other reserve, shall be considered in the book value of insurance liability included in liability adequacy test.

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

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

	2016.12.31	2015.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Under assets allocation plan on 30 September 2016, discount rates were calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Under the assets allocation on 30 September 2015, the discount rates were calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years.

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

	2016.12.31	2015.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2016. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2015, with neutral assumption for discount rates after 30 years.	(1) Information of policies: Including insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on the actuary report of 2014, with neutral assumption for discount rates after 30 years.

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

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

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

	2016.12.31	2015.12.31
Life insurance	$10,267,914	$53,979,737
Investment-linked insurance	52,836	23,228
Total	$10,320,750	$54,002,965

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Beginning balance	$54,002,965	$55,094,699
Premiums received	1,993,303	594,906
Insurance claim payments	(45,392,723)	(2,007,770)
Net provision of statutory reserve	216,001	340,469
Losses (gains) on foreign exchange	(498,796)	(19,339)
Ending balance	$10,320,750	$54,002,965

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~ 2016.12.31	2015.1.1~ 2015.12.31
Beginning balance	$16,026,449	$16,846,406
Reserve:		
Compulsory reserve	4,067,313	3,674,064
Extra reserve	977,335	5,783,112
Subtotal	5,044,648	9,457,176
Recover	(11,199,619)	(10,525,451)
Acquisition from business combination	-	248,318
Ending balance:	$9,871,478	$16,026,449

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

(C) Effects due to foreign exchange volatility reserve:

2016.1.1~2016.12.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	$42,930,574	$48,039,200	$5,108,626
Earnings per share	3.38	3.79	0.41
Foreign exchange volatility reserve	-	9,871,478	9,871,478
Equity	534,066,776	529,824,021	(4,242,755)

2015.1.1~2015.12.31			
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (3)= (2) - (1)
Consolidated income	$56,995,702	$57,882,371	$886,669
Earnings per share	4.51	4.58	0.07
Foreign exchange volatility reserve	-	16,026,449	16,026,449
Equity	470,413,583	461,062,202	(9,351,381)

(2) Century Insurance subsidiaries

A. Unearned premiums reserve

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

	2016.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$1,786,006	$82,136	$1,064,889	$803,253
Marine insurance	122,955	8,402	89,553	41,804
Land and air insurance	4,514,514	7,224	282,758	4,238,980
Liability insurance	578,028	700	180,130	398,598
Bonding insurance	36,137	800	22,051	14,886
Other property insurance	631,758	21,985	278,573	375,170
Accident insurance	1,483,727	2,505	59,853	1,426,379
Health insurance	52,128	-	-	52,128
Compulsory automobile liability insurance	1,289,517	481,742	774,469	996,790
Total	$10,494,770	$605,494	$2,752,276	$8,347,988

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

Item	2015.12.31 Unearned premium reserve Direct business	Unearned premium reserve Assumed reinsurance business	Ceded unearned premium reserve Ceded reinsurance 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

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

Item	2016.1.1~2016.12.31 Unearned premium reserve	2016.1.1~2016.12.31 Ceded unearned premium reserve	2015.1.1~2015.12.31 Unearned premium reserve	2015.1.1~2015.12.31 Ceded unearned premium reserve
Beginning balance	$12,064,950	$2,786,250	$11,950,213	$2,750,419
Reserve	12,366,459	2,919,491	12,072,567	2,786,662
Recover	(12,058,201)	(2,787,706)	(11,951,486)	(2,750,332)
Effects of exchange rate changes	(70,227)	(8,475)	(6,344)	(499)
Loss of control	(1,202,717)	(157,284)	-	-
Ending balance	$11,100,264	$2,752,276	$12,064,950	$2,786,250

B. Claims reserve

a. Claims reserve and ceded claims reserve

Item	2016.12.31 Claims reserve Direct underwriting business (1)	Claims reserve Assumed reinsurance business (2)	Ceded claims reserve Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Claims reported but not paid off	$5,932,690	$235,435	$3,260,191	$2,907,934
Unreported claims	3,258,534	417,005	938,123	2,737,416
Total	$9,191,224	$652,440	$4,198,314	$5,645,350

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

	2015.12.31			
	Claims reserve		Ceded claims reserve	Retained business
Item	Direct underwriting business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	(4)=(1)+(2)-(3)
Claims reported but not paid off	$4,551,787	$326,287	$1,537,115	$3,340,959
Unreported claims	3,889,745	285,902	1,038,317	3,137,330
Total	$8,441,532	$612,189	$2,575,432	$6,478,289

b. Net changes for claims reserve and ceded claims reserve

	2016.1.1~2016.12.31							
	Direct underwriting business		Assumed reinsurance business			Ceded reinsurance business		Net change for ceded claims reserve
Item	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	$6,830,877	$4,550,048	$235,435	$334,116	$2,182,148	$3,386,015	$1,548,137	$1,837,878
Unreported claims	3,783,984	3,884,922	418,869	285,866	32,065	997,557	1,037,228	(39,671)
Total	$10,614,861	$8,434,970	$654,304	$619,982	$2,214,213	$4,383,572	$2,585,365	$1,798,207

	2015.1.1~2015.12.31							
	Direct underwriting business		Assumed reinsurance business			Ceded reinsurance business		Net change for ceded claims reserve
Item	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	Net change for claims reserve (5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Claims reported but not paid off	$4,556,086	$4,066,192	$326,287	$223,378	$592,803	$1,536,911	$1,321,341	$215,570
Unreported claims	3,893,614	3,647,509	285,929	211,057	320,977	1,039,276	920,629	118,647
Total	$8,449,700	$7,713,701	$612,216	$434,435	$913,780	$2,576,187	$2,241,970	$334,217

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

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

	2016.12.31		
	Claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$3,051,885	$11,708	$3,063,593
Marine insurance	259,146	1,802	260,948
Land and air insurance	1,315,588	1,177,398	2,492,986
Liability insurance	389,427	455,552	844,979
Bonding insurance	43,266	13,117	56,383
Other property insurance	480,474	28,086	508,560
Accident insurance	125,999	443,176	569,175
Health insurance	7,463	44,110	51,573
Compulsory automobile liability insurance	494,877	1,500,590	1,995,467
Total	$6,168,125	$3,675,539	$9,843,664

	2015.12.31		
	Claims reserve		
Item	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

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

d. Reinsurance asset- ceded claims reserve for policyholder

	2016.12.31		
	Ceded claims reserve		
Item	Claim reported but not paid off	Unreported claims	Total
Fire insurance	$2,387,195	$6,623	$2,393,818
Marine insurance	187,355	339	187,694
Land and air insurance	64,554	63,241	127,795
Liability insurance	222,230	159,847	382,077
Bonding insurance	25,258	12,426	37,684
Other property insurance	175,782	11,257	187,039
Accident insurance	11,295	37,748	49,043
Health insurance	-	773	773
Compulsory automobile liability insurance	186,522	645,869	832,391
Total	$3,260,191	$938,123	$4,198,314

	2015.12.31		
	Ceded claims reserve		
Item	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

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

e. Reconciliation statement of claims reserve and ceded claims reserve

	2016.1.1~2016.12.31		2015.1.1~2015.12.31	
Item	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	$9,053,721	$2,575,432	$8,154,755	$2,249,673
Reserve	11,269,165	4,383,572	9,061,916	2,576,187
Recover	(9,054,952)	(2,585,365)	(8,148,136)	(2,241,970)
Effects of exchange rate changes	(73,267)	(5,085)	(14,814)	(8,458)
Loss of control	(1,351,003)	(170,240)	-	-
Ending balance	$9,843,664	$4,198,314	$9,053,721	$2,575,432

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

Item	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Beginning balance	$1,487,506	$1,528,545
Reserve	116,070	23,143
Recover	(72,967)	(64,182)
Ending balance	$1,530,609	$1,487,506

b. Special reserve - Non-compulsory automobile liability insurance

	Liability					
	2016.1.1~2016.12.31			2015.1.1~2015.12.31		
Item	Major incidents	Fluctuation of risks	Total	Major incidents	Fluctuation of risks	Total
Beginning balance	$505,626	$1,585,184	$2,090,810	$524,353	$1,586,240	$2,110,593
Reserve	-	-	-	-	-	-
Recover	(18,727)	(240,167)	(258,894)	(18,727)	(1,056)	(19,783)
Ending balance	$486,899	$1,345,017	$1,831,916	$505,626	$1,585,184	$2,090,810

"Precautions of Strengthening Disaster Insurance of Property Insurance Industry (Commercial Earthquake and Typhoons Flood Insurance)", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance", "Regulations for the Management of the Various Reserves for the nuclear Insurance", and other reserves do not have impact on Cathay Century's and its subsidiaries' income before tax, liability and equity with $258,894 thousand decreased, $1,523,417 thousand increased and $670,339 thousand decreased, respectively.

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

D. Premiums deficiency reserve

a. Premiums deficiency reserve and ceded premium deficiency reserve

	2016.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$-	$-
Marine insurance	-	-	-	-
Land and air insurance	1,641	8,893	-	10,534
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	$1,641	$8,893	$-	$10,534

	2015.12.31			
	Premiums deficiency reserve		Ceded premiums deficiency reserve	
Item	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$627	$(627)
Marine insurance	-	-	(13,542)	13,542
Land and air insurance	-	13,988	-	13,988
Liability insurance	12,503	(3)	5,962	6,538
Bonding insurance	-	-	4	(4)
Other property insurance	278,729	33	37	278,725
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	62,037	-	-	62,037
Total	$353,269	$14,018	$(6,912)	$374,199

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

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

2016.1.1~2016.12.31

Item	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
Fire insurance	$70	$-	$-	$-	$70	$468	$622	$(154)	$224
Marine insurance	-	-	-	-	-	14	43	(29)	29
Land and air insurance	1,640	-	8,893	13,988	(3,455)	-	(13,586)	13,586	(17,041)
Liability insurance	13,661	12,400	5	(3)	1,269	5,273	5,913	(640)	1,909
Bonding insurance	11	-	-	-	11	4	4	-	11
Other property insurance	294,628	276,441	-	32	18,155	82	37	45	18,110
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	67,353	61,528	-	-	5,825	-	-	-	5,825
Total	$377,363	$350,369	$8,898	$14,017	$21,875	$5,841	$(6,967)	$12,808	$9,067

2015.1.1~2015.12.31

Item	Direct underwriting business Reserve (1)	Direct underwriting business Recover (2)	Assumed reinsurance business Reserve (3)	Assumed reinsurance business Recover (4)	Net change for premiums deficiency reserve (5)=(1)-(2)+(3)-(4)	Ceded reinsurance business Reserve (6)	Ceded reinsurance business Recover (7)	Net change for ceded premiums deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premiums deficiency reserve (9)=(5)-(8)
Fire insurance	$-	$-	$-	$-	$-	$631	$-	$631	$(631)
Marine insurance	-	-	-	7	(7)	(13,542)	(1,183)	(12,359)	12,352
Land and air insurance	-	-	13,988	1,095	12,893	-	-	-	12,893
Liability insurance	12,580	14,930	(4)	5	(2,359)	5,999	2,075	3,924	(6,283)
Bonding insurance	-	511	-	-	(511)	4	8	(4)	(507)
Other property insurance	280,453	137,272	33	1	143,213	37	38,666	(38,629)	181,842
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	62,422	46,375	-	-	16,047	-	-	-	16,047
Total	$355,455	$199,088	$14,017	$1,108	$169,276	$(6,871)	$39,566	$(46,437)	$215,713

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

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

	2016.1.1~2016.12.31		2015.1.1~2015.12.31	
Item	Premiums deficiency reserve	Ceded premiums deficiency reserve	Premiums deficiency reserve	Ceded premiums deficiency reserve
Beginning balance	$367,287	$(6,912)	$199,764	$39,478
Reserve	386,261	5,841	369,472	(6,871)
Recover	(364,386)	6,967	(200,196)	(39,566)
Effects of exchange rate changes	(20,674)	(331)	(1,753)	47
Loss of control	(357,954)	(5,565)	-	-
Ending balance	$10,534	$-	$367,287	$(6,912)

d. Effects for the change of estimation and assumption

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

E. Liability reserve

a. Liability reserve and liability-ceded reserve

	2016.1.1~2016.12.31			
	Liability reserve		Liability-ceded reserve	
Item	Direct written business (1)	Reinsurance ceded-in (2)	Reinsurance ceded-out (3)	Retention (4)=(1)+(2)-(3)
Health insurance	$41	$-	$-	$41

b. Net change for liability reserve and liability reserve ceded

	2016.1.1~2016.12.31							
	Direct written business		Reinsurance ceded-in			Reinsurance ceded-out		
Item	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	Net change for liability reserve (5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	Net change for liability reserve ceded (8)=(6)-(7)
Health insurance	$43	$2	$-	$-	$41	$-	$-	$-

23. Post-employment benefits

(1) Defined contribution plans

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

The Company's subsidiary located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of the Group's overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan recognized by the Group for the years ended 31 December 2016 and 2015 are $1,583,664 thousand and $1,449,843 thousand, respectively.

(2) Defined benefit plans

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the six months of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15^{th} year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute $1,162,530 thousand to its defined benefit plan during the 12 months beginning after 31 December 2016.

The average duration of the defined benefits plan obligation as at 31 December 2016 and 2015, are 2026~2030 years and 2025~2030 years.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current period service costs	$479,610	$456,591
Interest expense from net defined benefit liability	86,587	75,841
Total	$566,197	$532,432

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2016.12.31	2015.12.31
Defined benefit obligation	$18,744,357	$19,118,959
Fair value of plan assets	(19,344,726)	(11,908,142)
Net defined benefit liability (asset)	$(600,369)	$7,210,817

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

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Net Defined Benefit liability (asset)
2015.1.1	$17,952,591	$(13,611,922)	$4,340,669
Current period service costs	456,591	-	456,591
Net interest expense (income)	312,853	(237,012)	75,841
Subtotal	769,444	(237,012)	532,432
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	1,209	-	1,209
Actuarial gains and losses arising from changes in financial assumptions	578,823	-	578,823
Experience adjustments	1,043,327	-	1,043,327
Remeasurements of the net defined benefit asset	-	1,150,307	1,150,307
Subtotal	1,623,359	1,150,307	2,773,666
Payments from the plan	(1,226,435)	1,224,278	(2,157)
Contributions by employer	-	(433,793)	(433,793)
2015.12.31	19,118,959	(11,908,142)	7,210,817
Current period service costs	479,610	-	479,610
Net interest expense (income)	227,900	(141,313)	86,587
Subtotal	707,510	(141,313)	566,197
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(573)	-	(573)
Actuarial gains and losses arising from changes in financial assumptions	(239,296)	-	(239,296)
Experience adjustments	356,607	-	356,607
Remeasurements of the net defined benefit asset	-	(918,766)	(918,766)
Subtotal	116,738	(918,766)	(802,028)
Payments from the plan	(1,198,850)	1,197,754	(1,096)
Contributions by employer	-	(7,574,259)	(7,574,259)
2016.12.31	$18,744,357	$(19,344,726)	$(600,369)

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

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2016.12.31	2015.12.31
Discount rate	1.29%~1.80%	1.18%~1.75%
Expected rate of salary increases	1.00%~3.00%	1.00%~3.00%

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	2016.1.1~ 2016.12.31		2015.1.1~ 2015.12.31	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	$1,049,038	$(966,077)	$1,129,871	$(1,044,917)
Future salary increase (decrease) by 0.5%	1,029,296	(964,997)	1,108,882	(1,025,760)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

Employee preferential interest rate deposits plan

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

Expenses under preferential interest rate deposits plan amounted to $252,512 thousand and $255,788 thousand were recognized for the years ended 31 December 2016 and 2015, and recorded as “Employee benefits expenses”, respectively.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current period service costs	$-	$-
Interest expense	22,452	23,317
Total	$22,452	$23,317

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

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2016.12.31	2015.12.31
Defined benefit obligation	$(576,083)	$(605,038)
Fair value of plan assets	-	-
Other non-current liabilities - Net defined benefit liability	$(576,083)	$(605,038)

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation
2015.1.1	$627,789
Defined benefit cost recognized in profit or loss	
Net interest expense	23,317
Subtotal	23,317
Defined benefit cost－recognized in other comprehensive income	
Experience adjustments	51,109
Subtotal	51,109
Payments from the plan	(97,177)
2015.12.31	605,038
Defined benefit cost recognized in profit or loss	
Net interest expense	22,452
Subtotal	22,452
Defined benefit cost－recognized in other comprehensive income	
Experience adjustments	48,510
Subtotal	48,510
Payments from the plan	(99,917)
2016.12.31	$576,083

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2016.12.31	2015.12.31
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

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

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate decrease (increase) by 0.5%	$31,685	$(28,804)	$35,092	$(29,647)
Death rate adjusted decrease (increase) 0.5%	5,761	(5,185)	5,445	(5,445)
Interest rate of premium deposit decrease (increase) by 0.5%	134,803	(134,803)	132,503	(132,503)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

24. Capital Stock

(1) As of 31 December 2016, the authorized share capital amounted to $180,000,000 thousand and the issued share capital amounted to $133,965,102 thousand, including 12,563,210 thousand common shares and 833,300 thousand preferred shares. These shares are all with par value of $10. As of 31 December 2015, the authorized share capital amounted to $180,000,000 thousand and the issued share capital amounted to $125,632,102 thousand and 12,563,210 thousand shares. These shares are common stock with par value of $10.

(2) Issuance of preferred stock

The shareholders' meeting has approved the issuance of Series A Preferred Shares on 9 September 2016. The Company issued 833,300 thousand preferred shares for cash totaled $8,333,000 thousand, with a par value of $10 per share issued at $60 per share. The capital injection was approved by the Financial Supervisory Commission on 25 October 2016. The subscription date was 8 December 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preferred Shares Issuance are listed as follows:

A. 3.8% per annum for Series A Preferred Shares (7-year IRS 1.06%+2.74%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, PYTDWFIX and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei's financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.

B. Dividends for Preferred Shares are distributed once per year in cash. After shareholders' approval of issuer's financial statements at its annual shareholders meeting, the board may set record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders' approval of dividends declaration on shareholders meeting) shall be calculated pursuant to actual issued days of the given year.

C. In the year when making earnings, before Issuer can distribute dividends for Series A Preferred Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preferred share dividend

D. The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company's RBC ratio below the level required by law or competent authorities. The Company's cancellation of preferred share dividend distribution shall not be deemed an event of default. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit

E. Except for receipt of dividends at the aforementioned dividend rate in Paragraph A, holders of Preferred Shares cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.

F. Holders of Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.

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

G. Holders of Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors. However, holders of Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.

H. Holders of Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Preferred Shares.

I. Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price. Rights and obligations of the unredeemed Preferred Shares shall remain the same as mentioned above.

(3) On 31 December 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TWSE) in accordance with relevant regulations. On 29 July 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

25. Capital surplus

	2016.12.31	2015.12.31
Additional paid-in capital	$126,523,972	$84,858,972
Treasury share transactions	2,539,377	2,539,377
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Additional paid-in capital-Employee stock option	203,408	203,408
Convertible bonds to convert	1,144,486	1,144,486
Others	8,312	5,789
Total	$130,448,697	$88,781,174

(1) The capital surplus of the Company consists of consolidation premium from share exchange, additional paid-in capital from issuance of shares for cash accumulated adjustments on paid-in capital from investment under equity method, and transactions of treasury stocks and employee stock options. Capital surplus were $130,448,697 thousand and $88,781,174 thousand as of 31 December 2016 and 31 December 2015, respectively.

(2) According to Letter (91) Tai-Cai-Zheng-Zi (Liu) No. 0910003413 issued by Ministry of Finance on 11 June 2002, capital surplus of financial holding companies from the share exchange, in compliance with Item 4 of Article 47 of the Financial Holding Company Act, is allowed to be distributed as cash dividends or to be capitalized if the capital surplus was from the financial institution’s undistributed earnings before the share exchange. In addition, the capitalization amount is not restricted to the article 72-1 of the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers”.

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

26. Retained earnings

(1) Legal reserve

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

On 8 June 2016, the board of shareholders resolved to recognize the legal capital reserves of \$5,757,629 thousand. On 12 June 2015, the Company's board of shareholders resolved to recognize the legal capital reserves of \$5,035,694 thousand.

(2) Special reserve

A. According to the legal interpretations No.1010012865 issued by Financial Supervisory Commission on 6 April 2012, as the first-time adoption of IFRS, entities should appropriate special reserves from unrealized increments from revaluation and gains from accumulated translation adjustments recorded under stockholders' equity with same amount to retained earnings due to the adoption of exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards. The Group is not required to appropriate special reserves because the unrealized increments of revaluation should be treated in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the Group did not select to recognize accumulated translation difference as zero at the date of transition to IFRS.

B. Cathay United Bank, Cathay Securities and Cathay Futures have reclassified appropriated trading losses reserve and default losses reserve as of 31 December 2010 as special reserve according to the relevant regulation. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company appropriated to the special reserve an amount of \$333,598 thousand during the year ended 31 December 2011.

C. In accordance with IFRS 4, provisions for possible claims under contracts that are not in existence at the reporting date are prohibited. Based on the "Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises", the reserves under liability recorded before 31 December 2012 should be reclassified to special capital reserve considering the reclassification of balance after tax according to IAS 12 to retained earnings on 1 January 2013. In addition, in order to maintain the consistency and sustainability, the amount should be adjusted retrospectively to 1 January 2012. As of 1 January 2012, the "Special Reserve for Major Incidents" and "Special Reserve for Fluctuation of Risks" amounted to $9,022,812 thousand. Half of this amount was set aside to be reclassified as the opening balance of foreign exchange volatility reserve on 1 March 2012, and the rest of it in the amount of $4,511,405 thousand after deducting the effect of income tax was diverted to special capital reserve under retained earnings, an increase of $3,744,467 thousand. The Company has appropriated to the special reserve an amount of $3,744,467 thousand during the year ended 31 December 2013.

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

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

The Group also reclassified $0 thousand and $33,796 thousand of special reserve to undistributed earnings due to the Group's reclassification of relevant assets which are used, disposed of, reclassified by Cathay Bank for the years ended 31 December 2016 and 2015.

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

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

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

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

(3) Undistributed earnings

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

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

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

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

D. According to the addition of Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. The company amended the related regulations in the Company's Articles of Incorporation according to the aforementioned addition on 8 June, 2016.

E. Details of the years ended 31 December 2015 and 2014 earnings distribution and dividends per share as approved by the shareholders' meeting on 8 June 2016 and 12 June 2015, respectively, are as follows:

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

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

F. The Company's distribution of 2016 retained earnings has not been approved by the Board of Directors as of the independent auditors' audit report date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

27. Non-controlling interests

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Beginning balance	$6,005,208	$5,639,845
Net income attributed to non-controlling interests	420,387	368,799
Other comprehensive income attributed to non-controlling interests:		
Exchange differences resulting from translating the financial statements of a foreign operation	(304,889)	156,984
Unrealized gains from available-for-sale financial assets	(122,155)	58,596
Changes in non-controlling interests	500,898	(219,016)
Ending balance	$6,499,449	$6,005,208

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

28. Employee benefits, depreciation and amortization

Summary statement of employee benefits and depreciation expenses breakdown:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Employee benefits expense		
Salary and wages	$35,419,883	$30,770,860
Labor and health insurance	3,869,911	3,368,571
Pension expense	2,186,894	2,024,392
Other employee benefits	4,718,089	2,984,410
Depreciation	2,295,745	2,184,189
Amortization	2,893,403	1,457,120

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

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2016 to be 0.01% of profit of current year and $1,800 thousand, respectively. The Company recognized employees' compensation and remuneration of $4,920 thousand and $1,800 thousand for the year ended 31 December 2016, and recorded under salaries expense. A resolution was passed at a board of directors meeting held on 8 March 2017 to distribute $4,920 thousand and $1,800 thousand in cash as employees' compensation and remuneration to directors, respectively. If the actual distribution is different from the estimates, the difference will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

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

As of 31 December 2016, and 31 December 2015, the total numbers of the employees of the Group were 51,151 and 46,633, respectively.

