

Cathay Century Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Three-month Periods Ended
31 March 2017 and 2016
With Independent Auditors' Review Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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

The Board of Directors and Shareholders
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) and its subsidiaries as of 31 March 2017 and 31 March 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2017 and 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report on these consolidated interim financial statements based on our reviews.

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

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

Ernst & Young
Taipei, Taiwan
The Republic of China
26 April 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 31 March 2017, 31 December 2016, and 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 March 2017	31 December 2016	31 March 2016
Cash and cash equivalents	4,6(1)	\$7,228,259	\$6,961,855	\$12,326,370
Receivables	4,6(2)	1,740,771	1,983,309	1,948,496
Financial assets at fair value through profit or loss	4,6(3)	981,781	875,543	2,070,262
Available-for-sale financial assets	4,6(4)	9,378,617	9,201,915	8,431,251
Investments accounted for using the equity method-Net	4,6(5)	1,219,537	1,281,040	-
Debt instrument investments for which no active market exists	4,6(6)	2,031,673	2,520,733	3,390,372
Held-to-maturity financial assets	4,6(7)	6,407,572	6,112,465	4,461,891
Loans	4,6(8)	317,194	354,812	365,619
Reinsurance assets	4,6(9)	7,650,004	8,028,287	7,726,688
Property and equipment	4	79,500	91,262	191,680
Intangible assets	4	34,784	34,424	57,818
Deferred tax assets	4,6(22)	164,039	132,376	130,607
Other assets	4,6(10)	670,468	672,276	1,536,141
Total assets		<u>\$37,904,199</u>	<u>\$38,250,297</u>	<u>\$42,637,195</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets - (continued)

As of 31 March 2017, 31 December 2016, and 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Liabilities & equity	Notes	31 March 2017	31 December 2016	31 March 2016
Payables	4,6(11)	\$2,458,313	\$2,663,593	\$2,538,277
Financial liabilities at fair value through profit or loss	4,6(3)	1,656	54,590	81,005
Preferred stock liabilities	4,6(12)	1,000,000	1,000,000	1,000,000
Insurance liabilities	4,6(13)	23,760,973	24,317,028	26,621,937
Provisions	4,6(14)	380,025	380,158	381,577
Deferred tax liabilities	4,6(22)	261,154	260,485	31,822
Other liabilities		415,311	358,462	4,609,056
Total liabilities		28,277,432	29,034,316	35,263,674
Equity attributable to owners of parent				
Capital stock	4,6(15)	2,889,552	2,889,552	2,802,202
Retained earnings	4,6(16)			
Legal capital reserve		1,570,584	1,570,584	1,334,277
Special capital reserve		3,173,384	3,173,384	2,433,579
Undistributed earnings		2,541,324	2,105,688	904,925
Other equity		(548,077)	(523,227)	(346,649)
Non-controlling interests	4,6(17)	-	-	245,187
Total equity		9,626,767	9,215,981	7,373,521
Total liabilities and equity		\$37,904,199	\$38,250,297	\$42,637,195

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in thousands of New Taiwan Dollars, except earning per share)

Items	Notes	1 January - 31 March 2017	1 January - 31 March 2016
Operating revenues			
Direct premium income	4,6(18)	\$4,829,065	\$5,427,084
Reinsurance premium income	4,6(18)	250,645	254,479
Premium income		5,079,710	5,681,563
Deduct: Premiums ceded to reinsurers	4,6(18)	(1,163,074)	(1,234,645)
Net changes in unearned premium reserve	4,6(18)	(37,682)	(81,467)
Retained earned premium		3,878,954	4,365,451
Reinsurance commission earned		123,568	144,519
Handling fees earned		10,157	11,372
Net investment profit and loss		179,902	167,426
Interest income		131,260	152,113
Gains (losses) on financial assets and financial liabilities at fair value through profit or loss		334,405	126,439
Realized gains (losses) on available-for-sale financial assets		131,298	65,132
Realized gains (losses) on held-to-maturity financial assets		15,135	835
Share of gains (losses) of associates and joint ventures accounted for using the equity method		10,684	-
Gains (losses) on foreign exchange		(442,880)	(177,093)
Other operating revenue		-	1,173
Subtotal		4,192,581	4,689,941
Operating costs			
Insurance claims payments	4,6(19)	(2,989,584)	(3,039,892)
Deduct: Claims recovered from reinsurers	4,6(19)	974,489	539,966
Retained claim payments		(2,015,095)	(2,499,926)
Net changes in insurance liabilities	4,6(13)	(134,702)	(105,661)
Commission expenses		(646,068)	(756,066)
Other operating costs		(32,496)	(16,807)
Subtotal		(2,828,361)	(3,378,460)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income - (continued)

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in thousands of New Taiwan Dollars, except earning per share)

Items	Notes	1 January - 31 March 2017	1 January - 31 March 2016
Operating expenses			
Business expenses		(704,823)	(767,755)
Administrative and general expenses		(155,028)	(359,626)
Employee training expenses		(1,087)	(823)
Subtotal		(860,938)	(1,128,204)
Operating income		503,282	183,277
Non-operating income and expenses		(5,249)	(6,127)
Profit before income tax from continuing operations		498,033	177,150
Income tax expense	4,6(22)	(62,397)	(45,946)
Profit from continuing operations		435,636	131,204
Net income		435,636	131,204
Other comprehensive income (loss)	4,6(20)		
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(106,946)	(45,401)
Unrealized gains (losses) on available-for-sale financial assets		79,597	58,952
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		(893)	-
Income taxes relating to the components to be reclassified to profit or loss in subsequent periods		3,392	9,667
Other comprehensive income, net of tax		(24,850)	23,218
Total comprehensive income		\$410,786	\$154,422
Net income attributable to:			
Owners of parent		\$435,636	\$206,246
Non-controlling interests		-	\$(75,042)
Comprehensive income attributable to:			
Owners of parent		\$410,786	\$234,619
Non-controlling interests		-	\$(80,197)
Basic earnings per share			
Net income (In dollars)	4,6(23)	\$1.51	\$0.71

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to equity holders of the parent									
	Retained earnings				Other equity					
	Common stock	Legal capital reserve	Special capital reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Remeasurement of defined benefit plans	Total	Non-controlling interests	Total equity
Balance on 1 January 2016	\$2,802,202	\$1,334,277	\$2,433,579	\$698,679	\$(11,502)	\$(241,846)	\$(121,674)	\$6,893,715	\$325,384	\$7,219,099
Net income for the three-month period ended 31 March 2016	-	-	-	206,246	-	-	-	206,246	(75,042)	131,204
Other comprehensive income for the three-month period ended 31 March 2016	-	-	-	-	(40,658)	69,031	-	28,373	(5,155)	23,218
Total comprehensive income for the three-month period ended 31 March 2016	-	-	-	206,246	(40,658)	69,031	-	234,619	(80,197)	154,422
Balance on 31 March 2016	\$2,802,202	\$1,334,277	\$2,433,579	\$904,925	\$(52,160)	\$(172,815)	\$(121,674)	\$7,128,334	\$245,187	\$7,373,521
Balance on 1 January 2017	\$2,889,552	\$1,570,584	\$3,173,384	\$2,105,688	\$(143,070)	\$(259,662)	\$(120,495)	\$9,215,981	\$-	\$9,215,981
Net income for the three-month period ended 31 March 2017	-	-	-	435,636	-	-	-	435,636	-	435,636
Other comprehensive income for the three-month period ended 31 March 2017	-	-	-	-	(106,946)	82,096	-	(24,850)	-	(24,850)
Total comprehensive income for the three-month period ended 31 March 2017	-	-	-	435,636	(106,946)	82,096	-	410,786	-	410,786
Balance on 31 March 2017	\$2,889,552	\$1,570,584	\$3,173,384	\$2,541,324	\$(250,016)	\$(177,566)	\$(120,495)	\$9,626,767	\$-	\$9,626,767

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

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in thousands of New Taiwan Dollars)

Items	1 January - 31 March 2017	1 January - 31 March 2016
Cash flows from operating activities:		
Profit before income tax	\$498,033	\$177,150
Adjustments:		
Income and other adjustments with no cash flow effects		
Depreciation expenses	14,281	23,999
Amortization expenses	4,655	5,957
(Reversal of provision) provision for bad debt expense	(74)	496
Net losses on financial assets or financial liabilities at fair value through profit or loss	(334,405)	(126,439)
Net losses on available-for-sale financial assets	(131,298)	(65,132)
Net losses from held-to-maturity financial assets	(15,135)	(835)
Interest income	(131,260)	(152,113)
Net changes in insurance liabilities	(538,502)	1,646,810
Share of loss of associates and joint ventures accounted for using the equity method	(10,684)	-
Loss on disposal and scrapping of property and equipment	-	5,639
Changes in assets and liabilities from operating activities:		
Decrease (increase) in financial assets at fair value through profit or loss	175,232	(76,985)
Decrease (increase) in available-for-sale financial assets	31,633	(231,300)
Decrease in debt instrument for which no active market exists	486,840	295,621
Increase in held-to-maturity financial assets	(308,382)	(24,762)
Decrease in notes receivable	42,599	11,326
Decrease in premiums receivable	195,790	542,565
Decrease in other accounts receivable	24,342	223,934
Decrease (increase) in reinsurance assets	361,845	(1,423,751)
Decrease in other assets	2,617	23,812
Increase (decrease) in claims outstanding	54	(1,337)
Increase (decrease) in due to reinsurers and ceding companies	45,913	(229,464)
Decrease in commissions payable	(1,075)	(11,145)
Decrease in other payables	(318,362)	(355,191)
Decrease (increase) in provisions	(133)	561
Increase (decrease) in other liabilities	56,849	(518,659)
Cash flows from (used in) operating activities	<u>151,373</u>	<u>(259,243)</u>
Interest received	111,140	137,064
Dividends received	1,751	3,049
Interest paid	(19,390)	(18,691)
Income taxes paid	(2,528)	(8,541)
Net cash flows from (used in) operating activities	<u>242,346</u>	<u>(146,362)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(5,516)	(1,541)
Acquisition of intangible assets	(2,174)	(201)
Decrease in loans	37,618	636
Net cash flows from (used in) investing activities	<u>29,928</u>	<u>(1,106)</u>
Effects of exchange rate changes on cash and cash equivalents	(5,870)	(41,333)
Increase (decrease) in cash and cash equivalents	266,404	(188,801)
Cash and cash equivalents at the beginning of periods	6,961,855	12,515,171
Cash and cash equivalents at the end of periods	<u>\$7,228,259</u>	<u>\$12,326,370</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to Consolidated Interim Financial Statements

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

1. History and organization

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 19 July 1993, under the provisions of the Company Act of the Republic of China (“R.O.C.”). On 22 April 2002, the Company became a subsidiary of Cathay Financial Holdings Co., Ltd. (“Cathay Financial Holdings”) by adopting the stock conversion method under the R.O.C Financial Holdings Company Act and other pertinent acts of the R.O.C. On 2 August 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. The Company mainly engages in the business of property and casualty insurance. The Company’s registered office and the main business location are at No. 296, Sec. 4, Jen Ai Road, Taipei, Taiwan, R.O.C.

Cathay Financial Holdings Co., Ltd. is the Company’s parent company and ultimate parent company.

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

The consolidated financial statements of the Company and its subsidiaries (the “Consolidated Company”) for the three-month periods ended 31 March 2017 and 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 26 April 2017.

3. Newly issued or revised standards and interpretations

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

The Consolidated Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Consolidated Company is described below:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements continued

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

IAS 36 “Impairment of Assets” (Amendment)

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

- (2) Standards or interpretations issued, revised or amended by IASB but not yet recognized by FSC at the date of issuance of the Consolidated Company’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).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements continued

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

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

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

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

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

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements continued

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

(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 from the beginning to the 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements continued

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

(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 2020). 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).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements continued

For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

(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.

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(1) IFRIC 22 “*Foreign Currency Transactions and Advance Consideration*”

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

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Consolidated Company’s financial statements. The local effective dates are to be determined by FSC. The Consolidated Company is currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the three-month periods ended 31 March 2017 and 2016 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 “Interim Financial Reporting” as recognized by FSC.

(2) Basis of preparation

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

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(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Consolidated Company 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 Consolidated Company controls an investee if and only if the Consolidated Company 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 Consolidated Company has less than a majority of the voting or similar rights of an investee, the Consolidated Company 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 Consolidated Company's voting rights and potential voting rights

The Consolidated Company 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 Company 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-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company transactions are eliminated in full.

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

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

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If the Consolidated Company 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	Ownership Interest		
			31 March 2017	31 December 2016	31 March 2016
The Company	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	24.50	24.50	50.00
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00	100.00	100.00

Note: The Company did not participate in the capital increase in Cathay Insurance (China) during July and therefore, the Company's percentage of ownership over Cathay Insurance (China) decreased to 24.5%. The Company lost control of the subsidiary. Please refer to Note 6(24) for related disclosures.

(4) Foreign currency transactions

The Consolidated Company's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Consolidated Company 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 Consolidated Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

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

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Consolidated Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

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On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint controlled entity 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 (contract period within one year) 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.

(7) Financial assets and financial liabilities

Initial recognition and subsequent measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, debt instrument investments for which no active market exists, held-to-maturity financial assets, and loans and receivables. Financial liabilities are categorized as financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost.

All regular way purchase or sales of financial assets are recorded using trade date accounting. Financial assets and financial liabilities within scope 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. The Consolidated Company 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.

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Initial recognition and subsequent measurement of each category of financial instruments is listed below:

A. Financial assets or liabilities at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term, for which there is a recent pattern of short-term profit taking, or as derivative financial instruments. This category comprises financial assets classified as held-for-trading and designated as at fair value through profit or loss on initial recognition.

Financial assets are classified as held-for-trading under one of the following situations:

- (a) Assets acquired primarily for the purpose of selling in the short term;
- (b) A portion of identified financial instruments at initial recognition and for which there is a pattern of short-term profit taking; or
- (c) Derivative financial instruments (excluding financial guarantee contracts and those designated effective hedging instruments).

Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss.

Financial assets measured at fair value through profit or loss and designated as such at the time of initial recognition are classified as “financial assets measured at fair value through profit or loss” in the condensed consolidated balance sheet. Changes in fair value are recognized in profit or loss as “gain or loss on financial assets and liabilities measured at fair value through profit or loss”.

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B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, debt instrument investments for which no active market exist, held-to-maturity financial assets, or loans and receivables.

