

**Cathay Financial Holding Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. and its subsidiaries (collectively, the "Group") as of September 30, 2019, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2019, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2019, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2019, its consolidated financial performance for the three months ended September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

The consolidated financial statements of the Group for the nine months ended September 30, 2018, were reviewed by other auditors, who expressed an unqualified conclusion on those statements on November 2, 2018.

The engagement partners on the reviews resulting in this independent auditors' review report are Cheng-Hung Kuo and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 13, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' review report and consolidated financial statements shall prevail.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 343,245,590	3	\$ 206,576,054	2	\$ 235,551,443	3
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	110,869,396	1	104,223,315	1	121,969,884	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 28 and 29)	1,586,459,556	16	1,428,824,049	16	1,407,933,384	15
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8 and 29)	1,202,571,937	12	1,127,810,270	12	1,188,757,135	13
FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Notes 4, 5, 9 and 29)	3,014,160,425	30	2,688,221,788	29	2,562,779,822	28
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	702,253	-	216,611	-	201,416	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	63,391,762	1	59,212,899	1	112,158,805	1
RECEIVABLES, NET (Notes 4, 5 and 10)	210,297,923	2	161,216,190	2	165,043,950	2
CURRENT TAX ASSETS	5,415,587	-	6,438,062	-	553,645	-
DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28)	2,080,288,090	21	2,176,775,907	24	2,160,435,755	23
REINSURANCE CONTRACT ASSETS, NET	7,545,132	-	7,623,707	-	7,636,451	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28)	47,991,783	1	44,932,006	-	43,808,732	1
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	599,343,292	6	555,740,531	6	593,921,487	6
INVESTMENT PROPERTIES, NET (Notes 3, 4, 5, 14, 16 and 29)	405,987,422	4	319,222,554	3	318,486,129	3
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	101,691,763	1	166,458,327	2	166,585,258	2
RIGHT-OF-USE ASSETS, NET (Notes 3, 4, 16 and 28)	3,860,275	-	-	-	-	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	52,165,863	1	53,826,467	1	54,197,166	1
DEFERRED TAX ASSETS (Note 4)	29,047,629	-	40,806,934	-	35,796,844	-
OTHER ASSETS, NET (Notes 3, 28 and 29)	<u>74,694,179</u>	<u>1</u>	<u>76,357,835</u>	<u>1</u>	<u>72,684,215</u>	<u>1</u>
TOTAL	\$ 9,939,729,857	100	\$ 9,224,483,506	100	\$ 9,248,501,521	100
LIABILITIES AND EQUITY						
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 28)	\$ 112,585,730	1	\$ 81,432,233	1	\$ 87,171,203	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	138,241,318	1	129,698,896	1	145,383,363	1
FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5)	38,240	-	-	-	-	-
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4)	27,419,737	-	59,307,037	-	65,194,295	1
COMMERCIAL PAPER PAYABLES, NET (Note 18)	55,609,250	1	62,989,367	1	65,278,538	1
PAYABLES (Notes 3 and 28)	124,011,839	1	66,727,399	1	61,232,574	1
CURRENT TAX LIABILITIES (Note 4)	1,279,571	-	2,543,689	-	3,622,988	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,273,980,926	23	2,187,203,086	24	2,166,629,228	23
BONDS PAYABLE (Note 20)	118,900,000	1	90,600,000	1	90,600,000	1
OTHER BORROWINGS	217,276	-	336,381	-	97,094	-
PROVISIONS (Notes 4, 21 and 22)	5,613,109,948	57	5,341,935,726	58	5,238,698,227	57
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	662,125,752	7	627,815,178	7	664,763,312	7
LEASE LIABILITIES (Notes 3, 4, 16 and 28)	12,777,040	-	-	-	-	-
DEFERRED TAX LIABILITIES (Note 4)	49,607,097	1	27,091,143	-	30,341,095	-
OTHER LIABILITIES (Note 28)	<u>17,525,501</u>	<u>-</u>	<u>17,514,376</u>	<u>-</u>	<u>17,818,691</u>	<u>-</u>
Total liabilities	<u>9,207,429,225</u>	<u>93</u>	<u>8,695,194,511</u>	<u>94</u>	<u>8,636,830,608</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital						
Ordinary shares	125,632,102	1	125,632,102	2	125,632,102	2
Preference shares	15,333,000	-	15,333,000	-	15,333,000	-
Capital surplus	161,689,272	2	165,449,364	2	165,456,178	2
Retained earnings						
Legal reserve	46,122,845	-	40,976,121	-	40,976,121	-
Special reserve	221,977,672	2	149,346,119	2	149,346,119	2
Unappropriated earnings	46,512,387	1	95,553,376	1	101,779,154	1
Other equity	<u>105,027,128</u>	<u>1</u>	<u>(72,558,752)</u>	<u>(1)</u>	<u>3,988,029</u>	<u>-</u>
Total equity attributable to owners of the Company	<u>722,294,406</u>	<u>7</u>	<u>519,731,330</u>	<u>6</u>	<u>602,510,703</u>	<u>7</u>
NON-CONTROLLING INTERESTS (Notes 4 and 24)	<u>10,006,226</u>	<u>-</u>	<u>9,557,665</u>	<u>-</u>	<u>9,160,210</u>	<u>-</u>
Total equity	<u>732,300,632</u>	<u>7</u>	<u>529,288,995</u>	<u>6</u>	<u>611,670,913</u>	<u>7</u>
TOTAL	\$ 9,939,729,857	100	\$ 9,224,483,506	100	\$ 9,248,501,521	100

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

(With Deloitte & Touche review report dated November 13, 2019)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 55,539,777	39	\$ 52,935,233	51	\$ 164,955,074	43	\$ 148,739,895	42
INTEREST EXPENSE (Notes 4 and 28)	(6,000,559)	(4)	(5,630,040)	(5)	(18,014,348)	(5)	(16,334,611)	(5)
NET INTEREST INCOME	<u>49,539,218</u>	<u>35</u>	<u>47,305,193</u>	<u>46</u>	<u>146,940,726</u>	<u>38</u>	<u>132,405,284</u>	<u>37</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME								
Net gain on service fee and commission fee (Notes 4, 23, 25 and 28)	1,713,961	1	2,067,329	2	2,783,985	1	6,191,262	2
Net income on insurance operations (Notes 4, 25 and 28)	62,956,382	45	30,832,966	30	159,660,724	42	142,205,433	39
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	21,851,874	16	11,086,520	11	122,770,075	32	(29,700,787)	(8)
Gain on investment properties (Notes 4, 14 and 28)	2,865,008	2	2,721,199	2	9,108,842	2	7,481,605	2
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 8)	7,982,604	6	4,610,715	4	22,148,123	6	14,044,917	4
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	2,460,291	2	90,566	-	3,944,475	1	3,030,845	1
Foreign exchange (loss) gain (Note 4)	(7,571,766)	(6)	(1,084,137)	(1)	18,141,810	5	44,482,153	12
Reversal of impairment gain (loss) on assets (Note 4)	221,709	-	(59,138)	-	839,793	-	(306,180)	-
Share of gain (loss) of associates accounted for using the equity method (Notes 4 and 13)	(116,526)	-	504,698	-	643,775	-	1,041,760	-
(Loss) gain on reclassification using the overlay approach (Notes 4 and 7)	(4,571,077)	(3)	5,964,783	6	(99,978,296)	(26)	42,352,058	12
Net other non-interest gain (loss) (Note 28)	<u>2,553,525</u>	<u>2</u>	<u>(290,035)</u>	<u>-</u>	<u>(4,303,344)</u>	<u>(1)</u>	<u>(4,455,066)</u>	<u>(1)</u>
PROFIT FROM OPERATIONS	<u>139,885,203</u>	<u>100</u>	<u>103,750,659</u>	<u>100</u>	<u>382,700,688</u>	<u>100</u>	<u>358,773,284</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25)	<u>(96,787,775)</u>	<u>(69)</u>	<u>(61,186,540)</u>	<u>(59)</u>	<u>(256,836,199)</u>	<u>(67)</u>	<u>(239,321,154)</u>	<u>(67)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>(387,458)</u>	<u>(1)</u>	<u>(621,758)</u>	<u>(1)</u>	<u>(620,777)</u>	<u>-</u>	<u>(2,065,376)</u>	<u>(1)</u>

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING EXPENSES								
(Notes 25 and 28)								
Employee benefit expenses	\$ (12,981,363)	(9)	\$ (12,153,255)	(12)	\$ (41,330,120)	(11)	\$ (37,131,716)	(10)
Depreciation and amortization expenses	(1,740,455)	(1)	(1,416,087)	(1)	(5,233,896)	(1)	(4,196,764)	(1)
Other general and administrative expenses	(6,395,617)	(5)	(6,517,769)	(6)	(17,350,020)	(5)	(16,650,737)	(5)
Total operating expenses	(21,117,435)	(15)	(20,087,111)	(19)	(63,914,036)	(17)	(57,979,217)	(16)
PROFIT BEFORE INCOME TAX	21,592,535	15	21,855,250	21	61,329,676	16	59,407,537	16
INCOME TAX EXPENSE (Notes 4 and 26)	(3,574,192)	(2)	(3,272,670)	(3)	(9,177,502)	(2)	(4,810,558)	(1)
NET INCOME	18,018,343	13	18,582,580	18	52,152,174	14	54,596,979	15
OTHER COMPREHENSIVE INCOME (Notes 4 and 24)								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans	3,818	-	-	-	3,818	-	-	-
Property revaluation surplus	-	-	-	-	926,919	-	-	-
(Loss) gain on equity instruments at fair value through other comprehensive income	(3,124,941)	(2)	2,608,520	2	6,327,066	2	110,540	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(1,452,409)	(1)	(463,100)	-	(3,231,049)	(1)	892,630	1
Share of other comprehensive (loss) income of associates accounted for using equity the method for items that will not be reclassified subsequently to profit or loss	(107,410)	-	312,005	-	176,770	-	225,819	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	448,785	-	(227,951)	-	(1,804)	-	236,968	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	(1,889,600)	(1)	(2,002,469)	(2)	(791,495)	-	(1,269,145)	-
(Loss) gain on hedging instruments	(879)	-	(16,334)	-	95,549	-	(43,941)	-
Gain (loss) on debt instruments at fair value through other comprehensive income	21,237,270	15	(146,138)	-	97,182,128	25	(66,282,668)	(19)