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

29. The Components of other comprehensive income

For the year ended 31 December 2016

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$753,518	$-	$753,518	$(128,098)	$625,420
Revaluation increments	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(9,343)	-	(9,343)	1,762	(7,581)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	44,408	-	44,408	(7,549)	36,859
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(8,920,171)	-	(8,920,171)	348,424	(8,571,747)
Unrealized gains (losses) from available-for-sale financial assets	24,580,403	(23,595,340)	985,063	3,216,600	4,201,663
(Losses) gains on cash flow hedges	(47,367)	(169,489)	(216,856)	36,866	(179,990)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(722,914)	-	(722,914)	(34,092)	(757,006)
Total	$15,678,534	$(23,764,829)	$(8,086,295)	$3,433,913	$(4,652,382)

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

For the year ended 31 December 2015

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$(2,824,773)	$-	$(2,824,773)	$480,210	$(2,344,563)
Revaluation increments	92,744	-	92,744	(608)	92,136
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(164,196)	-	(164,196)	27,435	(136,761)
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	42,544	-	42,544	(7,233)	35,311
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	1,488,694	-	1,488,694	(167,084)	1,321,610
Unrealized (losses) gains from available-for-sale financial assets	(13,079,098)	(33,956,145)	(47,035,243)	2,186,592	(44,848,651)
Gains (losses) on cash flow hedges	381,478	(150,505)	230,973	(39,902)	191,071
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	346,975	-	346,975	(15,492)	331,483
Total	$(13,715,632)	$(34,106,650)	$(47,822,282)	$2,463,918	$(45,358,364)

30. Income taxes

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

Income tax expense recognized in profit or loss

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current income tax expense (income):		
Current income tax charge	$5,988,162	$(2,120,947)
Adjustments in respect of current income tax of prior periods	12,176	(484,494)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	(5,377,882)	10,714,294
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	(1,111,923)	(282,265)
Tax expense recognized in the period for previously unrecognized tax loss, tax credit or temporary difference of prior periods	396,955	396,954
Other components of deferred tax expense (income)	2,237,817	1,026,289
Total income tax expense	$2,145,305	$9,249,831

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

Income tax relating to components of other comprehensive income

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Current income tax expense:		
Current income tax charge	$-	$-
Deferred tax expense (income):		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	7,549	7,233
Exchange difference resulting from translating the financial statements of a foreign operation	(221,992)	167,084
Unrealized losses from available-for-sale financial assets	(3,216,600)	(2,186,592)
(Losses) gains on cash flow hedges	(36,866)	39,902
Gains from revaluation	-	608
Remeasurements of defined benefit plans	128,098	(480,210)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(94,102)	(11,943)
Income tax relating to components of other comprehensive income	$(3,433,913)	$(2,463,918)

(2) Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Accounting profit before tax from continuing operations	$50,184,505	$67,132,202
Tax at the domestic rates applicable to profits in the country concerned	$17,432,056	$21,660,789
Tax effect of revenues exempt from taxation	(14,989,228)	(19,254,582)
Tax effect of expenses not deductible for tax purposes	105,616	237,655
Return of cash dividends	-	1,565,842
Deferred tax assets of unrecognized tax losses	(13,530)	7,441
Tax effect of deferred tax assets/liabilities	(940,698)	(279,064)
10 % surtax on undistributed retained earnings	1,775,428	603,298
Tax effect of the rates applicable to profits in the other jurisdictions	32,443	(19,313)
Adjustments in respect of current income tax of prior periods	10,379	(483,957)
Others	(1,267,161)	5,211,722
Total income tax expense recognized in profit or loss	$2,145,305	$9,249,831

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

(3) Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2016

	Beginning balance as at 1 January 2016	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance as at 31 December 2016
Temporary differences:							
Property, plant and equipment	$458,659	$80,279	$-	$-	$4,256	$518	$543,712
Investment property	(19,252,586)	(2,422,868)	-	-	-	19,145	(21,656,309)
Financial assets at fair value through profit and loss	(2,251,671)	1,853,414	(7,549)	-	-	-	(405,806)
Available-for-sale financial assets	(629,983)	101	658,186	-	-	-	28,304
Derivative financial liabilities for hedging	(76,095)	-	36,866	-	-	-	(39,229)
Investments in debt securities with no active market	(207,587)	87,898	-	-	-	-	(119,689)
Investments accounted for using the equity method	(218,708)	(238,110)	94,102	(151,147)	1,399,037	(57,809)	827,367
Preferential interest rate deposits	102,855	(13,169)	8,246	-	-	-	97,932
Financial liabilities at fair value through profit or loss	6,587,600	(2,048,488)	-	-	-	-	4,539,112
Other receivables	(84,316)	(14,602)	-	-	-	-	(98,918)
Decommissioning costs	19	230	-	-	-	-	249
Bad debt losses	705,498	(127,938)	-	-	-	-	577,560
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	(10,557,927)	9,805,734	2,780,406	-	-	(3)	2,028,210
Provisions	(188,060)	(42,611)	-	-	-	-	(230,671)
Deferred revenue on customer loyalty programs	228,273	23,379	-	-	-	-	251,652
Other payables	155,048	(9,630)	-	-	(37,103)	(2,671)	105,644
Defined benefit Liability	1,228,882	(1,190,873)	(136,344)	-	-	-	(98,335)
Deferred Income	5,986	(5,055)	-	-	(680)	(251)	-
Fair value adjustments from business consolidation	(439,573)	(52,238)	-	-	-	-	(491,811)
Deferred tax liabilities from business consolidation	(784,429)	179,611	-	-	(781,335)	50,597	(1,335,556)
Guarantee deposits paid	-	-	-	-	-	-	-
Office supplies	3,116	(877)	-	-	-	-	2,239
Others	(513,254)	(843,658)	-	-	(190,487)	(12)	(1,547,411)
Unused tax losses	6,279,173	199,539	-	-	-	(95)	6,478,617
Unused tax credit	4,398	14,810	-	-	3,364	(2,827)	19,745
Tax effect under consolidated income tax	(904,884)	-	-	-	(204,174)	-	(1,109,058)
Deferred income tax expenses (income)		$5,234,878	$3,433,913	$(151,147)	$192,878	$6,592	
Deferred income tax assets (liabilities)-net	$(20,349,564)						$(11,632,450)
Reflected in balance sheet as flows:							
Deferred income tax assets	$14,425,707						$14,729,993
Deferred income tax liabilities	$(34,775,271)						$ (26,362,443)

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For the year ended 31 December 2015

	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Deferred tax income (expense) charged directly to equity	Deferred tax assets (liabilities) acquired in business combinations	Exchange differences	Ending balance
Temporary differences:							
Property, plant and equipment	$391,836	$67,315	$-	$-	$(479)	$(13)	$458,659
Investment property	(16,394,760)	(2,857,900)	(608)	-	-	682	(19,252,586)
Financial assets at fair value through profit and loss	(3,001,322)	756,884	(7,233)	-	-	-	(2,251,671)
Available-for-sale financial assets	(4,578,366)	(123,979)	4,072,362	-	-	-	(629,983)
Derivative financial liabilities for hedging	(36,193)	-	(39,902)	-	-	-	(76,095)
Investments in debt securities with no active market	(283,450)	75,863	-	-	-	-	(207,587)
Investments accounted for using the equity method	(84,206)	(146,690)	11,943	231	16	-	(218,706)
Preferential interest rate deposits	106,616	(12,448)	8,687	-	-	-	102,855
Financial liabilities at fair value through profit or loss	8,493,820	(1,906,220)	-	-	-	-	6,587,600
Other receivables	(70,442)	(13,874)	-	-	-	-	(84,316)
Decommissioning costs	-	19	-	-	-	-	19
Bad debt losses	606,837	98,661	-	-	-	-	705,498
Deferred income tax assets (liabilities) resulted from income or loss on foreign exchange	(1,855,075)	(6,649,999)	(2,052,854)	-	-	1	(10,557,927)
Provisions	(190,765)	2,705	-	-	-	-	(188,060)
Deferred revenue on customer loyalty programs	224,085	4,188	-	-	-	-	228,273
Other payables	-	23,148	-	-	127,661	4,239	155,048
Defined benefit Liability	743,132	14,227	471,523	-	-	-	1,228,882
Deferred Income	-	(1,784)	-	-	7,539	231	5,986
Fair value adjustments from business consolidation	(383,044)	(56,529)	-	-	-	-	(439,573)
Deferred tax liabilities from business consolidation	-	14,804	-	-	(774,437)	(24,796)	(784,429)
Guarantee deposits paid	(4,626)	4,626	-	-	-	-	-
Office supplies	1,837	1,279	-	-	-	-	3,116
Others	(167,688)	(396,878)	-	-	51,312	-	(513,254)
Unused tax losses	5,996,499	263,915	-	-	18,176	583	6,279,173
Unused tax credit	-	4,372	-	-	-	26	4,398
Tax effect under consolidated income tax	(605,027)	(3,628)	-	-	(296,229)	-	(904,884)
Deferred income tax expenses (income)		$(10,837,923)	$2,463,918	$231	$(866,441)	$(19,047)	
Deferred income tax assets (liabilities)-net	$(11,090,302)						$(20,349,564)
Reflected in balance sheet as flows:							
Deferred income tax assets	$16,081,618						$14,425,707
Deferred income tax liabilities	$(27,171,920)						$(34,775,271)

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

(4) Unrecognized deferred tax assets

As of 31 December 2016 and 2015, deferred tax assets that have not been recognized amount to $2,588,640 thousand and $6,156,897 thousand, respectively.

(5) Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As at 31 December 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, aggregate to $119,321 thousand and $192,892 thousand, respectively.

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

	2016.12.31	
	Income tax returns examined by tax authorities	Notes
The Company	through 2010	-
Cathay Life	through 2010	Cathay Life was in the process of administrative remedy for 2007 and 2009.
Cathay United Bank	through 2010	Cathay United Bank was in the process of administrative remedy for 2009 and 2010.
Cathay Century	through 2010	-
Cathay Securities	through 2010	Cathay Securities was in the process of administrative remedy for 2009 and 2010.
Cathay Venture	through 2010	Cathay Venture was in the process of administrative remedy for 2010.
Cathay Securities Investment Trust	through 2011	-
Cathay Futures	through 2014	-

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

(7) Information related to imputation credit account:

	2016.12.31	2015.12.31
Balance of imputation credit account	$1,338,315	$201,096

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

The Company's cash dividends-imputed tax credit ratio applied to actual distribution was 5.05% for the year ended 31 December 2015. The cash dividends-imputed tax credit rates applied to actual distribution were 2.05% for the year ended 31 December 2014.

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

31. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Basic earnings per share ($)		
Profit attributable to ordinary equity holders of the Company (in thousand)	$47,618,813	$57,513,572
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	12,563,210	12,563,210
Basic earnings per share ($)	$3.79	$4.58

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

32. Business combinations

Cathay Life

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

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

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

	Fair value recognized on the acquisition date
Purchase consideration (Compensation received)	$(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	$(33,218,390)
Acquisition ratio	100%
Intangible assets (Goodwill)	$2,918,390

(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.

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

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

	Fair value recognized on the acquisition date
Purchase consideration	$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	$2,751,713
Acquisition ratio	100%
Intangible assets (Goodwill)	$5,087,963

(3) On 1 February 2016, Cathay Life and its subsidiaries acquired 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with $4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. The acquisition enabled Cathay Life and its subsidiaries to provide investment solution for clients, maximize the use of various resources and stabilize the investment performance.

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	$38
Receivables	286,708
Held-to-maturity financial assets	439,991
Intangible assets (Except for goodwill)	2,053,870
Other assets	44,166
Payables	(104,633)
Provisions	(367,003)
Other liabilities	(57,820)
Identifiable net assets	$2,295,317

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

	Fair value recognized on the acquisition date
Goodwill of Octagon Credit Investors, LLC is as follows:	
Purchase consideration	$4,708,746
Add: Non-controlling interests at fair value	653,313
Less: Identifiable net assets at fair value	(2,295,317)
Goodwill	$3,066,742

Cathay Securities

(1) Acquisition of subsidiary

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

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

	Fair value recognized on the acquisition date
Purchase consideration	$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	$145,919
Acquisition ratio	100%
Intangible assets (Goodwill)	$8,629

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

The Company, Cathay Life and Cathay Century

(1) Loss of control of a subsidiary

Cathay Life and Cathay Century did not participate in the capital increase of its subsidiary, Cathay Century (China), during July 2016 and therefore, the Group's ownership over Cathay Century (China) decreased to 49%. The subsidiary is accounted for using the equity method since Cathay Century lost control of the subsidiary but still retained significant influence. The fair value of the remaining 49% ownership on disposal day was $2,915,225 thousand and therefore, the Group recognized a revaluation gains of $2,266,596 thousand.

Details of the carrying value of derecognized assets and liability of Cathay Century (China) on 26 July 2016 are as follows:

Cash and cash equivalent	$4,609,822
Receivables	278,491
Financial assets at fair value through profit or loss	264,577
Available-for-sale financial assets	983,769
Debt instrument investments for which no active market exists	48,115
Reinsurance assets	530,468
Property and equipment	51,474
Intangible assets	40,270
Other assets	842,485
Payables	(314,853)
Insurance liabilities	(2,911,675)
Other liabilities	(54,168)
Net assets	$4,368,775

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.

B. Framework of risk management, organization structure and responsibilities

(A) Board of directors

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

(B) Risk management committee

a. The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.

b. The committee should execute the risk management decisions set by the board of directors and evaluate the results of developing and executing risk management mechanisms.
c. The committee should assist and monitor the risk management activities.
d. The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.
e. The committee should enhance cross-department interaction and communication.

(C) Chief Risk Officer

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

(D) Risk management department

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

(a) Propose and execute the risk management policies set by the board of directors.
(b) Suggest the risk limits based on risk appetite
(c) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with each department
(d) Regularly generate risk management related reports
(e) Regularly review all department's risk limits and cope with the violation of such limits
(f) Execute stress testing
(g) Execute back testing if necessary
(h) Manage other risk management related issues

(E) Operating departments

a. Identify and measure risks and report risk exposure and potential influence against Cathay Life on time
b. Regularly review the risk limits. Any excess of such limits should be reported along with any actions taken against such excess.
c. Assist with developing the risk model and to ensure that the risk measurement. The model application and the assumptions behind the model are reasonable and consistent.
d. Ensure that internal control operates effectively to comply with relevant regulations and Cathay Life's risk management policies
e. Assist in risk management data collection
f. Be responsible for such department's daily risk management reporting and report issues if necessary
g. Urge the disclosure of risk management information regularly to the risk management department

(F) Audit department

The department is required to audit all departments and to figure out the status of risk management policies execution pursuant to the relevant regulations and Cathay Life's risk management policies.

The risk management department formulates risk management standards and policies based on Cathay Life's business nature and needs. Cathay Life provides risk management reports to the risk management department regularly. The reports are compiled by the risk management department and turned in to the risk management committee.

C. The scope and types of risk assessment and reporting

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

(A) Market risk

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

(B) Credit risk

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

(C) Sovereign risk

It means that Cathay Life suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. Cathay Life measures the sovereign risk by certain ratio. The ratio could be calculated as follows: the total investment amount in a certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

(D) Liquidity risk

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

(E) Operating risk

This risk occurs when there are errors caused by internal processes, employees, system breakdowns or external issues such as the legislative risk; however, the strategic risk and the reputation risk are excluded. Cathay Life has set the standard operating procedure based on the nature of the operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life’s operation and ability to provide customer services while minimizing the losses under emergency events, Cathay Life has established emergency handling mechanism and information system damage preparedness.

(F) Insurance risk

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

(G) Asset and liability matching risk

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

(H) Risk-based capital (RBC) ratio

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

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

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

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

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

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

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

(A) Insurance risk assessment covers the following topics:

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

(B) The scope of management of insurance risk

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

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

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

G. Asset/liability management

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

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

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

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

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

(A) Capital adequacy management

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

(B) Exception management process

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

I. Risk mitigation and avoidance policies and risk monitoring procedures

(A) Cathay Life enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

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

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

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

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

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

Information of insurance risk

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

(A) Cathay Life

	For the years ended 31 December 2016		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,359,350	Decrease (increase) 1,958,260
Expense	×1.05 (×0.95)	Decrease (increase) 3,385,125	Decrease (increase) 2,809,654
Surrender rates	×1.05 (×0.95)	Increase (decrease) 459,376	Increase (decrease) 381,282
Rate of return	+0.1%	Increase 4,548,123	Increase 3,774,942
Rate of return	-0.1%	Decrease 4,552,582	Decrease 3,778,643

	For the years ended 31 December 2015		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 2,165,878	Decrease (increase) 1,797,679
Expense	×1.05 (×0.95)	Decrease (increase) 2,896,302	Decrease (increase) 2,403,930
Surrender rates	×1.05 (×0.95)	Increase (decrease) 339,184	Increase (decrease) 281,523
Rate of return	+0.1%	Increase 4,142,848	Increase 3,438,564
Rate of return	-0.1%	Decrease 4,146,906	Decrease 3,441,932

(B) Cathay Lujiazui Life

	For the years ended 31 December 2016		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.95)	Decrease (increase) 248,834	Decrease (increase) 186,626
Expense	×1.05 (×0.95)	Decrease (increase) 146,617	Decrease (increase) 109,963
Surrender rates	×1.10 (×0.90)	Increase (decrease) 127,668	Increase (decrease) 95,751
Rate of return	+0.25%	Increase 467,118	Increase 350,339
Rate of return	-0.25%	Decrease 508,538	Decrease 381,403

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

	For the years ended 31 December 2015		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.10 (×0.90)	Decrease (increase) 121,834	Decrease (increase) 91,375
Expense	×1.05 (×0.95)	Decrease (increase) 77,320	Decrease (increase) 57,990
Surrender rates	×1.10 (×0.90)	Increase (decrease) 100,912	Increase (decrease) 75,684
Rate of return	+0.25%	Increase 384,943	Increase 288,707
Rate of return	-0.25%	Decrease 418,237	Decrease 313,678

(C) Cathay Life (Vietnam)

	For the years ended 31 December 2016		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 276	Decrease (increase) 221
Expense	×1.05 (×0.95)	Decrease (increase) 17,299	Decrease (increase) 13,839
Surrender rates	×1.05 (×0.95)	Increase (decrease) 1,295	Increase (decrease) 1,036
Rate of return	+0.1%	Increase 5,171	Increase 4,137
Rate of return	-0.1%	Decrease 5,176	Decrease 4,140

	For the years ended 31 December 2015		
	Scenarios	Change in income before tax	Change in equity
Mortality/Morbidity	×1.05 (×0.95)	Decrease (increase) 221	Decrease (increase) 172
Expense	×1.05 (×0.95)	Decrease (increase) 12,055	Decrease (increase) 9,403
Surrender rates	×1.05 (×0.95)	Increase (decrease) 997	Increase (decrease) 778
Rate of return	+0.1%	Increase 3,876	Increase 3,023
Rate of return	-0.1%	Decrease 3,880	Decrease 3,026

a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2016 and 2015. The influence on equities of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 20% (22% for the nine-month period ended 31 December 2015) individually.

b. An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows Cathay Life's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.

c. Sensitivity Test

(a) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.

(b) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.

(c) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.

(d) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

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

Note 2: The rate of returns is measured by 2 x (net profits or losses on investment – finance costs) / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment + 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.

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

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

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

(3) Claim development trend

A. Cathay Life

a. Direct business development trend

Accident year	Development year								Reserve for unreported claim
	1	2	3	4	5	6	7	Unreported claim	
2010	14,552,884	17,681,069	18,003,448	18,072,637	18,133,928	18,163,522	18,177,559	-	-
2011	15,368,399	18,936,487	19,286,514	19,361,431	19,417,890	19,455,613	19,470,747	15,134	15,164
2012	15,130,550	18,317,746	18,627,566	18,692,848	18,738,263	18,767,934	18,781,705	43,442	43,528
2013	14,393,551	17,662,901	17,964,940	18,028,018	18,071,861	18,097,008	18,109,829	81,811	81,975
2014	14,671,684	17,805,516	18,119,931	18,179,154	18,219,872	18,244,271	18,256,901	136,970	137,244
2015	15,353,562	18,647,559	18,961,559	19,023,108	19,066,283	19,091,646	19,104,816	457,257	458,171
2016	15,940,308	19,299,265	19,622,073	19,685,837	19,729,364	19,755,557	19,769,229	3,828,921	3,836,579

Expected future payment	$4,572,661
Add: Assumed reserve for incurred but not reported claim	53,332
Reserve for unreported claim	4,625,993
Add: Reported but not paid claim	1,552,725
Claims reserve balance	$6,178,718

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

b. Retained business development trend

Accident year	Development year								Reserve for unreported claim
	1	2	3	4	5	6	7	Unreported claim	
2010	14,611,395	17,727,537	18,053,265	18,122,148	18,183,755	18,213,684	18,227,867	-	-
2011	15,409,404	18,971,213	19,321,736	19,398,580	19,455,616	19,493,793	19,509,078	15,285	15,316
2012	15,235,684	18,447,836	18,758,089	18,824,223	18,871,408	18,901,625	18,915,606	44,198	44,286
2013	14,473,825	17,773,529	18,079,997	18,143,270	18,187,561	18,213,155	18,226,149	82,879	83,045
2014	14,746,165	17,904,527	18,220,846	18,280,809	18,321,930	18,346,733	18,359,519	138,673	138,950
2015	15,446,950	18,771,910	19,089,694	19,152,141	19,195,767	19,221,588	19,234,931	463,021	463,947
2016	16,039,861	19,434,459	19,761,544	19,826,245	19,870,205	19,896,839	19,910,677	3,870,816	3,878,558

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

Expected future payment	$4,624,102
Add: Reported but not paid claim	1,548,823
Retained claims reserve balance	$6,172,925

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

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

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

B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year 1	2	3	4	5	6	7	Expected future payment
2010	232,445	430,166	449,319	449,319	449,381	449,381	449,381	-
2011	240,339	444,776	471,347	471,347	487,308	487,308	487,308	-
2012	255,985	499,927	540,307	544,418	547,847	547,847	547,847	-
2013	378,482	608,435	646,580	653,674	653,674	653,674	653,674	-
2014	222,134	415,750	435,164	442,699	442,699	442,699	442,699	7,535
2015	263,590	413,360	438,114	508,559	508,559	508,559	508,559	95,199
2016	179,624	317,129	336,120	391,833	391,833	391,833	391,833	212,209

Expected future payment	$314,943
Less: Expected reported but not paid claim	(30,010)
Reserve for unreported claim	284,933
Add: Reported but not paid claim	34,068
Claims reserve balance	$319,001

b. Retained business development trend

Accident year	Development year 1	2	3	4	5	6	7	Expected future payment
2010	228,371	429,850	449,308	449,319	449,319	449,319	449,319	-
2011	236,108	444,412	471,347	471,347	478,520	478,520	478,520	-
2012	250,227	498,661	540,284	544,395	547,825	547,825	547,825	-
2013	321,394	599,579	637,681	644,775	644,775	644,775	644,775	-
2014	199,071	392,255	411,669	419,179	419,179	419,179	419,179	7,510
2015	260,931	410,701	435,976	505,582	505,582	505,582	505,582	94,881
2016	177,214	328,754	348,986	388,155	388,155	388,155	388,155	210,941

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

Expected future payment	$313,332
Less: Expected reported but not paid claim	(30,010)
Add: Reported but not paid claim	34,068
Retained claims reserve balance	$317,390

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

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

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

C. Cathay life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2012	1,173	1,447	1,447	1,447	1,447
2013	589	735	735	735	735
2014	669	728	728	728	728
2015	1,471	1,721	1,721	1,721	1,721
2016	948	1,158	1,158	1,158	1,158

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

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

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

A. Credit risk

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

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

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

B. Liquidity risk

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

Unit: 100 million

2016.12.31	Within 1 year	1 to 5 years	Over 5 years
Insurance contracts and financial instruments with discretionary participation features	$(2,213)	$(1,365)	$170,341

2015.12.31	Within 1 year	1 to 5 years	Unit: 100 million Over 5 years
Insurance contracts and financial instruments with discretionary participation features	$(1,170)	$46	$154,465

Note: Separate account products are not included.