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than foreign currency differences on available-for-sale debt instruments, interest income calculated using the effective interest method, and dividend income, are recognized in other comprehensive income. When impairment loss of available-for-sale financial assets is recognized or derecognized, the gain or loss accumulated in the fair value reverse in equity is reclassified to profit or loss. Dividend income is recognized in profit or loss on the date that an entity's right to receive payment is established.

C. Debt instrument investments for which no active market exists

Debt instrument investments for which no active market exists are debt investments with fixed or determinable payments that are not quoted in an active market. At initial recognition, debt instrument investments for which no active market exists quote are recognized at fair value plus any directly attributable transaction costs. Disposal gain or loss is recognized in profit or loss upon derecognition. Subsequent to initial recognition, these debt instrument investments for which no active market exists are measured at amortized cost using the effective interest rate method.

D. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Consolidated Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost amount initially recognized minus principle repayments, plus or minus the cumulative amortization using the effective interest method arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/ discounts are taken into the consideration when calculating the effective interest rate.

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E. 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:

- (a) Those that the Consolidated Company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) Those that the Consolidated Company and Subsidiaries upon initial recognition designates as available for sale; or
- (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are separately presented on the balance sheet as loans and receivables. After initial measurement, such financial assets are subsequently 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 shall be measured at amortized cost using the effective interest method; however, they need not be discounted if the effect of discounting is immaterial.

F. Financial liabilities

Financial liabilities held-for-trading or are designated on initial recognition are classified as financial liabilities at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss and those designated as such at the time of initial recognition are recognized as “financial liabilities measured at fair value through profit or loss” in the condensed consolidated balance sheet. The changes in fair value are recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the condensed consolidated statement of comprehensive income.

Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss.

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Derecognition of financial assets and liabilities

A. Financial assets

The Consolidated Company derecognizes financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset. The difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that is recognized in other comprehensive income is recognized in profit or loss.

Securities lending transactions and repurchase agreements do not result in derecognition because the Consolidated Company has nearly retained all such risks and rewards. This accounting treatment is also adopted when the Consolidated Company enters into securitization transaction in which the Consolidated Company keeps portion of the risk and rewards of ownership.

B. Financial liabilities

The Consolidated Company derecognizes all or part of the financial liabilities when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the liability extinguished and the liability recognized is recognized in profit or loss.

Reclassification of financial assets

In accordance with IAS 39:

- A. The Consolidated Company shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. The Consolidated Company shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.

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- C. If the financial assets at fair value through profit or loss not under one of the above situations are no longer held for the purpose of selling them in the near term, and the following requirements are met:
- (a) Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
 - (b) Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.
- D. The Consolidated Company shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- E. Available-for-sale financial asset that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Upon reclassification, the fair value on the date of reclassification becomes its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in equity shall be amortized over the remaining life of the asset.
- F. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- G. If, during the current financial year or during the two preceding financial year, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

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Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if:

- A. There is a currently enforceable legal right to offset the recognized amounts; and
- B. There is an intention either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Impairment of financial assets

The Consolidated Company 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.

Other loss events include:

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

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A. Financial assets and loans and receivables measured at amortized cost

For debt instrument investments for which no active market exists, held-to-maturity financial assets and loans and receivables, the Consolidated Company first assesses 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 Consolidated Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. 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 write-off is later recovered, the recovery is credited to profit or loss.

In addition, in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- (a) 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.

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(b) 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.

(c) Total unsecured portion of loans overdue and receivable on demand.

The minimum amounts should be recorded within three years starting on January 2014. Pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall increase its allowance for bad debt loans ratio to at least 1.5% when providing mortgage loans, such as house purchasing loans and building loans. The Company will meet the requirement by the end of 2016. Policy loans that started from 1 January 2011 could be excluded from the balance of the mortgage loans. Policy loans are different mortgage loans that insurance enterprises provide by using governmental project fund or self-owned fund to coordinate with government policy.

B. Available-for-sale financial assets

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event. 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 – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

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

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C. Investments accounted for using the equity method

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Company and Subsidiaries determine 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. If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognize the amount in the “share of profit or loss of an associate” in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment’s value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

- (a) Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate or joint venture and from the ultimate disposal of such investment, or
- (b) Present value of the future cash flows from dividend expected to be received from the associate or joint venture and from the disposal of the investment.

Because goodwill is included as 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 goodwill impairment testing goodwill in IAS 36 *Impairment of Assets*.

Derivative financial instruments and hedging transactions

The Consolidated Company engages in derivative financial instrument transactions, such as currency forward contracts, interest rate swaps, cross currency swaps, options and futures, to hedge its risk associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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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 hedges, which are recognized in equity.

Hedging relationships consist of these types:

- A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.
- B. Cash flow hedges: a hedge of exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

At the inception of a hedge relationship, the Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Consolidated Company assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated for the hedge.

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Hedges in compliance with hedge accounting requirements as mention above are accounted for as follows:

A. Fair value hedges

Fair value hedges is a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss. The carrying amount of the hedged item is adjusted and gains or losses attributable to the hedged risk. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the IAS 21 The Effects of Changes in Foreign Exchange Rates (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged financial instrument measured at amortized cost, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

B. Cash flow hedges

Cash flow hedges is a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or with a highly probable forecast transaction and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other equity, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other equity shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in other equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

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If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the cumulative gain or loss that was previously recognized in equity remain in other equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other equity.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized in other equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative gains or losses recognized in other equity is transferred to profit or loss.

(8) 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 Consolidated Company.

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.

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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 Consolidated Company 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.

(9) Investments accounted for using the equity method

Investment in the associate of the Consolidated Company 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 Consolidated Company 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 Consolidated Company'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 Consolidated Company 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 Consolidated Company and the associate or joint venture are eliminated to the extent of the Consolidated Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Consolidated Company's percentage of ownership interests in the associate or joint venture, the Consolidated Company 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.

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When an associate or joint venture issues new stock and the Consolidated Company's interest in an associate or a joint venture is reduced or increased as the Consolidated Company 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 capital surplus and investments 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 Consolidated Company disposes of the associate or joint venture.

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

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the Consolidated Company 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. If this is the case, the Consolidated Company 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 as required by IAS 36 "Impairment of Assets". In determining the value in use of the investment, the Consolidated Company 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 included as 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".

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Upon loss of significant influence over the associate or joint venture, the Consolidated Company 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.

(10) Property and equipment

Property and equipment is 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 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 and equipment are required to be replaced in intervals, the Consolidated Company 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:

Office equipment	5years
Leased assets	3years
Leasehold improvements	The shorter of lease terms or economic useful lives

An item of property 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 as a change in accounting estimate, if appropriate.

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(11) Leases

The Consolidated Company as a lessee

Finance leases which transfer to the Consolidated Company 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 Consolidated Company 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.

(12) Intangible assets

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

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

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

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

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

(13) Impairment of non-financial assets

The Consolidated Company 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 Consolidated Company 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 Consolidated Company 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.

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

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(14) Separation requirement for specific assets

According to Article 4 of “Regulations for the Reports of Accounting and Financial Information for Compulsory Automobile Liability Insurance” that authority to set from Section 3, Article 47 of “Compulsory Automobile Liability Insurance Act”, the Consolidated Company provides compulsory automobile liability insurance ("this insurance") and transact accounting account of this insurance.

According to article 5 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, for the special reserve set aside by the Company for this insurance, the Company shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the Company may purchase the following domestic securities:

A. Government bonds, not including exchangeable government bonds.

B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

The amount of treasury bills purchased or time deposits placed in a financial institution under the preceding paragraph shall not be less than 30 percent of the total amount of the Consolidated Company's retained earned pure premiums for this Insurance in the most recent period. The competent authority may raise that percentage to a level it deems appropriate based on the Consolidated Company's operational status.

If the balance of the Company's special reserve is less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period, then the full amount of its special reserve shall be used to purchase treasury bills or be deposited in a financial institution as a time deposit.

According to article 6 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, except for the special reserve set aside as prescribed in the preceding paragraphs, funds held by the Company for this Insurance (reserves, payables, temporary credits and amounts to be carried forward) shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, the Company may purchase any of the following domestic securities:

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A. Treasury bills.

B. Negotiable certificates of deposit, bankers' acceptances, and commercial paper guaranteed by a financial institution.

C. Government bonds in a repo transaction.

The amount of demand deposits deposited in financial institutions under the preceding paragraph shall not be less than 60 percent of the balance remaining after subtracting the amount of special reserves from the amount of funds held by the Company due to the operation of this Insurance, or less than 40 percent of the retained earned pure premium for the most recent period as audited or reviewed by a certified public accountant. The competent authority may raise the percentage of demand deposits required by the Company to a level it deems appropriate based on the Company's operational status.

If the total amount of unearned premium reserve and loss reserve of the Company with respect to this Insurance is less than 40 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the Company through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

According to article 11 of "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", when the Company suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this Insurance by the other insurer that assumes the business. If no other insurer is to assume the business, and there is no outstanding liability under this Insurance, and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

When the Company has been duly ordered to suspend business and undergo rehabilitation, ordered to dissolve, or its permission to operate this Insurance business has been revoked, and no other insurer is to assume this Insurance business, and there is no outstanding liability under this Insurance and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

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(15) Insurance contract categories

Insurance contract refers to the insurer accepting the insurance policyholder's transfer of significant insurance risk, and agree to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company defined that significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and index, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or disappeared, the policy will still be considered as an insurance contract; even if the exposure to insurance risk during the policy period has been significantly reduced. However, if insurance risk following the renewal of an insurance contract with features of financial instruments is transferred to the Company, the Company will reclassify the contract as an insurance contract.

(16) Reinsurance assets

The Consolidated Company limits exposure to some events that may cause a certain amount of loss and this is done in accordance to sale's needs and the insurance laws and regulations for reinsurance. For reinsurance ceded, the Consolidated Company can't refuse to fulfill its obligations to the insured because the reinsurers failed to fulfill their responsibility.

The Consolidated Company holds the right over reinsurers for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. For the classification of reinsurance contracts, the Consolidated Company assess whether the transfer of significant insurance risk to the reinsurers has occurred. If the transfer of significant insurance risk is not apparent, then the contract is recognized and evaluated with deposit accounting.

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(17) Insurance liabilities

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”, “Regulations for the Management of the Various Reserves for Nuclear energy insurance”, “Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises” and “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood 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 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 equity.

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According to the “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, the industry that order for these insurance should provision the special reserve from liability to equity when the company priority complement commercial earthquake insurance and typhoons flood insurance into liability (after tax), excluding compulsory automobile liability insurance, nuclear energy insurance, political 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 should follow the special reserve for major incident rates set by the authorities.

Upon occurrence of the catastrophic events, 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 exceed 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 purpose.

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When accumulative dollar amount of the special reserve for fluctuation of risks exceed 60% of its retained earned premium, the excess amount should be recall and recognize 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.

(18) Insurance premium revenues and the acquisition costs

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due.

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.

The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”.

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

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The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for the Nuclear Insurance”.

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the authority’s approval unless otherwise regulated by law. The amount of unearned premium reserve should be audited by a certified actuary.

Taxes related to the insurance premium revenues are recognized pursuant to “Value-added and Non-value-added Business Tax Act” and “Stamp Tax Act” on an accrual basis.

(19) Insurance claim costs

The insurance claims payment of direct written policies is recognized as the amount of actual payment of incurred and reported case. For those incurred but unpaid claim cases and outstanding claim cases, the gross change of claims reserve is assessed case by case as well as its relevant information obtained and deposited by each type of business line.

The reinsurance claims payments are recognized upon notification. Adjustments are made at balance sheet date, and recognized under the account of gross change of reinsurance claims reserve.

The IBNR of direct written business and ceded in business is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle.

The claims recovered from reinsurance account for those paid claims would recover from reinsurers according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.

Claim reserve is not discounted to its present value.

The amount of claim reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”.

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The amount of claim reserve for the residential earthquake insurance is set aside pursuant to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

The amount of claim reserve for the nuclear insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for the Nuclear Insurance”.

(20) Liability adequacy test

In alignment with Article 24-1 of “Regulations for the Various Reserves of Insurance Industry”, from 1 January 2011 on, an insurer shall assess at the end of each reporting period whether it’s recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

In order to limit the amount of losses resulting from certain incidents, the Consolidated Company conducts reinsurances based on business needs and pursuant to regulations of insurance laws. The Consolidated Company cannot use reinsurer’s not fulfilling its obligations as a reasonable cause to not fulfill obligations to reinsurers of insurance contracts ceded.

Reinsurance expenses are recognized under reinsurance contracts and its financial reporting including cutoff of reporting periods shall match to insurance premium revenues. Unbilled reinsurance expenses shall be estimated using a reasonable and systematic method at financial closing. Relevant revenues such as reinsurance commission revenues, etc., are recognized in the same period, and relevant reinsurance gains and losses shall not be deferred.

Reinsurance assets include ceded unearned premiums reserve, ceded claims reserve, ceded premiums deficiency reserve, and ceded liability adequacy reserve, and represent rights to reinsurers pursuant to “Regulations for the Various Reserves of Insurance Industry” and reinsurance contracts.

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The Consolidated Company regularly assesses whether reinsurance assets, claims recoverable from ceding companies, due from reinsurers and ceding companies prescribed in the previous paragraphs are impaired or unable to collect. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract, and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer, the Consolidated Company recognizes the amount of accumulated impairment losses based on the difference between the recoverable amount and the carrying value of reinsurance assets, and sets aside a fair amount of bad debt allowances on unrecoverable amount of claims recoverable from ceding companies, due from reinsurers and ceding companies.

(22) Co-insurance organization, co-insurance and guarantee fund agreement

The company and all the members approved by the competent authority set the “Co-insurance Contract of Compulsory Automobile Liability Insurance” agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or went out of business, the members shall not withdraw. If the members stop to operate the compulsory automobile liability insurance, it should drop out from the co-insurance organization at the same time and the responsibility of unearned premiums applies natural expiry.

The company, the property insurance company with order for traveling industry performance guarantee insurance and the reinsurance company set the “Co-insurance Contract of Traveling Industry Performance Guarantee Insurance” agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall notice in writing when going to withdraw from co-insurance before following year began three months ago. The original undertaken responsibility will cease to exist at the end of the year and the member company which drops out from the co-insurance organization will be held responsible for the unfinished part of the responsibility until its natural expiry.