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Share of other comprehensive (loss) income of associates accounted for using equity method for items that may be reclassified subsequently to profit or loss	\$ (607,665)	(1)	\$ (664,403)	-	\$ 219,500	-	\$ (1,313,468)	-
Other comprehensive income (loss) reclassified using the overlay approach	4,571,077	3	(5,964,783)	(6)	99,978,296	26	(42,352,058)	(12)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(3,375,765)</u>	<u>(2)</u>	<u>352</u>	<u>-</u>	<u>(27,894,352)</u>	<u>(7)</u>	<u>14,211,980</u>	<u>4</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>15,702,281</u>	<u>11</u>	<u>(6,564,301)</u>	<u>(6)</u>	<u>172,991,346</u>	<u>45</u>	<u>(95,583,343)</u>	<u>(26)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u><u>\$ 33,720,624</u></u>	<u><u>24</u></u>	<u><u>\$ 12,018,279</u></u>	<u><u>12</u></u>	<u><u>\$ 225,143,520</u></u>	<u><u>59</u></u>	<u><u>\$ (40,986,364)</u></u>	<u><u>(11)</u></u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 17,728,149	13	\$ 18,372,885	18	\$ 51,167,918	14	\$ 54,356,108	15
Non-controlling interests	<u>290,194</u>	<u>-</u>	<u>209,695</u>	<u>-</u>	<u>984,256</u>	<u>-</u>	<u>240,871</u>	<u>-</u>
	<u><u>\$ 18,018,343</u></u>	<u><u>13</u></u>	<u><u>\$ 18,582,580</u></u>	<u><u>18</u></u>	<u><u>\$ 52,152,174</u></u>	<u><u>14</u></u>	<u><u>\$ 54,596,979</u></u>	<u><u>15</u></u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owner of the Company	\$ 33,722,197	24	\$ 12,016,221	12	\$ 224,066,911	59	\$ (41,094,907)	(11)
Non-controlling interests	<u>(1,573)</u>	<u>-</u>	<u>2,058</u>	<u>-</u>	<u>1,076,609</u>	<u>-</u>	<u>108,543</u>	<u>-</u>
	<u><u>\$ 33,720,624</u></u>	<u><u>24</u></u>	<u><u>\$ 12,018,279</u></u>	<u><u>12</u></u>	<u><u>\$ 225,143,520</u></u>	<u><u>59</u></u>	<u><u>\$ (40,986,364)</u></u>	<u><u>(11)</u></u>
EARNINGS PER SHARE (Note 27)								
Basic earnings per share	<u>\$ 1.41</u>		<u>\$ 1.47</u>		<u>\$ 3.86</u>		<u>\$ 4.18</u>	

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

(With Deloitte & Touche review report dated November 13, 2019)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company										Other Equity					Non-controlling Interests	Total Equity
	Share Capital			Retained Earnings			Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) Reclassified Using the Overlay Approach	Total		
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings											
BALANCE, AT JANUARY 1, 2018	\$ 125,632,102	\$ 8,333,000	\$ 130,452,105	\$ 35,339,841	\$ 149,106,971	\$ 99,296,739	\$ (10,823,242)	\$ -	\$ 53,789,800	\$ 203,647	\$ (1,191,027)	\$ (1,449,679)	\$ 10,376,814	\$ -	\$ 599,067,071	\$ 9,403,472	\$ 608,470,543
Effect of retrospective application and restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415	8,904	35,851,319
BALANCE, AT JANUARY 1, 2018 AS RESTATED	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486	9,412,376	644,321,862
Appropriation of earnings for the year 2017	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	234,146	(234,146)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(31,408,025)	-	-	-	-	-	-	-	-	(31,408,025)	-	(31,408,025)
Cash dividends on preference shares	-	-	-	-	-	(1,899,924)	-	-	-	-	-	-	-	-	(1,899,924)	-	(1,899,924)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	1,748	-	-	-	-	-	-	-	-	-	-	-	1,748	-	1,748
Net income for the nine months ended September 30, 2018	-	-	-	-	-	54,356,108	-	-	-	-	-	-	-	-	54,356,108	240,871	54,596,979
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	-	(1,842,695)	(54,596,371)	-	(42,514)	757,153	44,049	46,241	(39,816,878)	(95,451,015)	(132,328)	(95,583,343)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	-	54,356,108	(1,842,695)	(54,596,371)	-	(42,514)	757,153	44,049	46,241	(39,816,878)	(41,094,907)	108,543	(40,986,364)
Issuance of preference shares	-	7,000,000	35,000,000	-	-	-	-	-	-	-	-	-	-	-	42,000,000	-	42,000,000
Share-based payment transactions	-	-	2,325	-	-	-	-	-	-	-	-	-	-	-	2,325	-	2,325
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(9,092,422)	-	9,092,422	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	5,002	50,142	-	-	-	-	-	-	(55,144)	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(360,709)	(360,709)
BALANCE, AT SEPTEMBER 30, 2018	\$ 125,632,102	\$ 15,333,000	\$ 165,456,178	\$ 40,976,121	\$ 149,346,119	\$ 101,779,154	\$ (12,665,937)	\$ (8,160,473)	\$ -	\$ 161,133	\$ (433,874)	\$ (1,405,630)	\$ 10,367,911	\$ 16,124,899	\$ 602,510,703	\$ 9,160,210	\$ 611,670,913
BALANCE, AT JANUARY 1, 2019	\$ 125,632,102	\$ 15,333,000	\$ 165,449,364	\$ 40,976,121	\$ 149,346,119	\$ 95,553,376	\$ (12,149,871)	\$ (17,586,946)	\$ -	\$ 173,289	\$ 774,084	\$ (1,321,138)	\$ 10,367,911	\$ (52,816,081)	\$ 519,731,330	\$ 9,557,665	\$ 529,288,995
Appropriation of earnings for the year 2018	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	-	(15,075,852)	-	(15,075,852)
Cash dividends on preference shares	-	-	-	-	-	(2,667,891)	-	-	-	-	-	-	-	-	(2,667,891)	-	(2,667,891)
Cash dividends on capital surplus	-	-	(3,768,963)	-	-	-	-	-	-	-	-	-	-	-	(3,768,963)	-	(3,768,963)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	8,871	-	-	-	-	-	-	-	-	-	-	-	8,871	-	8,871
Net income for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	-	-	-	-	-	-	-	-	51,167,918	984,256	52,152,174
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(505,463)	83,843,745	-	68,796	(2,584,839)	(3,823)	872,403	91,208,174	172,898,993	92,353	172,991,346
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	(505,463)	83,843,745	-	68,796	(2,584,839)	(3,823)	872,403	91,208,174	224,066,911	1,076,609	225,143,520
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(4,686,887)	-	4,686,887	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(628,048)	(628,048)
BALANCE, AT SEPTEMBER 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,272	\$ 46,122,845	\$ 221,977,672	\$ 46,512,387	\$ (12,655,334)	\$ 70,943,686	\$ -	\$ 242,085	\$ (1,810,755)	\$ (1,324,961)	\$ 11,240,314	\$ 38,392,093	\$ 722,294,406	\$ 10,006,226	\$ 732,300,632

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

(With Deloitte & Touche review report dated November 13, 2019)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 61,329,676	\$ 59,407,537
Adjustments for:		
Depreciation expenses	2,880,765	1,923,238
Amortization expenses	2,353,131	2,273,526
Bad debt expense	620,777	2,065,376
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(100,431,173)	56,924,704
Interest expense	18,014,348	16,334,611
Gain on derecognition of financial assets measured at amortized cost	(3,944,475)	(3,030,845)
Interest income	(164,955,074)	(148,739,895)
Dividend income	(25,407,424)	(25,165,410)
Net change in insurance liabilities	265,631,445	262,537,392
Net changes in other - provisions	5,310,480	3,795,930
Share of gain of associates accounted for using the equity method	(643,775)	(1,041,760)
Loss (gain) on reclassification using the overlay approach	99,978,296	(42,352,058)
(Gain) loss on disposal and retirement of property and equipment	(1,522)	829
Loss (gain) on disposal of investment properties	21,395	(28,263)
Loss on disposal of investments	-	10,773
Gain on disposal of investments	(1,330,219)	(9,753,152)
Impairment loss recognized (reversed) on financial assets	(839,793)	306,180
Unrealized loss on foreign currency exchange	-	23,116
(Gain) loss on changes in fair value of investment properties	(518,736)	661,204
Other non-cash items	-	2,325
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(2,810,532)	(4,184,910)
Decrease in financial assets at fair value through profit or loss	83,883,417	167,536,222
Decrease (increase) in financial assets at fair value through other comprehensive income	28,639,432	(36,118,029)
Increase in investments in debt instruments at amortized cost	(321,264,357)	(315,394,981)
Decrease in financial assets for hedging	-	1,087
(Increase) decrease in receivables	(43,429,896)	1,524,682
Decrease (increase) in loans	95,954,060	(122,973,248)
Decrease (increase) in reinsurance assets	290,246	(400,280)
Decrease (increase) in other financial assets	2,056,502	(1,201,700)
Increase in other assets	(9,568,270)	(11,193,528)
Increase (decrease) in due to the Central Bank and other banks	31,153,497	(3,204,341)
Decrease in financial liabilities at fair value through profit or loss	(137,039,964)	(55,548,519)
Decrease in securities sold under repurchase agreements	(31,887,300)	(47,449,287)
Increase in payables	57,243,713	10,788,988
Increase in deposits and remittances	86,777,840	102,469,950
(Decrease) increase in reserve for employee benefits liabilities	(85,775)	50,386

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
Increase (decrease) in provisions	\$ 106,402	\$ (247,726)
(Decrease) increase in other financial liabilities	(11,349,120)	10,808,049
Decrease in other liabilities	<u>(570,846)</u>	<u>(8,716,515)</u>
Cash used in operations	(13,832,829)	(137,298,342)
Interest received	163,559,898	142,482,474
Dividends received	25,753,925	25,820,445
Interest paid	(17,874,029)	(15,822,256)
Income tax paid	<u>(5,981,812)</u>	<u>(7,354,298)</u>
Net cash generated from operating activities	<u>151,625,153</u>	<u>7,828,023</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(29,633,396)	(21,810,149)
Proceeds from disposal of financial assets at fair value through other comprehensive income	31,118,468	18,663,426
Acquisition of financial assets at fair value through profit or loss	(580,597)	(828,417)
Proceeds from disposal of financial assets at fair value through profit or loss	222,405	132,090
Acquisition of investments accounted for using the equity method	(387,818)	(6,583,096)
Proceeds from disposal of investments accounted for using the equity method	86,149	119,873
Proceeds from disposal of subsidiaries	9,329	-
Cash returned by capital deduction from investments accounted for using the equity method	5,166	123,600
Acquisition of property and equipment	(1,518,512)	(2,819,465)
Proceeds from disposal of property and equipment	47,176	23,139
Increase in refundable deposits	-	(26,468)
Acquisition of intangible assets	(532,365)	(288,083)
Acquisition of investment properties	(12,464,858)	(2,738,522)
Proceeds from disposal of investment properties	114,250	553,240
Decrease (increase) in other assets	7,977,891	(9,214,213)
Dividends received	<u>66,904</u>	<u>73,557</u>
Net cash used in investing activities	<u>(5,469,808)</u>	<u>(24,619,488)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(123,282)	(350,131)
(Decrease) increase in commercial papers payable	(7,380,000)	13,810,000
Issuance of corporate bonds	30,000,000	-
Repayment of financial debentures	(1,700,000)	(7,750,000)
Repayment of the principal portion of lease liabilities	(1,231,031)	-