C. Market risk

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

(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.

(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.

(B) Scope and nature of risk evaluation system

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

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

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

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

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

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

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

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

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

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

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

F. Methods of asset/liability management

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

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

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

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

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

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

Receivables and payables of insurance contracts

A. Receivables of insurance contracts

Item	Premiums receivable (Note) 2016.12.31	2015.12.31
Fire insurance	$545,610	$760,232
Marine insurance	211,652	243,481
Land and air insurance	208,831	177,558
Liability insurance	173,051	173,119
Bonding insurance	24,476	43,048
Other property insurance	217,992	293,262
Accident insurance	131,391	134,114
Health insurance	10,393	14,718
Compulsory automobile liability insurance	21,643	19,614
Total	1,545,039	1,859,146
Less: Allowance for bad debts	(75,197)	(101,470)
Net	$1,469,842	$1,757,676

Ageing analysis of receivable:

	2016.12.31	2015.12.31
≦90 days	$1,292,660	$1,596,096
＞ 90 days	252,379	263,050
Total	$1,545,039	$1,859,146

Note: As of 31 December 2016 and 31 December 2015, the receivables included overdue receivables amounted to $251,988 thousand and $216,525 thousand, respectively, and the allowance for bad debts amounted to $62,291 thousand and $65,494 thousand, respectively.

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

Item	Claims reported and paid off 2016.12.31	2015.12.31
Fire insurance	$108,058	$45,435
Marine insurance	12,168	22,730
Land and air insurance	42,067	40,360
Liability insurance	34,899	17,874
Bonding insurance	2,143	38,430
Other property insurance	14,724	27,756
Accident insurance	16,645	17,103
Health insurance	-	-
Compulsory automobile liability insurance	143,733	145,137
Total	374,437	354,825
Less: Allowance for bad debts	-	-
Net	$374,437	$354,825

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

C. Payables of insurance contract

Item	2016.12.31 Commission payables	Other payables	Total
Fire insurance	$26,427	$12,410	$38,837
Marine insurance	5,947	10,090	16,037
Land and air insurance	28,784	84,010	112,794
Liability insurance	11,180	17,491	28,671
Bonding insurance	3,500	384	3,884
Other property insurance	4,697	10,279	14,976
Accident insurance	12,549	27,366	39,915
Health insurance	3,314	1,619	4,933
Compulsory automobile liability insurance	26,944	-	26,944
Total	$123,342	$163,649	$286,991

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

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

Item	2016.12.31 Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$132,069	$345,501
Marsh	45,277	179,328
AON	48,647	148,371
Willis	261,070	71,683
Others	241,255	644,224
Total	728,318	1,389,107
Less: Allowance for bad debts	(25,058)	-
Net	$703,260	$1,389,107

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

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

Notes: As of 31 December 2016 and 31 December 2015, the due from reinsurers and ceding companies included overdue receivables amounted to $19,305 thousand and $29,649 thousand, respectively, and the allowance for bad debts amounted to $19,305 thousand and $29,649 thousand, respectively.

Information of management achievements

A. Acquisition cost for insurance contracts

Item	2016.1.1~2016.12.31 Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$86,359	$25,804	$17,016	$84,183	$213,362
Marine insurance	11,961	1,828	1,084	34,681	49,554
Land and air insurance	192,552	-	128	1,007,727	1,200,407
Liability insurance	42,236	17,051	122	89,922	149,331
Bonding insurance	10,060	170	58	2,670	12,958
Other property insurance	16,789	278,816	5,126	49,547	350,278
Accident insurance	64,947	-	-	424,411	489,358
Health insurance	20,133	-	-	32,924	53,057
Compulsory automobile liability insurance	-	429,994	-	2	429,996
Total	$445,037	$753,663	$23,534	$1,726,067	$2,948,301

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

	2015.1.1~2015.12.31				
Item	Commission expense	Surcharge	Reinsurance commission expense	Other cost	Total
Fire insurance	$65,603	$41,288	$12,641	$104,619	$224,151
Marine insurance	15,193	6,215	2,560	35,560	59,528
Land and air insurance	146,373	-	681	965,854	1,112,908
Liability insurance	37,607	22,905	781	85,069	146,362
Bonding insurance	10,907	(11)	4	4,258	15,158
Other property insurance	13,905	435,630	6,287	53,974	509,796
Accident insurance	41,994	-	-	436,224	478,218
Health insurance	21,776	-	-	27,453	49,229
Compulsory automobile liability insurance	-	454,689	-	-	454,689
Total	$353,358	$960,716	$22,954	$1,713,011	$3,050,039

B. Disclosure for insurance cost benefit analysis

(A) Cost benefit analysis for direct underwriting

	2016.1.1~2016.12.31					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain (loss)
Fire insurance	$3,083,155	$22,534	$(196,346)	$(2,313,330)	$(1,815,052)	$(1,219,039)
Marine insurance	594,231	(24,231)	(48,470)	(291,245)	58,778	289,063
Land and air insurance	8,271,027	(253,165)	(1,200,279)	(4,519,350)	(544,070)	1,754,163
Liability insurance	1,253,048	(56,925)	(149,209)	(471,594)	(94,230)	481,090
Bonding insurance	118,054	7,568	(12,900)	(217,811)	50,706	(54,383)
Other property insurance	1,672,912	99,580	(345,152)	(868,874)	99,563	658,029
Accident insurance	2,996,461	(45,180)	(489,358)	(1,152,253)	(7,392)	1,302,278
Health insurance	259,807	2,513	(53,057)	(108,169)	7,526	108,620
Compulsory automobile liability insurance	3,539,179	(47,764)	(429,996)	(2,245,149)	64,280	880,550
Total	$21,787,874	$(295,070)	$(2,924,767)	$(12,187,775)	$(2,179,891)	$4,200,371

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

	2015.1.1~2015.12.31					
Item	Direct premium income	Net change for unearned premiums reserve	Acquisition cost for insurance contract	Insurance claims paid	Net change for claims reserve	Net gain (loss)
Fire insurance	$2,991,546	$102,134	$(211,510)	$(934,468)	$(152,711)	$1,794,991
Marine insurance	642,424	18,050	(56,968)	(304,113)	106,283	405,676
Land and air insurance	7,268,324	(21,776)	(1,112,227)	(4,379,076)	(234,694)	1,520,551
Liability insurance	1,205,428	(80,726)	(145,581)	(514,862)	(116,789)	347,470
Bonding insurance	126,713	(3,518)	(15,154)	(35,710)	(41,180)	31,151
Other property insurance	2,514,057	(7,027)	(503,509)	(1,320,966)	(252,847)	429,708
Accident insurance	2,715,579	176,600	(478,218)	(1,019,959)	(5,768)	1,388,234
Health insurance	228,561	(10,533)	(49,229)	(116,847)	(7,668)	44,284
Compulsory automobile liability insurance	3,728,905	(19,257)	(454,689)	(2,513,842)	(30,625)	710,492
Total	$21,421,537	$153,947	$(3,027,085)	$(11,139,843)	$(735,999)	$6,672,557

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

	2016.1.1~2016.12.31					
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$150,101	$(9,834)	$(17,016)	$(66,045)	$65,471	$122,677
Marine insurance	18,202	1,080	(1,084)	(24,747)	24,856	18,307
Land and air insurance	16,404	8,000	(128)	(1,449)	596	23,423
Liability insurance	1,186	721	(122)	(5)	33	1,813
Bonding insurance	1,300	(43)	(58)	(167)	168	1,200
Other property insurance	31,760	4,777	(5,126)	(13,704)	7,062	24,769
Accident insurance	6,711	(115)	-	(116)	9	6,489
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	760,223	(17,774)	-	(708,471)	(132,517)	(98,539)
Total	$985,887	$(13,188)	$(23,534)	$(814,704)	$(34,322)	$100,139

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

	2015.1.1~2015.12.31					
Item	Reinsurance premium income	Net change for unearned premiums reserve	Reinsurance commission expense	Reinsurance claims paid	Net change for claims reserve	Net (loss) gain for assumed reinsurance business
Fire insurance	$138,087	$(726)	$(12,641)	$(35,333)	$(15,267)	$74,120
Marine insurance	35,669	585	(2,560)	(13,073)	31,269	51,890
Land and air insurance	23,648	(9,970)	(681)	(84,166)	14,249	(56,920)
Liability insurance	7,220	(577)	(781)	(507)	(161)	5,194
Bonding insurance	1,130	141	(4)	(205)	(65)	997
Other property insurance	35,207	(1,576)	(6,287)	(15,187)	3,388	15,545
Accident insurance	6,331	(12)	-	(134)	125	6,310
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	780,283	(262,893)	-	(453,538)	(211,319)	(147,467)
Total	$1,027,575	$(275,028)	$(22,954)	$(602,143)	$(177,781)	$(50,331)

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

	2016.1.1~2016.12.31					
Item	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$2,187,812	$(78,894)	$(146,976)	$(1,496,657)	$(1,774,246)	$(1,308,961)
Marine insurance	427,076	(13,688)	(49,058)	(202,608)	34,738	196,460
Land and air insurance	466,767	18,801	(102,185)	(175,071)	(50,517)	157,795
Liability insurance	451,445	(58,291)	(99,293)	(148,922)	(70,794)	74,145
Bonding insurance	80,758	5,461	(15,033)	(209,742)	55,474	(83,082)
Other property insurance	269,351	45,548	(52,182)	(137,454)	80,207	205,470
Accident insurance	242,088	(3,817)	(61,354)	(83,305)	6,300	99,912
Health insurance	(5)	9	-	-	(697)	(693)
Compulsory automobile liability insurance	1,258,801	(46,914)	-	(989,626)	(78,672)	143,589
Total	$5,384,093	$(131,785)	$(526,081)	$(3,443,385)	$(1,798,207)	$(515,365)

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

Item	2015.1.1~2015.12.31					
	Reinsurance expense	Net change for unearned premiums reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$2,007,921	$(54,805)	$(153,293)	$(388,823)	$(167,376)	$1,243,624
Marine insurance	466,608	14,650	(55,426)	(173,985)	78,610	330,457
Land and air insurance	474,885	19,787	(88,866)	(446,703)	(3,700)	(44,597)
Liability insurance	438,020	(42,318)	(87,852)	(162,355)	(164,813)	(19,318)
Bonding insurance	94,410	(6,013)	(17,740)	(32,615)	(42,560)	(4,518)
Other property insurance	291,777	203,305	(58,488)	(282,257)	57,731	212,068
Accident insurance	216,418	18,062	(55,644)	(112,550)	4,295	70,581
Health insurance	38	(9)	(4)	-	(390)	(365)
Compulsory automobile liability insurance	1,205,072	(188,989)	-	(850,310)	(96,014)	69,759
Total	$5,195,149	$(36,330)	$(517,313)	$(2,449,598)	$(334,217)	$1,857,691

Sensitivity of insurance risk

A. Cathay Century

Insurance type	Premium income	Expected loss ratio	The impact to profit and loss when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	$2,776,438	61.65	$138,822	$42,223
Marine insurance	569,148	62.91	28,457	6,055
Land and air insurance	8,193,976	66.21	409,699	254,776
Liability insurance	1,135,473	67.85	56,774	23,534
Bonding insurance	116,846	68.25	5,842	361
Other property insurance	613,778	61.25	30,689	13,850
Accident insurance	2,979,911	78.37	148,996	106,147
Health insurance	259,807	76.20	12,990	9,855
Compulsory automobile liability insurance	3,037,958	N/A	N/A	N/A

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

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

Concentration Risk

A. Cathay Century

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

a. Single insurance contract or few related contracts

For the year ended 31 December 2016, Cathay Century will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

b. Exposure to unanticipated change in trend

For the year ended 31 December 2016, the loss rates of the rest insurance categories are still within reasonable range.

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

"Regulations for Assisting Lawsuit Cases of Cathay Century Insurance" is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of Cathay Century will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the year ended 31 December 2016, no material lawsuit or legal risks has taken place.

d. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of Cathay Century being severely endangered by these derived risks, Cathay Century has established "Operation standards under crisis" that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to guard financial order. For the year ended 31 December 2016, there is no catastrophe has taken place.

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

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

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

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

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

f. Concentration risks in geographic regions and operating segments

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

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

	2016.1.1 ~ 2016.12.31				
Insurance type	Direct Written premiums income	Reinsurance premium income	Premiums ceded to reinsurers	Net premiums income	%
Fire insurance	$2,774,921	$148,503	$1,931,685	$991,739	6.34%
Marine insurance	569,148	18,260	415,585	171,823	1.10%
Land and air insurance	8,193,976	16,248	466,718	7,743,506	49.51%
Liability insurance	1,135,473	1,216	370,187	766,502	4.90%
Bonding insurance	116,846	1,299	80,082	38,063	0.24%
Other property insurance	613,778	31,768	260,445	385,101	2.46%
Accident insurance	2,979,911	6,711	242,088	2,744,534	17.55%
Health insurance	259,807	-	(5)	259,812	1.66%
Compulsory automobile liability insurance	3,037,958	760,223	1,258,801	2,539,380	16.24%
Total	$19,681,818	$984,228	$5,025,586	$15,640,460	100.00%

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

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

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

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

Claim development table

A. Cathay Century

Underwriting Year	-2010.12.31	2011.1.1-2011.12.31	2012.1.1-2012.12.31	2013.1.1-2013.12.31	2014.1.1-2014.12.31	2015.1.1-2015.12.31	2016.1.1-2016.12.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	$10,316,711	$5,408,275	$4,851,463	$5,773,901	$7,066,945	$7,559,012	$12,235,424	
One year later	12,992,396	5,667,748	5,687,982	6,109,827	7,217,836	7,418,704		
Two year later	13,221,749	5,171,294	5,742,806	6,169,858	7,156,309			
Three year later	14,453,815	5,223,218	5,780,856	6,103,460				
Four year later	14,362,029	5,284,693	5,667,019					
Five year later	15,094,730	5,212,502						
Six year later	14,498,065							
Estimate of cumulative claims incurred	14,498,065	5,212,502	5,667,019	6,103,460	7,156,309	7,418,704	12,235,424	$58,291,483
Cumulative payment to date	14,730,018	5,240,472	5,674,582	5,972,725	6,670,534	6,860,640	5,693,067	50,842,038
Subtotal	(231,953)	(27,970)	(7,563)	130,735	485,775	558,064	6,542,357	7,449,445
Reconciliation	-	-	-	-	-	-	116,314	116,314
Recorded in balance sheet	$(231,953)	$(27,970)	$(7,563)	$130,735	$485,775	$558,064	$6,658,671	$7,565,759

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

The chart excluded claim reserve of compulsory automobile liability insurance in the amount of $1,409,126 thousand, direct claim reserve of policy residential earthquake insurance in the amount of $1,700 thousand, and assumed reserve for claims of $652,439 thousand from the upper table.

C. Cathay Century (Vietnam)

Historical data for loss trends are not available for Cathay Century (Vietnam). Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premiums.

33. Related party transactions

(1) Related parties

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	〃
Octagon Multi-Strategy Corporate Credit GP, LLC	〃
Octagon Funds GP LLC	〃

Name	Relationship
Octagon Funds GP II LLC	Subsidiary of the Company
Conning Asia Pacific Ltd. (Note 2)	〃
Cathay Securities Investment Consulting Co., Ltd.	〃
Lin Yuan (Shanghai) Real Estate Co., Ltd.	〃
Cathay Insurance (Vietnam) Co., Ltd.	〃
Indovina Bank Limited (Vietnam)	〃
Seaward Card Co., Ltd.	〃
CUBC Bank (Cambodia)	〃
Cathay Futures Co., Ltd.	〃
Cathay Investment Consulting(Shanghai) co, ltd	〃
Cathay Securities (Hong Kong) Limited	〃
Taiwan Real-estate Management Corp.	Associate
Cathay Century (China) (Note 3)	〃
Symphox Information Co., Ltd.	〃
Tien-Tai Energy Corp.	〃
Vietinbank	Other related party
Cathay Dragon Fund etc.	〃
Lin Yuan Property Management Co., Ltd.	〃
Cathay Medical Care Corporate	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Co., Ltd.	〃
Cathay Healthcare Management Co., Ltd.	〃
Cathay Hospitality Management Co., Ltd.	〃
Liang-Ting Co., Ltd.	〃
Ally Logistic Property	〃
Charity Foundation of Cathay Life	Other related party
Cathay Cultural Foundation	
Culture and Charity Foundation of the CUB	
Others	

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

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

Note 3: Cathay Century (China) was not included in the Group’s consolidated financial statements from 26 July 2016.

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

(2) Significant transactions with related parties:

A. Cash and cash equivalent

(A) Due from commercial banks

Name	Ending balance 2016.12.31	Ending balance 2015.12.31
Other related party		
Vietinbank	$6,162,462	$4,404,972

Name	Interest income 2016.1.1~ 2016.12.31	Interest income 2015.1.1~ 2015.12.31
Other related party		
Vietinbank	$35,271	$126,580

(B) Call loans from banks

Name	Interest expense 2016.1.1~ 2016.12.31	Interest expense 2015.1.1~ 2015.12.31
Other related party		
Vietinbank	$-	$70,521

(C) Due to commercial banks

Name	Ending balance 2016.12.31	Ending balance 2015.12.31
Other related party		
Vietinbank	$5,849,798	$24,307

Name	Interest expense 2016.1.1~ 2016.12.31	Interest expense 2015.1.1~ 2015.12.31
Other related party		
Vietinbank	$10,550	$542

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

B. Financial assets at fair value through profit or loss

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$113,594	$1,249,491

C. Receivables

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$111,523	$97,496

D. Reinsurance assets

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$13,245	$1,035

E. Loans

	Ending balance	
Name	2016.12.31	2015.12.31
Associate		
Taiwan Real-estate Management Corp.	$35,000	$-
Tien-Tai Energy Corp.	96,131	104,498
Other related party		
Cathay Real Estate Development Co., Ltd.	-	10,000
Liang-Ting Co., Ltd.	28,225	44,935
Others	2,428,685	2,210,134
Total	$2,588,041	$2,369,567

	Interest income	
Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Associate		
Taiwan Real-estate Management Corp.	$263	$300
Tien-Tai Energy Corp.	3,283	3,791
Other related party		
Cathay Real Estate Development Co., Ltd.	16	2,105
Cathay Medical Care Corporate	-	19,895
Liang-Ting Co., Ltd.	684	1,333
Others	41,437	44,778
Total	$45,683	$72,202

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

F. Available-for-sale financial assets

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$572,783	$1,218,738
Cathay Healthcare Management Co., Ltd.	87,285	65,610
Total	$660,068	$1,284,348

G. Deposit

	Ending balance	
Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$101,398	$82,028
Associate		
Symphox Information Co., Ltd.	94,865	170,947
Other related party		
Cathay Real Estate Development Co., Ltd.	466,369	80,649
Cathay Dragon Fund etc.	21,461	24,098
Cathay Hospitality Management Co., Ltd.	3,018	10,549
Others	12,897,581	12,947,208
Total	$13,584,692	$13,315,479

	Interest expense	
Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$570	$779
Associate		
Symphox Information Co., Ltd.	824	1,402
Other related party		
Cathay Real Estate Development Co., Ltd.	67	94
Cathay Dragon Fund etc.	1	2
Cathay Hospitality Management Co., Ltd.	22	28
Others	105,392	113,197
Total	$106,876	$115,502

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

H. Property transactions

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

	2016.1.1~2016.12.31	
Name	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Dunnan Xinyi Building, etc.	$32,158
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc.	1,423,127
Total		$2,495,122

	2015.1.1~2015.12.31	
Name	Item	Amount
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building, etc.	$35,994
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	1,743,405
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	236,038
Ally Logistic Property	Ruifang Logistic Park	1,532,672
Total		$3,548,109

The total amounts of contracted projects for real estate as of 31 December 2016 and 31 December 2015 between Cathay Life and Lin Yuan Property Management Co., Ltd. were $17,252 thousand and $19,778 thousand, respectively.

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

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

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

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

(B) Real estate rental income from Cathay Life:

Name	Rental income 2016.1.1~ 2016.12.31	Rental income 2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$8,580	$8,842
Associate		
Symphox Information Co., Ltd.	35,867	34,404
Cathay Century (China)	21,373	20,689
Other related party		
Cathay Real Estate Development Co., Ltd.	17,416	15,943
San Ching Engineering Co., Ltd.	5,610	4,762
Cathay Medical Care Corporate	180,882	178,137
Cathay Healthcare Management Co., Ltd.	55,638	52,864
Cathay Hospitality Management Co., Ltd.	206,105	187,908
Liang-Ting Co., Ltd.	3,088	3,088
Ally Logistic Property	165,768	94,398
Total	$700,327	$601,035

Name	Guarantee deposits received 2016.12.31	Guarantee deposits received 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$4,108	$2,019
Associate		
Symphox Information Co., Ltd.	9,617	8,343
Cathay Century (China)	7,282	5,444
Other related party		
Cathay Real Estate Development Co., Ltd.	3,998	3,751
Cathay Medical Care Corporate	10,801	10,566
Cathay Healthcare Management Co., Ltd.	13,157	12,289
Cathay Hospitality Management Co., Ltd.	214,825	212,511
Ally Logistic Property	55,649	18,650
Total	$319,437	$273,573

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

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

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

Name	Rental expense 2016.1.1~ 2016.12.31	Rental expense 2015.1.1~ 2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	$28,579	$30,701

Name	Guarantee deposits paid 2016.12.31	Guarantee deposits paid 2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	$4,605	$4,605

Lease terms are usually between 1 to 5 years and rental incomes are collected on a monthly basis.

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

Name	Rental income 2016.1.1~ 2016.12.31	Rental income 2015.1.1~ 2015.12.31
Other related party		
Culture and Charity Foundation of the CUB	$4,633	$4,633

Lease terms are usually 2 years and rental incomes are collected on a monthly basis.

I. Guarantee deposits received

Name	2016.12.31	2015.12.31
Other related party		
Lin Yuan Property Management Co., Ltd.	$5,000	$5,000
San Ching Engineering Co., Ltd.	297,261	275,286
Cathay Hospitality Management Co., Ltd.	120,257	120,257
Ally Logistic Property	382,618	382,705
Total	$805,136	$783,248

J. Futures traders’ equity

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$180,621	$153,252

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

K. Payables

Name	2016.12.31	2015.12.31
Subsidiary		
Seaward Card Co., Ltd.	$23,361	$23,872
Associate		
Symphox Information Co., Ltd.	109,954	56,799
Other related party		
Lin Yuan Property Management Co., Ltd.	1,290	5,594
Total	$134,605	$86,265

L. Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Other related party		
Charity Foundation of Cathay Life	$63,161	$62,249
Cathay Cultural Foundation	47,680	48,879
Total	$110,841	$111,128

M. Net commission and handling fee

(A) Handling fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$21,184	$25,508
Other related party		
Cathay Real Estate Development Co., Ltd.	3,495	3,116
Total	$24,679	$28,624

(B) Reinsurance service expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$8,839	$8,867

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

N. Net premiums from insurance business

(A) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Real Estate Development Co., Ltd.	$7,782	$7,944
Cathay Medical Care Corporate	46,352	45,683
San Ching Engineering Co., Ltd.	4,498	9,944
Lin Yuan Property Management Co., Ltd.	3,345	3,295
Others	200,932	159,628
Total	$262,909	$226,494

(B) Reinsurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$127,610	$129,789

On 1 April 2000, Cathay Insurance (Bermuda) engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the years ended 31 December 2016 and 2015, Cathay Life assumed 90% of the reinsurance business from Cathay Insurance (Bermuda).