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(23) Contribution to the stabilization funds

From 1 January 2014 to 30 June 2014, the Company had made monthly contributions based on 2‰ of the gross premiums to the stabilization funds. Since 1 July 2014, according to the “Interpretations No.10302503181 Financial-Supervisory-Property-Insurance-Corporate” issued by Financial Supervisory Commission, the Company has changed its way of contribution to rate discrimination depositing in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(24) Post-employment benefits plan

All regular employees of the Consolidated Company 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 Consolidated Company. Therefore fund assets are not included in the Company’s consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company 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. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

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 and the return on plan assets, excluding net interest and net actuarial gains and losses, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings 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 Consolidated Company recognizes restructuring-related costs

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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.

(25) Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax shall be recognized as income or an expense and including in profit or loss for the period, except for the extent that the tax relating to item recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax is the amount of current income tax liabilities (assets) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods, and it is 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 substantively enacted by the end of the reporting period. The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at 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.

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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 arrangements, 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 arrangements, 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. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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.

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Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

In accordance with Article 49 of the Financial Holdings Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the integrated income tax system. If there is any tax effect due to the adoption of the foregoing integrated income tax system, the parent company can proportionately allocate the effects on tax expense (benefit). Such effects on current tax and deferred tax are accounted for as receivables or payables.

Effective from 1 January 2006, the Consolidated Company has adopted “Income Basic Tax Act” and “Enforcement Rules of the Income Basic Tax Act” to estimate income basic tax.

5. Main sources of uncertainty of significant accounting judgments, estimates and assumptions

The preparation of the Consolidated Company’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) Judgments

In the process of applying the Consolidated Company’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. Categories of financial assets

The management has to use their judgment to categorize financial assets. Different categories apply different measurements, which could have a significant effect on the Consolidated Company’s financial position and performance.

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B. The significant degree of risk transform measured by the risk ratio of 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.

C. The significant degree of risk transform measured by the risk ratio of reinsurance policy

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

When risk ratio of reinsurance policy is greater than 1%, the policies can be defined as reinsurance 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.

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A. Fair value of financial instruments

When the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Consolidated Company adopt pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

B. 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 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 less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a “discounted cash flow model”. The cash flow projections are derived from the budget for the next five years and do not include restructuring activities that the Consolidated Company are 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.

C. Post-employment benefit

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. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6, for more detail on the assumptions to measure pension costs and defined benefit obligation.

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D. Insurance contract liabilities

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

E. Income taxes

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 Consolidated Company 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 Consolidated Company's domicile.

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

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6. Contents of significant accounts

(1) Cash and cash equivalents

	31 March 2017	31 December 2016	31 March 2016
Petty cash and cash on hand	\$16,439	\$13,932	\$14,766
Cash in banks	1,127,220	1,068,796	5,881,559
Time deposits	4,824,766	5,024,085	4,855,097
Cash equivalents	1,259,834	855,042	1,574,948
Total	<u>\$7,228,259</u>	<u>\$6,961,855</u>	<u>\$12,326,370</u>

(2) Receivables

	31 March 2017	31 December 2016	31 March 2016
Notes receivable - Net	\$252,112	\$294,711	\$311,340
Premiums receivable - Net	1,274,125	1,469,842	1,214,615
Other receivable - Net	214,534	218,756	422,541
Total	<u>\$1,740,771</u>	<u>\$1,983,309</u>	<u>\$1,948,496</u>

(3) Financial assets and liabilities at fair value through profit or loss

	31 March 2017	31 December 2016	31 March 2016
Financial assets at fair value through profit or loss			
Held for trading:			
Derivative financial assets			
Derivatives not designated as hedging instruments			
Forward foreign exchange contracts	\$167,873	\$40,000	\$75,832
Non-derivative financial assets			
Stocks	-	22,280	58,758
Beneficiary certificates	813,908	813,263	1,935,672
Total	<u>\$981,781</u>	<u>\$875,543</u>	<u>\$2,070,262</u>

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The financial assets at fair value through profit or loss held by the Consolidated Company were not pledged.

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Financial liabilities at fair value through profit or loss			
Held for trading:			
Derivative financial assets			
Derivatives not designated as hedging instruments			
Forward foreign exchange contracts	<u>\$1,656</u>	<u>\$54,590</u>	<u>\$81,005</u>

Forward foreign exchange contracts

The Consolidated Company entered in to forward foreign exchange contracts to manage the risk exposure position for certain transactions but are not designated as hedging instruments. Details of the derivative financial instruments reported as held for trading not designated as hedging instruments as of 31 March 2017, 31 December 2016 and 31 March 2016, are as follows:

	<u>Nominal Amount</u>	<u>Contract Period</u>
<u>31 March 2017</u>		
Forward foreign exchange contracts	<u>Sell USD 189,600</u>	7 April 2017-20 April 2018
Forward foreign exchange contracts	<u>Sell EUR 7,850</u>	18 April 2017-31 January 2018
<u>31 December 2016</u>		
Forward foreign exchange contracts	<u>Sell USD 175,600</u>	9 January 2017-20 April 2018
Forward foreign exchange contracts	<u>Sell EUR 7,850</u>	27 January 2017-29 September 2017
<u>31 March 2016</u>		
Forward foreign exchange contracts	<u>Sell USD 179,100</u>	7 April 2016-28 April 2017
Forward foreign exchange contracts	<u>Sell EUR 7,850</u>	14 April 2016-29 April 2016

The counterparties of the derivative financial instruments mentioned above are domestic banks and foreign banks with good credit rating. Consequently, there is no significant credit risk for these counterparties.

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(4) Available-for-sale financial assets

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Listed stocks	\$4,799,197	\$4,770,129	\$3,292,334
Foreign stocks	282,845	296,692	243,299
Beneficiary certificates	2,450,690	2,268,284	2,720,660
Corporate bonds	202,888	203,213	412,747
Financial debentures	607,982	608,907	660,171
Government bonds	728,962	728,808	763,612
Overseas bonds	306,053	325,882	338,428
Total	<u>\$9,378,617</u>	<u>\$9,201,915</u>	<u>\$8,431,251</u>

The available-for-sale financial assets held by the Consolidated Company were not pledged.

(5) Investments accounted for using the equity method—Net

A. Investment in associates

Information of material associates was as follows:

Company: Cathay Insurance Company Limited

Relationship with the Consolidated Company: A non-life insurance company that the Consolidated Company established with Cathay Life Insurance Co., LTD. The subsidiary is accounted for using the equity method after capital increase by other investors. Please refer to Note 6(24) for related disclosures.

Main business office/ Country of registry: Mainland China

There was no quoted price for above associates.

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The reconciliations of summarized financial information and the carrying amount of the investment are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Total Assets	\$7,137,032	\$7,469,114
Total Liabilities	(3,605,462)	(3,766,311)
Equity	3,531,570	3,702,803
Percentage of ownership	24.50%	24.50%
Subtotal	865,235	907,187
Goodwill	354,302	373,853
Carrying value of the investment	<u>\$1,219,537</u>	<u>\$1,281,040</u>

	<u>For the three-month periods ended 31 March 2017</u>
Operating revenues	\$1,111,269
Profit from continuing operations	43,608
Other comprehensive income (loss)	(4,608)
Total comprehensive income	39,000

The investment in associates held by the Consolidated Company were not pledged as of 31 March 2017.

(6) Debt instrument investments for which no active market exists

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Preferred stocks	\$-	\$-	\$400,000
Corporate bonds	350,000	650,000	650,000
Bank Debentures	750,000	750,000	550,000
Overseas bonds	915,677	1,068,267	1,727,258
Time deposits	15,996	52,466	63,114
Total	<u>\$2,031,673</u>	<u>\$2,520,733</u>	<u>\$3,390,372</u>

The debt instrument investments for which no active market exists held by the Consolidated Company were not pledged.

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(7) Held-to-maturity financial assets

	31 March 2017	31 December 2016	31 March 2016
Corporate bonds	\$799,970	\$799,987	\$-
Overseas bonds	5,607,602	5,312,478	4,461,891
Total	<u>\$6,407,572</u>	<u>\$6,112,465</u>	<u>\$4,461,891</u>

The held-to-maturity financial assets held by the Consolidated Company were not pledged.

(8) Loans

	31 March 2017	31 December 2016	31 March 2016
Loans	\$320,734	\$358,925	\$369,987
Less: Allowance for bad debts	(3,540)	(4,113)	(4,368)
Total	<u>\$317,194</u>	<u>\$354,812</u>	<u>\$365,619</u>

The movements in the provision for impairment of loans are as follows:

	Individually Impaired	Collectively Impaired	Total
1 January 2017	\$315	\$3,798	\$4,113
Reversal for the current period	-	(573)	(573)
Write off	-	-	-
31 March 2017	<u>\$315</u>	<u>\$3,225</u>	<u>\$3,540</u>
1 January 2016	\$324	\$4,104	\$4,428
Reversal for the current period	-	(60)	(60)
Write off	-	-	-
31 March 2016	<u>\$324</u>	<u>\$4,044</u>	<u>\$4,368</u>

Individually impaired loss as of 31 March 2017 and 2016 mainly results from the financial difficulties of the obligators. The individually impaired loss is recognized as the difference between the carrying amount and the present value of estimated future recoverable amount. The pledged assets of the loans are properties and equipments.

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(9) Reinsurance assets

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Claims recoverable from reinsurers	\$421,516	\$374,437	\$257,055
Due from reinsurers and ceding companies	1,005,197	703,260	684,030
Reinsurance reserve assets			
Ceded unearned premium reserve	2,609,529	2,752,276	2,700,698
Ceded claims reserve	3,610,396	4,198,314	4,093,950
Ceded premium deficiency reserve	3,366	-	(9,045)
Subtotal	<u>6,223,291</u>	<u>6,950,590</u>	<u>6,785,603</u>
Total	<u>\$7,650,004</u>	<u>\$8,028,287</u>	<u>\$7,726,688</u>

(10) Other assets

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Prepayment	\$13,349	\$13,171	\$26,311
Guarantee deposits paid	607,661	619,410	1,449,129
Other assets - Other	49,458	39,695	60,701
Total	<u>\$670,468</u>	<u>\$672,276</u>	<u>\$1,536,141</u>

(11) Payables

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Claims outstanding	\$1,900	\$1,846	\$15,830
Commissions payable	122,267	123,342	192,040
Due to reinsurers and ceding companies	1,435,019	1,389,107	1,281,110
Other payables	899,127	1,149,298	1,049,297
Total	<u>\$2,458,313</u>	<u>\$2,663,593</u>	<u>\$2,538,277</u>

(12) Preferred stock liabilities

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousand shares of Class A preferred stocks at par value of \$10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011. Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

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- A. Issuance period covers from 11 November 2011, the issue date, to 10 November 2018, seven years in total.
- B. Dividend yield is 1.86% per year based on the actual issue price of \$32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. If the company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period. Preferred shareholders' rights shall not be violated.
- D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

According to the IAS 32 "Financial Instruments: Presentation", the above mentioned preferred stocks issued shall be reported as "preferred stock liabilities" under financial liabilities.

(13) Insurance liabilities

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Unearned premium reserve	\$10,995,706	\$11,100,264	\$12,034,968
Claims reserve	9,410,310	9,843,664	10,628,844
Special reserve	3,350,444	3,362,525	3,591,721
Premiums deficiency reserve	4,457	10,534	366,404
Liability reserve	56	41	-
Total	<u>\$23,760,973</u>	<u>\$24,317,028</u>	<u>\$26,621,937</u>

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A. Unearned premium reserve

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

	31 March 2017			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$1,542,737	\$96,655	\$898,574	\$740,818
Marine insurance	114,743	8,243	83,561	39,425
Land and air insurance	4,594,412	3,153	253,289	4,344,276
Liability insurance	603,169	345	190,282	413,232
Bonding insurance	70,496	679	53,443	17,732
Other property insurance	621,368	21,470	274,017	368,821
Accident insurance	1,501,137	2,557	81,929	1,421,765
Health insurance	53,234	-	-	53,234
Compulsory automobile liability insurance	1,289,926	471,382	774,434	986,874
Total	\$10,391,222	\$604,484	\$2,609,529	\$8,386,177

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	31 December 2016			
	Unearned premium reserve	Ceded unearned premium reserve		
		Assumed reinsurance	Ceded reinsurance	Retained
	Direct business	business	business	business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
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	<u>\$10,494,770</u>	<u>\$605,494</u>	<u>\$2,752,276</u>	<u>\$8,347,988</u>

	31 March 2016			
	Unearned premium reserve	Ceded unearned premium reserve		
		Assumed reinsurance	Ceded reinsurance	Retained
	Direct business	business	business	business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$1,699,284	\$72,282	\$924,929	\$846,637
Marine insurance	119,683	9,971	85,442	44,212
Land and air insurance	4,319,013	9,239	258,735	4,069,517
Liability insurance	630,116	1,093	211,985	419,224
Bonding insurance	74,211	740	52,836	22,115
Other property insurance	1,300,670	23,090	307,771	1,015,989
Accident insurance	1,489,866	2,525	93,600	1,398,791
Health insurance	54,537	-	8	54,529
Compulsory automobile liability insurance	1,712,674	515,974	765,392	1,463,256
Total	<u>\$11,400,054</u>	<u>\$634,914</u>	<u>\$2,700,698</u>	<u>\$9,334,270</u>

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(b) Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

	For the three-month periods ended		For the three-month periods ended	
	31 March 2017		31 March 2016	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	\$11,100,264	\$2,752,276	\$12,064,950	\$2,786,250
Prior period adjustments	3,566	-	-	-
Reserve	10,998,252	2,610,740	12,068,052	2,706,180
Recover	(11,100,027)	(2,750,197)	(12,067,291)	(2,786,886)
Effects of exchange rate changes	(6,349)	(3,290)	(30,743)	(4,846)
Ending balance	\$10,995,706	\$2,609,529	\$12,034,968	\$2,700,698

B. Claims reserve

(a) Claims reserve and ceded claims reserve

	31 March 2017			
	Claims reserve	Ceded claims reserve		
		Assumed reinsurance business	Ceded reinsurance business	Retained business
	Direct business	business	business	business
(1)	(2)	(3)	(4)=(1)+(2)-(3)	
Reported but not paid claim	\$5,286,911	\$229,930	\$2,599,197	\$2,917,644
Unreported claims	3,457,057	436,412	1,011,199	2,882,270
Total	\$8,743,968	\$666,342	\$3,610,396	\$5,799,914