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
Increase (decrease) in other liabilities	\$ 551,359	\$ (1,055,853)
Dividends paid	(21,512,706)	(33,307,949)
Issuance of common stock for cash	-	42,000,000
Changes in non-controlling interests	<u>(628,048)</u>	<u>(371,007)</u>
Net cash (used in) generated from financing activities	<u>(2,023,708)</u>	<u>12,975,060</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>595,570</u>	<u>(943,496)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	144,727,207	(4,759,901)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF THE PERIOD	<u>310,798,346</u>	<u>415,218,017</u>
CASH AND CASH EQUIVALENTS, AT END OF THE PERIOD	<u>\$ 455,525,553</u>	<u>\$ 410,458,116</u>
Reconciliation of cash and cash equivalents:		
	September 30	
	2019	2018
Cash and cash equivalents presented in the consolidated balance sheets	\$ 343,245,590	\$ 235,551,443
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	48,888,201	62,747,868
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>63,391,762</u>	<u>112,158,805</u>
Cash and cash equivalents at the end of the periods	<u>\$ 455,525,553</u>	<u>\$ 410,458,116</u>

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

(With Deloitte & Touche review report dated November 13, 2019)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

On December 31, 2001, Cathay Financial Holding Co., Ltd. (the “Company” or “Cathay Financial Holdings”) was incorporated through a share swap with Cathay Life Insurance Co., Ltd. (“Cathay Life”) pursuant to the Financial Holding Company Act, Company Act and related laws and regulations and Cathay Life became a wholly-owned subsidiary of the Company; meanwhile, Cathay Life’s shares were delisted and the Company’s shares have been listed on the Taiwan Stock Exchange since the same day.

On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay Commercial Bank Co., Ltd. (“Cathay Bank”) became wholly-owned subsidiaries of the Company through share swaps. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a wholly-owned subsidiary of the Company through a share swap. On October 27, 2003, UWCCB was merged with Cathay Bank in accordance with the Financial Institutions Merger Act and related laws and regulations; UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). The Company acquired all issued shares of Lucky Bank Inc. through a share swap on August 25, 2006. To expand business scale and improve competitiveness, Cathay United Bank merged with Lucky Bank Inc. on January 1, 2007 and acquired specific assets, liabilities, and business of China United Trust & Investment Corporation on December 29, 2007.

On May 12, 2004, the Company incorporated Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. Cathay Venture Inc. (“Cathay Venture”) was incorporated on April 10, 2003; as resolved by the board of directors on August 10, 2009, Cathay Venture was merged with Cathay VC Inc., Cathay II NC Inc. and Cathay Capital Management Inc., and Cathay Venture was the surviving company. On June 13, 2011, the Company was approved to acquire Cathay Securities Investment Trust Co., Ltd. (“Cathay Securities Investment Trust”) by the Financial Supervisory Commission (“FSC”) and acquired all issued shares of Cathay Securities Investment Trust by cash on June 24, 2011.

Cathay Life participated in and won the bid, for the takeover of the assets, liabilities and operations of Global Life Insurance Co., Ltd. (“Global Life”) and Singfor Life Insurance Co., Ltd. (“Singfor Life”), which was held by the Taiwan Insurance Guaranty Fund. Cathay Life entered into the general assignment and assumption agreement on March 27, 2015. Cathay Life assumed all assets, liabilities and operations of Global Life and Singfor Life, except for their reserved assets and liabilities on July 1, 2015.

Since July 29, 2003, the Company has listed a portion of its ordinary shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs). The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, R.O.C. The Company is mainly engaged in the financial holding business.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on November 13, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by FSC.

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Company and its subsidiaries (“the Group”):

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, The Group present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17 and were measured at the present value of the remaining lease payments. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments, except for those that met the definition of investment properties and measured at fair value on that date. The Group applies IAS 36 to all right-of-use assets, except for those that met the definition of investment property.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 24,039,821
Less: Recognition exemption for short-term leases	(506,897)
Less: Recognition exemption for leases of low-value assets	<u>(632,755)</u>
Undiscounted amount on January 1, 2019	<u>\$ 22,900,169</u>
Discounted lease liabilities recognized on January 1, 2019	<u>\$ 12,865,946</u>

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 4,143,676	\$ 4,143,676
Investment properties	319,222,554	9,014,035	328,236,589
Other assets	<u>76,357,835</u>	<u>(362,993)</u>	<u>75,994,842</u>
Total effect on assets	<u>\$ 395,580,389</u>	<u>\$ 12,794,718</u>	<u>\$ 408,375,107</u>
Payables	\$ 66,727,399	\$ (71,228)	\$ 66,656,171
Lease liabilities	<u>-</u>	<u>12,865,946</u>	<u>12,865,946</u>
Total effect on liabilities	<u>\$ 66,727,399</u>	<u>\$ 12,794,718</u>	<u>\$ 79,522,117</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

- IFRS 17 “Insurance Contracts”

IFRS 17 sets out the accounting standards for insurance contracts that will supersede IFRS 4. The main standards of IFRS 17 are as follows:

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of:

- 1) A group of contracts that are onerous at initial recognition;
- 2) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently;
- 3) A group of the remaining contracts in the portfolio.

The Group is not permitted to include contracts issued more than one year apart in the same group.

Recognition

The Group shall recognize a group of insurance contracts it issues from the earliest of the following:

- 1) The beginning of the coverage period of the group of contracts;
- 2) The date when the first payment from a policyholder in the group becomes due; and
- 3) For a group of onerous contracts, when the group becomes onerous.

Measurement at initial recognition

The Group shall include all the future cash flows within the boundary of each contract in the Group. The fulfilment cash flows comprises estimates of future cash flows, an adjustment to reflect the time value of money, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit of the group of insurance contracts that the Group will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- 1) The initial recognition of an amount for the fulfilment cash flows;
- 2) The derecognition at that date of any asset or liability recognized for insurance acquisition cash flows; and
- 3) Any cash flows arising from the contracts in the group at that date.

Subsequent measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the group at that date. On subsequent measurement, if a group of insurance contracts becomes onerous or more onerous, that excess shall be recognized in profit or loss.

Onerous contracts

An insurance contract is onerous at initial recognition if the total of the fulfilment cash flows, any previously recognized acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. The Group shall recognize a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero. The contractual service margin cannot increase and no revenue can be recognized, until the onerous amount previously recognized has been reversed in profit or loss as part of a service expense.

Premium Allocation Approach (PAA)

The Group may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- 1) The Group reasonably expects that this will be a reasonable approximation of the general model,
or
- 2) The coverage period of each contract in the group is one year or less.

At the inception of the group, if the Group expects significant variances in the fulfilment cash flows during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

When using the PAA, the liability for remaining coverage shall be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Investment contracts with discretionary participation features

An investment contract with discretionary participation features is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the standard only if the issuer also issues insurance contracts. The requirements of the Standard are modified for such investment contracts.

Modification and derecognition

If the terms of an insurance contract are modified, the Group shall derecognize the original contract and recognize the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The Group shall derecognize an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

Transition

The Group shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilize reasonable and supportable information and maximize the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. The Group shall utilize the fair value approach if reasonable and supportable information is unavailable.

Under the fair value approach, the Group determines the contractual service margin at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Insurance Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and investment properties which are measured at fair values, and net defined benefit assets which are measured at the fair value of plan assets less the present value of the defined benefit obligation.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

Adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12 for the detailed information of subsidiaries, including the percentage of ownership and main business.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Investments in Associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. 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 Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate and are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property and equipment when completed and ready for their intended use.

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and or for capital appreciation. Beginning January 1, 2019, investment properties include right-of-use assets and properties under construction if the definition of investment properties is met; before January 1, 2019, investment properties included properties under construction and properties held under finance leases if the definition of investment properties was met. Investment properties also include land held for a currently undetermined future use.

Freehold investment properties are measured initially at cost, including transaction costs. Beginning January 1, 2019, investment properties acquired through leases are initially measured at cost. All investment properties are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Investment properties under construction, of which their fair values are not reliably measurable, are measured at cost less accumulated impairment loss until such time as either the fair value becomes reliably measureable or the construction is completed (whichever comes earlier).

For a transfer of classification from investment properties to property and equipment, the deemed cost of the property for subsequent accounting is its fair value at the commencement of owner-occupation. For a transfer of classification from property and equipment to investment properties at the end of owner-occupation, any difference between the fair value of the property at the transfer date and its previous carrying amount is recognized in other comprehensive income.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

a. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

b. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

c. Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when an entity in the Group becomes a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into the following categories: financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at fair value through other comprehensive income (“FVTOCI”).

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL, including investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 36.

In addition, to reduce the fluctuations in profit or loss due to that IFRS 9 is applied earlier than IFRS 17, the Group elects to remove profit or loss arising from changes in fair value in subsequent measurement and present it in other comprehensive income based on overlay approach under IFRS 4. Overlay approach is applied to financial assets if all of the following conditions are met:

- i. The financial assets are held in respect of activities related to IFRS 4;
- ii. The financial assets are measured at FVTPL under IFRS 9, but would not have been measured at FVTPL under IAS 39; and
- iii. The financial assets are designated to apply overlay approach at the first application of IFRS 9, in the initial recognition of a new financial asset or when a financial asset starts to meet the conditions.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash and cash equivalents include cash on hand, cash in banks and time deposits or investment which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Time deposits with maturities within 12 months which are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value are classified as cash equivalents.

c) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- i. The debt instrument is held within a business model which is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- ii. The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

d) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including receivables and loans) and investments in debt instruments that are measured at FVTOCI.

The Group always recognizes lifetime expected credit losses (ECLs) for receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measure the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs present the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group uses the total carrying amount of financial assets measured at amortized cost (including receivables and loans), investments in debt instruments at FVTOCI, and off balance sheet commitments to measure the amount of exposure at default (EAD).