(C) Reinsurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$127,133	$130,238

(D) Reinsurance commission expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$2,704	$3,091

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

(E) Insurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
San Ching Engineering Co., Ltd.	$-	$4,160

O. Net other non-interest income

(A) Management fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Dragon Fund etc.	$1,275,642	$1,131,997

(B) Other income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Cathay Healthcare Management Co., Ltd.	$4,776	$4,294
Cathay Medical Care Corporate	3,630	5,766
Total	$8,406	$10,060

P. Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	$35,000	$3,750
Seaward Card Co., Ltd.	293,777	289,487
Associate		
Symphox Information Co., Ltd.	870,502	793,819
Conning Asia Pacific Limited (Note)	-	5,179
Other related party		
Cathay Real Estate Development Co., Ltd.	12,021	15,589
Lin Yuan Property Management Co., Ltd.	791,898	704,891
Cathay Healthcare Management Co., Ltd.	28,969	22,826
Cathay Medical Care Corporate	7,817	998
Charity Foundation of Cathay Life	5,703	-
San Ching Engineering Co., Ltd.	3,906	3,906
Total	$2,049,593	$1,840,445

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

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

Q. Key management personnel compensation

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Short-term employee benefits	$800,125	$654,416
Post-employment pension	15,932	12,348
Other long-term employee benefits	96	-
Termination benefits	-	4,128
Total	$816,153	$670,892

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

(3) The Company

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

A. Cash in bank

Name	Item	Ending balance 2016.12.31	Ending balance 2015.12.31
Subsidiary			
Cathay United Bank	Cash in bank	$198,101	$728,634

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were $696 thousand and $233 thousand, respectively.

B. Receivables

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay Life	Interest	$158,410	$383,000
Cathay Century	Receivables due to consolidated income tax and interest	307,399	274,450
Cathay United Bank	Receivables due to consolidated income tax	263,299	419,607
Cathay Securities	Receivables due to consolidated income tax	4,562	101,275
Cathay Securities Investment	Receivables due to consolidated income tax	61,790	58,709
Cathay Venture	Receivables due to consolidated income tax	-	3,775
Total		$795,460	$1,240,816

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

C. Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$10,086	$8,046

D. Held-to-maturity financial asset

Name	2016.12.31	2015.12.31
Subsidiaries		
Cathay Life	$40,000,000	$15,000,000
Cathay Century	1,000,000	1,000,000
Total	$41,000,000	$16,000,000

E. Payables

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay Life	Payable due to consolidated income tax	$4,953,921	$7,544,661
Cathay Venture	Payable due to consolidated income tax	5,121	-
Total		$4,959,042	$7,544,661

F. Bonds payable

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$-	$100,000

G. Interest income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Cathay Life	$384,230	$897,932
Cathay Century	18,600	18,600
Total	$402,830	$916,532

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

H. Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Seaward Card Co., Ltd.	$3,598	$2,902
Cathay Life	41,762	41,243
Cathay United Bank	2,746	6,940
Total	$48,106	$51,085

I. Sales of securities

There is no significant related parties transaction for the year ended 31 December 2016.

Name	Securities	2016.1.1~2016.12.31	
		Shares	Amount
Subsidiary			
Cathay Life	Conning Holdings Corp.	100,695	$705,548

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

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

A. Cathay Life and its subsidiaries

(A) Cash in banks

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay United Bank	Time deposit	$2,069,040	$9,961
	Cash in bank	24,375,191	19,052,573
	Check deposit	443,860	465,562
	Security deposit	6	2,187
Indovina Bank	Cash in bank	21,270	9,241
	Time deposit	33,928	-
Total		$26,943,295	$19,539,524

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were $19,034 thousand and $24,106 thousand, respectively.

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

Interest income from Indovina Bank for the years ended 31 December 2016 and 2015 were $270 thousand and $226 thousand, respectively.

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

(B) Investments in debt securities with no active market

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$-	$100,000

(C) Other receivables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding (Note)	$4,953,921	$7,544,661
Subsidiary		
Cathay Century	152,623	240,495
Total	$5,106,544	$7,785,156

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

(D) Secured loans

	2016.1.1~2016.12.31		
Name	Maximum amount	Rate	Ending balance
Other related party			
Others	$1,085,235	1.03%~3.44%	$1,018,137

	2015.1.1~2015.12.31		
Name	Maximum amount	Rate	Ending balance
Other related party			
Cathay Medical Care Corporate	$2,634,550	2.01%~2.55%	$-
Others	981,268	1.32%~3.71%	967,009
Total			$967,009

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

Interest income from Cathay Medical Care Corporate for the years ended 31 December 2016 and 2015 were $0 thousand and $19,895 thousand, respectively.

Interest income from others for the years ended 31 December 2016 and 2015 were $16,436 thousand and $17,385 thousand, respectively.

(E) Financial assets at fair value through profit or loss-beneficiary certificates

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$-	$1,126,851

(F) Available-for-sale financial assets

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Trust	$101,392	$1,018,874

(G) Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Trust	$183,588,745	$174,054,401

(H) Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Futures	$1,200,485	$1,180,845

The guarantee deposits are futures margins of Cathay Futures. The imputed interest income of guarantee deposit paid from Cathay Futures for the years ended 31 December 2016 and 2015 were $1,748 thousand and $1,209 thousand, respectively.

(I) Other payables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding (Note)	$158,410	$383,000
Subsidiary		
Cathay United Bank	549,934	362,393
Total	$708,344	$745,393

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

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

(J) Preferred stock liability

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$5,000,000	$15,000,000

(K) Bonds payable

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$35,000,000	$-

(L) Property transactions

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

Real estate contracted projects of Cathay Life:

	2016.1.1~2016.12.31	
Name	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	$440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Ally Logistic Property	Jui-Fang Logistic Park, etc	1,423,127
Total		$2,462,964

	2015.1.1~2015.12.31	
Name	Item	Amount
Other related party		
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	$1,743,405
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark, etc.	236,038
Ally Logistic Property	Jui-Fang Logistic Park, etc	1,532,672
Total		$3,512,115

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

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

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

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

(M) Rental income

Name	Item	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary			
Cathay United Bank	Real-estate rental income	$480,382	$426,803
Cathay Century	Real-estate rental income	103,072	101,034
Other related party			
Cathay Medical Care Corporate	Real-estate rental income	180,882	178,137
Cathay Hospitality Management Co., Ltd.	Real-estate rental income	206,105	187,908
Ally Logistic Property	Real-estate rental income	165,768	94,398
		$1,136,209	$988,280

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

(N) Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay United Bank	$157,492	$101,838
Other related party		
San Ching Engineering Co., Ltd.	297,261	275,286
Cathay Hospitality Management Co., Ltd.	335,082	332,768
Ally Logistic Property	438,267	401,355
Total	$1,228,102	$1,111,247

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

(O) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Other related party		
Others	$200,932	$159,628

(P) Reinsurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$127,610	$129,789

(Q) Reinsurance claims payment

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Insurance (Bermuda)	$127,133	$130,238

(R) Handling fees income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Securities Investment Trust	$143,984	$96,499

(S) Miscellaneous income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Century	$1,334,873	$1,447,140
Cathay United Bank	181,017	136,155
Total	$1,515,890	$1,583,295

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

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

(T) Insurance expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Century	$122,617	$148,130

(U) Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay United Bank	$8,583,492	$6,753,539
Cathay Securities Investment Trust	109,201	124,013
Associate		
Symphox Information Co., Ltd.	357,766	276,010
Other related party		
Lin Yuan Property Management Co., Ltd.	782,457	696,826
Total	$9,832,916	$7,850,388

(V) Non-operating income and expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
The Company		
Cathay Financial Holding	$384,230	$897,932

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

(W) Sales of securities

There is no significant related parties transaction for the year ended 31 December 2015.

		2016.1.1~2016.12.31	
Name	Securities	Shares	Amount
The Company			
Cathay Financial Holding	Conning Holdings Corp.	100,695	$705,548

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

(X) Other disclosures

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

Item	2016.12.31	2015.12.31
CS contracts	USD 3,269,000	USD 2,893,000

B. Cathay United Bank and its subsidiaries

(A) Loans and deposits

	Ending balance	
Account/Name	2016.12.31	2015.12.31
Loans		
Associate		
Tien-Tai Energy Corp.	$96,131	$104,498
Other related party		
Others	1,384,358	1,198,989
Total	$1,480,489	$1,303,487

	Ending balance	
Account/Name	2016.12.31	2015.12.31
Deposits		
The Company		
Cathay Financial Holding	$198,101	$728,634
Subsidiaries		
Cathay Life	26,758,316	19,438,526
Cathay Century	1,400,324	1,391,722
Cathay Securities	2,320,198	2,603,833
Cathay Futures	1,364,251	2,514,909
Cathay Venture	36,161	63,471
Cathay Securities Investment Trust	168,566	142,854
Cathay Life (Vietnam)	55,198	9,241
Cathay Century (Vietnam)	225,719	176,432
Conning Asia Pacific Limited	129,781	91,757
Cathay Securities Investment Consulting Co., Ltd.	101,398	82,028
Associate		
Symphox Information Co., Ltd.	94,865	170,947
Cathay Hospitality Management Co., Ltd.	3,018	10,549
Other related party		
Cathay Real Estate Development Co., Ltd.	466,369	80,649
Cathay Dragon Fund etc.	21,461	24,098
Others	12,897,581	12,947,208
Total	$46,241,307	$40,476,858

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

Name	Interest income 2016.1.1~ 2016.12.31	Interest income 2015.1.1~ 2015.12.31
Loans		
Associate		
Tien-Tai Energy Corp.	$3,283	$3,791
Other related party		
Others	24,571	26,764
Total	$27,854	$30,555

Name	Interest expense 2016.1.1~ 2016.12.31	Interest expense 2015.1.1~ 2015.12.31
Deposits		
The Company		
Cathay Financial Holding	$696	$233
Subsidiaries		
Cathay Life	18,450	23,975
Cathay Century	7,303	8,635
Cathay Securities	3,814	5,449
Cathay Futures	15,804	23,218
Cathay Venture	49	172
Cathay Securities Investment Trust	473	1,474
Cathay Life (Vietnam)	270	226
Cathay Century (Vietnam)	4,954	5,480
Conning Asia Pacific Limited	584	131
Cathay Securities Investment Consulting Co., Ltd.	570	779
Associate		
Symphox Information Co., Ltd.	824	1,402
Cathay Hospitality Management Co., Ltd.	22	28
Other related party		
Cathay Real Estate Development Co., Ltd.	67	94
Cathay Dragon Fund etc.	1	2
Others	105,392	113,197
Total	$159,273	$184,495

Account/Name	Ending balance 2016.12.31	Ending balance 2015.12.31
Call loans to banks		
Other related party		
Vietinbank	$6,162,462	$4,404,972
Due to commercial banks		
Other related party		
Vietinbank	5,849,798	24,307

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

Account/Name	Interest income 2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Call loans to banks		
Other related party		
Vietinbank	$35,271	$126,580

Account/Name	Interest expense 2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Due to commercial banks		
Other related party		
Vietinbank	$10,550	$542

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

(B) Receivables due to commission of insurance agency

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$549,934	$362,393

(C) Combined tax payable

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$263,299	$419,607

(D) Rental expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	$480,382	$426,803

Lease terms are usually between 2 to 5 years and rentals are paid on a monthly basis.

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

(E) Guarantee deposits paid

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$157,492	$101,838
Cathay Futures Co., Ltd.	120,374	41,177
Total	$277,866	$143,015

(F) Handling fees income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	$8,583,492	$6,753,539
Cathay Century	122,711	98,043
Subsidiary	$8,706,203	$6,851,582

(G) Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Seaward Card Co., Ltd.	$192,472	$189,564
Cathay Life	181,017	136,155
Associate		
Symphox Information Co., Ltd.	446,920	482,247
Total	$820,409	$807,966

(H) Insurance expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Century	$167,339	$151,260

C. Cathay Century and its subsidiaries

(A) Cash in banks

Name	Item	2016.12.31	2015.12.31
Subsidiaries			
Cathay United Bank	Time deposit	$623,200	$623,200
	Cash in bank	634,754	652,474
	Check deposit	142,370	116,048
Indovina Bank	Time deposit	219,997	159,199
	Cash in bank	5,722	17,233
	Total	$1,626,043	$1,568,154

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

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were $7,303 thousand and $8,635 thousand, respectively.

Interest income from Indovina Bank for the years ended 31 December 2016 and 2015 were $4,954 thousand and $5,480 thousand, respectively.

As of 31 December 2016 and 31 December 2015, time deposit pledged were $28,677 thousand and $28,598 thousand, respectively.

(B) Financial assets at fair value through profit or loss

Name	Item	2016.12.31	2015.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	$-	$100,620

(C) Available-for-sale financial assets

Name	Item	2016.12.31	2015.12.31
Other related party			
Cathay Dragon Fund etc.	Beneficiary certificates	$306,641	$139,118

(D) Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Securities Investment Trust	$1,069,225	$433,188

(E) Other payables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$307,399	$274,450
Subsidiary		
Cathay Life	152,623	240,495
Total	$460,022	$514,945

(F) Preferred stock liability

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$1,000,000	$1,000,000

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

(G) Insurance income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Cathay Life	$122,617	$148,130
Cathay United Bank	167,339	151,260
Total	$289,956	$299,390

(H) Operating expenses

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiaries		
Cathay Life	$1,334,873	$1,447,140
Cathay United Bank	122,711	98,043
Total	$1,457,584	$1,545,183

(I) Rental expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	$103,072	$101,034

(J) Other disclosure

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

Item	2016.12.31		2015.12.31	
CS contracts	USD	76,700	USD	74,200
	EUR	5,850	EUR	4,350

D. Cathay Securities and its subsidiaries

(A) Cash in bank

Name	Item	2016.12.31	2015.12.31
Subsidiary			
Cathay United Bank	Time deposits	$1,870,837	$1,541,900
	Cash in bank	765,781	1,433,449
	Check deposits	26	1
	Total	$2,636,644	$2,975,350

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

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were $19,618 thousand and $28,667 thousand, respectively.

As of 31 December 2016 and 31 December 2015, time deposit pledged were $900,000 thousand and $900,000 thousand, respectively.

Note: In accordance with the article 14 of the "Regulations Governing Futures Commission Merchants", the article 10 of the "Regulations Governing Futures Advisory Enterprises", the article 7 of the "Regulations Governing Securities Investment Consulting Enterprises" and the article 17 of the "Regulations Governing Managed Futures Enterprises", Cathay Futures lodges the time deposits in Cathay United Bank as the operating bonds. As of 31 December 2016 and 31 December 2015, the operating bonds were $355,000 thousand and $325,000 thousand, respectively.

(B) Customer's margin accounts

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay United Bank	$1,047,805	$2,143,392

(C) Financial assets at fair value through profit or loss

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$113,430	$21,780

(D) Futures trader's equity

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$1,200,485	$1,180,845
Cathay United Bank	120,374	41,177
Other related party		
Cathay Dragon Fund etc.	180,621	153,252
Total	$1,501,480	$1,375,274

(E) Other payables

Name	2016.12.31	2015.12.31
The Company		
Cathay Financial Holding	$4,562	$101,275

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

E. Cathay Securities Investment Trust

(A) Cash in bank, Operating deposit and Guarantee deposit

Name	Item	2016.12.31	2015.12.31
Subsidiary			
Cathay United Bank	Time deposit (Note)	$118,800	$136,100
	Cash in bank	24,113	267
	Check deposits	25,653	6,487
	Total	$168,566	$142,854

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

And in accordance with "Discretionary Investment Services Contract", as of 31 December 2016 and 31 December 2015, Cathay Securities Investment Trust reserved the performance bonds amounted to $64,800 thousand and $86,100 thousand, respectively.

Interest income from Cathay United Bank for the years ended 31 December 2016 and 2015 were $473 thousand and $1,474 thousand respectively.

(B) Management fee income

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	$109,201	$124,013
Other related party		
Cathay Dragon Fund etc.	1,275,642	1,131,997
Total	$1,384,843	$1,256,010

(C) Receivables

Name	2016.12.31	2015.12.31
Other related party		
Cathay Dragon Fund etc.	$111,523	$97,496

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

(D) Investment balance of related parties' discretionary investment

Name	2016.12.31	2015.12.31
Subsidiary		
Cathay Life	$183,588,745	$174,054,401
Cathay Century	1,069,225	433,188
Total	$184,657,970	$174,487,589

(E) Operating expense

Name	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Subsidiary		
Cathay Life	$82,129	$91,411
Conning Asia Pacific Limited	57,004	5,088
Conning, Inc.	4,851	-
Total	$143,984	$96,499

34. Pledged assets

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

		Carrying amount	
Item	Guarantee purpose	2016.12.31	2015.12.31
Time deposits and guarantee deposits paid	Capital guarantee, Serving as deposits paid, settlement accounts, collateral for overdraft, government bonds, court guarantees, business reserves and guarantees	$14,083,308	$17,149,095
Financial assets at fair value through profit or loss	Securities lending	46,748	-
Available-for-sale financial assets	Business reserves and guarantees	79,962	953,126
Held-to-maturity financial assets	Business reserves and guarantees	2,361,157	1,592,966
Investments in debt securities with no active market	Business reserves and guarantees	63,800,000	63,800,000
Total		$80,371,175	$83,495,187

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

35. Commitment and contingent liabilities

(1) Cathay United Bank

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

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

Items	2016.12.31	2015.12.31
Trust and security held for safekeeping	$604,042,204	$606,837,259
Travelers checks for sale	403,853	553,863
Bills for collection	44,989,884	49,774,146
Book-entry for government bonds and depository for short-term marketable securities under management	367,976,014	459,375,951
Entrusted financial management business	4,965,210	8,325,261
Guarantees on duties and contracts	7,141,798	10,285,103
Unused commercial letters of credit	4,586,568	5,671,428
Irrevocable loan commitments	183,084,665	187,772,192
Credit card lines commitments	520,857,417	458,482,468
Underwriting securities	-	8,230,000
Financial guarantee contracts	2,929,405	1,814,095

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

	2016.12.31	2015.12.31
Within 1 year	$2,000,363	$1,273,832
1 to 5 years	3,910,592	2,094,004
Over 5 year	155,319	133,940
Total	$6,066,274	$3,501,776

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

(4) Investment commitment for private equity fund

As of 31 December 2016, the maximum remaining capital commitment for the contracted private equity fund of Cathay Life was US$1,366,669 thousand, EUR$193,753 thousand.

36. Significant disaster losses:

None

37. Subsequent events:

None

38. Other significant matters

(1) Categories of financial instruments

The Group

	2016.12.31	2015.12.31
Financial assets		
Financial assets at fair value through profit or loss:	$244,529,264	$296,117,926
Available-for-sale financial assets -net	1,591,359,657	1,486,393,125
Derivative financial assets for hedging	232,269	447,326
Held-to-maturity financial assets -net	81,826,739	81,708,446
Other financial assets - investments with no active market	2,526,608,201	2,289,311,099
Loans and receivables:		
Cash and cash equivalents (petty cash and cash on hand excluded)	176,377,196	175,553,200
Due from the Central Bank and call loans to banks	71,940,935	100,169,436
Securities purchased under agreements to resell	49,524,682	55,880,471
Receivables -net	154,212,060	141,649,869
Loans -net	2,045,532,795	1,766,476,353
Other financial assets	509,773,012	501,089,793
Guarantee deposits paid	47,894,944	58,069,777
Subtotal	3,055,255,624	2,798,888,899
Total	$7,499,811,754	$6,952,866,821

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

	2016.12.31	2015.12.31
Financial liabilities		
Financial liabilities at fair value through profit or loss:	$115,014,826	$137,471,418
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	77,493,795	41,226,909
Securities sold under agreements to repurchase	59,139,059	55,523,982
Commercial paper payable -net	41,578,838	35,677,634
Payables	55,295,781	43,402,650
Deposits	1,999,943,172	1,854,495,831
Bonds payable	51,900,000	71,800,000
Other financial liabilities	561,224,829	549,564,053
Guarantee deposits received	6,888,074	5,800,365
Subtotal	2,853,463,548	2,657,491,424
Total	$2,968,478,374	$2,794,962,842

(2) Fair value of financial instruments

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

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

a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.

b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

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

d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information.)

e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

f. The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value:

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

	Book value	
	2016.12.31	2015.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	$90,337,053	$91,792,178
Investments with no active market	2,526,608,201	2,289,311,099
Other financial assets - structured time deposits	7,661,395	18,000,000
Total	$2,624,606,649	$2,399,103,277

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

	Fair value	
	2016.12.31	2015.12.31
Financial assets		
Held-to-maturity financial assets - net (Note)	$94,617,886	$97,214,828
Investments with no active market	2,505,365,077	2,252,415,754
Other financial assets - structured time deposits	7,720,518	17,857,932
Total	$2,607,703,481	$2,367,488,514

Note: Guarantee deposits paid in bonds are included.

(3) Hedge accounting disclosures

A. Cash flow hedges

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

2016.12.31

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$232,269	2017.1.25~2024.5.26	2017.1.25~2024.5.26

2015.12.31

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$447,326	2016.1.23~2024.5.26	2016.1.23~2024.5.26

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

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

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Amount recognized in other comprehensive income	$(216,856)	$230,973
Amount reclassified from equity to profit or loss	(1,798)	957

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

(4) Offsetting of financial assets and financial liabilities

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

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

2016.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$1,846,433	$-	$1,846,433	$(1,846,433)	$-	$-

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$26,975,904	$-	$26,975,904	$(1,846,433)	$-	$25,129,471

2015.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$13,206,554	$-	$13,206,554	$(13,206,554)	$-	$-

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

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$38,829,479	$-	$38,829,479	$(13,206,554)	$-	$25,622,925

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

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

2016.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$52,646,314	$-	$52,646,314	$(48,567,099)	$(2,907,944)	$1,171,271

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$48,567,099	$-	$48,567,099	$(48,567,099)	$-	$-

2015.12.31

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments (Note)	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$64,861,240	$-	$64,861,240	$(59,799,330)	$(1,752,225)	$3,309,685

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

2015.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset 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)	$-	$-

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

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

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

2016.12.31

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	$2,339,864	$-	$2,339,864	$(2,339,864)	$-	$-

2015.12.31

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

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

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

(5) Financial instruments related information

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

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

	2016.12.31				2015.12.31			
Financial instruments measured at fair value item	Total	1st Level	2nd Level	3rd Level	Total	1st Level	2nd Level	3rd Level
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss								
Held for trading								
Stocks	$10,792,048	$10,787,152	$4,896	$-	$7,815,575	$7,815,575	$-	$-
Bonds	60,043,601	23,624,124	36,419,477	-	21,095,203	7,060,621	14,034,582	-
Others	121,244,696	25,762,591	95,482,105	-	192,584,527	16,745,000	175,839,527	-
Available-for-sale financial assets								
Stocks	627,044,110	609,357,808	5,263,987	12,422,315	546,953,106	531,236,110	4,233,052	11,483,944
Bonds (Note 1)	655,460,357	123,042,469	532,417,888	-	652,722,309	73,699,269	579,023,040	-
Others	310,804,022	255,398,893	14,949,452	40,455,677	289,212,526	238,699,465	17,562,421	32,950,640
Investment properties (Note 2)	301,744,407	-	-	301,744,407	370,583,060	-	-	370,583,060
Liabilities								
Financial liabilities at fair value through profit or loss								
Designated financial liabilities at fair value through profit or loss at initial recognition	$39,491,908	$-	$39,491,908	$-	40,598,667	-	40,598,667	-
Held for trading	-	-	-	-	-	-	-	-
Others	1,745,169	1,745,169	-	-	1,139,749	1,139,749	-	-
Derivative financial instruments								
Assets								
Financial assets at fair value through profit or loss	52,448,919	346,319	34,479,900	17,622,700	74,622,621	405,549	51,683,355	22,533,717
Derivatives financial assets for hedging	232,269	-	232,269	-	447,326	-	447,326	-
Liabilities								
Financial liabilities at fair value through profit or loss	73,777,749	299,136	55,779,345	17,699,268	95,733,002	347,180	72,867,892	22,517,930

Note 1: Guarantee deposits paid in bonds are included.

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

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

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

For the year ended 31 December 2016, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd Level to 1st Level. A total of $133,875 thousand was transferred as its market price was obtainable. For the year ended 31 December, Cathay Life transferred stocks which were measured at fair value on a recurring basis, from 2nd level to 1st level. A total of $3,079,933 thousand was transferred as its market price was obtainable.