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	31 December 2016			
	Claims reserve		Ceded claims reserve	
	Assumed reinsurance business		Ceded reinsurance business	
	Direct business	business	business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Reported but not paid claim	\$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

	31 March 2016			
	Claims reserve		Ceded claims reserve	
	Assumed reinsurance business		Ceded reinsurance business	
	Direct business	business	business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Reported but not paid claim	\$6,227,583	\$277,330	\$3,120,340	\$3,384,573
Unreported claims	3,794,286	329,645	973,610	3,150,321
Total	\$10,021,869	\$606,975	\$4,093,950	\$6,534,894

(b) Net change for claims reserve and ceded claims reserve

	For the three-month periods ended 31 March 2017							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)
Reported but not paid claim	\$5,294,277	\$5,926,195	\$229,930	\$235,435	\$(637,423)	\$2,605,703	\$3,254,162	\$(648,459)
Unreported claims	3,457,386	3,258,118	436,412	417,005	218,675	1,011,386	937,886	73,500
Total	\$8,751,663	\$9,184,313	\$666,342	\$652,440	\$(418,748)	\$3,617,089	\$4,192,048	\$(574,959)

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	For the three-month periods ended 31 March 2016							
	Direct underwriting		Assumed reinsurance		Net change for claims reserve	Ceded reinsurance		Net change for ceded claims reserve
	business		business			business		
	Reserve	Recover	Reserve	Recover	(5)=(1)-(2) +(3)-(4)	Reserve	Recover	(8)=(6)-(7)
(1)	(2)	(3)	(4)		(6)	(7)		
Reported but not paid claim	\$6,270,893	\$4,548,046	\$277,330	\$334,116	\$1,666,061	\$3,144,557	\$1,540,083	\$1,604,474
Unreported claims	3,807,063	3,890,544	329,647	285,907	(39,741)	976,447	1,038,544	(62,097)
Total	<u>\$10,077,956</u>	<u>\$8,438,590</u>	<u>\$606,977</u>	<u>\$620,023</u>	<u>\$1,626,320</u>	<u>\$4,121,004</u>	<u>\$2,578,627</u>	<u>\$1,542,377</u>

(c) Reported but not paid claim and unreported claims liabilities for policyholder

	31 March 2017		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$2,281,269	\$11,769	\$2,293,038
Marine insurance	276,941	2,686	279,627
Land and air insurance	1,349,333	1,303,840	2,653,173
Liability insurance	409,809	482,378	892,187
Bonding insurance	42,914	6,686	49,600
Other property insurance	473,651	3,136	476,787
Accident insurance	128,585	490,595	619,180
Health insurance	8,274	48,449	56,723
Compulsory automobile liability insurance	546,065	1,543,930	2,089,995
Total	<u>\$5,516,841</u>	<u>\$3,893,469</u>	<u>\$9,410,310</u>

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	31 December 2016		
	Claims reserve		
	Reported but not paid claim	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

	31 March 2016		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$2,831,430	\$82,979	\$2,914,409
Marine insurance	262,915	48,309	311,224
Land and air insurance	1,077,733	1,037,580	2,115,313
Liability insurance	447,846	375,439	823,285
Bonding insurance	44,972	31,647	76,619
Other property insurance	900,610	345,094	1,245,704
Accident insurance	153,813	466,037	619,850
Health insurance	8,069	55,483	63,552
Compulsory automobile liability insurance	777,525	1,681,363	2,458,888
Total	\$6,504,913	\$4,123,931	\$10,628,844

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- (d) Reported but not paid claim and unreported claims liabilities of ceded claims reserve for policyholder

	31 March 2017		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$1,677,901	\$6,246	\$1,684,147
Marine insurance	200,643	299	200,942
Land and air insurance	61,574	128,689	190,263
Liability insurance	229,353	161,669	391,022
Bonding insurance	25,223	3,900	29,123
Other property insurance	175,951	773	176,724
Accident insurance	13,100	46,923	60,023
Health insurance	-	1,355	1,355
Compulsory automobile liability insurance	215,452	661,345	876,797
Total	\$2,599,197	\$1,011,199	\$3,610,396

	31 December 2016		
	Ceded claims reserve		
	Reported but not paid claim	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

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	31 March 2016		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	\$2,210,527	\$40,326	\$2,250,853
Marine insurance	167,223	19,860	187,083
Land and air insurance	54,864	31,506	86,370
Liability insurance	258,650	107,547	366,197
Bonding insurance	27,870	29,119	56,989
Other property insurance	236,002	72,479	308,481
Accident insurance	10,827	41,087	51,914
Health insurance	-	535	535
Compulsory automobile liability insurance	154,377	631,151	785,528
Total	<u>\$3,120,340</u>	<u>\$973,610</u>	<u>\$4,093,950</u>

(e) Reconciliation statement of claims reserve and ceded claims reserve

	For the three-month periods ended		For the three-month periods ended	
	31 March 2017		31 March 2016	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	\$9,843,664	\$4,198,314	\$9,053,720	\$2,575,432
Prior period adjustments	367	170	-	-
Reserve	9,418,005	3,617,089	10,684,933	4,121,004
Recover	(9,836,753)	(4,192,048)	(9,058,613)	(2,578,627)
Effects of exchange rate changes	(14,973)	(13,129)	(51,196)	(23,859)
Ending balance	<u>\$9,410,310</u>	<u>\$3,610,396</u>	<u>\$10,628,844</u>	<u>\$4,093,950</u>

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C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Beginning balance	\$1,530,609	\$1,487,507
Reserve	35,830	73,419
Recover	(47,911)	(60,015)
Ending balance	<u>\$1,518,528</u>	<u>\$1,500,911</u>

(b) Special reserve - Non-compulsory automobile liability insurance

	<u>For the three-month periods ended 31 March 2017</u>		
	Fluctuation		
	Major incidents	of risks	Total
Beginning balance	\$486,899	\$1,345,017	\$1,831,916
Reserve	-	-	-
Recover	-	-	-
Ending balance	<u>\$486,899</u>	<u>\$1,345,017</u>	<u>\$1,831,916</u>

	<u>For the three-month periods ended 31 March 2016</u>		
	Fluctuation		
	Major incidents	of risks	Total
Beginning balance	\$505,626	\$1,585,184	\$2,090,810
Reserve	-	-	-
Recover	-	-	-
Ending balance	<u>\$505,626</u>	<u>\$1,585,184</u>	<u>\$2,090,810</u>

When the Consolidated Company does not apply to “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” and “Regulations for the Management of the Various Reserves for the nuclear Insurance”, there is no material impact on the Consolidated Company’s profit or loss and earnings per share. The impact on the Consolidated Company's liabilities and equity are decrease of \$1,523,417 thousand and increase of \$670,339 thousand.

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D. Premium deficiency reserve

(a) Premium deficiency reserve and ceded premium deficiency reserve

	31 March 2017			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	-
Land and air insurance	1,052	3,405	3,366	1,091
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	\$1,052	\$3,405	\$3,366	\$1,091

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	31 December 2016			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
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

	31 March 2016			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$-	\$-	\$609	\$(609)
Marine insurance	55	-	16	39
Land and air insurance	-	10,081	(16,144)	26,225
Liability insurance	13,711	(1)	6,396	7,314
Bonding insurance	14	-	8	6
Other property insurance	275,116	-	70	275,046
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	67,428	-	-	67,428
Total	\$356,324	\$10,080	\$(9,045)	\$375,449

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(b) Net loss recognized for premium deficiency reserve - Net change for premium deficiency reserve and ceded premium deficiency reserve

	For the three-month periods ended 31 March 2017								
	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve (5)=(1)-(2)+ (3)-(4)	Ceded reinsurance business		Net change for ceded premium deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premium deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Marine insurance	-	-	-	-	-	-	-	-	-
Land and air insurance	1,052	1,641	3,405	8,893	(6,077)	3,366	-	3,366	(9,443)
Liability insurance	-	-	-	-	-	-	-	-	-
Bonding insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
Total	\$1,052	\$1,641	\$3,405	\$8,893	\$(6,077)	\$3,366	\$-	\$3,366	\$(9,443)

	For the three-month periods ended 31 March 2016								
	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve (5)=(1)-(2)+ (3)-(4)	Ceded reinsurance business		Net change for ceded premium deficiency reserve (8)=(6)-(7)	Recognized net loss (gain) for premium deficiency reserve (9)=(5)-(8)
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	
Fire insurance	\$-	\$-	\$-	\$-	\$-	\$622	\$628	\$(6)	\$6
Marine insurance	56	-	-	-	56	16	44	(28)	84
Land and air insurance	-	-	10,081	13,989	(3,908)	(16,144)	(13,586)	(2,558)	(1,350)
Liability insurance	14,004	12,517	(1)	(4)	1,490	6,533	5,969	564	926
Bonding insurance	14	-	-	-	14	8	4	4	10
Other property insurance	280,992	279,047	-	32	1,913	72	37	35	1,878
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	68,868	62,108	-	-	6,760	-	-	-	6,760
Total	\$363,934	\$353,672	\$10,080	\$14,017	\$6,325	\$(8,893)	\$(6,904)	\$(1,989)	\$8,314

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- (c) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

	For the three-month periods ended 31 March 2017		For the three-month periods ended 31 March 2016	
	Premium deficiency reserve	Ceded premium deficiency reserve	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	\$10,534	\$-	\$367,287	\$(6,912)
Reserve	4,457	3,366	374,014	(8,893)
Recover	(10,534)	-	(367,689)	6,904
Effects of exchange rate changes	-	-	(7,208)	(144)
Ending balance	\$4,457	\$3,366	\$366,404	\$(9,045)

- (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 exhibit in the past three years exclude 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 :

	For the three-month periods ended 31 March 2017			
	Liability reserve		Liability-ceded reserve	
	Direct written business	Reinsurance ceded-in	Reinsurance ceded-out	Retention
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Health insurance	\$56	\$-	\$-	\$56
Total	\$56	\$-	\$-	\$56

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(b) Net change for liability reserve and liability reserve ceded

	For the three-month periods ended 31 March 2017							Net change for liability reserve ceded (8)=(6)-(7)
	Direct written business		Reinsurance ceded-in		Net change for liability reserve (5)=(1)-(2)+(3)- (4)	Reinsurance ceded-out		
	Reserve	Recover	Reserve	Recover		Reserve	Recover	
	(1)	(2)	(3)	(4)	(6)	(7)		
Health insurance	\$15	\$-	\$-	\$-	\$15	\$-	\$-	\$-
Total	\$15	\$-	\$-	\$-	\$15	\$-	\$-	\$-

(14) Post-employment benefits

Defined contribution plan

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

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

Expenses under the defined contribution plan for the three-month periods ended 31 March 2017 and 2016 are \$18,949 thousand and \$28,642 thousand, respectively.

Defined benefits plan

Expense under the defined benefit plans for the three-month periods ended 31 March 2017 and 2016 were \$8,282 thousand and \$8,679 thousand, respectively.

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(15) Common stock

As of 31 March 2017, 31 December 2016 and 31 March 2016, the total authorized and issued shares were 288,955 thousand, 288,955 thousand and 280,220 thousand at par value of \$10, respectively. Each share carries equal rights to vote and to receive dividends.

(16) Retained earnings

A. Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's annual after-tax net income shall be appropriated as legal reserve until the total amount of the legal capital reserve equals the issued share capital. The Company is able to issue new stock or cash dividend from legal reserve if there is no deficit as long as the legal reserve is over 25% of the paid in capital.

On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$236,307 thousand.

B. Special capital reserve

Special reserve for major incidents and for fluctuation of risks in accordance with Section 8 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" is placed in the special capital reserve under retained earnings.

Following the adoption of TIFRS, the "interpretations No. 10102508861 Financial-Supervisory-Property-Insurance-Corporate" issued by Financial Supervisory Commission on 5 June 2012, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. The Consolidated Company doesn't have the above special capital reserve result in it has no unrealized revaluation and cumulative translation adjustment (gain).

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On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, recognized 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 the special capital reserve will be recognized in year 2016.

C. 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 according to law. 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 shareholders' meeting. The dividends go first to preferred shareholders for current year dividends and any dividends that have been omitted in the past.
- (b) If there is any surplus earnings of current year not distributed by a profit-seeking enterprise, an additional profit-seeking income tax shall be levied at the rate of 10% on such undistributed surplus earnings. Before the year 2004, the term "undistributed surplus earnings" as referred to in the preceding paragraph means the approved income. Beginning from the year 2005, the term shall denote the amount of income after tax as calculated by a profit-seeking enterprise in accordance with the Commercial Accounting Act. The income tax will only be levied on the undistributed surplus earnings once.
- (c) 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 on the Company's Article of Incorporation according to the aforementioned addition on 6 March, 2016.

Please refer to Note 6(21) for details on employees' compensation and remuneration to directors and supervisors.

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(d) The Company's distribution of 2016 retained earnings has not been approved by the shareholders as of the independent auditors' opinion date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

(e) Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 31 March 2017, the reserves amounted to \$2,798,362 thousand.