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

In addition, in accordance with the Regulations Governing the Procedures for Insurance Enterprises to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, credit assets are classified as normal assets (“First Category”), assets that require special attention (“Second Category”), assets that are substandard (“Third Category”), assets that are doubtful (“Fourth Category”) and assets for which there is loss (“Fifth Category”) based on the borrower’s financial conditions and the delay for payment of principal and interests as well as the status of the loan collaterals and the length of time overdue. Cathay Life and Cathay Century are required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- a) The sum of 0.5% of the first category loan assets excluding life insurance policy loans, premium loans and loans to government agencies, 2% of the second category of loan assets, 10% of the third category of loan assets, as well as 50% and 100% of the fourth and fifth category loan assets.
- b) 1% of the sum of all five categories of loan assets excluding life insurance policy loans, premium loans and loans to government agencies.
- c) Total unsecured portion of non-performing loans and non-accrual loans.

Besides, pursuant to Jin Guan Bao Tsai No. 10402506096, Cathay Life and Cathay Century shall keep the ratio of the allowance for bad debt over the loans at 1.5% or above to strengthen their ability against loss exposure to specific loan assets.

According to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, Cathay United Bank assesses the customers' financial position, the overdue payments of the principal and interest and the value of collaterals to classify credit assets into normal credit assets (excluding loans to the R.O.C. government) and unsound assets which should be further classified by special mention, substandard, doubtful and losses, for which minimum provisions of 1%, 2%, 10%, 50% and 100% of the outstanding balance, respectively. Furthermore, the FSC stipulates that banks should recognize the provision by at least 1.5% of normal credit assets in the Mainland China (including short-term advances for trade finance) and loans for the mortgage and construction loans that have been classified as normal assets, and further determine the allowance for losses based on the higher of the above-mentioned provision and the assessment of the expected credit losses.

Cathay United Bank and its subsidiaries write off credits deemed uncollectable after the write-off is proposed and approved by the board of directors. Recoveries of credits written off are recognized as a reversal of loss provision in current period.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of financial assets at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of investment in debt instruments at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of investment in equity instruments at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

4) Offsetting of financial instruments

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

b. Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

Financial liabilities may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- b) The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- c) The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income and will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which does not incorporate any interest or dividends paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss.

Fair value is determined in the manner described in Note 36.

Financial guarantee contracts

Financial guarantee contracts issued by the Group, if not designated as at FVTPL, are subsequently measured at the higher of the amount of the loss allowance reflecting expected credit losses and the amount after amortization.

2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps, cross currency swaps and options.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The changes in the fair value of the hedging instrument and the changes in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

b. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as reclassification adjustments in the line items relating to the related hedged item in the same period in which the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that was previously recognized in other comprehensive income (from the period in which the hedge was effective) remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

c. Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The gains and losses on the hedging instrument relating to the effective portion of the hedge, which were accumulated in the foreign currency translation reserve, are reclassified to profit or loss on the disposal or partial disposal of a foreign operation.

Securities Purchased/Sold Under Resale/Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resale agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

Separate Accounts

The Group sells separate account insurance products. The insurance premiums according to agreed terms paid by proposers, net of the expenses incurred by the insurer, are invested in separate accounts at allocation agreed with or directed by the proposers. The separate account assets is measured at fair value on the valuation date and in compliance with the relevant regulations and Template of Accounting Systems for Life Insurance Enterprises.

In accordance with the Regulation Governing the Preparation of Financial Reports by Insurance Enterprises, the assets and liabilities of separate accounts, which are generated either from insurance contracts or from insurance contracts with features of financial instrument, are recorded in separate account insurance product assets and separate account insurance product liabilities. The revenue and expenses of separate accounts, pursuant to IFRS 4, are recorded in separate account insurance product revenue and separate account insurance product expenses.

Insurance Liability Reserves

a. Cathay Life

Funds reserved for insurance contracts and financial instruments with or without discretionary participation feature are determined in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and validated by the certified actuarial professionals approved by the FSC. The provision of reserve for short-term group insurance is based upon the greater of the actual premium received or the premium calculated according to Tai-Tsai-Bao No. 852367814. Provision of reserve for the other insurance liabilities is as follows:

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

1) Unearned premium reserve

For an unexpired in-force contract with a policy period shorter than one year or an injury insurance policy with a policy period longer than one year, the calculation of unearned premium reserve is based on the unexpired risk of each insurance.

2) Loss reserve

Loss reserve is provided for claims filed but not yet paid and claims not yet filed. The reserve for claims filed but not yet paid is assessed based on the actual relevant information of each case and provided by insurance type. The reserve for claims not yet filed is provided based on the past experiences of actual claims and expenses in line with the actuarial principles for injury insurance and health or life insurance policies with a policy period shorter than one year.

3) Policy reserve

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

Starting from 2003 policy year, for in-force contracts whose bonus calculation is stipulated by Tai-Tsai-Bao No. 800484251, the downward adjustments of bonus due to the offset between mortality gain (loss) and gain (loss) from difference of interest rates should be calculated and recognized according to the regulations issued by the authorities.

In accordance with Jin Guan Bao Tsai No. 10102500530 issued on January 19, 2012, life insurance enterprises shall transfer a special reserve that equals to the unwritten allowance for doubtful account resulting from 3% business tax cut to life insurance policy reserve - allowance for doubtful account pertinent to 3% business tax cut from 2012. Besides, life insurance enterprises shall reclassify the recoverable special reserve for catastrophic events defined in Article 19 of the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises to life insurance reserve - recover from catastrophic event reserve.

When an insurance enterprise elects to measure investment properties at fair value, it should also measure its insurance liabilities at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds their book value, the insurance enterprise must set aside the difference to policy reserve and decrease retained earnings. Cathay Life changed its accounting policy for subsequent measurement of investment properties from the cost method to the fair value method starting from 2014. In accordance with Jin Guan Bao Tsai No. 10302501161 issued on March 21, 2014, the fair value of insurance liabilities measured did not exceed their book value and no additional insurance liabilities should be provided accordingly.

4) Special reserve

When selling participating life insurance policies, according to the Regulation of Allocation of Revenue and Expenses related to Participating/Nonparticipating Policy reported to the authority, Cathay Life is required to set aside a special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from special reserve - participating policies dividends reserve. The excess dividends should be accounted as special reserve - provisions for risk of dividends.

According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the increments due to measuring the property at fair value, except for the portion in offsetting adverse effects of the first-time adoption of IFRSs on other accounts, the excess should be set aside as special reserve for revaluation increments of property under insurance liabilities.

5) Premium deficiency reserve

For life insurance, health insurance and annuity insurance policies with policy periods longer than one year commencing from 2001, when the gross premium is less than the net premium used in the calculation of policy reserve, a deficiency reserve is required to set aside such deficiencies for remaining payment periods as a premium deficiency reserve. The premium deficiency reserve of each life insurance category should be calculated and recorded according to the specific method reported to the authorities.

In addition, for unexpired in-force contracts with policy periods shorter than one year and injury insurance policies with policy periods longer than one year, if the probable claims and expenses are greater than the aggregate of unearned premium reserves and estimated future premiums, the premium deficiency reserve is set aside based on the deficiencies by insurance type.

6) Other reserves

Pursuant to IFRS 3 “Business Combinations”, Cathay Life recognizes other reserves to reflect the fair value of the life insurance contracts assumed at the time when the identifiable assets and assumed liabilities acquired from the business combination are recognized at fair value.

7) Liability adequacy reserve

The liability adequacy reserve is set aside based on the adequacy test of liability required by IFRS 4.

b. Cathay Lujiazui Life Insurance Co., Ltd. (“Cathay Lujiazui Life”)

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

c. Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)

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

d. Cathay Century and its subsidiaries

Insurance reserves provided for insurance contracts should be audited by the actuaries certified by the FSC and should also conform to the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance and the Regulations for the Reserves for Nuclear Energy Insurance.

The descriptions of these reserves are as follows:

1) Unearned premium reserve

For an in-force contract with a remaining policy period or an unexpired insured risk, the calculation and the provision of unearned premium reserve are based on the unexpired risk of each insurance.

Unearned premium reserve for the compulsory insurance contract is provided in conformity with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

Unearned premium reserve for the policy-related residential earthquake insurance contracts is provided in conformity with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

Unearned premiums reserve for Nuclear Energy Insurance contracts is provided in conformity with the Regulations for the Reserves of Nuclear Energy Insurance.

Except as otherwise provided by regulations, the manners of provisions for unearned premium reserve are decided by actuaries according to the characteristics of each insurance, which cannot be changed without permission by the authorities, and the year-end balance of unearned premium reserve should be audited by actuaries at the end of the year.

2) Loss reserve

Loss reserve is provided for losses filed but not yet paid and losses not yet filed by insurance type based on the past experiences of actual claims and expenses in line with the actuarial principles. The reserve for losses filed but not yet paid is assessed based on the actual relevant information of each case and provided by insurance type.

Loss reserve for the compulsory insurance contracts is provided in conformity with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

Loss reserve for policy-related residential earthquake insurance contracts is provided in conformity with the Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.

Loss reserve for Nuclear Energy Insurance contracts is provided in conformity with the Regulations for the Reserves for Nuclear Energy Insurance.

3) Special reserve

Special reserves are comprised of special reserves for catastrophic event and special reserves for fluctuation of risk and special reserves for other special purpose.

In accordance with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, Cathay Century shall set aside the special reserves as liabilities which is calculated based on the sum of retained earned pure premiums, recovery of loss reserve and the interest accrued of the beginning balance of the special reserve, minus the retained claims and the provision of loss reserve; if the sum of retained earned pure premiums, recovery of loss reserve and the interest accrued of the beginning balance of the special reserve in the preceding fiscal year is less than the sum of the retained claims and the provision of loss reserve, the deficit shall be amended with the cumulative recovery of the special reserve in the previous years. If any deficit remains, the balance shall be recorded as a memorandum entry and amended with the recovery of the special reserves in the subsequent years.

Furthermore, according to the Notice for the improvement of the reserves of natural disaster insurances (commercial-business earthquake, typhoon and flood insurances enterprises) issued by the Financial Supervisory Commission on November 9, 2012, except for those special reserves of compulsory automobile insurances, nuclear energy insurances, residential earthquake insurances, commercial-business earthquake insurances and typhoon and flood insurances, the special reserves recognized as liabilities before December 31, 2012 were used to compensate the deficiencies of commercial-business earthquake insurances and typhoon and flood insurances to the required level and recognized as liabilities. The remaining special reserves were reclassified as equity, net of tax according to IAS 12 starting from January 1, 2013. The write off and recovery of special reserves for catastrophic event and fluctuation of risk that provided under liabilities should be in conformity with the notice mentioned above.

4) Premium deficiency reserve

For unexpired in-force contracts or unterminated incurred risks of each insurance, if the estimated amounts of the future claims and expenses exceed the sum of the unearned premium reserves and the expected future premium income, the deficiencies should be set aside as premium deficiency reserve.

5) Policy reserve

The minimum provision for policy reserve for health insurance with policy periods longer than one year is determined by Full Preliminary Term method. However, the method of provision for health insurance with a special nature is regulated by the authorities.