For the year ended 31 December 2016, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st level to 2nd level. A total of $5,627,229 thousand was transferred as its market price was not obtainable.

For the year ended 31 December 2015, Cathay United Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 2nd level to 1st level. A total of $1,561,496 thousand was transferred as its market price was not obtainable.

Reconciliation for fair value measurements in 3rd level for movements

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

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2016.1.1	$22,533,717	$44,434,584	$370,583,060	$22,517,930
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	(2,719,249)	-	-	(2,627,086)
Realized gains from available-for-sale financial assets	-	2,251,211	-	-
Valuation gains from investment property	-	-	1,847,034	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available-for-sale financial assets	-	1,089,238	-	-
Exchange differences resulting from translating the financial statements of foreign operations	(344)	-	(8,800,438)	(152)
Acquisition or issues	464,592	11,222,381	-	464,592
Transfers to property and equipment	-	-	(65,318,977)	-
Transfers from investment property under construction and prepayment for properties	-	-	3,442,088	-
Disposal or settlements	(2,656,016)	(5,951,901)	(8,360)	(2,656,016)
Transfers from 3rd level	-	(167,521)	-	-
2016.12.31	$17,622,700	$52,877,992	$301,744,407	$17,699,268

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

	Assets			Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment property	Financial liabilities at fair value through profit or loss
2015.1.1	$7,911,860	$36,106,146	$321,261,078	$7,863,895
Total gains (losses) recognized				
Amount recognized in profit or loss				
Valuation profit or loss from financial assets and liabilities at fair value through profit or loss	14,609,566	-	-	14,640,563
Realized gains from available-for-sale financial assets	-	2,755,860	-	-
Valuation gains from investment property	-	-	11,236,452	-
Amount recognized in other comprehensive income				
Unrealized valuation gains from available-for-sale financial assets	-	764,095	-	-
Exchange differences resulting from translating the financial statements of foreign operations	538	144	18,353	65
Acquisition or issues	40,558	13,795,443	27,497,328	40,558
Transfers to property and equipment	-	-	(5,266,369)	-
Transfers from investment property under construction and prepayment for properties	-	-	16,265,149	-
Disposal or settlements	(28,805)	(7,837,725)	(428,931)	(27,151)
Transfers to 3rd level	-	19,440	-	-
Transfers from 3rd level	-	(1,168,819)	-	-
2015.12.31	$22,533,717	$44,434,584	$370,583,060	$22,517,930

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 31 December 2016 and 2015 in the amount of $(872,215) thousand and $25,846,018 thousand, respectively.

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to liabilities on hand as of 31 December 2016 and 2015 in the amount of $(2,627,086) thousand and $14,640,563 thousand, respectively.

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

Information on 3rd level significant unobservable inputs to valuation

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

Cathay Life and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available- for-sale				
Stocks	Market approach	discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		growth rate of adjusted net profit after tax	-50%~235%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		dividend payout ratio	50%~100%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 14			

2015.12.31

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

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

Cathay United Bank and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~ 2.75%	The higher the Direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.84%~ 16.98%	The higher the composite interest rate for capital interest, the lower the fair value

2015.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
Stocks	Market approach	discount for lack of marketability	20%~25%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Residual income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Investment property	Income approach and sales comparison approach	Capitalization rate	1.60%~ 2.75%	The higher the Direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.92%~ 19.20%	The higher the composite interest rate for capital interest, the lower the fair value

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

Cathay Century and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in Cathay Century's profit or loss by $37,200 thousand

2015.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets					
Available-for-sale					
Stocks	Market comparison approach	discount for lack of marketability	0%	The fair value was recognized by the price of latest transaction	None

Cathay Securities and its subsidiaries

2016.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.045% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.095% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.545%~2.545% ↓ Floating rate of fair value 5.37%~-3.85%

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

2015.12.31

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of relationship between inputs and fair value
Investment property	Discounted Cash Flow Analysis	Discount rate	According to the investment property assessment rules issued by Financial Supervisory Commission, the discount rate 2.225% is measured by risk premium method, using Chunghwa Post Co. two-year small time deposits floating rate 1.375% plus 0.75%, taking the risk and risk premium into considerations.	The higher the discount rate, the lower the fair value. The lower the discount rate, the higher the fair value.	Discount rate 1.725%~2.725% ↓ Floating rate of fair value 5.33%~-3.88%

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

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

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

	2016.12.31			
	Total	1st level	2nd level	3rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$2,505,365,077	$820,441	$2,499,700,470	$4,844,166
Held-to-maturity financial assets (Note)	94,617,886	35,918,374	58,324,425	375,087
Other financial assets	7,720,518	-	7,720,518	-

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

	2015.12.31			
	Total	1st level	2nd level	3rd level
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$2,252,415,754	$3,827,333	$2,246,876,081	$1,712,340
Held-to-maturity financial assets (Note)	97,214,828	48,540,706	48,674,122	-
Other financial assets	17,857,932	-	17,857,932	-

Note: Guarantee deposits paid in bonds are included.

(6) Transfers of Financial Assets

A. Financial Assets transferred that have not been fully removed

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

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

	2016.12.31				
Categories of financial assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Available for sale financial assets repurchase agreements	$23,261,811	$22,468,724	$22,577,930	$22,468,724	$109,206
Held to maturity financial assets repurchase agreements	31,325,346	31,066,277	31,325,346	31,066,277	259,069
Debt instrument investments for which no active market exists repurchase agreements	4,817,209	3,217,750	4,817,209	3,217,750	1,599,459

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

	2015.12.31				
Categories of financial assets	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	$34,522,584	$43,591,852	$33,452,121	$43,591,852	$(10,139,731)
Held to maturity financial assets repurchase agreements	10,571,555	10,446,025	10,571,555	10,446,025	125,530

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

	2016.12.31				
Categories of financial assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Financial assets at fair value through profit or loss					
Repurchase bonds	$2,375,207	$2,339,864	$2,375,207	$2,339,864	$35,343

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

(7) Management on financial risks

Cathay Life and its subsidiaries

A. Credit risk analysis

a. Sources of credit risk

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

(A) Issuer credit risk represents a risk that Cathay Life may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.

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

(B) Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, Cathay Life will bear financial losses.

(C) Underlying asset credit risk means the risk that Cathay Life may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

b. Concentration risk

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

2016.12.31

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$87,108,982	$154,207	$214,434	$50,897,880	$2,250,356	$140,625,859
Financial assets at fair value through profit or loss	5,912,042	159,986	436,867	900,477	-	7,409,372
Available-for-sale financial assets	208,994,073	21,188,062	47,296,352	146,039,840	132,691,256	556,209,583
Derivative financial assets for hedging	70,905	-	6,036	155,328	-	232,269
Debt instrument investments for which no active market exists	79,879,337	131,219,394	422,728,136	939,595,037	543,161,710	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	4,161,395	-	3,500,000	-	-	7,661,395
Total	$412,677,985	$152,721,649	$474,181,825	$1,137,588,562	$678,103,322	$2,855,273,343
Proportion	14.5%	5.3%	16.6%	39.8%	23.8%	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	53,211,062	136,016,000	96,878,144	569,598,785
Derivative financial assets for hedging	163,545	-	21,009	262,772	-	447,326
Debt instrument investments for which no active market exists	96,324,443	121,222,038	351,900,002	824,204,673	442,381,303	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	14,500,000	-	3,500,000	-	-	18,000,000
Total	$466,404,405	$149,689,103	$413,085,613	$1,028,706,692	$544,365,477	$2,602,251,290
Proportion	17.9%	5.8%	15.9%	39.5%	20.9%	100.0%

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

c. Credit Quality

Classification of credit quality for financial assets of Cathay Life:

2016.12.31

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$140,625,859	$-	$-	$-	$-	$140,625,859
Financial assets at fair value through profit or loss	5,596,015	1,813,357	-	-	-	7,409,372
Available-for-sale financial assets	489,718,539	66,491,044	-	-	-	556,209,583
Derivative financial assets for hedging	232,269	-	-	-	-	232,269
Debt instrument investments for which no active market exists	2,047,651,043	68,932,571	-	419,627	(419,627)	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	7,661,395	-	-	-	-	7,661,395
Total	$2,718,036,371	$137,236,972	$-	$419,627	$(419,627)	$2,855,273,343
Proportion	95.2%	4.8%	-	-	-	100.0%

2015.12.31

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$136,937,066	$-	$-	$-	$-	$136,937,066
Financial assets at fair value through profit or loss	16,288,641	1,468,203	-	-	-	17,756,844
Available-for-sale financial assets	514,899,344	54,699,441	-	-	-	569,598,785
Derivative financial assets for hedging	447,326	-	-	-	-	447,326
Debt instrument investments for which no active market exists	1,790,495,682	45,536,777	-	429,858	(429,858)	1,836,032,459
Held-to-maturity financial assets	23,478,810	-	-	-	-	23,478,810
Other financial assets	18,000,000	-	-	-	-	18,000,000
Total	$2,500,546,869	$101,704,421	$-	$429,858	$(429,858)	$2,602,251,290
Proportion	96.1%	3.9%	-	-	-	100.0%

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

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

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

2016.12.31

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	$317,414,591	$49,707,033	$77,800,104	$444,921,728
Overdue receivables	202,100	22,926	75,299	300,325
Total	$317,616,691	$49,729,959	$77,875,403	$445,222,053
Proportion	71%	11%	18%	100%

2015.12.31

Location	Northern and eastern areas	Central area	Southern area	Total
Secured loans	$335,318,324	$53,377,019	$82,410,898	$471,106,241
Overdue receivables	222,445	104,417	81,846	408,708
Total	$335,540,769	$53,481,436	$82,492,744	$471,514,949
Proportion	71%	11%	18%	100%

e. Secured loans and overdue receivables

2016.12.31

Secured loans and	Neither past due nor impaired			Past due but		Total	Provision for	
Overdue receivables	Excellent	Good	Normal	not impaired	Impaired	(EIR Principal)	impairment	Net
Consumer finance	$243,209,527	$117,269,110	$52,440,764	$198,646	$3,336,620	$416,454,667	$5,873,070	$410,581,597
Corporate finance	23,812,636	4,239,528	616,002	-	99,220	28,767,386	243,337	28,524,049
Total	$267,022,163	$121,508,638	$53,056,766	$198,646	$3,435,840	$445,222,053	$6,116,407	$439,105,646

2015.12.31

Secured loans and	Neither past due nor impaired			Past due but		Total	Provision for	
Overdue receivables	Excellent	Good	Normal	not impaired	Impaired	(EIR Principal)	impairment	Net
Consumer finance	$230,933,600	$160,649,461	$44,964,387	$153,819	$4,685,286	$441,386,553	$4,717,185	$436,669,368
Corporate finance	24,725,211	4,176,027	997,061	-	230,097	30,128,396	327,286	29,801,110
Total	$255,658,811	$164,825,488	$45,961,448	$153,819	$4,915,383	$471,514,949	$5,044,471	$466,470,478

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

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

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
31 December 2016	$164,117	$34,529	$198,646
31 December 2015	114,996	38,823	153,819

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

B. Liquidity risk analysis

a. Sources of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that Cathay Life is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that Cathay Life faces when it sells or offsets its assets during market disorder.

b. Liquidity risk management

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

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

c. Maturity analysis of non-derivative financial liabilities:

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

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	$46,444	$-	$-	$-	$-	$46,444
Payables	24,023,143	161,436	97,186	70,924	-	24,352,689
Bonds payables	-	1,260,000	1,260,000	3,780,000	41,234,411	47,534,411
Preferred stock liability	-	-	5,173,005	-	-	5,173,005

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	$61,104	$-	$-	$-	$-	$61,104
Payables	19,239,676	383,000	40,191	-	-	19,662,867
Preferred stock liability	-	10,277,322	-	5,266,005	-	15,543,327

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

d. Maturity analysis of derivative financial liability:

2016.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$30,094	$25,847	$47,231	$3,278	$-	$106,450
Forward	3,439,114	1,524,029	92,750	-	-	5,055,893
CS	25,588,589	294,288	-	-	-	25,882,877
Option	6,304	-	-	-	-	6,304

2015.12.31	Less than six months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$25,644	$27,691	$53,552	$45,216	$-	$152,103
Forward	2,591,911	511,500	-	-	-	3,103,411
CS	36,097,075	-	-	-	-	36,097,075
Option	29,649	-	-	-	-	29,649

C. Market risk analysis

a. Sources of market risk

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

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

(A) Value at Risk

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

(B) Stress testing

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

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

i. Simple Sensitivity

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

ii. Scenario Analysis

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

j Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, Cathay Life simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

k Hypothetical scenario

Cathay Life makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing
2016.1.1~2016.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	$(59,988,277)
Interest rate risk (Yield curve)	+100bps	(43,562,955)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(6,730,848)

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

Table of Stress Testing
2015.1.1~2015.12.31

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	-10%	$(51,057,745)
Interest rate risk (Yield curve)	+100bps	(39,180,072)
Exchange risk (Foreign exchange rate)	NTD appreciates against all foreign currencies by 1%	(6,896,040)

Note1: Impacts of credit spread changes are not included
Note2: Effects of hedging are included
Note3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

(C) Sensitivity Analysis

Summarization of Sensitivity Analysis
2016.1.1~2016.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD against NTD	appreciates 1%	$1,999,538	$4,798,619
	CNY/CNH against USD	appreciates 1%	452,155	295,279
	HKD against USD	appreciates 1%	(13,843)	728,461
	EUR against USD	appreciates 1%	(33,948)	109,022
	GBP against USD	appreciates 1%	30,075	11,340
Interest rate risk	Yield curve (USD)	parallel shifts up 1 bp	-	(216,091)
	Yield curve (AUD)	parallel shifts up 1 bp	-	(825)
	Yield curve (EUR)	parallel shifts up 1 bp	-	(3,977)
	Yield curve (NTD)	parallel shifts up 1 bp	982	(185,555)
Equity price risk	Equity price increases 1%		91,639	5,905,205

Summarization of Sensitivity Analysis
2015.1.1~2015.12.31

Risk Factors	Variables (+/-)		Change in Income	Change in Equity
Foreign currency risk	USD against NTD	appreciates 1%	$2,529,303	$4,435,698
	CNY/CNH against USD	appreciates 1%	1,226,890	309,379
	HKD against USD	appreciates 1%	(45,018)	647,550
	EUR against USD	appreciates 1%	(132,705)	155,707
	GBP against USD	appreciates 1%	75,183	36,945
Interest rate risk	Yield curve (USD)	parallel shift+1bp	-	(135,283)
	Yield curve (AUD)	parallel shift+1bp	(52)	(2,554)
	Yield curve (EUR)	parallel shift+1bp	-	(5,100)
	Yield curve (NTD)	parallel shift+1bp	3,226	(238,614)
Equity price risk	Equity price increases 1%		69,987	5,029,558

Note 1: Impacts of credit charges are not included.
Note 2: Effects of hedging are included
Note 3: Impacts of change in income are not included in the calculation of change in equity.
Note 4: The foreign exchange volatility reserve adjustments are not included in the change in income of the foreign currency risk.
Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

Cathay United Bank and its subsidiaries

A. Risk control and hedging strategy

Cathay United Bank's risk control and hedging strategy followed the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

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

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

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

B. Market risk

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

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

Market risk management process

a. Identification and measurement

The operating department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities…etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR)…etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

b. Monitoring and reporting

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

Risk management policy of the trading book

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

a. Strategy

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

b. Policy and procedure

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

c. Valuation policy

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

d. Method of measurement

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

Interest risk management of trading book

a. Definition of interest risk

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

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.

c. Method of measurement

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

Foreign exchange risk management

a. Definition of foreign exchange risk

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

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

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

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

Risk management of equity price

a. Definition of risk of equity price

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

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

b. Purpose of risk management in equity prices

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

c. Procedure of risk management of equity prices

Cathay United Bank sets investment limit on industries, using the 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.

2016.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,257,294	$2,000,760	$707,624
Foreign exchange	460,721	619,473	309,051
Equity Securities price	227,274	534,899	118,192

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

2015.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$825,482	$1,058,200	$596,450
Foreign exchange	374,638	528,143	224,569
Equity Securities price	298,800	534,899	131,033

Cathay United Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank's stress testing considers various types of risk factors and reporting the results to the executive management.

Stress Test			
Market/ Product	Scenarios	2016.12.31	2015.12.31
Stock Market	Major Stock Exchanges +15%	$1,781,090	$2,572,190
	Major Stock Exchanges -15%	(1,781,090)	(2,496,740)
Interest Rate/ Bond Market	Major Interest Rate + 100bp	(6,797,830)	(9,315,360)
	Major Interest Rate - 100bp	6,773,150	9,622,370
Foreign Exchange Market	Major Currencies + 3%	5,703,175	4,053,156
	Major Currencies - 3%	(5,703,175)	(4,053,156)
Composite	Major Stock Exchanges -15% Major Interest Rate + 100bp Major Currencies +3%	(2,875,745)	(7,758,944)

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.

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

c. Equity securities price risk

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. Cathay United Bank's equity portfolios include stocks and equity index options.

Market risk factor sensitivity of Cathay United Bank

		2016.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	$620,573	$523
	HKD+1%	3,576	1,142
	JPY+1%	8,865	-
	AUD+1%	86,912	-
	CNY+1%	256,047	25,929
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(2,558)	(36,101)
	Yield curves (HKD) parallel shift+1bp	(1)	(24)
	Yield curves (JPY) parallel shift+1bp	(11)	(262)
	Yield curves (AUD) parallel shift+1bp	-	(2,959)
	Yield curves (CNY) parallel shift+1bp	(90)	(12,449)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	118,740

		2015.12.31	
		Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	$791,614	$820
	HKD+1%	3,279	2,193
	JPY+1%	1,159	-
	AUD+1%	50,243	-
	CNY+1%	366,353	46,370
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	2,400	(40,000)
	Yield curves (HKD) parallel shift+1bp	-	(58)
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	-	(3,470)
	Yield curves (CNY) parallel shift+1bp	(979)	(19,893)
Equity securities price factor sensitivity (Equity Delta)	Equity securities price parallel shift+1bp	-	177,200

C. Credit risk

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

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

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

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

Credit business (including the loan commitments and guarantees)

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

a. Category of credit risk

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

b. Grade of credit quality

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

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

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

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

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

Due from and call loans to other banks

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

c. Hedge of credit risk and easing policy

(A) Collateral

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

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

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

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

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

(C) Net settlement agreement

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

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

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

(A) Cathay United Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Irrevocable loan commitments	$182,538,242	$187,213,293
Irrevocable credit card commitments	584,566,895	512,030,862
Unused commercial letters of credit	3,741,879	4,465,001
Guarantees on duties and contracts	7,141,798	10,285,103
Total	$777,988,814	$713,994,259

(B) Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Finance guarantee contracts	$2,865,926	$1,790,458
Unused commercial letters of credit	841,466	1,206,427
Total	$3,707,392	$2,996,885

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

(C) CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2016.12.31	2015.12.31
Finance guarantee contracts	$63,479	$23,637
Irrevocable loan commitments	546,423	558,899
Irrevocable credit card commitments	328,186	353,016
Unused commercial letters of credit	3,223	-
Total	$941,311	$935,552

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, Cathay United Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries are able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

e. Credit risk concentration of Cathay United Bank and its subsidiaries

While the counterparties are obviously the same party, or there are several counterparties but all engage in similar business activities and share similar economic characteristics, so they are vulnerable to the same economic impacts or other changes, the credit risk concentration is apparent.

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

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

Item	2016.12.31 amount	2016.12.31 %	2015.12.31 amount	2015.12.31 %
Industry type				
Manufacturing	$80,057,522	5.46	$73,003,215	6.30
Financial institutions and insurance	52,975,202	3.61	31,617,868	2.73
Leasing and real estate	115,994,786	7.90	88,419,187	7.63
Individuals	726,970,977	49.52	605,118,646	52.21
Others	491,942,342	33.51	360,808,227	31.13
Total	$1,467,940,829	100.00	$1,158,967,143	100.00

Item	2016.12.31 amount	2016.12.31 %	2015.12.31 amount	2015.12.31 %
Geographic Region				
Domestic	$1,262,746,943	86.02	$982,348,258	84.76
Asia	116,804,425	7.96	108,928,043	9.40
America	24,369,284	1.66	21,253,210	1.83
Others	64,020,177	4.36	46,437,632	4.01
Total	$1,467,940,829	100.00	$1,158,967,143	100.00

f. Credit quality analysis of the financial assets

Some of the financial assets held by Cathay United Bank and its subsidiaries, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

(A) Credit quality analysis to loans and receivables of Cathay United Bank

	Neither past due nor impaired							Impairment allowances (D)		
2016.12.31	Excellent	Good	Average	Subtotal(A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
Receivables										
Credit card business	$45,930,089	$10,400,044	$3,620,218	$59,950,351	$177,494	$166,800	$60,294,645	$135,097	$1,008,209	$59,151,339
Others	18,043,437	4,588,328	84,966	22,716,731	5,583	84,087	22,806,401	49,991	2,619,510	20,136,900
Loans	929,993,249	435,476,181	40,751,762	1,406,221,192	913,366	15,811,890	1,422,946,448	3,088,327	16,597,827	1,403,260,294

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

2015.12.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	$38,577,214	$8,630,623	$3,289,491	$50,497,328	$165,012	$168,628	$50,830,968	$136,844	$1,306,411	$49,387,713
Others	28,917,139	3,474,241	49,961	32,441,341	5,756	535,472	32,982,569	513,752	822,681	31,646,136
Loans	665,556,901	411,800,443	26,279,299	1,103,636,643	810,525	13,570,559	1,118,017,727	3,111,620	14,211,023	1,100,695,084

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

2016.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$260,337,798	$70,434,151	$11,978,542	$342,750,491
Unsecured personal loans	25,676,322	15,839,926	4,634,166	46,150,414
Other	293,208,211	64,003,096	9,591,057	366,802,364
Corporate banking				
Secured	33,210,000	169,692,228	6,202,863	209,105,091
Unsecured	317,560,918	115,506,780	8,345,134	441,412,832
Total	$929,993,249	$435,476,181	$40,751,762	$1,406,221,192

2015.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$231,852,442	$51,262,021	$9,253,262	$292,367,725
Unsecured personal loans	21,694,792	12,696,768	3,634,766	38,026,326
Other	205,744,426	93,884,652	6,697,306	306,326,384
Corporate banking				
Secured	21,990,638	145,217,277	3,373,012	170,580,927
Unsecured	184,274,603	108,739,725	3,320,953	296,335,281
Total	$665,556,901	$411,800,443	$26,279,299	$1,103,636,643

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

(C) Credit quality analysis on securities investment of Cathay United Bank

2016.12.31	Neither past due nor impaired			Past due but not impaired	Impaired	Total	Accumulated impairment	Net balance
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)	(B)	(C)	(A)+(B)+(C)	(D)	(A)+(B)+(C)-(D)
Available-for-sale financial assets								
Bonds	$135,593,396	$101,939	$135,695,335	$-	$-	$135,695,335	$-	$135,695,335
Stocks	1,547,161	10,186,373	11,733,534	-	140,985	11,874,519	140,985	11,733,534
Others	917,355	3,586,499	4,503,854	-	-	4,503,854	-	4,503,854
Held-to-maturity financial assets								
Bonds	35,526,500	1,946,358	37,472,858	-	-	37,472,858	-	37,472,858
Others	5,422,099	-	5,422,099	-	-	5,422,099	-	5,422,099
Investments in debt securities with no active market								
Bonds	81,310,348	114,660	81,425,008	-	1,478,556	82,903,564	1,478,556	81,425,008
Others	316,050,000	-	316,050,000	-	-	316,050,000	-	316,050,000

2015.12.31	Neither past due nor impaired			Past due but not impaired	Impaired	Total	Accumulated impairment	Net balance
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)	(B)	(C)	(A)+(B)+(C)	(D)	(A)+(B)+(C)-(D)
Available-for-sale financial assets								
Bonds	$108,611,424	$-	$108,611,424	$-	$-	$108,611,424	$-	$108,611,424
Stocks	8,578,743	9,661,916	18,240,659	-	140,985	18,381,644	140,985	18,240,659
Others	1,360,701	2,344,845	3,705,546	-	-	3,705,546	-	3,705,546
Held-to-maturity financial assets								
Bonds	49,571,588	40,519	49,612,107	-	-	49,612,107	-	49,612,107
Investments in debt securities with no active market								
Bonds	13,298,479	659	13,299,138	-	1,512,275	14,811,413	1,512,275	13,299,138
Others	429,465,000	-	429,465,000	-	-	429,465,000	-	429,465,000

(D) Aging analysis on past due but not impaired financial assets of Cathay United Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

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

2016.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	$107,733	$69,761	$177,494
Others	3,335	2,248	5,583
Loans			
Consumer banking			
Residential mortgage loans	276,308	144,448	420,756
Unsecured personal loans	70,608	57,371	127,979
Others	182,770	35,679	218,449
Corporate banking			
Secured	140,175	-	140,175
Unsecured	6,007	-	6,007

2015.12.31	Less than 60 days	61 - 90 days	Total
Receivables			
Credit card business	$105,952	$59,060	$165,012
Others	4,002	1,754	5,756
Loans			
Consumer banking			
Residential mortgage loans	347,742	53,921	401,663
Unsecured personal loans	56,856	40,630	97,486
Others	211,634	49,070	260,704
Corporate banking			
Secured	-	1,918	1,918
Unsecured	40,293	8,461	48,754

f. Impairment analysis of financial assets of Cathay United Bank

(A) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for available-for-sale financial assets in the amount of $140,985 thousand and $140,985 thousand as of 31 December 2016 and 31 December 2015, respectively, due to the existence of objective impairment evidence.