(17) Non-controlling interests

	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Beginning balance	\$-	\$325,384
Net income (loss) attributable to non-controlling interests	-	(75,042)
Other comprehensive income attributable to non-controlling interests:		
Exchange differences resulting from translating the financial statements of foreign operations	-	(412)
Unrealized gains (losses) on available-for-sale financial assets	-	(4,743)
Ending balance	\$-	\$245,187

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(18) Retained earned premium

	For the three-month periods ended 31 March 2017					
	Direct premium income	Reinsurance		Retained premium	Net change in	
		premium	Premium ceded		uneamed premium	Retained earned
		income	to reinsures		reserve	premium
(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)	
Fire insurance	\$540,207	\$54,359	\$358,603	\$235,963	\$(62,551)	\$298,514
Marine insurance	140,496	2,199	99,716	42,979	(2,476)	45,455
Land and air insurance	2,121,389	(10)	76,485	2,044,894	104,593	1,940,301
Liability insurance	301,538	(80)	120,576	180,882	14,644	166,238
Bonding insurance	65,376	498	54,455	11,419	2,848	8,571
Other property insurance	140,941	8,156	73,301	75,796	(6,320)	82,116
Accident insurance	733,362	1,933	82,735	652,560	(4,246)	656,806
Health insurance	64,018	-	-	64,018	1,105	62,913
Compulsory automobile liability insurance	721,738	183,590	297,203	608,125	(9,915)	618,040
Total	\$4,829,065	\$250,645	\$1,163,074	\$3,916,636	\$37,682	\$3,878,954

	For the three-month periods ended 31 March 2016					
	Direct premium income	Reinsurance		Retained premium	Net change in	
		premium	Premium ceded		uneamed premium	Retained earned
		income	to reinsures		reserve	premium
(1)	(2)	(3)	(4)=(1)+(2)-(3)	(5)	(6)=(4)-(5)	
Fire insurance	\$554,184	\$34,572	\$408,708	\$180,048	\$(95,657)	\$275,705
Marine insurance	161,781	2,156	112,488	51,449	6,414	45,035
Land and air insurance	1,992,374	(172)	68,185	1,924,017	96,393	1,827,624
Liability insurance	338,736	(418)	126,090	212,228	17,467	194,761
Bonding insurance	59,933	506	44,771	15,668	4,723	10,945
Other property insurance	583,819	6,345	50,411	539,753	(38,525)	578,278
Accident insurance	723,373	1,592	120,168	604,797	14,205	590,592
Health insurance	58,182	-	8	58,174	(104)	58,278
Compulsory automobile liability insurance	954,702	209,898	303,816	860,784	76,551	784,233
Total	\$5,427,084	\$254,479	\$1,234,645	\$4,446,918	\$81,467	\$4,365,451

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(19) Retained claim payment

	For the three-month periods ended 31 March 2017			
	Insurance	Reinsurance	Claims recovered	Retained
	claims paid	claims paid	from reinsurers	claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(754,619)	\$(7,235)	\$(656,676)	\$(105,178)
Marine insurance	(30,778)	(718)	(16,513)	(14,983)
Land and air insurance	(1,177,512)	(707)	(39,641)	(1,138,578)
Liability insurance	(87,710)	123	(22,506)	(65,081)
Bonding insurance	34,293	(23)	31,655	2,615
Other property insurance	(88,256)	(3,810)	(19,636)	(72,430)
Accident insurance	(251,168)	(8)	(17,027)	(234,149)
Health insurance	(29,772)	-	-	(29,772)
Compulsory automobile liability insurance	(411,695)	(179,989)	(234,145)	(357,539)
Total	\$(2,797,217)	\$(192,367)	\$(974,489)	\$(2,015,095)

	For the three-month periods ended 31 March 2016			
	Insurance	Reinsurance	Claims recovered	Retained
	claims paid	claims paid	from reinsurers	claim paid
	(1)	(2)	(3)	(4)=(1)+(2)-(3)
Fire insurance	\$(375,688)	\$(26,806)	\$(129,244)	\$(273,250)
Marine insurance	(57,754)	(18,939)	(46,119)	(30,574)
Land and air insurance	(1,016,574)	(7)	(34,673)	(981,908)
Liability insurance	(96,987)	(48)	(44,733)	(52,302)
Bonding insurance	(21,088)	(2)	(21,087)	(3)
Other property insurance	(471,996)	(1,723)	(38,017)	(435,702)
Accident insurance	(250,798)	(3)	(16,943)	(233,858)
Health insurance	(30,315)	-	-	(30,315)
Compulsory automobile liability insurance	(535,736)	(135,428)	(209,150)	(462,014)
Total	\$(2,856,936)	\$(182,956)	\$(539,966)	\$(2,499,926)

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(20) Components of other comprehensive income

	For the three-month periods ended 31 March 2017				
	Reclassification adjustments Arising during the period	during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$(106,946)	\$-	\$(106,946)	\$-	\$(106,946)
Unrealized gains (losses) on available-for-sale financial assets	210,674	(131,077)	79,597	3,392	82,989
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(893)	-	(893)	-	(893)
Total	\$102,835	\$(131,077)	\$(28,242)	\$3,392	\$(24,850)
	For the three-month periods ended 31 March 2016				
	Reclassification adjustments Arising during the period	during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	\$(45,401)	\$-	\$(45,401)	\$-	\$(45,401)
Unrealized gains (losses) on available-for-sale financial assets	121,036	(62,084)	58,952	9,667	68,619
Total	\$75,635	\$(62,084)	\$13,551	\$9,667	\$23,218

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(21) Summary statement of employee benefits, depreciation and amortization expenses by function

	For the three-month periods ended 31 March 2017			For the three-month periods ended 31 March 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salary and wages	\$78,348	\$446,985	\$525,333	\$74,008	\$531,273	\$605,281
Labor & health insurance	-	51,537	51,537	-	50,520	50,520
Pension expenses	-	27,231	27,231	-	37,321	37,321
Other employee benefits	-	12,488	12,488	-	23,614	23,614
Depreciation	-	14,281	14,281	-	23,999	23,999
Amortization	-	4,655	4,655	-	5,957	5,957

The number of the Consolidated Company's employees was 2,139 and 3,137 as of 31 March 2017 and 2016, respectively.

According to the Company's Articles of Incorporation, 1 % to 2 % of profit of the current year is distributable as employees' compensation. 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 and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of the three-month periods ended 31 March 2017, the Company estimated the amounts of the employees' compensation to \$498,033 thousand. The aforementioned employees' compensation were recognized as salaries expense.

No material differences exist between the estimated amount of \$2,965 thousand and the actual distribution of the employee compensation for the year ended 31 December 2016.

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(22) Income tax

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

Income tax expense (income) recognized in profit or loss

	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Current income tax expense:		
Current income tax charge	\$90,111	\$77,856
Deferred tax expense (income):		
Deferred tax expense (income) related to origination and reversal of temporary differences	(27,714)	(31,910)
Total income tax expense	<u>\$62,397</u>	<u>\$45,946</u>

Income tax related to components of other comprehensive income

	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Deferred tax expense (income):		
Unrealized gains (losses) on available-for-sale financial assets	\$(3,392)	\$(9,667)

Imputation credit information

	31 March 2017	31 December 2016	31 March 2016
Balances of imputation credit amounts	<u>\$15,862</u>	<u>\$15,862</u>	<u>\$14,337</u>

The actual creditable ratio for 2016 and 2015 were 1.61% and 1.35%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

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The assessment of income tax returns

As of 31 March 2017, the assessment of the income tax returns of the Consolidated Company is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2010

(23) Earnings per share

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

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

	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	\$435,636	\$206,246
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	288,955	288,955
Basic earnings per share (in dollars)	\$1.51	\$0.71

(24) Changes in ownership over the subsidiary

Lose control of the subsidiary

The Company did not participate in the capital increase in Cathay Insurance (China) during July and therefore, the Company's percentage of ownership over Cathay Insurance (China) decreased to 24.5%. The subsidiary is accounted for using the equity method since the Company lost control of the subsidiary but still retained significant influence. The fair value of remaining 24.5% ownership on disposal day was \$1,457,612 thousand and therefore, the Company recognized a revaluation gains of \$1,354,739 thousand.

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

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

7. Risk management for insurance contracts and financial instruments

(1) The structure, organization, the scope of rights and responsibilities of risk management:

A. Framework of risk management, organization, structure and responsibilities:

(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 the Company as a whole, at the same time take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

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(B) Risk management committee

- a. To formulate risk management policies, frameworks, and organizations; to build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.
- b. To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for the Company 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 Chief Risk Officer's appointment and removal are approved by the Board of directors, which maintain the independence, it could not concurrently play a business and financial role, and has the right to acquire any overview data that may affect the company's risk profile.

- a. Overall management of the company's overall risk management related business.
- b. Discuss important company decisions and risk management point of view to give appropriate recommendations.

(D) Risk management department

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

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b. 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 the Company.
- (g) To assist in collecting information regarding operation risk.

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(F) Audit department

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

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

In the company, risk management department takes responsibilities in monitoring risks, integrate insurance risk of the company 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.

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

Scope of insurance risk management of the company 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 the company 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 reinsurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to the Company’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 shareholder’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:

	For the years ended 31 December 2017	For the years ended 31 December 2016
Fire insurance	NT\$1,105,000	NT\$898,000
Marine insurance	NT\$1,105,000	NT\$898,000
Engineering insurance	NT\$1,105,000	NT\$898,000
Other property insurance	NT\$1,105,000	NT\$898,000
Automobile insurance	NT\$1,105,000	NT\$898,000
Health and injury insurance	NT\$1,105,000	NT\$898,000

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F. Methods of asset / liability management

Provisions are evaluated on a regular basis based on the company'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 the company cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

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

The Company 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 parent company, Cathay Financial Holdings, to review the impact on the group's capital adequacy ratio.

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(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

	Premiums receivable (Note)		
	31 March 2017	31 December 2016	31 March 2016
Fire insurance	\$376,053	\$545,610	\$263,184
Marine insurance	232,431	211,652	235,637
Land and air insurance	124,061	208,831	78,334
Liability insurance	172,937	173,051	184,467
Bonding insurance	52,178	24,476	69,127
Other property insurance	211,416	217,992	300,003
Accident insurance	141,038	131,391	156,213
Health insurance	9,485	10,393	13,686
Compulsory automobile liability insurance	18,153	21,643	16,959
Total	1,337,752	1,545,039	1,317,610
Less: Allowance for bad debts	(63,627)	(75,197)	(102,995)
Net	\$1,274,125	\$1,469,842	\$1,214,615

Aging analysis of account receivables:

	31 March 2017	31 December 2016	31 March 2016
≤ 90 days	\$972,389	\$1,292,660	\$989,106
> 90 days	365,363	252,379	328,504
Total	\$1,337,752	\$1,545,039	\$1,317,610

Note: As of 31 March 2017, 31 December 2016 and 31 March 2016, the receivables included overdue receivables amounted to \$364,268 thousand, \$251,988 thousand and \$270,737 thousand, respectively. The allowance for bad debts amounted to \$53,960 thousand, \$62,291 thousand and \$73,195 thousand, respectively.

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

	Claims reported and paid off		
	31 March 2017	31 December 2016	31 March 2016
Fire insurance	\$178,236	\$108,058	\$11,665
Marine insurance	3,826	12,168	14,580
Land and air insurance	39,649	42,067	34,674
Liability insurance	20,021	34,899	23,991
Bonding insurance	69	2,143	697
Other property insurance	19,023	14,724	24,664
Accident insurance	13,788	16,645	15,269
Health insurance	-	-	-
Compulsory automobile liability insurance	146,904	143,733	131,515
Total	421,516	374,437	257,055
Less: Allowance for bad debts	-	-	-
Net	\$421,516	\$374,437	\$257,055

C. Payables of insurance contracts

	31 March 2017		
	Commissions		
	payables	Other payables	Total
Fire insurance	\$19,891	\$12,410	\$32,301
Marine insurance	5,999	10,090	16,089
Land and air insurance	27,944	84,010	111,954
Liability insurance	13,875	17,491	31,366
Bonding insurance	6,107	384	6,491
Other property insurance	4,070	10,279	14,349
Accident insurance	12,805	27,366	40,171
Health insurance	3,275	1,619	4,894
Compulsory automobile liability insurance	28,301	-	28,301
Total	\$122,267	\$163,649	\$285,916

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	31 December 2016		
	Commissions		
	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

	31 March 2016		
	Commissions		
	payables	Other payables	Total
Fire insurance	\$32,672	\$19,059	\$51,731
Marine insurance	11,128	9,764	20,892
Land and air insurance	22,223	160,717	182,940
Liability insurance	20,873	17,082	37,955
Bonding insurance	7,825	1,597	9,422
Other property insurance	37,744	12,039	49,783
Accident insurance	10,918	64,427	75,345
Health insurance	3,862	2,713	6,575
Compulsory automobile liability insurance	44,795	-	44,795
Total	\$192,040	\$287,398	\$479,438

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

	31 March 2017	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$133,182	\$375,951
AON	63,618	89,494
Marsh	127,530	78,435
Others	717,770	891,139
Total	1,042,100	1,435,019
Less: Allowance for bad debts	(36,903)	-
Net	<u>\$1,005,197</u>	<u>\$1,435,019</u>

	31 December 2016	
	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
AON	48,647	148,371
Marsh	45,277	179,328
Willis	261,070	71,683
Others	241,255	644,224
Total	728,318	1,389,107
Less: Allowance for bad debts	(25,058)	-
Net	<u>\$703,260</u>	<u>\$1,389,107</u>

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	31 March 2016	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	\$143,546	\$335,874
Sompo Japan Re	87,189	26,136
Guy Carpenter	96,949	80,642
Korean Re	42,529	52,730
Kang An Insurance Broker Co.	42,065	4,190
Swiss Re	4,764	78,525
Others	327,436	703,013
Total	744,478	1,281,110
Less: Allowance for bad debts	(60,448)	-
Net	\$684,030	\$1,281,110

Note: As of 31 March 2017, 31 December 2016 and 31 March 2016, the due from reinsurers and ceding companies included overdue receivables amounted to \$28,103 thousand, \$19,305 thousand and \$30,872 thousand, respectively. The allowance for bad debts amounted to \$28,103 thousand, \$19,305 thousand and \$30,872 thousand, respectively.