6) Liability adequacy reserve

When performing the liability adequacy test requested by IFRS 4, the future cash flows are estimated based on current information of recognized liabilities as of each reporting date. If the test result is inadequate, the shortfall should be recognized as a liability adequacy reserve.

Liability Adequacy Test

Liability adequacy test is based on all insurance contracts and related requirements of ASP of IFRS 4 - contract classification and liability adequacy test announced by Actuarial Institute of Chinese Taipei. In this test, the amount of insurance liabilities net of deferred acquisition costs and related intangible assets is compared with the estimated present values of insurance contract cash flow at each reporting date. If the net book values are lower than the estimated present values, all insufficient amounts should be recognized in profit or loss.

Reserve for Insurance Contracts with the Nature of Financial Products

For non-separate account insurance products classified as financial instruments without discretionary participation features, the reserve should be recognized in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and depository accounting.

Reserve for Foreign Exchange Valuation

Cathay Life calculates foreign exchange volatility reserve of all its foreign investments in accordance with the Regulations Governing the Setting Aside of various Reserve by Insurance Enterprises and Direction for Foreign Exchange Volatility Reserve by Life Insurance Enterprises.

Revenue and the Related Expenses Recognition

a. Cathay Life and its subsidiaries

- 1) For Cathay Life's insurance contracts and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue collection and underwriting procedures finished, and subsequent collection on the appointed dates, respectively. The relevant acquisition costs, such as commission expenses and underwriting expenses, are recognized as current expenses when the insurance contracts become effective.

For non-separate account insurance products classified as financial instruments without discretionary participation features, the insurance premium collected is recognized as reserves for insurance contract with the nature of financial products on the balance sheet.

For separate account insurance products classified as financial instruments without discretionary participation features, the insurance premium collected net of preprocessing expense or investment management fees is entirely recognized as separate account insurance product liabilities on the balance sheet. The acquisition costs incurred due to investment management services for such insurance products, such as commissions and incremental costs directly attributable to the issue of new contracts, are deferred and recorded under deferred acquisition costs and amortized on a straight-line basis over the service period. The amortization is recognized under other operating costs.

2) Cathay Lujiazui Life

In accordance with the related accounting laws and regulations issued by the local government, Cathay Lujiazui Life records direct premiums as revenue at premium received and invoices issued. Related expenses, such as commissions and underwriting fees, are recognized on an accrual basis.

3) Cathay Life (Vietnam)

In accordance with the related accounting laws and regulations issued by the local government, Cathay Life (Vietnam) records direct premiums as revenue at premium received and invoices issued. Related expenses, such as commissions and underwriting fees, are recognized on an accrual basis.

b. Cathay United Bank and its subsidiaries

1) Recognition of interest revenue and expense

Except for the financial assets and liabilities at fair value through profit or loss, the interest revenue and interest expense arising from all interest-bearing financial instruments are calculated using the effective interest method in accordance with the relevant provisions and recognized in the consolidated statement of profit or loss under “interest revenue” and “interest expense” items.

2) Recognition of service fee revenue and expense

The service fee revenue and expense are recognized once after the completion of the provision of the loan or other services; if the service fee earned by the execution of the major project is recognized at the completion of the major project, service fee revenue and expense related to subsequent lending services are either amortized over the service period or included in the calculation of the effective interest rate on loans and receivables.

3) Customer loyalty program

The points earned by customers under loyalty programs are treated as multiple-element revenue arrangements, in which consideration is allocated to the goods or services and the award credits based on fair value through the eyes of the customer. The consideration is not recognized as earnings at the time of the original sales transaction but at the time when the points are redeemed and the obligation is fulfilled.

c. Cathay Century and its subsidiaries

Direct premiums are recognized for all insurance policies underwritten and issued in current periods. Ceded reinsurance premiums are usually recognized as the billing statements delivered, and, on the balance sheet date, reinsurance premiums not yet received are accrued in a reasonable and systematic manner. Related acquisition costs are recognized in the same periods, including commission expenses, agency fees, service fees and reinsurance commission expenses.

Claims and payments (including claim expenses) filed and paid pertaining to the direct insurance business are recognized as paid claims in current periods. For claims filed but not yet paid with determined amounts and those without determined amounts are recognized as net changes in loss reserve based on relevant information of each case by insurance type.

For direct insurance and ceding reinsurance, claims not yet filed are estimated based on past experience according to actuarial principles and recognized as net changes in loss reserve.

For claims to be recovered from the reinsurer under the reinsurance contract, claims and payments (including claim expenses) recoverable from reinsurers are recognized as claims recovered from reinsurers. For those of filed but not yet paid and not yet filed cases, claims and payments (including claim expenses) are recognized as net changes in loss reserve.

Provision for loss reserve is undiscounted.

d. Cathay Securities

Revenues are mainly generated from brokerage, underwriting and advisory services. The services are based on stand-alone or negotiated pricing and provided based on the number of times services are provided. These services belong to the category where performance obligations are fulfilled at a point in time; thus, revenue is recognized when performance obligations are fulfilled.

Classification of Insurance Products

An insurance contract refers to a contract where the insurer accepts the insurance policyholder's transfer of a significant insurance risk and agrees to compensate the policyholder for any damages caused by a particular uncertain future event (insured event). The Group's identification of a significant insurance risk refers to any insured event that occurs and causes the Group to incur additional significant payments.

Insurance contracts with features of financial instruments are contracts that transfer significant financial risks. Financial risks refer to the risks that the changes in one or more specific indicators may cause, including interest rates, financial commodity prices, product prices, exchange rates, price index, rate index, credit ratings and other indicators. If the above indicators are not financial, these indicators exist in both sides under the contracts.

For a policy that meets the definition of an insurance contract in the initial phase, it is treated as an insurance contract before the right of ownership and obligations expired or extinguished, even if the exposure to insurance risk during the policy period has significantly decreased. However, if an insurance contract with features of financial instruments transfers a significant insurance risk to the Group subsequently, the Group should reclassify the contract as an insurance contract.

Insurance contracts and those with features of financial instruments are further classified into separate categories depending on whether or not the contracts have discretionary participation features. Discretionary participation features refers to a contractual right to receive additional payments in addition to guaranteed payments from the contract. The contractual rights have the following characteristics:

- a. Additional payments as a percentage of total contractual payments may be significant.
- b. In accordance with the contract, the amount and date of payment for additional payments are at The Group's discretion.

- c. In accordance with the contract, additional payments are handed out based on one of the following matters:
- 1) The performance of specific contracts or specific combination of contracts.
 - 2) Return on investment from a portfolio of specific assets held by The Group.
 - 3) Profit and loss from the Group, funds, or other entities.

When the embedded derivative instrument has economic characteristics and risks not closely related to those of the primary contracts, it should be recorded separately from the primary contracts and measured at fair value with changes in fair values recognized in profit or loss when incurred. However, if the embedded derivative instrument meets the definition of an insurance contract or the whole contract is measured at fair value with changes in fair values recognized in profit or loss when incurred, the Group does not separately recognize the embedded derivative instrument and the insurance contract.

Reinsurance

In order to limit the possible losses caused by certain events, the Group arranges reinsurance business based on its business needs and related insurance regulations. For reinsurance of ceded businesses, the Group cannot refuse to fulfill its obligations to the insured because the reinsurer fails to fulfill its obligations.

The Group holds the rights over the reinsurer including reinsurance assets, claims and payments recoverable from reinsurers and net due from reinsurers and ceding companies, and regularly assesses if the rights are impaired or unrecoverable. If objective evidence, which occurred after initial recognition of reinsures assets, shows that the Group may not receive all amounts of receivables from the reinsurer and the unrecoverable amount can be reasonably estimated, the Group recognizes the difference between the recoverable amount of reinsurance assets and carrying value as an impairment loss.

For the classification of reinsurance contracts, the Group assesses whether or not such contracts transfer significant insurance risk to the reinsurer. If the reinsurance contract does not transfer a significant insurance risk to the reinsurer, the contract is recognized and measured in accordance with deposit accounting.

For a reinsurance contract that transfers a significant insurance risk, if the Group can measure its saving element separately, the insurance element and the saving element of the reinsurance contract are recognized separately. That is, the Group recognizes the contract premium received (or paid) less the amount of insurance as financial liabilities (or assets) rather than income (or expenses). The financial liabilities (or assets) are recognized at the fair values based on the present values of future cash flows.

Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of each balance sheet date, taking into account the risks and uncertainty of the obligation.

Leases

2019

At inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a. The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and amortized on a straight-line basis over the lease terms.

b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets, except for those that meet the definition of investment properties. With respect to the recognition and measurement of right-of-use assets that meet the definition of investment properties, refer to the accounting policies for investment properties.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease terms.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets, is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plan or reductions in future contributions to the plans.

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 for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

c. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

d. Employee preferential interest rate deposits

Cathay United Bank offers its employees preferential deposits, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its subsidiaries jointly filed income tax returns and surtax on unappropriated retained earnings since 2002 under the integrated income tax system with the Company as the tax payer. Such effects on current tax and deferred tax are accounted for as receivables or payables.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all temporary differences and loss carryforwards which are probably deductible.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. If investment properties measured using the fair value model are non-depreciable assets, or are held under a business model whose objective is not to consume substantially all of the economic benefits embodied in the assets over time, the carrying amounts of such assets are presumed to be recovered entirely through sale.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for the acquisition of a subsidiary, the tax effect is included in the accounting for the investments in the subsidiary.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of financial assets

The provisions for impairment of receivables, loans and investments in debt instruments are based on assumptions about probability of default and expected credit loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise. For details of the key assumptions and inputs used, refer to Note 36.

b. Fair value measurements and valuation processes

Where some of the Group's assets and liabilities measured at fair value have no quoted prices in active markets, the Group, in accordance with relevant regulations or based on own judgment, determines the appropriate valuation techniques for the fair value measurements and whether to engage third party qualified valuers.

Where Level 1 inputs are not available, the Group or engaged valuers determine the appropriate inputs by referring to the analyses of the financial position and the operating results of the investees, recent transaction prices, prices of the same equity instruments not quoted in active markets, quoted prices of similar instruments in active markets, and valuation multiples of comparable entities/market prices or rates and specific features of derivatives, the existing lease contracts and rentals of similar properties in the vicinity of the Group's investment properties. If the actual changes of inputs in the future differ from expectation, the fair value might vary accordingly. The Group updates inputs every quarter to confirm the appropriateness of the fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Notes 14 and 36.

c. Valuation of insurance contract liabilities

1) Cathay Life and its subsidiaries

Policy reserves for insurance contracts and investment contracts with discretionary participation features are based on actuarial models and assumptions made as the insurance contracts were established, which include the mortality rate, interest rate, lapse rate, morbidity rate, etc. The assumptions are made based on the related laws and regulations.