(B) Cathay United Bank and its subsidiaries has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of $1,382,970 thousand and $1,416,689 thousand as of 31 December 2016 and 31 December 2015, respectively, due to credit deterioration of securitization products and financial debentures.

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

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

(D) Foreclosed properties management policy

Cathay United Bank and its subsidiaries has recognized impairment loss for foreclosed properties in CUBC Bank for the years ended 31 December 2016 and 2015 were $58,161 and $0, respectively, due to the existence of objective impairment evidence. The accumulated impairment loss in the amount of $58,102 and $0 as of 31 December 2016 and 31 December 2015, respectively.

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

D. Liquidity risk

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

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

(A) Financial assets were held to manage liquidity risk

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

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

(B) Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$36,668,211	$19,582,460	$11,159,327	$11,987	$67,421,985
Securities sold under agreements to repurchase	32,151,648	18,162,666	-	6,458,060	56,772,374
Payables	17,087,536	1,882,092	68,098	402,241	19,439,967
Deposits and remittances	270,499,401	837,032,161	764,993,589	123,482,329	1,996,007,480
Financial debentures payable	7,800	3,986,939	37,213	48,250,000	52,281,952
Other capital outflow at maturity	26,286,100	30,646,766	4,455,094	389,911	61,777,871

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$18,302,306	$10,012,450	$10,387,327	$76,893	$38,778,976
Securities sold under agreements to repurchase	37,882,342	5,166,967	-	11,005,959	54,055,268
Payables	10,963,288	8,487,879	111,856	799,521	20,362,544
Deposits and remittances	261,487,276	717,033,377	757,807,236	113,396,994	1,849,724,883
Financial debentures payable	7,779	336,018	37,111	51,900,000	52,280,908
Other capital outflow at maturity	22,467,662	32,764,319	6,434,595	5,732,362	67,398,938

b. Maturity analysis of derivative financial liabilities

(A) Net settled derivative financial instruments

Net settled derivatives engaged by Cathay United Bank include:

i Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;

ii Interest rate derivative instruments: swap options, net settled interest rate swaps and other interest rate agreements.

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

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

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$121,095	$1,576,083	$1,796,462	$307	$3,493,947
- Interest rate derivative instruments	1,886,141	419,128	88,343	22,041,123	24,434,735
Total	$2,007,236	$1,995,211	$1,884,805	$22,041,430	$27,928,682

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$89,376	$112,235	$1,436,061	$4,267,106	$5,904,778
- Interest rate derivative instruments	12,016	51,356	156,012	26,549,494	26,768,878
Total	$101,392	$163,591	$1,592,073	$30,816,600	$32,673,656

(B) Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by Cathay United Bank include:

i. Foreign exchange derivative instruments: currency futures and swaps;
ii. Interest rate derivative instruments: cross currency swaps;
iii. Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets. Maturity analysis of gross settled derivative financial liabilities was as follows:

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

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	$(2,608,154)	$(7,043,669)	$(1,487,912)	$(330,246)	$(11,469,981)
- Cash inflow	31,816	48,284	69,423	-	149,523
- Interest rate derivative instruments					
- Cash outflow	(169,357)	(880,692)	(617,141)	(1,021,022)	(2,688,212)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,777,511)	(7,924,361)	(2,105,053)	(1,351,268)	(14,158,193)
Cash inflow subtotal	31,816	48,284	69,423	-	149,523
Net cash flow	$(2,745,695)	$(7,876,077)	$(2,035,630)	$(1,351,268)	$(14,008,670)

2015.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
- Cash outflow	$(5,831,519)	$(7,551,584)	$(2,169,857)	$(461,724)	$(16,014,684)
- Cash inflow	59,346	52,955	134,790	45,820	292,911
- Interest rate derivative instruments					
- Cash outflow	(309,781)	(579,714)	(572,038)	(2,254,893)	(3,716,426)
- Cash inflow	-	-	-	-	-
Cash outflow subtotal	(6,141,300)	(8,131,298)	(2,741,895)	(2,716,617)	(19,731,110)
Cash inflow subtotal	59,346	52,955	134,790	45,820	292,911
Net cash flow	$(6,081,954)	$(8,078,343)	$(2,607,105)	$(2,670,797)	$(19,438,199)

c. Maturity analysis of off-balance sheet items

(A) Irrevocable commitments: Irrevocable commitments include irrevocable loan commitments and credit card commitments.

(B) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

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

2016.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$129,060,972	$51,146,768	$2,330,502	$182,538,242
Credit card lines commitments	78,376,870	229,495,576	276,694,449	584,566,895
Financial guarantee contracts	9,837,073	1,035,270	11,334	10,883,677
Leasing commitments				
Non-cancellable operating lease payments	1,657,098	3,472,465	113,195	5,242,758
Total	$218,932,013	$285,150,079	$279,149,480	$783,231,572

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

2015.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$144,888,414	$38,372,470	$3,952,409	$187,213,293
Credit card lines commitments	56,229,614	199,442,211	256,359,037	512,030,862
Financial guarantee contracts	12,520,417	2,209,659	20,028	14,750,104
Leasing commitments				
Non-cancellable operating lease payments	851,937	1,439,316	90,579	2,381,832
Total	$214,490,382	$241,463,656	$260,422,053	$716,376,091

Cathay Century and its subsidiaries

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

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

A. Market risk

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

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

a. Foreign currency risk

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

Cathay Century and its subsidiaries is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. Cathay Century and its subsidiaries do not engage in hedging in relation to this type of transaction.

Cathay Century and its subsidiaries' self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

b. Interest rate risk

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

c. Equity price risk

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

B. Credit risk

a. Credit risk management policies

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

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

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

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

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

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

(C) Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underling 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:

	The amount of credit risk exposure - by area					
	2016.12.31					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$5,569,029	$97	$62,267	$296,291	$1,020,239	$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	-	875,543
Available-for-sale financial assets	7,272,630	-	367,936	310,979	720,706	8,672,251
Debt instruments investments with no active market exists	1,400,000	-	347,116	332,006	432,934	2,512,056
Held-to-maturity investments	799,987	-	1,025,896	2,919,855	1,366,727	6,112,465
Other financial assets	529,664	-	-	-	8,677	538,341
Total	$16,446,853	$97	$1,803,215	$3,859,131	$3,549,283	$25,658,579
Each area percentage	64.10%	0.00%	7.03%	15.04%	13.83%	100.00%

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

Financial assets	The amount of credit risk exposure - by area 2015.12.31					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$5,485,530	$-	$58,273	$841,130	$6,119,560	$12,504,493
Financial assets at fair value through profit or loss	1,408,854	-	-	-	579,506	1,988,360
Available-for-sale financial assets	5,257,855	-	398,491	247,748	1,655,216	7,559,310
Debt instruments investments with no active market exists	1,600,000	-	355,325	672,062	1,050,698	3,678,085
Held-to-maturity investments	207,094	-	852,253	2,208,347	1,194,394	4,462,088
Other financial assets	541,415	-	-	-	8,598	550,013
Total	$14,500,748	$-	$1,664,342	$3,969,287	$10,607,972	$30,742,349
Each area percentage	47.17%	0.00%	5.41%	12.91%	34.51%	100.00%

c. Credit risk quality analysis

(A) Credit quality classifications of Cathay Century and its subsidiaries' financial assets are as follows:

Financial assets	Credit quality of financial assets 2016.12.31				
	Normal assets				
	Investment level	Non-investment level	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$6,947,923	$-	$-	$-	$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	875,543
Available-for-sale financial assets	8,672,251	-	-	-	8,672,251
Debt instruments investments with no active market exists	2,512,056	-	-	-	2,512,056
Held-to-maturity investments	6,112,465	-	-	-	6,112,465
Other financial assets	538,341	-	-	-	538,341
Total	$25,658,579	$-	$-	$-	$25,658,579

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

Financial assets	Credit quality of financial assets 2015.12.31 Normal assets: Investment level	Normal assets: Non-investment level	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$12,504,493	$-	$-	$-	$12,504,493
Financial assets at fair value through profit or loss	1,988,360	-	-	-	1,988,360
Available-for-sale financial assets	7,559,310	-	-	-	7,559,310
Debt instruments investments with no active market exists	3,678,085	-	-	-	3,678,085
Held-to-maturity investments	4,462,088	-	-	-	4,462,088
Other financial assets	550,013	-	-	-	550,013
Total	$30,742,349	$-	$-	$-	$30,742,349

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

(B) Secured loans

Secured loans	2016.12.31 Neither past due nor impaired: Excellent	Great	Normal	Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$139,740	$-	$-	$-	$139,335	$279,075	$3,477	$275,598
Corporate Finance	64,100	-	-	-	15,750	79,850	636	79,214
Total	$203,840	$-	$-	$-	$155,085	$358,925	$4,113	$354,812

Secured loans	2015.12.31 Neither past due nor impaired: Excellent	Great	Normal	Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$170,367	$-	$-	$-	$121,836	$292,203	$3,874	$288,329
Corporate Finance	62,280	-	-	-	16,200	78,480	554	77,926
Total	$232,647	$-	$-	$-	$138,036	$370,683	$4,428	$366,255

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 holing position, Cathay Century and its subsidiaries carefully manage the market liquidity risk. Moreover, Cathay Century and its subsidiaries have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

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

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

In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

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

c. The table below summarizes the maturity profile of Cathay Century and its subsidiaries' financial liabilities based on contractual undiscounted payments.

	2016.12.31						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	$2,663,593	$1,389,106	$1,371,338	$8,293	$1,013	$8,462	$-
Financial liabilities at fair value through profit or loss	54,590	54,590	46,807	7,783	-	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	1,000,000	-	-

	2015.12.31						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
Payables	$3,084,816	$1,510,574	$1,483,552	$14,998	$6,207	$5,817	$-
Financial liabilities at fair value through profit or loss	192,554	194,195	160,082	26,722	7,391	-	-
Preferred stock liability	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

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

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

a. Value-at-risk

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

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

b. Stress testing

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

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

(A) Simple Sensitivity

Simple sensitivity mainly evaluate changes in value of portfolio caused by specific risk factor

(B) Scenario Analysis

Scenario Analysis is a measure utilized for the evaluation of the change in value of portfolio under stress events occurred. The measures include:

i Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, and then calculates the amount of loss.

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

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

2016.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(500,093)
Interest rate risk (Yield curve)	20bp	(162,035)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(99,465)
Commodity risk (Price)	-10%	-

2016.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$117	$714
	CNY appreciate 1 %	8,564	2,619
	HKD appreciate 1 %	543	2,729
	NTD appreciate 1 %	(28,412)	(9,085)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,226)	(93)
	Yield curve (CNY) flat rises 1bp	(1)	(58)
	Yield curve (NTD) flat rises 1bp	(1,605)	(1,119)
Equity securities price sensitivity	Increase 1% in equity price	300	49,709

2015.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	-10%	$(426,608)
Interest rate risk (Yield curve)	20bp	(145,720)
Foreign currency risk (Exchange rate)	USD depreciates 1 dollar against NTD	(116,285)
Commodity risk (Price)	-10%	-

2015.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$132	$831
	CNY appreciate 1 %	16,208	792
	HKD appreciate 1 %	737	2,923
	NTD appreciate 1 %	(37,243)	(7,934)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,691)	(118)
	Yield curve (CNY) flat rises 1bp	(49)	(71)
	Yield curve (NTD) flat rises 1bp	(1,087)	(1,271)
Equity securities price sensitivity	Increase 1% in equity price	-	42,661

c. Cathay Securities and its subsidiaries

(A) Risk management policies

i. Rick management objectives

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

ii. Risk management policies

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

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

iii. Risk management organizational structure

- Board of directors

The board of directors has the ultimate responsibilities for risk management. The board has the primary responsibility for the determination of the risk management strategies and for ensuring that approved risk management policies are in accordance with the nature of operating activities, types of operating business and they cover different types of risk. Also, the board is required to monitor the implementation of risk management policies is effective.

, Risk Management Committee

The Risk Management Committee is responsible for reviewing risk management policies, principles, and directions of trading management, and for determining the appropriate degree of risk exposures and monitoring the implementation of the risk management policies. Risk Management Committee is established by the board of directors and the members include General Manager, finance executive, accounting executive, and risk management executive, as relevant trading executive. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the Board.

ƒ Risk Management Department

Risk management department is belonging to the board of directors. The supervisor and staff of the department are prohibited to hold the positions at trading or settlement department simultaneously. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies periodically to ensure that those policies are suitable for the business development. Risk management department also establishes online monitor and prevention system and reaction mechanism.

„ Business unit

Each business unit participates in the planning of risk management mechanism and executing daily risk management and report to ensure that the risk model services division implements is with the same base of the consistency of credibility and is in accordance with the internal control procedures to conform to the regulations and risk management policies.

… Auditing office

Auditing office participates in the planning of risk management mechanism and executes risk management and internal control procedures periodically. All staff members should be also responsible for monitoring and documenting problems of internal control procedures periodically to ensure that the appropriate actions to improve have been taken in time.

† Finance Department

Finance department participates in the planning of risk management mechanism. The department is responsible of executing liquidity risk management and providing the liquidity risk report to risk management department periodically.

‡ Accounting Department

The accounting department participates in the planning of risk management mechanism and providing the form of capital adequacy to risk management department monthly.

ˆ Legal Affairs Office

Legal Affairs Office executes regulation risk management to ensure that business operations and risk management procedures are all in accordance with regulations.

iv. Risk Management Workflows

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

- Market Risk

(a) Definition

Market risk is the risk of losses in positions that include stocks, bonds, and derivatives etc. arising from the movement in market prices.

(b) Controls:

Cathay Securities and its subsidiaries set up training directions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and actual operations and implement those control procedures efficiently through the risk control staff in front desk and on-line monitor system. Furthermore, Cathay Securities and its subsidiaries provide market risk management report periodically that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, back-testing model and perform pressure test by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

, Credit Risk

(a) Definition

Credit risk is the risk that counterparty will not meet its obligations under a contract due to the aggravation of financial conditions or other factors, leading to a financial loss.

(b) Controls

Cathay Securities and its subsidiaries check and review credit position to each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on credit rating model. Investment concentration and risk are analyzed and documented periodically. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody’s, and Fitch).

ƒ Operational Risk

(a) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes the legal risk, but excludes strategy risk and credit risk.

(b) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading document are archive for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand causes of the loss.

Besides, auditing office is established and belongs to the Board of Directors. The functions of the office are to implement daily process check to establish completed internal audit control and provide internal review report periodically to lower the loss arising from the operation failures.

„ Liquidity Risk

(a) Definition

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

(b) Controls

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

… Legal Risk

(a) Definition

Legal risk is a risk of loss that results from a counterparty being unable to legally enter into a contract due to the defective contract or the qualification.

(b) Controls

The procedures of making and reviewing legal documentation are established. All the document related to the contracts is required to be reviewed and approved by the legal office and may be advised by the external lawyer' opinions.

† Capital adequacy management

(a) Definition

Cathay Securities and its subsidiaries implement capital management to sustain appropriate capital adequacy ratio, accelerate the business growth and ensure the perfection of capital structure.

(b) Controls

Cathay Securities establishes capital adequacy index and compiles the report periodically to evaluate the appropriateness of capital adequacy ratio and the perfection of the capital structure.

‡ Reputation risk and strategy risk

(a) Definition

Reputation Risk is a risk of loss resulting from damages to Cathay Securities and its subsidiaries' reputation in lost customers or revenues and Cathay Securities and its subsidiaries might need to undertake a prodigious amount of legal fares or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

(b) Controls

Cathay Securities and its subsidiaries establish internal responses and reactions to the reputation risk and strategy risk for mitigation of damages.

Risk management policies and principles are established based on above mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraint for each risk and review the appropriateness of each constraint periodically. Besides, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay financial holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of current risk management scheme.

v. Hedge and Mitigation of Risk Strategy

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

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

(B) Credit risk analysis

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

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

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

ii Counterparty credit risk is a risk that the counterparty will not live up to its obligations to perform or pay on the designated dates and Cathay Securities and its subsidiaries are exposed to the risk of financial losses

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

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

(C) Capital Liquidity Risk Analysis:

i Cash flow analysis

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

2016.12.31
Cash Flows Analysis of Financial Liabilities

	Payment Terms				
Financial Liabilities	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	Total
Short-term loans	$87,229	$-	$-	$-	$87,229
Bonds payables	5,598,838	-	-	-	5,598,838
Financial liabilities at fair value through profit or loss -current	2,035,784	-	-	-	2,035,784
Liabilities for bonds with repurchase agreements	2,339,864	-	-	-	2,339,864
Deposits for securities borrowed	34,913	69,826	104,739	418,951	628,429
Futures trader's equity	2,971,487	-	-	-	2,971,487
Securities lending margin – deposit received	1,863	3,726	5,589	22,351	33,529
Account payables	4,135,340	-	-	88,032	4,223,372
Others	36,030	-	589	-	36,619
Total	$17,241,348	$73,552	$110,917	$529,334	$17,955,151
% to the total	96.02%	0.41%	0.62%	2.95%	100.00%

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

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

2016.12.31

Cash Flow Gap

	Received Terms				
Financial Assets	Less than 1 month	1 to 3 months	3 to 6 months	More than 6 months	Total
Cash and cash equivalents	$2,315,219	$-	$-	$-	$2,315,219
Financial assets at fair value through profit or loss -current					
Operations Security	6,966,542	-	-	-	6,966,542
Open-end Funds	59,810	-	-	-	59,810
Call option-futures	16,288	-	-	-	16,288
Futures trading margin	326,894	-	-	-	326,894
Available for sale financial assets	134,664	-	-	305,534	440,198
Securities financing receivables	176,032	352,064	528,096	2,112,385	3,168,577
Refinancing margin and refinancing deposits receivable	1,825	3,650	5,475	21,905	32,855
Client margin accounts	2,973,537	-	-	-	2,973,537
Security lending deposits price and security lending margin – deposits paid	120,142	240,284	360,426	1,441,704	2,162,556
Account receivables	3,946,278	-	-	17,877	3,964,155
Others	268,760	-	-	919,064	1,187,824
Subtotal	17,305,991	595,998	893,997	4,818,469	23,614,455
Residual cash	$64,643	$522,446	$783,080	$4,289,135	$5,659,304

ii Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing periodically to measure and evaluate the changes of capital liquidity the occurrence of extreme and abnormal events for ensuring that Cathay Securities and its subsidiaries sustain the proper capital liquidity. Stress scenario including the significant fluctuation in the financial market, the occurrence of all kinds of credit event, and the assumption of unexpected tighten capital liquidity in financial market are used to measure the capability of acquiring sufficient capital to meet the demand on cash and the changes of cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are used to prevent the occurrence of the stress events:

- Raising money and balance sheet adjustment are made in accordance with the Group "Crisis Management Principles" and "Regulations of Emergency Management"

, Money Raising: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper

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

(D) Market risk analysis

Cathay Securities and its subsidiaries assesses, monitors, and manages market risks completely and effectively by applying Value at Risk ("VaR") and stress testing continuously

i Sensitivity Analysis

Sensitivity analysis is to measure the degree of impacts on each products and portfolio from the movement of specific market simple. The monitoring and relevant controls to the businesses Cathay Securities and its subsidiaries operate are established. The degree of risk exposure are monitored and measured by the following sensitivity:

- Price value of basis point (PVBP): denoting the change in the value of a position given a basis point change in the yield curve.

, Delta: measuring the change in the value of a position given 1% price change of a certain underlying asset.

ƒ Gamma: measuring the dollar amount of change in Delta of a position given 1% price change of a certain underlying asset.

„ Vega: denoting the change in the value of a position given 1%price change of a certain underlying asset.

ii Value at Risk

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

VaR at one single trading day within 99% confidence level

2016.1.1~2016.12.31	NT$ (in thousands)
Period Ended	$15,016
Average	34,504
Lowest	15,016
Highest	53,719

iii Stress Test

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

- Historical Scenario

  Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical event and taking the fluctuation of risk simples into the consideration such as the immediate, significant, and comprehensive impact on financial market from bankruptcy of Lehman Brothers in 2008 and Great East Japan earthquake in 2011.

, Hypothesis Scenario

  Cathay Securities and its subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking the movement of relevant risk simples into consideration including 10% drops on the total values of stock market arising from the global system breakdown.

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

2016.12.31
Table of Stress Test

Risk Simples	Price Risk	Changes (+/-)	Changes in profit and loss
Equity Risk	Stock index	-10%	$(119,577)
Interest Risk	Yield Curve	+100bps	(96,896)
Exchange Risk	Exchange Rate	+3%	(7,249)
Product Risk	Price	-10%	-

(8) Structured entities

A. Consolidated structured entities

Cathay life and its subsidiaries own real estate investment and management organizations as consolidated structured entities. As of 31 December 2016 and 31 December 2015, Cathay life and its subsidiaries provide loans amounting to GBP £345,000 thousand and £345,000 thousand to the consolidated structured entities, respectively.

B. Unconsolidated structured entities

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

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

b. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay Life and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

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

	2016.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$40,455,678	$100,957,444
Debt instrument investments with no active market	-	106,571,086
Held-to-maturity financial assets	-	342,391,487
Total	$40,455,678	$549,920,017

	2015.12.31	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$32,950,640	$120,360,084
Debt instrument investments with no active market	-	185,055,820
Total	$32,950,640	$305,415,904

c. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay United Bank and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	$-	$922,506
Held-to-maturity financial assets	-	12,296,939
Debt instrument investments with no active market	-	28,079,749
Total	$-	$41,299,194

	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

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

d. As of 31 December 2016 and 2015, the carrying amount of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities is disclosed as follows:

	2016.12.31	
	Private Fund	Asset Securitization commodity
Available-for-sale financial assets	$-	$136,785
Held-to-maturity financial assets	-	880,018
Total	$-	$1,016,803

	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

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

	2016.12.31			2015.12.31		
	Foreign Currency	Exchange Rate	NT$	Foreign Currency	Exchange Rate	NT$
Financial Assets						
Monetary Items						
USD	$81,192,047	32.2790	$2,620,798,085	$65,214,274	33.0660	$2,156,375,184
CNY	18,365,459	4.6219	84,883,315	35,057,071	5.0326	176,428,216
Non-Monetary Items						
USD	11,858,753	32.2790	382,788,688	9,827,120	33.0660	324,943,550
Financial Liabilities						
Monetary Items						
USD	11,210,625	32.2790	361,867,764	8,839,718	33.0660	292,294,115

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

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2016 and 2015 were $(42,817,155) thousand and $50,027,860 thousand, respectively.