(3) Information of management achievements

A. Acquisition cost for insurance contracts

	For the three-month periods ended 31 March 2017				
	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	\$19,669	\$987	\$7,184	\$18,452	\$46,292
Marine insurance	3,727	50	111	9,814	13,702
Land and air insurance	52,585	-	27	259,773	312,385
Liability insurance	11,736	3	8	22,115	33,862
Bonding insurance	4,802	-	2	923	5,727
Other property insurance	4,322	97	1,903	12,734	19,056
Accident insurance	16,728	1	69	87,969	104,767
Health insurance	4,162	-	-	8,791	12,953
Compulsory automobile liability insurance	-	97,324	-	-	97,324
Total	\$117,731	\$98,462	\$9,304	\$420,571	\$646,068

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	For the three-month periods ended 31 March 2016				
	Commission		Reinsurance		Total
	expenses	Surcharge	commission expenses	Other cost	
Fire insurance	\$8,413	\$10,751	\$4,189	\$24,674	\$48,027
Marine insurance	3,545	285	(68)	9,180	12,942
Land and air insurance	38,943	-	43	247,402	286,388
Liability insurance	9,343	7,673	(273)	20,476	37,219
Bonding insurance	5,669	157	-	576	6,402
Other property insurance	4,419	110,590	2,279	13,101	130,389
Accident insurance	12,254	-	-	102,473	114,727
Health insurance	4,612	-	-	7,239	11,851
Compulsory automobile liability insurance	-	108,121	-	-	108,121
Total	\$87,198	\$237,577	\$6,170	\$425,121	\$756,066

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

	For the three-month periods ended 31 March 2017					
	Direct premium income	Net change	Acquisition	Insurance claims payments	Net change for claims reserve	Net gain(loss)
		for unearned premium reserve	cost for insurance contracts			
Fire insurance	\$540,207	\$240,505	\$(39,108)	\$(754,619)	\$751,258	\$738,243
Marine insurance	140,496	8,260	(13,591)	(30,778)	(19,176)	85,211
Land and air insurance	2,121,389	(79,197)	(312,358)	(1,177,512)	(158,690)	393,632
Liability insurance	301,538	(25,172)	(33,854)	(87,710)	(47,239)	107,563
Bonding insurance	65,376	(34,360)	(5,725)	34,293	6,780	66,364
Other property insurance	140,941	10,022	(17,153)	(88,256)	27,848	73,402
Accident insurance	733,362	(17,778)	(104,698)	(251,168)	(50,071)	309,647
Health insurance	64,018	(1,105)	(12,953)	(29,772)	(5,149)	15,039
Compulsory automobile liability insurance	721,738	(409)	(97,324)	(411,695)	(72,911)	139,399
Total	\$4,829,065	\$100,766	\$(636,764)	\$(2,797,217)	\$432,650	\$1,928,500

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	For the three-month periods ended 31 March 2016					
	Direct premium income	Net change	Acquisition	Insurance claims payments	Net change for	Net gain(loss)
		for unearned premium reserve	cost for insurance contracts			
Fire insurance	\$554,184	\$218,276	\$(43,838)	\$(375,688)	\$(1,563,803)	\$(1,210,869)
Marine insurance	161,781	(19,335)	(13,010)	(57,754)	42,617	114,299
Land and air insurance	1,992,374	(59,557)	(286,345)	(1,016,574)	(167,631)	462,267
Liability insurance	338,736	(33,140)	(37,492)	(96,987)	79,018	250,135
Bonding insurance	59,933	(29,417)	(6,402)	(21,088)	31,695	34,721
Other property insurance	583,819	78,661	(128,110)	(471,996)	9,149	71,523
Accident insurance	723,373	(51,634)	(114,727)	(250,798)	(58,106)	248,108
Health insurance	58,182	104	(11,851)	(30,315)	(4,453)	11,667
Compulsory automobile liability insurance	954,702	(62,382)	(108,121)	(535,736)	(7,852)	240,611
Total	\$5,427,084	\$41,576	\$(749,896)	\$(2,856,936)	\$(1,639,366)	\$222,462

b. Cost benefit analysis for assumed reinsurance business

	For the three-month periods ended 31 March 2017					
	Reinsurance premium income	Net change for				Net (loss) gain for assumed reinsurance
		unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	
Fire insurance	\$54,359	\$(14,519)	\$(7,184)	\$(7,235)	\$7,781	\$33,202
Marine insurance	2,199	159	(111)	(718)	401	1,930
Land and air insurance	(10)	4,071	(27)	(707)	(1,927)	1,400
Liability insurance	(80)	356	(8)	123	(20)	371
Bonding insurance	498	121	(2)	(23)	2	596
Other property insurance	8,156	514	(1,903)	(3,810)	1,484	4,441
Accident insurance	1,933	(52)	(69)	(8)	(5)	1,799
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	183,590	10,359	-	(179,989)	(21,618)	(7,658)
Total	\$250,645	\$1,009	\$(9,304)	\$(192,367)	\$(13,902)	\$36,081

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	For the three-month periods ended 31 March 2016					
	Net change for					Net (loss) gain for assumed reinsurance
	Reinsurance premium income	unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	
Fire insurance	\$34,572	\$206	\$(4,189)	\$(26,806)	\$24,397	\$28,180
Marine insurance	2,156	(489)	68	(18,939)	16,200	(1,004)
Land and air insurance	(172)	5,985	(43)	(7)	1,333	7,096
Liability insurance	(418)	477	273	(48)	99	383
Bonding insurance	506	17	-	(2)	136	657
Other property insurance	6,345	3,608	(2,279)	(1,723)	8,466	14,417
Accident insurance	1,592	(135)	-	(3)	430	1,884
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	209,898	(52,006)	-	(135,428)	(38,015)	(15,551)
Total	\$254,479	\$(42,337)	\$(6,170)	\$(182,956)	\$13,046	\$36,062

c. Recognized gain (loss) for reinsurance contracts purchased

	For the three-month periods ended 31 March 2017					
	Net change for			Claims		Net loss (gain) for reinsurance ceded
	Reinsurance expenses	unearned premium reserve ceded	Reinsurance commission earned	recovered from reinsurers	Net change for claims reserve ceded	
Fire insurance	\$358,603	\$163,435	\$(12,091)	\$(656,676)	\$699,177	\$552,448
Marine insurance	99,716	5,943	(13,710)	(16,513)	(13,329)	62,107
Land and air insurance	76,485	29,467	(29,106)	(39,641)	(62,468)	(25,263)
Liability insurance	120,576	(10,172)	(27,095)	(22,506)	(8,981)	51,822
Bonding insurance	54,455	(31,391)	(8,761)	31,655	8,562	54,520
Other property insurance	73,301	4,216	(15,156)	(19,636)	7,966	50,691
Accident insurance	82,735	(22,076)	(17,649)	(17,027)	(10,980)	15,003
Health insurance	-	-	-	-	(582)	(582)
Compulsory automobile liability insurance	297,203	35	-	(234,145)	(44,406)	18,687
Total	\$1,163,074	\$139,457	\$(123,568)	\$(974,489)	\$574,959	\$779,433

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	For the three-month periods ended 31 March 2016					
	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	\$408,708	\$122,825	\$(34,330)	\$(129,244)	\$(1,600,592)	\$(1,232,633)
Marine insurance	112,488	(13,410)	(17,320)	(46,119)	38,926	74,565
Land and air insurance	68,185	42,821	(21,543)	(34,673)	(9,092)	45,698
Liability insurance	126,090	(15,196)	(26,939)	(44,733)	18,644	57,866
Bonding insurance	44,771	(24,677)	(8,129)	(21,087)	36,753	27,631
Other property insurance	50,411	43,744	(10,570)	(38,017)	1,823	47,391
Accident insurance	120,168	(37,564)	(25,685)	(16,943)	3,430	43,406
Health insurance	8	-	(3)	-	(460)	(455)
Compulsory automobile liability insurance	303,816	(37,837)	-	(209,150)	(31,809)	25,020
Total	\$1,234,645	\$80,706	\$(144,519)	\$(539,966)	\$(1,542,377)	\$(911,511)

(4) Sensitivity of insurance risk

The Company

	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	\$526,210	62.78	\$26,310	\$8,149
Marine insurance	138,910	62.78	6,946	1,475
Land and air insurance	2,104,734	65.97	105,237	65,210
Liability insurance	300,696	67.85	15,035	6,233
Bonding insurance	65,376	67.40	3,269	200
Other property insurance	137,303	60.77	6,865	3,074
Accident insurance	728,411	77.96	36,421	25,808
Health insurance	64,018	76.20	3,201	2,428
Compulsory automobile liability insurance	721,738	NA	NA	NA

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

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

(5) Interpretation of concentration of insurance risk

The Company

a. Situations that might cause concentration of insurance risk:

I. Single insurance contract or few related contracts

For the years ended 31 December 2016, the Company 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.

II. Exposure to unanticipated change in trend

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

III. 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 the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the years ended 31 December 2016, no material lawsuit or legal risks has taken place.

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IV. 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 the Company being severely endangered by these derived risks, the Company 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 the Company and to guard financial order. For the years ended 31 December 2016, there is no catastrophe has taken place.

V. When a certain key variable has approached a significantly non-linear relationship with future cash flow which could dramatically influence its performance

Since the 3rd stage of liberalization of property insurance fee took into effect, the Company 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.

In addition, investment in financial instruments in part, on a regular basis to monitor changes in the value of the site and the risk of cash flow analysis, and supplemented by stress testing, to control and management affecting fluctuations of major risk factors.

In addition, the implementation of stress tests for overall business every year, the impact assessment of the assets and the insurance risk of extreme financial position of the Company's situation, understand the major risk factors to adjust the response in advance.

VI. Concentration risks in geographic regions and operating segments

The Company's catastrophe insurance for earthquakes and floods are centralized in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

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b. Following table summarizes the concentration risk of the Company before and after reinsurance by types of insurance:

Insurance type	For the three-month periods ended 31 March 2017				
	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Fire insurance	\$525,794	\$53,918	\$346,523	\$233,189	6.0%
Marine insurance	138,910	2,199	98,591	42,518	1.1%
Land and air insurance	2,104,733	(45)	76,437	2,028,251	52.1%
Liability insurance	300,696	(79)	120,021	180,596	4.7%
Bonding insurance	65,376	498	54,455	11,419	0.3%
Other property insurance	137,303	8,156	70,119	75,340	1.9%
Accident insurance	728,411	1,933	82,735	647,609	16.6%
Health insurance	64,018	-	-	64,018	1.7%
Compulsory automobile liability insurance	721,738	183,589	297,203	608,124	15.6%
Total	\$4,786,979	\$250,169	\$1,146,084	\$3,891,064	100.00%

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

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

To control infrequent risk that impacts significantly, the Company assess risk of natural disasters and specially covered item (e.g., independent power producer and abutment project). The Company also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

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(6) Claim development trend

A. The Company

	1 April2011- -31 March 2011	1 April2012- 31 March 2012	1 April2013- 31 March 2013	1 April2014- 31 March 2014	1 April2015- 31 March 2015	1 April2016- 31 March 2016	1 April2016- 31 March 2017	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	\$11,808,417	\$4,157,056	\$5,956,442	\$6,035,485	\$7,121,019	\$9,506,959	\$8,538,079	
One year later	14,985,175	4,979,753	6,008,210	6,560,065	7,302,356	11,069,320		
Two year later	14,806,678	5,156,606	5,852,365	6,616,375	7,184,946			
Three year later	14,961,436	5,148,452	5,982,633	6,467,960				
Four year later	15,027,681	5,279,160	5,888,392					
Five year later	15,028,456	5,251,261						
Six year later	14,410,624							
Estimate of cumulative claims incurred	14,410,624	5,251,261	5,888,392	6,467,960	7,184,946	11,069,320	8,538,079	\$58,810,582
Cumulative payment to date	14,735,814	5,260,453	5,840,271	6,348,265	6,705,145	8,781,677	4,275,631	51,947,256
Subtotal	(325,190)	(9,192)	48,121	119,695	479,801	2,287,643	4,262,448	6,863,326
Reconciliation	-	-	-	-	-	-	121,382	121,382
Recorded in balance sheet	\$(325,190)	\$(9,192)	\$48,121	\$119,695	\$479,801	\$2,287,643	\$4,383,830	\$6,984,708

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

The upper table excludes direct claim reserve of compulsory insurance \$1,482,037 thousand and claim reserve of assumed reinsurance \$666,342 thousand.

B. Cathay Insurance (Vietnam)

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

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(7) Financial instruments

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Held for trading	\$981,781	\$875,543	\$2,070,262
Available-for-sale financial assets	9,378,617	9,201,915	8,431,251
Held-to-maturity financial assets	6,407,572	6,112,465	4,461,891
Loans and receivables:			
Cash and cash equivalents (exclude cash on hand)	7,211,820	6,947,923	12,311,604
Debt instrument investments for which no active market exists	2,031,673	2,520,733	3,390,372
Receivables	1,740,771	1,983,309	1,948,496
Loans	317,194	354,812	365,619
Guarantee deposits paid	607,661	619,410	1,449,129
Subtotal	<u>11,909,119</u>	<u>12,426,187</u>	<u>19,465,220</u>
Total	<u>\$28,677,089</u>	<u>\$28,616,110</u>	<u>\$34,428,624</u>
<u>Financial liabilities</u>			
Financial liabilities at fair value through profit or loss:			
Held for trading	\$1,656	\$54,590	\$81,005
Financial liabilities measured at amortized cost:			
Payables	2,458,313	2,663,593	2,538,277
Preferred stock liabilities	1,000,000	1,000,000	1,000,000
Total	<u>\$3,459,969</u>	<u>\$3,718,183</u>	<u>\$3,619,282</u>

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(8) Financial risk management objectives and policies

The Consolidated Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Consolidated Company identifies, measures and manages the aforementioned risks based on the Consolidated Company's policy and risk appetite.

The Consolidated Company has 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. The Consolidated Company complies with its financial risk management policies at all times.

A. Market risk

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

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

(A) Foreign currency risk

The Consolidated Company is 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, the Consolidate Company engage in forward foreign exchange contracts for hedging purposes.

The Consolidated Company 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. The Consolidated Company does not engage in hedging in relation to this type of transaction.

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The Consolidated Company's 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. The Consolidated Company's 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

The Consolidated Company 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 the Consolidated Company are classified under held for trading financial assets or available-for-sale financial assets. The Consolidated Company manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

(A) Credit risk management policies

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

The Consolidated Company's 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 deteriorate, the Consolidated Company may exercise under their own discretion the relevant security rights upon presentation, to protect the Consolidated Company's interests.

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The Consolidated Company's credit risk exposure of financial transactions include: issuer risk, counterparty risk and the credit risk of underlying assets.

- I. Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.
- II. Counterparty risk is the risk that a counterparty of the Consolidated Company fail to deliver as obligated before the settlement date which then causes losses to the Consolidated Company.
- III. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underlying assets linked to a financial instrument.