All insurance contracts are subject to a liability adequacy test, which reflects the best current estimate of future cash flows. Best estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expenses are based on current expense levels, adjusted using the expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

The management examines these estimates regularly and makes adjustments when necessary, but actual results may differ from these estimates.

2) Cathay Century and its subsidiaries

Loss reserves are estimated for possible claims of both filed but not yet paid and not yet filed of all insurance contracts. Such estimates are made based on historical data, actuarial analysis, financing modeling and other analytical techniques and are adjusted when necessary; however, the actual results may differ from these estimates.

6. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 18,177,571	\$ 17,257,240	\$ 17,337,249
Cash in banks	104,720,675	80,146,106	80,745,959
Time deposits	150,721,293	52,709,964	74,785,738
Checks for clearing	2,917,743	7,060,146	6,535,975
Cash equivalents	20,653,391	5,608,762	955,196
Due from banks	46,072,091	43,812,218	55,197,051
Less: Loss allowance	<u>(17,174)</u>	<u>(18,382)</u>	<u>(5,725)</u>
	<u>\$ 343,245,590</u>	<u>\$ 206,576,054</u>	<u>\$ 235,551,443</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Stocks	\$ 565,652,693	\$ 673,969,471	\$ 705,478,169
Funds and beneficiary certificates	472,728,823	293,491,136	257,230,684
Government bonds	41,601,294	25,763,954	26,518,309
Corporate bonds	9,729,738	7,429,409	10,572,295
Financial debentures	26,516,388	25,818,154	25,200,347
Overseas bonds	227,614,799	188,524,736	142,834,599
Short-term notes	170,561,750	162,478,515	176,279,574
Futures trading margin	953,838	433,813	599,511
Derivative instruments	<u>71,100,233</u>	<u>50,914,861</u>	<u>63,219,896</u>
	<u>\$ 1,586,459,556</u>	<u>\$ 1,428,824,049</u>	<u>\$ 1,407,933,384</u>

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial liabilities at FVTPL</u>			
Designated as at FVTPL			
Bonds	\$ 60,075,661	\$ 51,441,482	\$ 51,470,506
Held for trading			
Bonds	148,580	-	98,850
Derivative instruments	76,371,991	75,735,636	91,747,342
Security lending payable (non-hedging)	1,537,538	2,141,592	1,987,494
Security lending payable (hedging)	<u>107,548</u>	<u>380,186</u>	<u>79,171</u>
	<u>\$ 138,241,318</u>	<u>\$ 129,698,896</u>	<u>\$ 145,383,363</u> (Concluded)

- a. The Group elected to present the profit or loss of the designated financial assets using the overlay approach under IFRS 4. Financial assets designated for the overlay approach for investing activities relating to insurance contracts issued by the Group are as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 554,592,286	\$ 660,063,193	\$ 696,619,406
Funds and beneficiary certificates	450,464,474	277,643,018	244,517,736
Financial debentures	16,297,246	17,859,589	17,881,564
Overseas bonds	<u>226,672,641</u>	<u>187,795,448</u>	<u>142,512,876</u>
	<u>\$ 1,248,026,647</u>	<u>\$ 1,143,361,248</u>	<u>\$ 1,101,531,582</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the three months and nine months ended September 30, 2019 and 2018 are as below:

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2019	2018	2019	2018
Gain due to application of IFRS 9 to profit or loss	\$ 30,016,951	\$ 20,564,214	\$ 167,269,032	\$ 35,486,717
Gain if applying IAS 39 to profit or loss	<u>(25,445,874)</u>	<u>(26,528,997)</u>	<u>(67,290,736)</u>	<u>(77,838,775)</u>
Loss (gain) reclassified due to application of overlay approach	<u>\$ 4,571,077</u>	<u>\$ (5,964,783)</u>	<u>\$ 99,978,296</u>	<u>\$ (42,352,058)</u>

Due to application of overlay approach, the amount of gain and loss on financial assets and liabilities at the FVTPL for the three months and the nine months ended September 30, 2019 and 2018 decreased from gain of \$21,851,874 thousand to gain of \$17,280,797 thousand, and increased from gain of \$11,086,520 thousand to gain of \$17,051,303 thousand, and decreased from gain of \$122,770,075 thousand to gain of \$22,791,779 thousand, and increased from loss of \$29,700,787 thousand to gain of \$12,651,271 thousand, respectively.

- b. As of September 30, 2019, none of Cathay United Bank's financial assets at FVTPL were sold under repurchase agreements. As of December 31, 2018 and September 30, 2018, Cathay United Bank's financial assets at FVTPL were sold under repurchase agreements with notional amounts of \$583,927 thousand and \$995,963 thousand were sold under repurchase agreement, respectively. Such sold financial assets amounting to \$523,342 thousand and \$913,548 thousand were recognized under "Securities sold under repurchase agreements" and were repurchased for \$523,725 thousand and \$913,833 thousand before the end of January 2019 and October 2018, respectively.
- c. Financial liabilities designated as at FVTPL

In September 2014, Cathay United Bank was authorized to issue subordinated financial debentures amounting to US\$990 million as of October 8, 2014, the issued subordinated financial debentures were amounting to US\$660 million (perpetual) and US\$330 million (fifteen-years) with a fixed interest rate of 5.10% and 4.00% on October 8, 2014, respectively, and the interest is payable annually. Cathay United Bank was authorized by the authorities to redeem the US\$660 million of bonds at its book value after 12 years and after fulfilling the specified conditions.

In December 2014, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (thirty-years), which were subsequently issued on March 30, 2015. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, the bonds were issued in the form of zero-coupon bonds, and the internal rate of return is 4.20%.

In March 2017, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$195 million (thirty-years), which were subsequently issued on April 11, 2017. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, the bonds were issued in the form of zero-coupon bonds, and the internal rate of return is 4.30%.

In March 2017, Cathay United Bank was authorized to issue unsubordinated financial debentures amounting to US\$300 million (thirty-years), which were subsequently issued on November 24, 2017. In addition to the redemption of bonds by the exercise of call options, the bonds are redeemable on maturity, the bonds were issued in the form of zero-coupon bonds, and the internal rate of return is 4.10%.

Cathay United Bank converted fixed interest rates into floating interest rates with interest rate swap contracts to hedge against the fair value risk resulting from interest rate fluctuations. For the nine months ended September 30, 2019 and 2018, such interest rate swaps were valued with a net gain of \$6,252,545 thousand and net loss of \$2,253,566 thousand, respectively.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2019	December 31, 2018	September 30, 2018
Equity instrument investments at FVTOCI			
Stocks	\$ 51,216,778	\$ 43,192,054	\$ 52,643,331
Debt instrument investments at FVTOCI			
Government bonds	162,219,857	160,794,200	172,635,188
Corporate bonds	54,945,597	45,668,682	44,214,311
Financial debentures	84,843,415	76,406,003	74,939,617
Asset-backed securities	25,396,788	3,191,683	5,436,017
Overseas bonds	825,056,808	800,838,518	841,260,498
Less: Litigation deposits	(44,960)	(1,720)	(55,818)
Less: Deposits to the Central Bank	(1,062,346)	(2,111,016)	(2,117,601)
Less: Derivative instrument collaterals	-	(168,134)	(198,408)
	<u>1,151,355,159</u>	<u>1,084,618,216</u>	<u>1,136,113,804</u>
	<u>\$ 1,202,571,937</u>	<u>\$ 1,127,810,270</u>	<u>\$ 1,188,757,135</u>

- a. These investments in equity instruments are not held for trading, and thus were designated as financial assets at FVTOCI.
- b. Dividend income recognized relating to investments in equity instruments at FVTOCI for the three months and nine months ended September 30, 2019 and 2018 were \$1,938,400 thousand, \$2,541,194 thousand, \$2,703,633 thousand and \$3,131,730 thousand, respectively. Those related to investment derecognized during the three months and nine months ended September 30, 2019 and 2018 were \$840,646 thousand, \$937,088 thousand, \$951,184 thousand and \$1,099,986 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instrument investments at FVTOCI at fair value of \$41,768,287 thousand and \$59,649,382 thousand at the time of sale, and transferred unrealized loss of \$4,686,887 thousand and \$9,092,422 thousand from other equity to retained earnings for the nine months ended September 30, 2019 and 2018, respectively.
- d. As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay United Bank and its subsidiaries' certain financial assets at FVTOCI with notional amounts of \$25,804,732 thousand, \$46,355,590 thousand and \$53,149,767 thousand were sold under repurchase agreement, respectively. Such sold financial assets amounting to \$25,236,750 thousand, \$42,613,744 thousand and \$46,113,710 thousand were recognized under the "Securities sold under repurchase agreements", and were repurchased for \$25,764,203 thousand, \$42,764,361 thousand and \$46,311,723 thousand before to the end of March 2020, March 2019 and December 2018, respectively.
- e. As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay Securities and its subsidiaries sold certain financial assets at FVTOCI under repurchase agreements with notional amounts of \$1,900,000 thousand, \$3,325,000 thousand and \$3,125,000 thousand, respectively.
- f. Refer to Note 29 for the financial assets at FVTOCI that were pledged as collateral.
- g. Refer to Note 36 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.

9. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	September 30, 2019	December 31, 2018	September 30, 2018
Time deposits	\$ 1,373,128	\$ 611,285	\$ 618,543
Financial debentures	71,666,695	70,227,496	71,925,037
Corporate bonds	28,350,956	32,239,336	34,761,888
Government bonds	39,808,247	41,021,039	51,908,509
Overseas bonds	2,499,606,521	2,161,607,143	2,115,406,457
Asset-backed securities	1,030,048	1,143,199	1,226,145
Structured bonds	3,509,239	3,073,300	3,055,100
Asset-backed securities	37,968,769	47,973,170	44,440,418
Short-term notes	343,824,498	348,485,689	255,594,914
Less: Litigation deposits	(1,344,363)	(1,345,625)	(1,346,049)
Less: Deposits in the Central Bank	(8,374,665)	(8,383,555)	(7,604,003)
Less: Derivative instrument collateral	(1,719,781)	(6,075,419)	(5,500,653)
Less: Loss allowance (Note)	<u>(1,538,867)</u>	<u>(2,355,270)</u>	<u>(1,706,484)</u>
	<u>\$ 3,014,160,425</u>	<u>\$ 2,688,221,788</u>	<u>\$ 2,562,779,822</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of September 30, 2019, December 31, 2018 and September 30, 2018, the amounts were \$948 thousand, \$910 thousand and \$1,314 thousand, respectively.