(10) Discretionary account management

A. Discretionary account management for Cathay Life

	2016.12.31		2015.12.31	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	$111,615,056	$111,615,056	$108,750,029	$108,750,029
Overseas stocks	43,865,191	43,865,191	46,578,040	46,578,040
Repurchase bonds	8,570,400	8,570,400	4,348,000	4,348,000
Cash in banks	18,580,579	18,580,579	12,738,482	12,738,482
Beneficiary certificates	710,198	710,198	2,233,839	2,233,839
Futures and options	247,321	247,321	1,157,650	1,157,650
Total	$183,588,745	$183,588,745	$175,806,040	$175,806,040

As of 31 December 2016, Cathay Life entered into discretionary account management contracts in the amounts of $90,748,903 thousand, US$1,185,000 thousand, and HK$1,780,000 thousand. As of 31 December 2015, Cathay Life entered into discretionary account management contracts in the amounts of $97,000,000 thousand, US$1,237,000 thousand, and HK$1,780,000 thousand.

B. Discretionary account management for Cathay Century

	2016.12.31		2015.12.31	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Listed stocks	$747,794	$747,794	$410,018	$410,018
Overseas stocks	132,666	132,666	77,752	77,752
Repurchase bonds	600,050	600,050	215,147	215,147
Cash in banks	104,183	104,183	47,526	47,526
Futures and options	2,007	2,007	2,005	2,005
Total	$1,586,700	$1,586,700	$752,448	$752,448

As of 31 December 2016 and 2015, Cathay Century entered into discretionary account management contracts in the amounts of $1,500,000 thousand and $700,000 thousand, respectively.

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

(11) Capital management:

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

A. Capital adequacy ratio on a consolidated basis:

Capital adequacy ratios

2016.12.31

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	$522,841,915	$544,461,814
Cathay United Bank	100.00%	214,610,255	130,408,330
Cathay Securities	100.00%	5,042,620	1,757,108
Cathay Life	100.00%	427,858,678	280,769,853
Cathay Century	100.00%	9,385,177	4,877,648
Cathay Venture	100.00%	3,728,806	1,868,265
Cathay Securities Investment Trust	100.00%	2,141,926	1,263,804
Less: Item		(568,922,573)	(543,808,375)
Subtotal		(A) $616,686,804	(B) $421,598,447
Consolidated capital adequacy ratios		(C) =(A)/(B)	146.27%

2015.12.31

Item	Ownership interest	Eligible capital	Statutory capital
The Company	100.00%	$454,181,540	$490,471,538
Cathay United Bank	100.00%	214,974,118	104,925,328
Cathay Securities	100.00%	5,150,200	1,952,273
Cathay Life	100.00%	371,970,149	244,273,877
Cathay Century	100.00%	7,733,145	4,308,568
Cathay Venture	100.00%	2,923,824	1,471,000
Cathay Securities Investment Trust	100.00%	2,151,661	1,323,560
Less: Item		(516,761,405)	(489,536,590)
Subtotal		(A) $542,323,232	(B) $359,189,554
Consolidated capital adequacy ratios		(C) =(A)/(B)	150.99%

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

B. Eligible capital

2016.12.31

Item	(NT$)
Common Stock	$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	8,333,000
Preferred Stocks and subordinated financial debenture	-
Capital collected in advance	-
Capital surplus	130,448,697
Legal reserve	30,577,724
Special reserve	149,108,336
Accumulated profit	73,001,761
Equity adjustments	6,222,952
Less: Goodwill	-
Less: Deferred assets	(482,657)
Less: Treasury stock	-
Consolidated eligible capital	$522,841,915

2015.12.31

Item	(NT$)
Common Stock	$125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-
Capital collected in advance	-
Capital surplus	88,781,174
Legal reserve	24,820,095
Special reserve	140,185,120
Accumulated profit	65,190,213
Equity adjustments	10,448,290
Less: Goodwill	-
Less: Deferred assets	(875,454)
Less: Treasury stock	-
Consolidated eligible capital	$454,181,540

(12) Business or trading activities within Subsidiaries:

A. Business or trading behaviors

Please refer Note 33 for further details.

B. Integrate business activities:

By integrating the insurance, securities, banking and other various financial institutions, the Company has become a full-functioning financial platform. Through 730 branches and nearly 30 thousand professional sales representatives across Taiwan, the Company is able to develop its cross-selling marketing strategy and provide a one-stop shopping service for its customers.

C. Cross utilization of information:

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

D. Locations and business utilities:

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

All the business units of Cathay United Bank (162 branches) may engage in cross-selling activities for insurance business and securities business. According to the opening regulations, Cathay United Bank may engage in life insurance business and promote life insurance products.

Cathay Life may engage in cross-selling activities for banking, property and casualty insurance businesses in all its business and service units (179 locations).

Cathay Security may engage in cross-selling activities in Cathay United Bank's Banxin branch (and other 26 branches) and Cathay Life's Taitung branch. The shared business locations are available for account opening.

E. Allocation of revenues, costs, expenses, profits and losses:

Revenue, costs, expenses, profits or losses arising from integrated business activities between the subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

(13) Significant contracts:

None

(14) Information regarding investment in Mainland China:

A. On 25 December 2002 and 24 July 2003, MOEAIC authorized Cathay Life to remit US$22,850 thousand and US$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US$50,000 to US$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized Cathay Life to remit US$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized Cathay Life to remit US$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US$32,520 thousand of unexecuted project to CNY¥200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. Cathay Life has remitted US$48,330 thousand to the subsidiary as of 31 December 2009. Cathay Life injected additional US$29,880 thousand on 29 September 2010 and CNY¥200,000 thousand on 8 May 2014. As of 31 December 2016, Cathay Life's remittances to the subsidiary totaled approximately CNY¥200,000 thousand and US$78,210 thousand.

B. On 17 October 2007, MOEAIC authorized Cathay Life to remit US$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized Cathay Life to increase the remittances from US$26,390 thousand to US$28,960 thousand. On 15 August 2008, MOEAIC further authorized Cathay Life to revise the remittance from US$28,960 thousand to US$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized Cathay Life to remit CNY¥200,000 thousand to increase the share capital. As of 31 December 2016, Cathay Life's remittances to this general insurance company totaled approximately CNY¥200,000 thousand and US$28,140 thousand.

C. On 1 November 2011 and 11 April 2012, MOEAIC authorized Cathay Life to remit CNY¥300,000 (US$47,000) thousand and CNY¥500,000 (US$80,000) thousand, respectively, as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized Cathay Life to remit CNY¥700,000 (US$111,000) thousand to increase the share capital. As of 31 December 2016, Cathay Life's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY¥1,500,000 thousand.

D. On 31 December 2006, MOEAIC authorized Cathay Century to remit US$28,960 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of joint venture with Cathay Life.) Cathay Century and Cathay Life have received approved from the China Insurance Regulatory Commission on 8 October 2007 to form a joint venture general insurance company in China. Cathay Century and Cathay Life's subsidiary, Cathay Insurance Company Ltd. (China) has acquired a business license of an enterprise legal person on 26 August 2008. MOEAIC authorized Cathay Century to remit CNY¥200,000 thousand as the equity capital on 28 May 2013. As of 31 December 2016, Cathay Century's remittances to this company totaled approximately US$60,560 thousand.

E. MOEAIC approved Cathay United Bank to remit to China CNY¥400,000 (US$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥400,000 (US$59,770) thousand. The remaining amount of US$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on 5 November 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in 18 January 2011 and were approved on 24 January 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY¥600,000 (US$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank's Shanghai Branch was CNY¥600,000 (US$94,930) thousand. The remaining amount of US$90 thousand was repatriated by Cathay United Bank's Shanghai Branch on 1 February 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on 20 March 2012 and were approved on 26 March 2012. MOEAIC approved Cathay United Bank's Shanghai Branch to increase the working capital of CNY¥1,000,000 (US$164,000) thousand on 27 February 2014. According to MOEAIC, further approved working capital of Cathay United Bank's Qingdao Branch was CNY¥600,000 (US$94,310) thousand on 21 January 2014. And the approved working capital of Cathay United Bank's Shamchun Branch was CNY¥400,000 thousand on 5 January 2015.

F. On 9 January 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY¥66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management's capital is CNY¥200,000 thousand, and has acquired a business license of an enterprise legal person on 16 August 2013. As of 31 December 2016, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY¥66,600 thousand.

G. On 5 March 2014, MOEAIC authorized Cathay Securities to invest in Cathay Investment Consulting (Shanghai) Co. Ltd., which was granted business license with registration number 310115400293635 on 11 June 2014 by Shanghai Pudong New Area Market Supervisory Authority of the People's Republic of China. The registered paid-in capital amounted to CNY¥8,000 (NT$38,970) thousand.

(15) Segment information

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

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

A. Banking operating segments: Banking operating segments operate the permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.

B. Life insurance operating segments: Life insurance operating segments operate the sales of traditional insurance policies, investment-linked insurance policies and floating-rate annuity insurance products.

C. Properties insurance operating segments: Properties insurance operating segments engage in fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, reinsurance and other insurance.

D. Securities operating segments: Securities operating segments are responsible for securities brokerage, discretionary and underwriting and dedicates to the innovation and development of financial products and services by providing a variety of new financial products.

E. Other operating segments: Such segments include assets, liabilities, revenue and expenditure which are not able to be allocated to certain operating segments.

To formulate strategies of the allocation of resources and assessment of performance, the management monitors results of operating segments. The accounting policies are the same as the summary of significant accounting policies in Note 4.

A. Income information of reporting segment

2016.1.1~2016.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$25,960,366	$127,218,298	$555,781	$158,359	$(414,901)	$153,477,903
Net income other than interest	13,536,600	351,426,736	8,369,597	1,869,732	10,599,616	385,802,281
Total income	39,496,966	478,645,034	8,925,378	2,028,091	10,184,715	539,280,184
Bad debt expenses and Provision for premiums reserve	(4,455,361)	(776,855)	576	-	-	(5,231,640)
The net change of insurance liabilities	-	(408,398,319)	(215,636)	-	-	(408,613,955)
Operating expenses	(26,040,630)	(36,589,976)	(4,406,719)	(1,612,068)	(6,600,691)	(75,250,084)
Income (loss) from continuing operations before income taxes	9,000,975	32,879,884	4,303,599	416,023	3,584,024	50,184,505
Income taxes (expense) benefit	(2,231,832)	2,514,328	(491,519)	(68,659)	(1,867,623)	(2,145,305)
Consolidated net income	6,769,143	35,394,212	3,812,080	347,364	1,716,401	48,039,200

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

2015.1.1~2015.12.31

Items	Bank division	Life insurance division	Property and casualty insurance division	Securities division	Other division	Total
Interest income	$26,795,323	$113,683,525	$549,828	$172,416	$(1,202,898)	$139,998,194
Net income other than interest	10,484,161	277,326,678	7,683,603	1,841,638	3,930,765	301,266,845
Total income	37,279,484	391,010,203	8,233,431	2,014,054	2,727,867	441,265,039
Bad debt expenses and Provision for premiums reserve	(1,921,511)	(545,750)	(191)	-	-	(2,467,452)
The net change of insurance liabilities	-	(305,863,820)	(734,455)	-	-	(306,598,275)
Operating expenses	(24,051,612)	(32,243,125)	(4,522,005)	(1,559,343)	(2,691,025)	(65,067,110)
Income (loss) from continuing operations before income taxes	11,306,361	52,357,508	2,976,780	454,711	36,842	67,132,202
Income taxes (expense) benefit	(2,512,520)	(4,572,733)	(287,150)	(58,335)	(1,819,093)	(9,249,831)
Consolidated net income	8,793,841	47,784,775	2,689,630	396,376	(1,782,251)	57,882,371

B. Segment information

Revenue from external customers

	2016.1.1~ 2016.12.31	2015.1.1~ 2015.12.31
Taiwan	$47,070,965	$48,072,100
Other countries	106,406,938	91,926,094
Total	$153,477,903	$139,998,194

Revenue is classified by the residency of customers.

Note:

(1) Revenues from each external customer are all less than 10% of total revenue of the Group.

(2) Income of operating segments is measured before taxes. Income of operating segments is the basis of resources distribution and performance evaluation.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Balance sheet

As of 31 December 2016 and 31 December 2015

(Expressed in thousands of New Taiwan Dollars)

	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$14,822,959	$4,143,951
Available-for-sale financial assets - net	85,689	79,451
Securities purchased under agreements to resell	79,968	499,422
Receivables - net	537,085	822,620
Current income tax assets	4,215,323	4,323,586
Held-to-maturity financial assets	41,000,000	16,000,000
Investments accounted for using the equity method - net	507,608,375	487,136,590
Other financial assets - net	430,111	-
Property and equipment - net	7,699	7,249
Intangible assets - net	11,968	17,288
Deferred tax assets - net	482,657	875,454
Other assets - net	10,998	8,340
Total assets	$569,292,832	$513,913,951
Liabilities & Equity		
Liabilities		
Commercial paper payable	$35,980,000	$28,820,000
Payables	5,625,178	8,278,845
Current income tax liabilities	3,031,746	946,549
Bonds payable	-	20,000,000
Provisions	918,764	726,597
Deferred tax liabilities	226,707	2,915
Other liabilities	185,865	82,051
Total liabilities	45,968,260	58,856,957
Equity		
Capital stock		
Common stock	125,632,102	125,632,102
Perferred stock	8,333,000	-
Capital surplus	130,448,697	88,781,174
Retained earnings		
Legal reserve	30,577,724	24,820,095
Special reserve	149,108,336	140,185,120
Undistributed earnings	73,001,761	65,190,213
Other equity	6,222,952	10,448,290
Total equity	523,324,572	455,056,994
Total liabilities and equity	$569,292,832	$513,913,951

<u>English Translation of Financial Statements Originally Issued in Chinese</u>

Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income

For the years ended 31 December 2016 and 2015

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

	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Income		
Gains on investment - equity method	$48,764,631	$59,789,114
Other operating income	1,800,203	1,206,780
	50,564,834	60,995,894
Expenses and loss		
Operating expenses	(772,271)	(648,992)
Other expenses and losses	(599,464)	(1,328,856)
	(1,371,735)	(1,977,848)
Profit before income tax from continuing operations	49,193,099	59,018,046
Income tax expense	(1,574,286)	(1,504,474)
Profit after income tax from continuing operations	47,618,813	57,513,572
Net Income	47,618,813	57,513,572
Other comprehensive income		
Not to be reclassified to profit or loss in subsequent periods:		
Remeasurements of defined benefit plans	(8,793)	(10,334)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - not to be reclassified to profit or loss in subsequent periods	661,996	(2,345,300)
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	1,495	1,757
To be reclassified to profit or loss in subsequent periods:		
Unrealized gains (losses) from available-for-sale financial assets	6,238	(141,335)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method - to be reclassified to profit or loss in subsequent periods	(4,886,274)	(43,102,881)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	-	24,149
Other comprehensive income, net of tax	(4,225,338)	(45,573,944)
Total comprehensive income	$43,393,475	$11,939,628
Earnings per share (expressed in dollars)		
Basic earnings per share:		
Net income	$3.79	$4.58

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Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

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

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

Note2: For the year ended 2016, the remuneration to directors and supervisors in the amount of $1,800 thousand and employees' compensation in the amount of $4,920 thousand have been deducted from the Statement of Comprehensive Income.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	$49,193,099	$59,018,046
Adjustments :		
Income and other adjustments with no cash flow effects		
Depreciation	1,777	1,561
Amortization	5,319	5,319
Interest expenses	544,652	1,286,390
Interest income	(424,407)	(944,072)
Share of profit of associates and joint ventures accounted for using the equity method	(48,764,631)	(59,789,114)
Losses on disposal of property and equipment	-	285
Gains on disposal of investments	-	(220,298)
Unrealized foreign exchange losses (gains)	20,173	(8,748)
Others	(1,325,222)	(8,346)
Changes in operating assets and liabilities		
Decrease in available-for-sale financial assets	-	705,548
Decrease (increase) in accounts receivable	62,527	(198,585)
Decrease in held-to-maturity financial assets	10,000,000	15,000,000
Increase in held-to-maturity financial assets	(35,000,000)	-
Increase in other financial assets	(430,111)	-
(Increase) decrease in other assets	(2,658)	137,793
Decrease in payables	(2,530,242)	(2,556,772)
Increase (decrease) in provisions	183,374	(1,792)
Increase in other liabilities	103,814	72,511
Cash generated from operations		
Interest received	647,415	4,946,663
Interest paid	(668,076)	(1,299,979)
Income taxes received	1,237,259	2,719,431
Net cash flows (used in) from operating activities	(27,145,938)	18,865,841
Cash flows from investing activities		
Acquisition of property and equipment	(2,227)	(2,366)
Dividends received	25,953,687	18,505,732
Net cash from investing activities	25,951,460	18,503,366
Cash flows from financing activities		
Increase in commercial paper payable	7,160,000	8,470,000
Decrease in bonds payable	(20,000,000)	(20,000,000)
Dividends paid	(25,126,420)	(25,126,420)
Increase in cash capital	49,998,000	-
Acquisition of subsidiary	(557,375)	-
Net cash flows from (used in) financing activities	11,474,205	(36,656,420)
Effects of exchange rate changes on cash and cash equivalents	(20,173)	8,748
Increase in cash and cash equivalents	10,259,554	721,535
Cash and cash equivalents at the beginning of periods	4,643,373	3,921,838
Cash and cash equivalents at the end of periods	$14,902,927	$4,643,373

The components of cash and cash equivalents		
Cash and cash equivalents presented in balance sheet	$14,822,959	$4,143,951
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS No.7	79,968	499,422
Cash and cash equivalents at the end of periods	$14,902,927	$4,643,373

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

Cathay Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$140,831,329	$137,148,959
Receivables	67,241,645	57,251,695
Financial asset at fair value through profit or loss	38,630,178	34,963,052
Available-for-sale financial assets	1,412,651,333	1,332,387,023
Derivative financial assets for hedging	232,269	447,326
Investments accounted for using the equity method	84,609,212	72,786,479
Investment in debt securities with no active market	2,116,583,614	1,836,032,459
Held-to-maturity financial assets	26,551,251	23,478,810
Other financial assets	7,661,395	18,000,000
Investment property	415,029,800	411,265,270
Loans	621,186,946	655,130,382
Reinsurance contract assets	703,844	638,818
Property and equipment	27,983,884	25,684,589
Intangible assets	37,657,462	39,684,351
Deferred tax assets	11,140,995	11,519,847
Other assets	28,031,900	25,529,297
Separate account product assets	497,855,802	480,366,122
Total assets	$5,534,582,859	$5,162,314,479
Liabilities		
Payables	$21,434,245	$17,906,669
Financial liability at fair value through profit or loss	26,982,208	38,859,128
Bonds payable	35,000,000	-
Preferred stock liability	5,000,000	15,000,000
Insurance liability	4,539,152,066	4,151,262,555
Reserve for insurance contract with feature of financial instruments	4,392,757	49,123,102
Foreign exchange volatility reserve	9,871,478	16,026,449
Liability reserve	56,245	4,350,842
Deferred tax liability	27,254,976	36,235,508
Other liability	6,287,921	7,277,007
Separate account product liabilities	497,855,802	480,366,122
Total liabilities	5,173,287,698	4,816,407,382
Stockholders' equity		
Capital stock	53,065,274	53,065,274
Capital surplus	13,768,468	13,028,012
Retained earnings	298,348,294	283,470,744
Others	(3,886,875)	(3,656,933)
Total stockholders' equity	361,295,161	345,907,097
Total liabilities and stockholders' equity	$5,534,582,859	$5,162,314,479

Cathay Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$836,502,388	$719,744,096
Operating costs	(786,309,932)	(656,926,461)
Operating expenses	(24,154,280)	(20,380,952)
Operating profit	26,038,176	42,436,683
Non-operating income and expenses	1,955,342	1,284,333
Profit from continuing operations before income tax	27,993,518	43,721,016
Income tax profit (expense)	2,135,142	(5,478,377)
Profit from continuing operations after income tax	30,128,660	38,242,639
Net income	30,128,660	38,242,639
Other comprehensive loss	(229,942)	(45,386,605)
Total comprehensive income (loss)	$29,898,718	$(7,143,966)
Primary earnings per share	$5.68	$7.21

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$6,795,981	$7,501,128
Receivables	1,946,466	2,417,043
Financial asset at fair value through profit or loss	875,543	1,408,854
Available-for-sale financial assets	9,201,915	7,228,280
Investments accounted for using the equity method	1,893,711	918,299
Investment in debt securities with no active market	2,468,267	3,369,173
Held-to-maturity financial assets	5,682,189	4,035,718
Loans	354,812	366,255
Reinsurance contract assets	7,777,095	5,325,295
Property and equipment	90,794	124,877
Intangible assets	32,096	21,497
Deferred tax assets	132,374	93,269
Other assets	642,153	661,876
Total assets	$37,893,396	$33,471,564
Liabilities		
Payables	$2,636,465	$2,701,827
Financial liability at fair value through profit or loss	54,590	192,554
Preferred stock liability	1,000,000	1,000,000
Insurance liability	23,993,602	21,475,467
Liability reserve	380,158	381,016
Deferred tax liability	260,485	35,991
Other liability	352,115	790,994
Total liabilities	28,677,415	26,577,849
Stockholders' equity		
Capital stock	2,889,552	2,802,202
Retained earnings	6,849,656	4,466,535
Others	(523,227)	(375,022)
Total stockholders' equity	9,215,981	6,893,715
Total liabilities and stockholders' equity	$37,893,396	$33,471,564

Cathay Century Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$17,678,368	$15,291,494
Operating costs	(9,646,130)	(8,939,052)
Operating expenses	(5,063,048)	(4,880,894)
Operating profit	2,969,190	1,471,548
Non-operating income and expenses	(7,151)	(2,867)
Profit from continuing operations before income tax	2,962,039	1,468,681
Income tax expense	(491,568)	(287,144)
Profit from continuing operations after income tax	2,470,471	1,181,537
Net income	2,470,471	1,181,537
Other comprehensive loss	(148,205)	(411,580)
Total comprehensive income	$2,322,266	$769,957
Primary earnings per share	$8.55	$4.09

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Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$2,260,384	$887,809
Receivables	633,632	402,282
Financial asset at fair value through profit or loss	371,693	941,191
Available-for-sale financial assets	2,807,016	4,202,509
Investment in debt securities with no active market	9,396,965	6,723,855
Held-to-maturity financial assets	881,767	1,248,771
Loans	102,607	75,069
Reinsurance contract assets	34,935	25,237
Property and equipment	64,909	112,697
Intangible assets	28,042	47,980
Other assets	1,574,840	1,688,828
Separate account product assets	158,408	202,239
Total assets	$18,315,198	$16,558,467
Liabilities		
Short-term debt	$46,444	$61,104
Payables	1,381,443	869,955
Reserve for insurance contract with feature of financial instruments	5,927,993	4,879,862
Insurance liability	6,794,489	6,032,812
Other liability	27,833	24,085
Separate account product liabilities	158,408	202,239
Total liabilities	14,336,610	12,070,057
Stockholders' equity		
Capital stock	7,067,795	7,067,795
Retained earnings	(3,330,427)	(3,448,140)
Others	241,220	868,755
Total stockholders' equity	3,978,588	4,488,410
Total liabilities and stockholders' equity	$18,315,198	$16,558,467

Cathay Lujiazui Life Insurance Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$5,477,738	$4,596,219
Operating costs	(3,891,114)	(2,961,995)
Operating expenses	(1,467,901)	(1,209,613)
Operating profit	118,723	424,611
Non-operating income and expenses	(1,010)	(24,227)
Profit from continuing operations before income tax	117,713	400,384
Income tax expense	-	-
Profit from continuing operations after income tax	117,713	400,384
Net income	117,713	400,384
Other comprehensive (loss) income	(627,535)	154,960
Total comprehensive (loss) income	$(509,822)	$555,344
Primary earnings per share	Note	Note

Note: Cathay Lujiazui Life is a limited company; there is no information about earning per share.