(B) Credit concentration risk analysis

- I. The amounts of credit risk exposure of the Consolidated Company's financial assets are as follows:

Financial assets	31 March 2017					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,985,156	\$97	\$60,622	\$269,008	\$896,937	\$7,211,820
Financial assets at fair value through profit or loss	167,873	-	-	-	-	167,873
Available-for-sale financial assets	1,539,832	-	-	-	306,053	1,845,885
Debt instrument investments for which no active market exists	1,100,000	-	326,280	311,309	294,084	2,031,673
Held-to-maturity financial assets	799,969	-	1,149,773	2,900,332	1,557,498	6,407,572
Total	\$9,592,830	\$97	\$1,536,675	\$3,480,649	\$3,054,572	\$17,664,823
Proportion	54.30%	0.00%	8.70%	19.70%	17.30%	100.00%

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Financial assets	31 December 2016					
	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	40,000	-	-	-	-	40,000
Available-for-sale financial assets	1,540,928	-	-	-	325,882	1,866,810
Debt instrument investments for which no active market exists	1,400,000	-	347,116	332,006	441,611	2,520,733
Held-to-maturity financial assets	799,987	-	1,025,896	2,919,855	1,366,727	6,112,465
Total	\$9,349,944	\$97	\$1,435,279	\$3,548,152	\$3,154,459	\$17,487,931
Proportion	53.46%	0.00%	8.21%	20.29%	18.04%	100.00%

Financial assets	31 March 2016					
	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	\$5,819,272	\$-	\$63,212	\$302,033	\$6,127,087	\$12,311,604
Financial assets at fair value through profit or loss	75,832	-	-	-	-	75,832
Available-for-sale financial assets	1,578,534	-	-	-	596,424	2,174,958
Debt instrument investments for which no active market exists	1,600,000	-	346,962	655,069	788,341	3,390,372
Held-to-maturity financial assets	204,294	-	832,207	2,275,231	1,150,159	4,461,891
Total	\$9,277,932	\$-	\$1,242,381	\$3,232,333	\$8,662,011	\$22,414,657
Proportion	41.39%	0.00%	5.54%	14.42%	38.65%	100.00%

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(C) Credit risk quality analysis

- I. Credit quality classifications of the Consolidated Company's financial assets are as follows:

Financial assets	Credit quality of financial assets				
	31 March 2017				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$7,211,820	\$-	\$-	\$-	\$7,211,820
Financial assets at fair value through profit or loss	167,873	-	-	-	167,873
Available-for-sale financial assets	1,845,885	-	-	-	1,845,885
Debt instrument investments for which no active market exists	2,031,673	-	-	-	2,031,673
Held-to-maturity financial assets	6,407,572	-	-	-	6,407,572
Total	\$17,664,823	\$-	\$-	\$-	\$17,664,823

Financial assets	Credit quality of financial assets				
	31 December 2016				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$6,947,923	\$-	\$-	\$-	\$6,947,923
Financial assets at fair value through profit or loss	40,000	-	-	-	40,000
Available-for-sale financial assets	1,866,810	-	-	-	1,866,810
Debt instrument investments for which no active market exists	2,520,733	-	-	-	2,520,733
Held-to-maturity financial assets	6,112,465	-	-	-	6,112,465
Total	\$17,487,931	\$-	\$-	\$-	\$17,487,931

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Financial assets	Credit quality of financial assets				
	31 March 2016				
	Normal assets		Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade			
Cash and cash equivalents	\$12,311,604	\$-	\$-	\$-	\$12,311,604
Financial assets at fair value through profit or loss	75,832	-	-	-	75,832
Available-for-sale financial assets	2,174,958	-	-	-	2,174,958
Debt instrument investments for which no active market exists	3,390,372	-	-	-	3,390,372
Held-to-maturity financial assets	4,461,891	-	-	-	4,461,891
Total	\$22,414,657	\$-	\$-	\$-	\$22,414,657

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.

II. Loans

Loans	31 March 2017							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$128,339	\$-	\$-	\$-	\$112,545	\$240,884	\$2,905	\$237,979
Corporate Finance	64,100	-	-	-	15,750	79,850	635	79,215
Total	\$192,439	\$-	\$-	\$-	\$128,295	\$320,734	\$3,540	\$317,194

Loans	31 December 2016							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$139,740	\$-	\$-	\$-	\$139,335	\$279,075	\$3,477	\$275,598
Corporate Finance	64,100	-	-	-	15,750	79,850	636	79,214
Total	\$203,840	\$-	\$-	\$-	\$155,085	\$358,925	\$4,113	\$354,812

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Loans	31 March 2016							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
	Excellent	Great	Normal					
Consumer Finance	\$167,801	\$-	\$-	\$-	\$123,706	\$291,507	\$3,733	\$287,774
Corporate Finance	62,280	-	-	-	16,200	78,480	635	77,845
Total	\$230,081	\$-	\$-	\$-	\$139,906	\$369,987	\$4,368	\$365,619

C. Operational Risk

In order to avoid the potential losses caused by failed internal controls, employee fraud or misconduct and management negligence, the Company had set up the standard operating procedures and computer systems based on the business nature of the front, middle, and back departments, and manage the operational risk effectively by strict systems of internal control, internal audits, external audits, and regulatory compliance. The Company had set and implemented "Regulations Reporting the Losses by Operational Risk" as well to establish the data base of losses resulting from operational risk by "Losses by Operational Risk Reporting System".

D. Liquidity risk

(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 the Company is unable to turn assets into cash or obtain sufficient funds. "Market liquidity risk" represents the risk of significant changes in fair value that the Company faces when it sells or offsets its assets during market disorder.

(B) Liquidity risk management

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

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Depending on the actual management need or special situation, the Consolidated Company 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 the Consolidated Company's 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.

(C) The table below summarizes the maturity profile of the Consolidated Company's financial liabilities based on contractual undiscounted payments.

Liabilities	31 March 2017						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,458,313	\$1,435,019	\$1,413,879	\$7,140	\$5,258	\$8,742	\$-
Financial liabilities at fair value through profit or loss	1,656	1,656	1,656	-	-	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	\$1,000,000	-	-

Liabilities	31 December 2016						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 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 liabilities	1,000,000	1,000,000	-	-	1,000,000	-	-

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Liabilities	31 March 2017						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	\$2,538,277	\$1,281,110	\$1,260,608	\$9,679	\$4,070	\$6,753	\$-
Financial liabilities at fair value through profit or loss	81,005	81,005	75,712	1,281	4,012	-	-
Preferred stock liabilities	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.

The Consolidated Company continues to use market risk management tools such as value-at-risk and stress testing to completely and effectively measure, monitor and manage market risk.

(A) Value-at-risk

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

The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as the Consolidated Company's risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

(B) Stress testing

In addition to the value-at-risk model, the Consolidated Company 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.

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The Consolidated Company conducts 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.

I. Simple Sensitivity

Simple sensitivity mainly measures changes in value of portfolio caused by specific risk factor.

II. Scenario Analysis

Scenario analysis measures the change in the total value of a portfolio under a stressful event. 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, 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 the Company to perform risk analysis, risk alert and business management based on the stress test report.

31 March 2017	Stress testing	
	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(532,050)
Interest rate risk (Yield curve)	20bp	(172,559)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(107,140)
Merchandise risk (merchandise price)	-10%	-

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31 March 2017		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$113	\$705
	RMB appreciate 1 %	9,061	704
	HKD appreciate 1 %	94	3,266
	NTD appreciate 1 %	(28,499)	(8,309)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,945)	(85)
	Yield curve (RMB) flat rises 1bp	-	(52)
	Yield curve (NTD) flat rises 1bp	(1,339)	(1,125)
Equity securities price sensitivity	Increase 1% in equity price	1	53,204

31 December 2016	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 exchange NTD devalue 1 dollar	(99,465)
Merchandise risk (merchandise price)	-10%	-

31 December 2016		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$117	\$714
	RMB 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 (RMB) 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

31 March 2016	Stress testing	
Risk factors	Variation (+/-)	Changes in profit and loss
Equity price risk (Index)	-10%	\$(458,935)
Interest rate risk (Yield curve)	20bp	(144,155)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(99,562)
Merchandise risk (merchandise price)	-10%	-

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31 March 2016		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	\$120	\$733
	RMB appreciate 1 %	13,332	768
	HKD appreciate 1 %	896	2,595
	NTD appreciate 1 %	(33,447)	(6,446)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,572)	(112)
	Yield curve (RMB) flat rises 1bp	(36)	(67)
	Yield curve (NTD) flat rises 1bp	(1,126)	(1,295)
Equity securities price sensitivity	Increase 1% in equity price	132	45,761

(9) Fair values 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 Consolidated Company to measure or disclose the fair values of financial assets and financial liabilities:

- I. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- II. 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.
- III. 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).

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- IV. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are 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, etc.)
- V. 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 on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- VI. The Company adjusts the credit risk of the derivative contract traded over-the-counter including credit value adjustment (“CVA”) and debit value adjustments (“DVA”), to reflect the likelihood that the counterparty (CVA) or the Company (DVA) dues the whole payment or charges the whole market value of the transactions. The Company evaluates the probability of default (“PD”) of the counterparty, through the following calculation. Under the assumption that the Company will not default, the Company determines its CVA by multiplying three factors, PD, loss given default (“LGD”), and exposure at default (“EAD”), of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its DVA by multiplying three factors, PD, LGD, and EAD, of the Company. The Company decides estimated PD by referring to the probability of default announced by external credit rating agencies. The Company sets estimated LGD at 60 % by considering the experience of John Gregory, a scholar, and foreign financial institutions. The estimated EAD for current period is evaluated by considering the fair value of the derivative instruments traded approach at OTC, which considers the adjustments of the credit risk of the derivative contract in evaluating fair value of financial instruments, to reflect the credit qualities of the counterparty and the Company, respectively.

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B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Consolidated Company's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount			Fair value		
	31 March 2017	31 December 2016	31 March 2016	31 March 2017	31 December 2016	31 March 2016
Financial assets						
Held-to-maturity financial assets	\$6,407,572	\$6,112,465	\$4,461,891	\$6,517,315	\$6,128,125	\$4,557,098
Debt instrument investments for which no active market exists	2,031,673	2,520,733	3,390,372	2,059,741	2,542,908	3,455,132

(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 -Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 -Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 -Unobservable inputs for the asset or liability

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

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

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

As of 31 March 2017:

	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	\$813,908	\$-	\$-	\$813,908
Available-for-sale financial assets				
Stocks	4,590,642	-	491,400	5,082,042
Bonds	306,053	1,539,832	-	1,845,885
Beneficiary certificates	2,420,690	30,000	-	2,450,690
<u>Derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	167,873	-	167,873
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	1,656	-	1,656

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As of 31 December 2016:

	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$22,280	\$-	\$-	\$22,280
Beneficiary certificates	813,263	-	-	813,263
Available-for-sale financial assets				
Stocks	4,247,821	300,000	519,000	5,066,821
Bonds	325,882	1,540,928	-	1,866,810
Beneficiary certificates	2,268,284	-	-	2,268,284
<u>Derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	40,000	-	40,000
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	54,590	-	54,590

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As of 31 March 2016:

	Level 1	Level 2	Level 3	Total
<u>Non-derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Stocks	\$58,758	\$-	\$-	\$58,758
Beneficiary certificates	1,935,672	-	-	1,935,672
Available-for-sale financial assets				
Stocks	2,938,633	-	597,000	3,535,633
Bonds	596,424	1,578,534	-	2,174,958
Beneficiary certificates	2,080,825	639,835	-	2,720,660
<u>Derivative financial instruments:</u>				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	75,832	-	75,832
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	81,005	-	81,005

Transfers between Level 1 and Level 2

For the three-month periods ended 31 March 2017, the Consolidated Company transferred stocks which were measured at fair value on a recurring basis, from level 2 to level 1. A total of \$311,400 thousand was transferred as its market price was obtainable.

For the three-month periods ended March 31, there were no transfers between Level 1 and Level 2 fair value measurements.

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Reconciliation for fair value measurements in Level 3

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements is as follows:

Available-for-sale financial assets	Stocks
1 January 2017	\$519,000
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(27,600)
31 March 2017	<u>\$491,400</u>
1 January 2016	\$600,000
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(3,000)
31 March 2016	<u>\$597,000</u>

Total gains (losses) recognized in profit or loss in the table above contains gains (losses) related to assets on hand as of 31 March 2017 and 2016 are both in the amount of \$0 thousand.

Information on significant unobservable inputs to valuation

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

As of 31 March 2017

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 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 decrease in the Consolidated Company's equity by \$34,800 thousand and increase \$35,400 thousand.

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As of 31 December 2016

	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 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 the Consolidated Company's equity by \$37,200 thousand.

As of 31 March 2016

	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 approach	discount for lack of marketability	35%	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 decrease in the Consolidated Company's equity by \$45,600 thousand and increase \$46,200 thousand.

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

The Consolidated Company'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 Consolidated Company's accounting policies at each reporting date.

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

As of 31 March 2017

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets	\$-	\$6,517,315	\$-	\$6,517,315
Debt instrument investments for which no active market exists	15,996	2,043,745	-	2,059,741

As of 31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets	\$-	\$6,128,125	\$-	\$6,128,125
Debt instrument investments for which no active market exists	52,466	2,490,442	-	2,542,908

As of 31 March 2016

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets	\$-	\$4,557,098	\$-	\$4,557,098
Debt instrument investments for which no active market exists	13,200	3,441,932	-	3,455,132

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8. Related parties transactions

Information of the related parties that had transactions with the Consolidated Company during the financial period is as follow:

Name and nature of relationship of related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Other related parties
Cathay United Bank Co., Ltd.	"
Indovina Bank Ltd.	"
Cathay Securities Investment Trust Co., Ltd.	"
Cathay Futures Co., Ltd.	"
Lin Yuan (Shanghai) Real Estate	"
Symphox Information Co., Ltd.	"
Others	"

Significant transactions with related parties

(1) Premium income

Name	For the three-month	
	periods ended 31 March 2017	periods ended 31 March 2016
Other related parties		
Cathay Life Insurance Co., Ltd.	\$89,326	\$95,839
Cathay United Bank Co., Ltd.	40,333	37,364
Total	<u>\$129,659</u>	<u>\$133,203</u>

Premium rates were no materially different from that with unrelated parties.

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(2) Premiums receivable

Name	31 March 2017	%	31 December 2016	%	31 March 2016	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$1,663	0.13	\$8,856	0.60	\$1,792	0.15
Cathay United Bank Co., Ltd.	20,489	1.61	3,259	0.22	18,329	1.51
Total	<u>\$22,152</u>		<u>\$12,115</u>		<u>\$20,121</u>	

Transactions with other related parties are primarily from the operating transactions, and the average collection period is one month.