- a. For the three months and nine months ended September 30, 2019 and 2018, the Group disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$1,064,356 thousand, \$691,715 thousand, \$2,966,217 thousand and \$759,851 thousand, respectively; bond disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$3,413,708 thousand, \$804,787 thousand, \$6,514,538 thousand and \$3,826,477 thousand, respectively; bond disposal due to other situations such as repayments at maturities resulted in gain on disposal of \$110,939 thousand, loss on disposal of \$22,506, gain on disposal of \$396,154 and loss on disposal of \$35,781 thousand, respectively.
- b. As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay United Bank and its subsidiaries' certain financial assets measured at amortized cost with notional amounts of \$352,637 thousand, \$19,718,692 thousand and \$25,638,808 thousand were sold under repurchase agreements, respectively. Such sold financial assets amounting to \$280,781 thousand, \$11,447,258 thousand and \$14,824,026 thousand were recognized under securities sold under repurchase agreements and were repurchased for \$282,253 thousand, \$11,477,549 thousand and \$14,886,110 thousand before October 31, 2019, March 31, 2019 and November 30, 2018, respectively.
- c. Refer to Note 29 for information relating to financial assets at amortized cost pledged as collateral.
- d. Refer to Note 36 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

10. RECEIVABLES, NET

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable	\$ 399,972	\$ 527,630	\$ 425,672
Accounts receivable	121,939,739	78,899,338	78,638,873
Interest receivable	56,871,333	54,509,930	55,598,975
Acceptances	963,768	1,591,399	1,602,833
Factoring receivable	2,723,799	2,607,455	4,275,306
Others	<u>29,913,663</u>	<u>25,424,903</u>	<u>26,778,224</u>
	212,812,274	163,560,655	167,319,883
Less: Loss allowance	<u>(2,514,351)</u>	<u>(2,344,465)</u>	<u>(2,275,933)</u>
	<u>\$ 210,297,923</u>	<u>\$ 161,216,190</u>	<u>\$ 165,043,950</u>

a. The reconciliation in allowance for doubtful accounts of receivables were as follows:

For the nine months ended September 30, 2019

	12-month Expected- credit Losses	Lifetime Expected- credit Losses (Collectively Assessed)	Lifetime Expected- credit Losses (Neither Purchased nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
<u>Receivables</u>						
Balance, beginning of the period	\$ 126,022	\$ 116,965	\$ 1,768,492	\$ 2,011,479	\$ 50,470	\$ 2,061,949
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(2,554)	77,187	(4,305)	70,328	-	70,328
Transferred to credit-impaired financial assets	(556)	(2,496)	77,699	74,647	-	74,647
Transferred to 12-month ECLs	2,229	(49,325)	(2,945)	(50,041)	-	(50,041)
Derecognition of financial assets in the current reporting period	(92,441)	(50,138)	(132,171)	(274,750)	-	(274,750)
New financial assets purchased or originated	520,326	53,781	207,917	782,024	-	782,024
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	2,272	2,272
Recovery of written-off receivables	-	-	(353,480)	(353,480)	-	(353,480)
Effects of exchange rate changes and others	<u>9,486</u>	<u>(12,430)</u>	<u>18,889</u>	<u>15,945</u>	<u>-</u>	<u>15,945</u>
Balance, end of the period	<u>\$ 562,512</u>	<u>\$ 133,544</u>	<u>\$ 1,580,096</u>	<u>\$ 2,276,152</u>	<u>\$ 52,742</u>	<u>\$ 2,328,894</u>

For the nine months ended September 30, 2018

	12-month Expected- credit Losses	Lifetime Expected- credit Losses (Collectively Assessed)	Lifetime Expected- credit Losses (Neither Purchased nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
<u>Receivables</u>						
Balance, beginning of the period	\$ 78,157	\$ 63,923	\$ 2,106,749	\$ 2,248,829	\$ 14,830	\$ 2,263,659
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(1,953)	64,936	(1,806)	61,177	-	61,177
Transferred to credit-impaired financial assets	(410)	(837)	63,824	62,577	-	62,577
Transferred to 12-month ECLs	1,224	(21,453)	(2,998)	(23,227)	-	(23,227)
Derecognition of financial assets in the current reporting period	(52,065)	(35,125)	(341,625)	(428,815)	-	(428,815)
New financial assets purchased or originated	80,506	43,197	220,015	343,718	-	343,718
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	34,661	34,661
Recovery of written-off receivables	-	-	(326,981)	(326,981)	-	(326,981)
Effects of exchange rate changes and others	18,431	(7,944)	53,268	63,755	(508)	63,247
Balance, end of the period	<u>\$ 123,890</u>	<u>\$ 106,697</u>	<u>\$ 1,770,446</u>	<u>\$ 2,001,033</u>	<u>\$ 48,983</u>	<u>\$ 2,050,016</u>

- b. Loss allowance for other receivable are provided by simplified approach, and the movements were are as follows:

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance per IFRS 9	\$ 282,516	\$ 200,522
(Reversal) provision for the period	(52,325)	63,453
Amounts written off	<u>(44,734)</u>	<u>(38,058)</u>
Ending balance	<u>\$ 185,457</u>	<u>\$ 225,917</u>

11. DISCOUNTS AND LOANS, NET

	September 30, 2019	December 31, 2018	September 30, 2018
Export negotiations	\$ 1,725,253	\$ 1,722,435	\$ 2,320,809
Loans	2,103,844,303	2,200,985,299	2,183,795,094
Overdrafts	2,319,444	2,031,672	2,126,019
Non-accrual loans	<u>4,441,546</u>	<u>3,275,233</u>	<u>3,443,179</u>
	2,112,330,546	2,208,014,639	2,191,685,101
Less: Loss allowance	<u>(32,042,456)</u>	<u>(31,238,732)</u>	<u>(31,249,346)</u>
	<u>\$ 2,080,288,090</u>	<u>\$ 2,176,775,907</u>	<u>\$ 2,160,435,755</u>

- a. As of September 30, 2019, the gross amount of discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,515,694,529 thousand and \$25,363,186 thousand, respectively.
- b. Refer to Note 36 for information relating to the credit risk management and impairment of loans.

12. SUBSIDIARIES

- a. Subsidiaries included in the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		
			September 30, 2019	December 31, 2018	September 30, 2018
The Company	Cathay Life	Life Insurance	100.00	100.00	100.00
The Company	Cathay United Bank	Banking	100.00	100.00	100.00
The Company	Cathay Century	Property insurance	100.00	100.00	100.00
The Company	Cathay Securities	Security	100.00	100.00	100.00
The Company and Cathay Life	Cathay Venture	Venture capital	100.00	100.00	100.00
The Company	Cathay Securities Investment Trust	Entrusted investments	100.00	100.00	100.00
Cathay Life	Cathay Lujiazui Life	Life insurance	50.00	50.00	50.00
Cathay Life	Cathay Life (Vietnam)	Life insurance	100.00	100.00	100.00
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office leasing	100.00	100.00	100.00
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
Cathay Life	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00	100.00
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	100.00
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00	100.00
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00	100.00
The Company and CHL	Conning Asia Pacific Ltd.	Asset management services	100.00	100.00	100.00
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	100.00
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	100.00
Conning Holdings Corp.	Conning & Company ("C&C")	Holding company	100.00	100.00	100.00
C&C	Conning Inc.	Asset management services	100.00	100.00	100.00
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00	100.00
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00	100.00
C&C	Octagon Credit Investors, LLC ("Octagon")	Fund management services	81.89	81.89	81.89
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding I, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding II, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding III, LLC	Fund management services	100.00	100.00	100.00

(Continued)

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		
			September 30, 2019	December 31, 2018	September 30, 2018
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Insurance (Vietnam)")	Property insurance services	100.00	100.00	100.00
Cathay United Bank	Indovina Bank Limited ("Indovina Bank")	Banking	50.00	50.00	50.00
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank")	Banking	100.00	100.00	100.00
Cathay United Bank	Cathay United Bank (China) Co., Ltd. ("CUBCN Bank")	Banking	100.00	100.00	100.00
Cathay Securities	Cathay Futures Co., Ltd. ("Cathay Futures")	Futures services	99.99	99.99	99.99
Cathay Securities	Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)")	Securities services	100.00	100.00	100.00
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. ("Cathay Private Equity")	Venture capital services	100.00	100.00	100.00

(Concluded)

On August 29, 2019, the board of directors of Cathay Venture resolved to incorporate Cathay Investment Inc. with an original investment amount of \$35,000 thousand and hold all issued outstanding ordinary shares. Cathay Investment Inc. became a 100% owned subsidiary of Cathay Venture and was registered on November 5, 2019.

b. Subsidiaries excluded from the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			September 30, 2019	December 31, 2018	September 30, 2018	
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Security investment consulting services	100.00	100.00	100.00	
Cathay Securities	Cathay Investment Consulting (Shanghai) Co., Ltd.	Investment advisory services	-	100.00	100.00	*

* On November 7, 2017, it was dissolved by the board of directors, and the liquidation was completed on February 26, 2019.

The consolidated financial statements did not include the above-mentioned subsidiaries because their total assets and operating revenue were insignificant to the total assets and operating revenue of the Group.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2019	December 31, 2018	September 30, 2018
Investments in unconsolidated subsidiaries	\$ 285,416	\$ 288,073	\$ 264,981
Investments in associates	<u>47,706,367</u>	<u>44,643,933</u>	<u>43,543,751</u>
	<u>\$ 47,991,783</u>	<u>\$ 44,932,006</u>	<u>\$ 43,808,732</u>

a. Investments in unconsolidated subsidiaries

	September 30, 2019	December 31, 2018	September 30, 2018
Cathay Securities Investment Consulting Cathay Investment Consulting (Shanghai) Co., Ltd.	\$ 285,416 <u> -</u>	\$ 278,780 <u> 9,293</u>	\$ 255,621 <u> 9,360</u>
	<u>\$ 285,416</u>	<u>\$ 288,073</u>	<u>\$ 264,981</u>

b. Investments in associates

	September 30, 2019	December 31, 2018	September 30, 2018
Rizal Commercial Banking Corporation	\$ 16,177,111	\$ 15,743,568	\$ 15,478,597
PT Bank Mayapada Internasional Tbk	13,893,364	13,733,069	12,915,392
Cathay Insurance Company Limited (China)	4,438,270	2,346,424	2,371,297
Global Evolution Holding ApS	2,829,896	2,711,173	2,689,511
Dasheng Venture Capital Co., Ltd.	1,696,925	1,763,971	1,777,643
Taiwan Finance Corp.	1,648,093	1,665,689	1,637,371
PSS Co., Ltd.	819,464	782,943	781,364
Dasheng IV Venture Capital Co., Ltd.	792,011	791,667	787,076
Ding Teng Co., Ltd.	765,354	765,935	761,110
Cathay Sunrise Corporation	697,243	696,378	693,423
New Cathay Power Corp. Corp.	691,873	697,801	693,711
CMG International One Corp.	675,559	676,108	675,727
CMG International Two Corp.	673,973	675,088	674,833
CDBS Cathay Asset Management Co., Ltd.	418,768	458,070	479,795
Syphon Information Co., Ltd.	400,237	429,450	421,137
Greenhealth Water Resources Co., Ltd.	385,819	-	-
CM Energy Co., Ltd.	276,443	274,352	274,013
Tien-Tai Optronics Corporation	134,533	136,778	134,843
Taiwan Real-estate Management Corp.	101,190	103,185	102,068
WK Technology Fund VI Co., Ltd.	54,054	50,014	53,862
RI-Zhao Energy Corp.	45,556	46,051	45,692
Dun-Yang Energy Corp.	43,226	45,551	45,108
Yong-Chang Energy Corp.	42,327	47,248	47,097
Tien-Tai Management Consulting Co., Ltd.	<u>5,078</u>	<u>3,420</u>	<u>3,081</u>
	<u>\$ 47,706,367</u>	<u>\$ 44,643,933</u>	<u>\$ 43,543,751</u>