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Cathay Life Insurance Company (Vietnam)
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$262,961	$119,309
Receivables	373,027	242,289
Available-for-sale financial assets	6,158,060	3,774,324
Investment in debt securities with no active market	198,520	200,634
Loans	22,820	17,524
Property and equipment	14,877	15,239
Intangible assets	174	242
Other assets	43,477	41,299
Total assets	$7,073,916	$4,410,860
Liabilities		
Payables	$56,232	$41,066
Current income tax liability	8,308	2,567
Insurance liability	1,185,667	792,620
Other liability	425	499
Total liabilities	1,250,632	836,752
Stockholders' equity		
Capital stock	5,410,990	3,424,930
Retained earnings	398,269	212,054
Others	14,025	(62,876)
Total stockholders' equity	5,823,284	3,574,108
Total liabilities and stockholders' equity	$7,073,916	$4,410,860

Cathay Life Insurance Company (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$1,032,372	$637,259
Operating costs	(511,133)	(424,757)
Operating expenses	(292,840)	(202,286)
Operating profit	228,399	10,216
Non-operating income and expenses	1,930	4,851
Profit from continuing operations before income tax	230,329	15,067
Income tax expense	(44,114)	(2,554)
Profit from continuing operations after income tax	186,215	12,513
Net income	186,215	12,513
Other comprehensive income (loss)	76,901	(104,943)
Total comprehensive income (loss)	$263,116	$(92,430)
Primary earnings per share	Note	Note

Note: Cathay Life Insurance Company (Vietnam) is a limited company; there is no information about earning per share.

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Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$654,653	$482,681
Investment property	6,623,574	6,854,985
Property and equipment	574,700	649,670
Total assets	$7,852,927	$7,987,336
Liabilities		
Current liability	$1,617	$312
Deferred tax liability	267,939	144,527
Other liability	91,823	91,579
Total liabilities	361,379	236,418
Stockholders' equity		
Capital stock	7,223,435	7,223,435
Retained earnings	481,748	40,289
Others	(213,635)	487,194
Total stockholders' equity	7,491,548	7,750,918
Total liabilities and stockholders' equity	$7,852,927	$7,987,336

Lin Yuan (Shanghai) Real Estate Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$649,152	$282,668
Operating expenses	(65,118)	(81,032)
Operating profit	584,034	201,636
Non-operating income and expenses	(18)	8,087
Profit from continuing operations before income tax	584,016	209,723
Income tax expense	(142,557)	(47,897)
Profit from continuing operations after income tax	441,459	161,826
Net income	441,459	161,826
Other comprehensive loss	(700,829)	(31,402)
Total comprehensive (loss) income	$(259,370)	$130,424
Primary earnings per share	Note	Note

Note: Lin Yuan (Shanghai) Real Estate Co. Ltd. is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$1,773,667	$1,938,494
Investment property	12,696,899	15,152,874
Total assets	$14,470,566	$17,091,368
Liabilities		
Current liability	$92,333	$223,331
Total liabilities	92,333	223,331
Stockholders' equity		
Capital stock	16,654,013	16,654,013
Retained earnings	1,653,963	844,375
Others	(3,929,743)	(630,351)
Total stockholders' equity	14,378,233	16,868,037
Total liabilities and stockholders' equity	$14,470,566	$17,091,368

Cathay Woolgate Exchange Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$1,222,268	$875,555
Operating expenses	(889)	(584)
Operating profit	1,221,379	874,971
Profit from continuing operations before income tax	1,221,379	874,971
Income tax expense	(39,003)	(162,183)
Profit from continuing operations after income tax	1,182,376	712,788
Net income	1,182,376	712,788
Other comprehensive loss	(3,299,392)	(100,854)
Total comprehensive (loss) income	$(2,117,016)	$611,934
Primary earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Woolgate Exchange Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$18,075	$18,458
Investment property	128,251	153,059
Total assets	$146,326	$171,517
Liabilities		
Current liability	$842	$2,256
Total liabilities	842	2,256
Stockholders' equity		
Capital stock	168,222	168,222
Retained earnings	16,992	7,400
Others	(39,730)	(6,361)
Total stockholders' equity	145,484	169,261
Total liabilities and stockholders' equity	$146,326	$171,517

Cathay Woolgate Exchange Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$12,342	$8,840
Operating expenses	(830)	(677)
Operating profit	11,512	8,163
Profit from continuing operations before income tax	11,512	8,163
Income tax expense	(143)	(1,639)
Profit from continuing operations after income tax	11,369	6,524
Net income	11,369	6,524
Other comprehensive loss	(33,369)	(1,019)
Total comprehensive (loss) income	$(22,000)	$5,505
Primary earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 2 Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 1 Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$668,335	$860,770
Investment property	21,561,429	25,368,906
Other non-current assets	6,813	68,808
Total assets	$22,236,577	$26,298,484
Liabilities		
Current liability	$69,664	$65,009
Other non-current liability	12,982,046	16,074,007
Total liabilities	13,051,710	16,139,016
Stockholders' equity		
Capital stock	10,189,090	10,189,090
Retained earnings	761,707	(321,891)
Others	(1,765,930)	292,269
Total stockholders' equity	9,184,867	10,159,468
Total liabilities and stockholders' equity	$22,236,577	$26,298,484

Cathay Walbrook Holding 1 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016
and for the nine-month periods ended 31 December 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.4.1~2015.12.31
Operating income	$1,604,078	$231,771
Operating cost	(498,330)	(347,830)
Operating expense	(2,178)	(159,667)
Operating profit (loss)	1,103,570	(275,726)
Profit (loss) from continuing operations before income tax	1,103,570	(275,726)
Income tax expense	(19,972)	(46,165)
Profit (loss) from continuing operations after income tax	1,083,598	(321,891)
Net income (loss)	1,083,598	(321,891)
Other comprehensive (loss) income	(2,058,199)	292,269
Total comprehensive loss	$(974,601)	$(29,622)
Primary earnings per share	Note 1	Note 1

Note 1: Cathay Walbrook Holding 1 Limited is a limited company; there is no information about earnings per share.
Note 2: Cathay Walbrook Holding 1 Limited was incorporated to the consolidated financial statements on 31 March 2015.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Walbrook Holding 2 Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$33,652	$44,670
Investment property	1,134,812	1,335,206
Other non-current assets	359	3,622
Total assets	$1,168,823	$1,383,498
Liabilities		
Current liability	$3,667	$3,422
Other non-current liability	683,265	846,000
Total liabilities	686,932	849,422
Stockholders' equity		
Capital stock	536,268	536,268
Retained earnings	38,341	(17,572)
Others	(92,718)	15,380
Total stockholders' equity	481,891	534,076
Total liabilities and stockholders' equity	$1,168,823	$1,383,498

Cathay Walbrook Holding 2 Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016
and for the nine-month periods ended 31 December 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.4.1~2015.12.31
Operating income	$84,425	$12,199
Operating cost	(26,228)	(18,307)
Operating expense	(1,234)	(9,034)
Operating profit (loss)	56,963	(15,142)
Profit (loss) from continuing operations before income tax	56,963	(15,142)
Income tax expense	(1,050)	(2,430)
Profit (loss) from continuing operations after income tax	55,913	(17,572)
Net income (loss)	55,913	(17,572)
Other comprehensive (loss) income	(108,098)	15,380
Total comprehensive loss	$(52,185)	$(2,192)
Primary earnings per share	Note 1	Note 1

Note 1: Cathay Walbrook Holding 2 Limited is a limited company; there is no information about earnings per share.
Note 2: Cathay Walbrook Holding 2 Limited was incorporated to the consolidated financial statements on 31 March 2015.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Insurance Co., Ltd (Vietnam)
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$165,874	$54,030
Receivables	36,843	67,574
Investment in debt securities with no active market	52,466	113,805
Held-to-maturity financial assets	430,276	426,370
Reinsurance contract assets	251,967	336,500
Property and equipment	468	954
Intangible assets	2,328	1,696
Deferred tax assets	2	-
Other assets	30,122	28,841
Total assets	$970,346	$1,029,770
Liabilities		
Payables	$27,903	$31,123
Liability reserve	323,426	402,045
Deferred tax liability	-	44
Other liability	6,346	3,642
Total liabilities	357,675	436,854
Stockholders' equity		
Capital stock	845,585	845,585
Retained earnings	(139,183)	(153,945)
Others	(93,731)	(98,724)
Total stockholders' equity	612,671	592,916
Total liabilities and stockholders' equity	$970,346	$1,029,770

Cathay Insurance Co., Ltd (Vietnam)
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$183,870	$121,703
Operating costs	(62,696)	(35,299)
Operating expenses	(106,618)	(87,985)
Operating profit (loss)	14,556	(1,581)
Non-operating income and expenses	158	4
Profit (loss) from continuing operations before income tax	14,714	(1,577)
Income tax profit (expense)	48	(5)
Profit (loss) from continuing operations after income tax	14,762	(1,582)
Net income (loss)	14,762	(1,582)
Other comprehensive income (loss)	4,993	(12,104)
Total comprehensive income (loss)	$19,755	$(13,686)
Primary earnings per share	Note	Note

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

English Translation of Financial Statements Originally Issued in Chinese

Conning Holdings Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$4,785,821	$1,813,701
Financial asset at fair value through profit or loss	$80,102	-
Investment in debt securities with no active market	3,250	3,330
Held-to-maturity financial assets	342,391	-
Property and equipment	199,970	134,459
Intangible assets	11,359,876	7,873,404
Deferred tax assets	1,499,196	-
Other non-current assets	224,632	236,222
Total assets	$18,495,238	$10,061,116
Liabilities		
Current liability	$1,652,779	$984,287
Liability reserve	367,981	48,607
Deferred tax liability	1,335,556	600,373
Other non-current liability	387,097	331,147
Total liabilities	3,743,413	1,964,414
Stockholders' equity		
Capital stock	90,113	326
Capital surplus	14,417,767	7,839,350
Retained earnings	(58,528)	(71,440)
Others	(396,992)	245,014
Non-controlling interest	699,465	83,452
Total stockholders' equity	14,751,825	8,096,702
Total liabilities and stockholders' equity	$18,495,238	$10,061,116

Conning Holdings Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016
and from 18 September 2015 to 31 December 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.9.18~2015.12.31
Operating income	$5,625,559	$1,084,564
Operating costs	(739,117)	(196,010)
Operating expenses	(4,789,513)	(986,846)
Operating profit (loss)	96,929	(98,292)
Profit (loss) from continuing operations before income tax	96,929	(98,292)
Income tax (expense) profit	(36,912)	31,401
Profit (loss) from continuing operations after income tax	60,017	(66,891)
Net income (loss)	60,017	(66,891)
Other comprehensive (loss) income	(671,025)	245,995
Total comprehensive (loss) income	$(611,008)	$179,104
Primary earnings per share	Note	Note

Note: Conning Holdings Limited is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$56,011,450	$61,271,514
Due from the Central Bank and call loans to banks	68,782,302	91,643,190
Financial assets at fair value through profit or loss	196,166,871	254,226,830
Securities purchased under agreements to resell	36,466,540	44,508,936
Receivables	79,273,844	81,027,553
Discounts and loans	1,403,835,506	1,101,512,688
Available-for-sale financial assets	151,932,723	130,557,629
Held-to-maturity financial assets	42,894,957	49,612,107
Investments accounted for using the equity method	7,877,956	7,783,391
Other financial assets	3,373	1,350
Investment in debt securities with no active market	397,475,008	442,764,138
Property and equipment	24,208,305	24,485,549
Investment property	1,554,600	1,635,249
Intangible assets	7,413,407	7,161,759
Deferred tax assets	1,410,010	1,864,066
Other assets	36,538,491	42,545,783
Total assets	$2,511,845,343	$2,342,601,732
Liabilities		
Due to the Central Bank and call loans from banks	$67,298,569	$38,639,771
Financial liabilities at fair value through profit or loss	88,060,416	100,397,997
Securities sold under agreements to repurchase	56,752,751	54,037,877
Payables	22,183,733	17,848,009
Current income tax liabilities	269,766	415,211
Deposits and remittances	1,993,999,765	1,847,919,684
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	61,566,809	67,227,106
Liability reserve	3,053,964	3,199,030
Deferred tax liability	1,552,030	1,919,645
Other liability	9,116,761	6,089,508
Total liabilities	2,355,754,564	2,189,593,838
Stockholders' equity		
Capital stock	72,099,815	69,479,605
Capital surplus	23,969,412	23,969,412
Retained earnings	59,763,752	55,594,202
Others	257,800	3,964,675
Total stockholders' equity	156,090,779	153,007,894
Total liabilities and stockholders' equity	$2,511,845,343	$2,342,601,732

Cathay United Bank Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	$37,666,600	$40,186,848
Interest expenses	(13,558,911)	(14,743,422)
Operating profit	24,107,689	25,443,426
Non-interest income	25,395,260	21,306,628
Total income	49,502,949	46,750,054
Bad debt expense and reserve for loss on guarantees	(4,069,204)	(1,656,210)
Operating expenses	(26,166,045)	(24,079,250)
Profit from continuing operations before income tax	19,267,700	21,014,594
Income tax expense	(2,056,000)	(2,416,300)
Profit from continuing operations after income tax	17,211,700	18,598,294
Net income	17,211,700	18,598,294
Other comprehensive (loss) income	(3,706,875)	532,284
Total comprehensive income	$13,504,825	$19,130,578
Primary earnings per share	$2.39	$2.58

English Translation of Financial Statements Originally Issued in Chinese

Indovina Bank Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$6,623,200	$1,228,870
Due from the Central Bank and call loans to banks	6,881,758	9,508,249
Financial assets at fair value through profit or loss	3,150,720	700,421
Securities purchased under agreements to resell	1,673,379	-
Available-for-sale financial assets	4,220,410	3,464,546
Receivables	874,067	968,457
Discounts and loans	27,240,509	21,495,243
Held-to-maturity financial assets	5,043,907	2,906,670
Property and equipment	434,134	477,415
Intangible assets	17,110	23,606
Other assets	635,766	500,880
Total assets	$56,794,960	$41,274,357
Liabilities		
Due to the Central Bank and call loans from banks	$14,872,722	$4,669,522
Financial liabilities at fair value through profit or loss	76,569	-
Payables	1,685,991	349,873
Current income tax liabilities	2,041	-
Deposits and remittances	32,230,220	28,533,979
Deferred tax liability	51,566	17,177
Other liability	121,538	182,004
Total liabilities	49,040,647	33,752,555
Stockholders' equity		
Capital stock	6,094,911	6,094,911
Retained earnings	1,494,205	1,089,144
Others	165,197	337,747
Total stockholders' equity	7,754,313	7,521,802
Total liabilities and stockholders' equity	$56,794,960	$41,274,357

Indovina Bank Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	$2,568,961	$1,979,310
Interest expenses	(1,169,298)	(944,970)
Net interest income	1,399,663	1,034,340
Non-interest income	160,968	197,760
Total income	1,560,631	1,232,100
Bad debt expense and reserve for loss on guarantees	(269,072)	(239,579)
Operating expenses	(546,923)	(572,294)
Profit from continuing operations before income tax	744,636	420,227
Income tax expense	(145,517)	(83,018)
Profit from continuing operations after income tax	599,119	337,209
Net income	599,119	337,209
Other comprehensive (loss) income	(172,550)	270,116
Total comprehensive income	$426,569	$607,325
Primary earnings per share	Note	Note

Note: Indovina Bank is a limited company; there is no information about earnings per share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank (Cambodia) Corporation Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Cash and cash equivalents	$840,466	$1,077,849
Due from the Central Bank and call loans to banks	1,828,862	1,332,617
Available-for-sale financial assets	826	846
Receivables	120,494	24,765
Discounts and loans	6,454,893	4,799,195
Property and equipment	165,991	166,363
Intangible assets	49,287	44,752
Other assets	48,555	91,255
Total assets	$9,509,374	$7,537,642
Liabilities		
Due to the Central Bank and call loans from banks	$1,065,207	$335,929
Payables	132,120	115,356
Current income tax liabilities	22,795	1,577
Deposits and remittances	6,369,803	5,203,546
Deferred tax liability	7,615	-
Other liability	50,568	23,619
Total liabilities	7,648,108	5,680,027
Stockholders' equity		
Capital stock	1,786,169	1,786,169
Retained earnings	(56,169)	(104,528)
Others	131,266	175,974
Total stockholders' equity	1,861,266	1,857,615
Total liabilities and stockholders' equity	$9,509,374	$7,537,642

Cathay United Bank (Cambodia) Corporation Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Interest income	$525,542	$320,711
Interest expenses	(122,854)	(69,909)
Net interest income	402,688	250,802
Non-interest income	35,772	86,332
Total income	438,460	337,134
Bad debt expense and reserve for loss on guarantees	(117,085)	(25,722)
Operating expenses	(245,774)	(199,263)
Profit from continuing operations before income tax	75,601	112,149
Income tax expense	(27,242)	(13,264)
Profit from continuing operations after income tax	48,359	98,885
Net profit	48,359	98,885
Other comprehensive (loss) income	(44,708)	71,938
Total comprehensive income	$3,651	$170,823
Primary earnings per share	$0.77	$1.65

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Corporation
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$19,343,177	$18,130,690
Available-for-sale financial assets	18	18
Investments accounted for using the equity method	1,589,073	1,230,114
Property and equipment	157,703	171,632
Intangible assets	44,151	53,420
Deferred tax assets	4,948	29,024
Other non-current assets	497,032	429,117
Total assets	$21,636,102	$20,044,015
Liabilities		
Current liability	$14,613,294	$13,181,818
Deferred tax liability	24,947	1,392
Other non-current liability	19,175	22,063
Total liabilities	14,657,416	13,205,273
Stockholders' equity		
Capital stock	5,330,000	4,950,000
Capital surplus	491,766	491,766
Retained earnings	914,989	1,037,424
Others	241,931	359,552
Total stockholders' equity	6,978,686	6,838,742
Total liabilities and stockholders' equity	$21,636,102	$20,044,015

Cathay Securities Corporation
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Revenues	$2,146,465	$2,408,971
Serivce fee expenses	(74,747)	(81,544)
Employee benefit expenses	(846,513)	(835,868)
Share of the profit of associates and joint ventures accounted for using the equity method	(14,418)	(11,209)
Operating expneses	(891,170)	(910,788)
Non-oprating income and expenses	6,607	25,712
Profit from continuing operations before income tax	326,224	595,274
Income tax expense	(68,659)	(58,335)
Profit from continuing operations after income tax	257,565	536,939
Net income	257,565	536,939
Other comprehensive (loss) income	(117,621)	146,541
Total comprehensive income	$139,944	$683,480
Primary earnings per share	$0.48	$1.01

<u>English Translation of Financial Statements Originally Issued in Chinese</u>

Cathay Securities (Hong Kong) Limited
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$688,463	$304,760
Property and equipment	21,129	21,531
Intangible assets	2,055	2,108
Other non-current assets	77,774	7,346
Total assets	$789,421	$335,745
Liabilities		
Current liability	$354,690	$217,565
Total liabilities	354,690	217,565
Stockholders' equity		
Capital stock	728,544	360,069
Retained earnings	(273,500)	(241,880)
Others	(20,313)	(9)
Total stockholders' equity	434,731	118,180
Total liabilities and stockholders' equity	$789,421	$335,745

Cathay Securities (Hong Kong) Limited
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016
and from 4 September 2015 to 31 December 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.9.4~2015.12.31
Revenues	$88,961	$1,273
Serivce fee expenses	(2,033)	(58)
Employee benefit expenses	(42,509)	(10,413)
Operating expneses	(75,274)	(18,150)
Non-oprating income and expenses	(765)	(381)
Loss from continuing operations before income tax	(31,620)	(27,729)
Income tax expense	-	-
Loss from continuing operations after income tax	(31,620)	(27,729)
Net loss	(31,620)	(27,729)
Other comprehensive loss	(20,304)	(9)
Total comprehensive loss	$(51,924)	$(27,738)
Primary earnings per share	Note 1	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 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$683,197	$344,458
Available-for-sale financial assets	2,775,518	2,304,204
Investments accounted for using the equity method	271,764	291,485
Property and equipment	3,414	211
Deferred tax assets	5,797	805
Other non-current assets	1,962	837
Total assets	$3,741,652	$2,942,000
Liabilities		
Current liability	$8,548	$11,065
Deferred tax liability	-	2,375
Other non-current liability	4,298	4,736
Total liabilities	12,846	18,176
Stockholders' equity		
Capital stock	3,000,000	2,403,000
Capital surplus	128,625	-
Retained earnings	304,538	280,305
Others	295,643	240,519
Total stockholders' equity	3,728,806	2,923,824
Total liabilities and stockholders' equity	$3,741,652	$2,942,000

Cathay Venture Inc.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$240,197	$250,401
Operating costs	(30,331)	(25,793)
Operating expenses	(17,378)	(16,315)
Non-oprating income and expenses	(1,185)	-
Profit from continuing operations before income tax	191,303	208,293
Income tax profit (expense)	1,180	(21,347)
Profit from continuing operations after income tax	192,483	186,946
Net income	192,483	186,946
Other comprehensive income (loss)	55,124	(297,646)
Total comprehensive income (loss)	$247,607	$(110,700)
Primary earnings per share	$0.70	$0.73

English Translation of Financial Statements Originally Issued in Chinese

Cathay Securities Investment Trust Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$1,896,666	$1,888,759
Available-for-sale financial assets	74,695	60,746
Financial assets carried at cost	5,745	-
Investments accounted for using the equity method	263,243	291,178
Property and equipment	66,975	84,179
Intangible assets	9,493	13,808
Deferred tax assets	14,722	13,422
Other non-current assets	257,859	295,027
Total assets	$2,589,398	$2,647,119
Liabilities		
Current liability	$302,534	$319,000
Other non-current liability	144,938	176,458
Total liabilities	447,472	495,458
Stockholders' equity		
Capital stock	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	655,353	639,227
Others	(27,335)	(1,474)
Total stockholders' equity	2,141,926	2,151,661
Total liabilities and stockholders' equity	$2,589,398	$2,647,119

Cathay Securities Investment Trust Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$1,506,682	$1,405,507
Operating expenses	(1,135,175)	(1,075,974)
Operating gross profit	371,507	329,533
Non-operating income and expenses	(14,305)	44,068
Profit from continuing operations before income tax	357,202	373,601
Income tax expense	(60,440)	(59,598)
Profit from continuing operations after income tax	296,762	314,003
Net income	296,762	314,003
Other comprehensive loss	(25,861)	(25,358)
Total comprehensive income	$270,901	$288,645
Primary earnings per share	$1.98	$2.09

English Translation of Financial Statements Originally Issued in Chinese

Cathay Futures Co., Ltd.
Condensed Balance Sheet
As of 31 December 2016 and 31 December 2015
(Expressed in thousands of New Taiwan Dollars)

Items	2016.12.31	2015.12.31
Assets		
Current assets	$4,122,394	$4,060,732
Available-for-sale financial asseets	305,516	278,087
Property and equipment	75,032	67,328
Investment property	290,341	286,253
Intangible assets	29,775	10,009
Other non-current assets	147,337	147,047
Total assets	$4,970,395	$4,849,456
Liabilities		
Current liability	$3,832,279	$3,763,808
Deferred tax liability	6,869	6,788
Other non-current liability	1,455	1,446
Total liabilities	3,840,603	3,772,042
Stockholders' equity		
Capital stock	667,000	650,000
Retained earnings	187,646	179,397
Others	275,146	248,017
Total stockholders' equity	1,129,792	1,077,414
Total liabilities and stockholders' equity	$4,970,395	$4,849,456

Cathay Futures Co., Ltd.
Condensed Statement of Comprehensive Income
For the years ended 31 December 2016 and 2015
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	2016.1.1~2016.12.31	2015.1.1~2015.12.31
Operating income	$208,758	$175,913
Operating expenses	(239,394)	(186,070)
Operating loss	(30,636)	(10,157)
Non-operating income and expenses	60,407	40,244
Profit from continuing operations before income tax	29,771	30,087
Income tax expense	(4,522)	(4,760)
Profit from continuing operations after income tax	25,249	25,327
Net income	25,249	25,327
Other comprehensive income	27,129	32,963
Total comprehensive income	$52,378	$58,290
Primary earnings per share	$0.38	$0.38