(3) Insurance claims payment

Name	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Other related parties		
Cathay Life Insurance Co., Ltd.	\$-	\$4,526

(4) Cash in banks

Name	Type	31 March 2017	31 December 2016	31 March 2016
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	\$793,403	\$634,754	\$501,694
	Checking	142,808	142,370	115,945
	Time deposits	618,200	623,200	623,200
Indovina Bank Ltd.	Cash in banks	4,044	5,722	11,796
	Time deposits	137,871	219,997	177,038
Total		<u>\$1,696,326</u>	<u>\$1,626,043</u>	<u>\$1,429,673</u>

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Name	Type	Interest Rate		
		31 March 2017	31 December 2016	31 March 2016
Other related parties				
Cathay United Bank Co., Ltd.	Cash in banks	0.001%~0.35%	0.001%~0.35%	0.001-0.35%
	Time deposits	0.05%~1.065%	0.38%~1.205%	0.38-1.205%
Indovina Bank Ltd.	Cash in banks	1.00%	1.00%	1.00%
	Time deposits	4.3%-7.4%	4.3%-7.4%	4.80%-7.50%

Name	Type	Interest Revenue	
		For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	\$123	\$128
	Time deposits	1,598	1,802
Indovina Bank Ltd.	Cash in banks	60	-
	Time deposits	1,832	2,550
Total		\$3,613	\$4,480

As of 31 March 2017, 31 December 2016 and 31 March 2016, time deposit pledged were \$23,157 thousand, \$28,677 thousand and \$28,078 thousand.

(5) Loans

Name	For the three-month periods ended 31 March 2017			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$22,909	\$21,280	1.53%~1.60%	\$86

Name	For the three-month periods ended 31 March 2016			
	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	\$48,793	\$47,056	1.67%-1.69%	\$208

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(6) Financial assets at fair value through profit or loss

Name	Type	31 March 2017	31 December 2016	31 March 2016
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	\$-	\$-	\$100,695

(7) Available-for-sale financial assets

Name	Type	31 March 2017	31 December 2016	31 March 2016
Other related parties				
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	\$329,972	\$306,641	\$218,270

(8) Discretionary account management balance

Name	31 March 2017	31 December 2016	31 March 2016
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	\$1,106,637	\$1,069,225	\$ 1,031,698

(9) Guarantee deposits paid

Name	31 March 2017	%	31 December 2016	%	31 March 2016	%
Other related parties						
Cathay Life Insurance Co., Ltd.	\$24,469	4.03	\$24,469	3.95	\$24,244	1.67
Cathay Futures Co., Ltd.	6,819	1.12	6,817	1.10	6,813	0.47
Cathay United Bank Co., Ltd.	17,224	2.83	22,224	3.59	22,403	1.55
Lin Yuan (Shanghai) Real Estate	6,901	1.14	7,282	1.18	5,336	0.37
Total	<u>\$55,413</u>		<u>\$60,792</u>		<u>\$58,796</u>	

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(10) Other payable

Name	31 March 2017	%	31 December 2016	%	31 March 2016	%
Parent company						
Cathay Financial Holdings Co., Ltd.	\$399,568	44.44	\$307,399	26.75	\$352,113	33.56
Other related parties						
Cathay Life Insurance Co., Ltd.	51,162	5.69	152,623	13.28	142,894	13.62
Symphox Information Co., Ltd.	3,691	0.41	2,581	0.22	3,604	0.34
Total	<u>\$454,421</u>		<u>\$462,603</u>		<u>\$498,611</u>	

(11) Preferred stock liability

Name	31 March 2017	%	31 December 2016	%	31 March 2016	%
Parent company						
Cathay Financial Holdings Co., Ltd.	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00	<u>\$1,000,000</u>	100.00

(12) Operating costs

Name	Type	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Other related parties			
Cathay United Bank Co., Ltd.	Handing fee paid	<u>\$6,392</u>	<u>\$5,602</u>

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(13) Operating expenses

Name	Type	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	\$26,012	\$25,822
	Marketing expenses	118,477	322,207
	Party premium expenses	3,214	3,185
	Administrative expenses	1,394	1,371
Cathay United Bank Co., Ltd.	Marketing expenses	29,720	19,841
	Rental expenses	2,253	2,250
Lin Yuan (Shanghai) Real Estate	Rental expenses	7,064	5,146
Total		<u>\$188,134</u>	<u>\$379,822</u>

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

(14) Other expenses

Name	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Other related parties		
Symphox Information Co., Ltd.	<u>\$9,736</u>	<u>\$10,544</u>

(15) Non-operating expenses and losses

Name	For the three-month periods ended 31 March 2017	For the three-month periods ended 31 March 2016
Parent company		
Cathay Financial Holdings Co., Ltd.	<u>\$4,586</u>	<u>\$4,625</u>

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

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(16) Other

As of 31 March 2017, 31 December 2016 and 31 March 2016 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below (in thousands):

Name	Type	31 March 2017	31 December 2016	31 March 2016
Other related parties				
Cathay United Bank	CS contracts	US\$82,700	US\$76,700	US\$74,200
Co., Ltd.		EUR\$5,850	EUR\$5,850	EUR\$5,850

(17) Key management personnel compensation in total

Name	For the three-month periods ended	For the three-month periods ended
	31 March 2017	31 March 2016
Short-term employee benefits	\$24,860	\$31,811
Post-employment benefits	1,376	1,287
Total	<u>\$26,236</u>	<u>\$33,098</u>

9. Pledged assets

(1) The Company

	31 March 2017	31 December 2016	31 March 2016
Guarantee deposits paid-government bonds	\$529,021	\$529,664	\$541,344
Guarantee deposits paid-time deposits	15,000	20,000	20,000
Total	<u>\$544,021</u>	<u>\$549,664</u>	<u>\$561,344</u>

As of 31 March 2017, 31 December 2016 and 31 March 2016, the Company provided government bonds amounting to \$529,021 thousand, \$529,664 thousand and \$541,344 thousand as the “Guaranteed Depository Insurance” in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

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(2) Cathay Insurance (Vietnam)

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Government deposits paid-time deposits	\$8,157	\$8,677	\$8,078

According to Insurance Act of Vietnam, Cathy Insurance (Vietnam) should deposit guarantee deposits at an amount equal to 2% of its paid-in capital. The guaranteed deposits of Cathay Insurance (Vietnam) are time deposits. The pledged assets are stated at book value.

10. Contingent liabilities and unrecognized contractual commitments

Legal claim contingency

The Consolidated Company has its own response policies to legal claims. Once the losses can be reasonable estimated based on professional advices, the Consolidated Company will recognize the losses and adjust negative impacts on financial affairs resulting from the claims.

Operating lease commitments - The Consolidated Company as a lessee

The Consolidated Company entered into several operating lease contracts for office and equipment. The operating lease will expire in 3-5 years, and there's no limited condition in the contracts.

According to the noncancelable operating lease contracts, the future minimum lease payments at 31 March 2017, 31 December 2016 and 31 March 2016 are as follows:

(1) Significant lease contracts of the Company

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Not later than 1 year	\$59,342	\$86,025	\$130,536
Later than 1 year but not later than 5 years	2,057	4,699	60,399
Later than 5 years	-	-	-
Total	<u>\$61,399</u>	<u>\$90,724</u>	<u>\$190,935</u>

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11. Significant disaster losses: None.

12. Subsequent events: None.

13. Others matters

(1) Discretionary account management

A. As of 31 March 2017, 31 December 2016 and 31 March 2016, the Consolidated Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	31 March 2017	
	Carrying amount	Fair value
Listed stocks	\$820,637	\$820,637
Foreign stocks	130,949	130,949
Reverse repurchase bonds	450,365	450,365
Cash in banks	282,257	282,257
Futures and options	2,008	2,008
Total	<u>\$1,686,216</u>	<u>\$1,686,216</u>

	31 December 2016	
	Carrying amount	Fair value
Listed stocks	\$747,794	\$747,794
Foreign stocks	132,666	132,666
Reverse repurchase bonds	600,050	600,050
Cash in banks	104,183	104,183
Futures and options	2,007	2,007
Total	<u>\$1,586,700</u>	<u>\$1,586,700</u>

	31 March 2016	
	Carrying amount	Fair value
Listed stocks	\$310,579	\$310,579
Foreign stocks	167,525	167,525
Reverse repurchase bonds	700,403	700,403
Cash in banks	193,553	193,553
Futures and options	2,006	2,006
Total	<u>\$1,374,066</u>	<u>\$1,374,066</u>

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B. As of 31 March 2017, 31 December 2016 and 31 March 2016 the Consolidated Company entered into discretionary account management contracts in the amounts of \$1,500,000 thousand, \$1,500,000 thousand and \$1,300,000 thousand, respectively.

- (2) Assets and liabilities are distinguished based on expectations regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date.

	31 March 2017		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$7,228,259	\$-	\$7,228,259
Receivables	1,740,771	-	1,740,771
Investments	8,650,264	11,686,110	20,336,374
Reinsurance assets	7,650,004	-	7,650,004
Property and equipment	-	79,500	79,500
Intangible assets	-	34,784	34,784
Other assets	-	834,507	834,507
Total assets			<u>\$37,904,199</u>
Payables	\$2,444,313	\$14,000	\$2,458,313
Financial liabilities	1,656	1,000,000	1,001,656
Insurance liabilities	-	23,760,973	23,760,973
Provision	-	380,025	380,025
Other liabilities	-	676,465	676,465
Total liabilities			<u>\$28,277,432</u>

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	31 December 2016		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$6,961,855	\$-	\$6,961,855
Receivables	1,983,309	-	1,983,309
Investments	8,603,548	11,742,960	20,346,508
Reinsurance assets	8,028,287	-	8,028,287
Property and equipment	-	91,262	91,262
Intangible assets	-	34,424	34,424
Other assets	-	804,652	804,652
Total assets			<u>\$38,250,297</u>
Payables	\$2,654,118	\$9,475	\$2,663,593
Financial liabilities	54,590	1,000,000	1,054,590
Insurance liabilities	-	24,317,028	24,317,028
Provision	-	380,158	380,158
Other liabilities	-	618,947	618,947
Total liabilities			<u>\$29,034,316</u>
	31 March 2016		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	\$12,326,370	\$-	\$12,326,370
Receivables	1,948,496	-	1,948,496
Investments	8,115,670	10,603,725	18,719,395
Reinsurance assets	7,726,688	-	7,726,688
Property and equipment	-	191,680	191,680
Intangible assets	-	57,818	57,818
Other assets	-	1,666,748	1,666,748
Total assets			<u>\$42,637,195</u>
Payables	\$2,527,454	\$10,823	\$2,538,277
Financial liabilities	76,993	1,004,012	1,081,005
Insurance liabilities	-	26,621,937	26,621,937
Provision	-	381,577	381,577
Other liabilities	-	4,640,878	4,640,878
Total liabilities			<u>\$35,263,674</u>

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For the three-month periods ended 31 March 2017 and 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

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

(3) Eliminated inter-company transactions

Transactions	For the three-month periods ended	
	31 March 2017	
	Company name and debit (credit) amounts	
	The Company	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity		
j Eliminate subsidiaries investment profit and loss	\$3,719	\$(3,719)
k Eliminate subsidiaries equity	(580,738)	580,738

Transactions	For the three-month periods ended		
	31 March 2016		
	Company name and debit (credit) amounts		
	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	\$74,414	\$75,041	\$(627)
k Eliminate subsidiaries equity	(802,816)	490,374	557,629

Note: The eliminated difference of inter-company result in non-controlling equity \$0 thousand and \$245,187 thousand for the three-month periods ended 31 March 2017 and 2016, respectively.

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

Financial Assets	31 March 2017		
	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	\$249,012	30.3360	\$7,554,030
RMB	56,579	4.4018	249,045
EUR	1,050	32.4322	34,059
JPY	68,247	0.2700	18,426
Non-Monetary Items			
USD	189,600	30.3360	5,751,706
EUR	7,850	32.4322	254,593

Financial Assets	31 December 2016		
	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	\$231,508	32.2790	\$7,472,860
RMB	238,062	4.6449	1,105,784
EUR	599	33.9172	20,321
JPY	64,064	0.2744	17,577
Non-Monetary Items			
USD	175,600	32.2790	5,668,192
EUR	7,850	33.9172	266,250

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Financial Assets	31 March 2016		
	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	\$226,159	32.2820	\$7,300,850
RMB	277,008	4.9908	1,382,493
EUR	543	36.6207	19,872
DKK	629	4.9004	3,084
Non-Monetary Items			
USD	179,100	32.2820	5,781,706
EUR	7,850	36.6207	287,472

As the Consolidated Company 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 (loss) for the three-month periods ended 31 March 2017 and 2016 were \$(442,880) thousand and \$(177,093) thousand, respectively.

The abovementioned information is disclosed by book value of foreign currencies (already translated to functional currencies)

(5) Interests in unconsolidated structured entities

Unconsolidated structured entities

A. The Company does not provide financial support or other support to the unconsolidated structured entities. The Company's maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets the Company recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of structured entity	Nature and purpose	Interests owned
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

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B. Details of the carrying amount of assets recognized by Consolidated Company relating to its interests in unconsolidated structured entities as of 31 March 2017, 31 December 2016 and 31 March 2016, are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>	<u>31 March 2016</u>
Securitization vehicle			
Available-for-sale financial assets	\$164,162	\$136,785	\$31,805
Held-to-maturity financial assets	800,766	880,018	\$1,002,845
Total	<u>\$964,928</u>	<u>\$1,016,803</u>	<u>\$1,034,650</u>

(6) Capital management

A. Objective

In order to enhance the Consolidated Company's capital structure and business growth, the Consolidated Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policy

In order to assume all types of risks, the Company applies capital adequacy ratio as the index of capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically in order to understand the situation of capital adequacy in the short-run and mid-term. The Company set business objectives, plan assets allocation based on the ratio and dividend policy.

C. Procedures

a. Periodically

Regularly review the capital adequacy ratios in order to implement the capital adequacy management. The Company provides capital adequacy report every half year by the competent authority and analyze the possible changes in its own capital and risk capital when forecasting the investment development plan. The Company ensures a healthy capital structure and implements capital adequacy management.

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b. Aperiodically

Practice scenario analysis for capital adequacy ratio focusing on the Company's usage of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

(7) Operation segments information

The Consolidated Company operates property insurance by Insurance Act. In accordance with IFRS 8, the Company only provides insurance contracts products and it has no different business way, client style and supervision environment. The supervisor of the Company also implement assets overall, and consider the Company as a single operating segment.

(8) Significant contract

None.

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD\$28,963 thousand to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized the Company to RMB\$200,000 thousand to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was RMB\$100,000 thousand and was authorized by CIRC. As of 31 March 2016, the Company has totally remitted US\$60,562 thousand.