Aggregate information of associates that are not individually material

	<u>For the Three Months Ended</u> <u>September 30</u>		<u>For the Nine Months Ended</u> <u>September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
The Group's share of:				
Net income	\$ (158,712)	\$ 466,665	\$ 534,478	\$ 943,558
Other comprehensive income (loss)	<u>(545,513)</u>	<u>(316,508)</u>	<u>395,662</u>	<u>(1,061,039)</u>
Total comprehensive income (loss) for the period	<u>\$ (704,225)</u>	<u>\$ 150,157</u>	<u>\$ 930,140</u>	<u>\$ (117,481)</u>

As the individual associates are not significant, the related financial information is disclosed aggregately. The amount of the share of profit or loss and other comprehensive income of associates were based on non-reviewed financial statements.

The investments in associates are not pledged.

14. INVESTMENT PROPERTY

	<u>Investment Property</u>		<u>Investment Property Under Construction</u>	<u>Prepayments for Buildings and Land - Investments</u>	<u>Total</u>
	<u>Land</u>	<u>Buildings</u>			
January 1, 2018	\$ 226,503,504	\$ 87,366,614	\$ 3,546,004	\$ 690,203	\$ 318,106,325
Additions	38,074	6,926	2,692,555	967	2,738,522
Disposals	(85,977)	(439,000)	-	-	(524,977)
Transfers to property and equipment	-	(762,079)	-	-	(762,079)
Other reclassification	342,906	101,380	(37,581)	(406,746)	(41)
Gain (loss) on changes in fair value of investment property	56,682	(717,886)	-	-	(661,204)
Exchange differences	(97,375)	(313,042)	-	-	(410,417)
September 30, 2018	<u>\$ 226,757,814</u>	<u>\$ 85,242,913</u>	<u>\$ 6,200,978</u>	<u>\$ 284,424</u>	<u>\$ 318,486,129</u>
January 1, 2019	\$ 226,135,064	\$ 89,574,661	\$ 2,790,143	\$ 722,686	\$ 319,222,554
Adjustment on initial application of IFRS 16	9,014,035	-	-	-	9,014,035
Additions	-	-	2,934,580	9,530,278	12,464,858
Disposals	(88,965)	(46,680)	-	-	(135,645)
Transfers from property and equipment	53,045,893	11,725,994	-	-	64,771,887
Other reclassification	10,077,711	2,097,208	(1,963,182)	(10,226,347)	(14,610)
Gain (loss) on changes in fair value of investment property	886,118	(367,382)	-	-	518,736
Changes in revaluation surplus	(1,096,163)	2,023,082	-	-	926,919
Exchange differences	(248,034)	(533,278)	-	-	(781,312)
September 30, 2019	<u>\$ 297,725,659</u>	<u>\$ 104,473,605</u>	<u>\$ 3,761,541</u>	<u>\$ 26,617</u>	<u>\$ 405,987,422</u>

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Rental income from investment property	\$ 2,870,946	\$ 2,714,017	\$ 8,632,662	\$ 8,119,916
Less: Direct operating expense from investment properties that generate rental income	(119,514)	(119,439)	(459,980)	(443,707)
Less: Direct operating expense from investment properties that do not generate rental income	(27,620)	(29,806)	(107,380)	(95,319)
	<u>\$ 2,723,812</u>	<u>\$ 2,564,772</u>	<u>\$ 8,065,302</u>	<u>\$ 7,580,890</u>

- a. Certain parts of properties are held to earn rental or for capital appreciation, and the other parts are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component couldn't be sold separately, it would be classified as investment property only when owner occupation is lower than 5% of the property.

- b. As of September 30, 2019, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$445,436,468 thousand. Investment properties are held mainly for lease purposes. All the lease agreements are operating leases and the primary terms of the lease agreements are the same as general lease agreements. Rents from investment property are received annually, semi-annually, quarterly, monthly or in one lump sum. Investment properties held by the Group were not pledged.
- c. The ownership of the Group's investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other's debt; the ownership of its trust property are not subject to restrictions. Besides, the Group are not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of the Regulations Governing Foreign Investments by Insurance Companies.
- d. Valuation on the investment property of Cathay Life and its subsidiaries has been performed by the following appraisers of joint appraisers offices meeting the qualification requirements for real estate appraisers in the R.O.C., with valuation dates at June 30, 2019, December 31, 2018 and June 30, 2018. The appraisers had reviewed the effectiveness of the original valuation reports and clarified that the fair values at June 30, 2019 and 2018 were in effect on September 30, 2019 and 2018.

<u>Name of Appraisers Offices</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
DTZ Real Estate Appraiser Firm	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro Knight Frank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao; You-qi, Liang
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	Hong-yuan, Wang	Hong-yuan, Wang
Sinyi Real Estate Appraiser Firm	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi	-	-

The fair value is supported by observable evidence in the market. The main appraisal approaches applied include sales comparison approach, income approach - direct capitalization method, income approach - discounted cash flow method, cost approach and the method of land development analysis. Commercial office buildings and residences are mainly valued by sales comparison approach and income approach because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are mainly valued by income approach - direct capitalization method and income approach - discounted cash flow method because of the stable rental income in the long term. Industrial plants for lease are valued by sales comparison approach and cost approach. Wholesale stores located in industrial districts are valued by cost approach since the buildings are constructed for specific purposes because fewer similar transactions could be referred to in the market. Vacant land and buildings under construction of logistics parks located in industrial and commercial integrated district are valued by cost approach. Urban renewal land with permit of

construction is valued by sales comparison approach and income approach, based on the value of real estate right arises from urban renewal program.

The main inputs used are as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Direct capitalization rates (net)	0.62%-6.42%	0.62%-4.39%	0.46%-4.39%
Discount rates	3.14%-4.23%	3.14%-4.23%	3.14%-4.23%

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

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

Refer to Table 3 for the acquisition of individual real estate at costs at least NT\$300 million or 20% of the paid-in capital.

- e. Cathay United Bank's investment properties were appraised by qualified real estate appraisers in Taiwan, according to the "Technical Rules for Real Estate Valuation." The valuation dates were June 30, 2019, December 31, 2018 and June 30, 2018, respectively. The appraisers had reviewed the original valuation reports issued on the aforementioned valuation dates and clarified that the valuation reports were in effect on September 30, 2019 and 2018, respectively.

Name of Appraiser Firm	June 30, 2019	December 31, 2018	June 30, 2018
REPro Knight Frank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi

The fair value is supported by observable evidence in the market. The main appraisal approaches applied include the income approach (such as discounted cash flow model and direct capitalization approach), comparison approach and cost approach. The significant unobservable inputs mainly include discount rates and the related adjustments, and categorized as level 3 of fair value hierarchy.

- 1) As office buildings have market liquidity and their rent levels are similar to comparable properties in same neighborhoods, their fair values have been mainly determined using comparison approach and income approach.

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

According to the R.O.C. Real Estate Appraisers Association Gazette No. 5, the house tax is based on the actual payment data. If there is no payment data, the house tax is based on the reference tables of current house values from each city to estimate the total current house value, including the area of the subject property and related public utilities, and then calculated with tax rates according to House Tax Act.

Land value tax is based on the changes in the announced land value of the underlying property in the past years and the actual payment data, to further extrapolate the announced land value in the future.

According to the R.O.C. Real Estate Appraisers Association Gazette No. 5, replacement allowance for significant renovation costs is calculated based on 10% of construction costs and amortized over 20 years as assumed useful life.

The main inputs used are as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Direct capitalization rates	1.96%-5.74%	1.98%-5.73%	2.05%-5.85%
Overall capital interest rate	0.76%-2.89%	0.76%-2.89%	0.76%-2.89%

- 2) The fair value has been determined by the method of land development analysis and comparison. Reserved area in hillside land, scenic land site, areas for agriculture, animal husbandry and forestry had fewer market transactions as their uses are restricted by law, and will not have significant changes in the market in the near future.

	June 30, 2019	December 31, 2018	June 30, 2018
Rate of return	15%	15%	15%
Overall capital interest rate	2.10%	2.11%	2.11%

- f. Cathay Securities and its subsidiaries appointed an appraiser from Elite Appraisers Firm (Yu-Lin Chen) to evaluate the fair value of the investment property on June 30, 2019, December 31, 2018 and June 30, 2018, respectively and valuation dates are June 30, 2019, December 31, 2018 and June 30, 2018.

The appraisers had reviewed the effectiveness of the original valuation report and clarified that the fair value at June 30, 2019 and 2018 were still in effect on September 30, 2019 and 2018.

The fair value of investment property is determined by income approach with significant assumptions as follows. If estimated future cash inflows increase or discount rate decreases, the fair value will increase.

	June 30, 2019	December 31, 2018	June 30, 2018
Estimated future cash inflows	\$ 436,480	\$ 436,792	\$ 437,150
Estimated future cash outflows	<u>(17,212)</u>	<u>(18,314)</u>	<u>(18,322)</u>
Estimated net cash inflows	<u>\$ 419,268</u>	<u>\$ 418,478</u>	<u>\$ 418,828</u>
Discount rate	2.045%	2.045%	2.045%
Direct capitalization rate	2.56%	2.56%	2.55%

The market rentals ranged from \$4,000 to \$6,000 per ping in the areas where the investment property is located.

All of the investment property are leased by operating leases, generating rental income of \$1,790 thousand, \$1,790 thousand, \$5,371 thousand and \$5,370 thousand, respectively, for the three and nine months ended September 30, 2019 and 2018.

The estimated future cash inflows consist of rental income, interest of deposit and value of disposal at the end of the period. Rental income is estimated for the current rent and the annual growth rate of the rent. The period of benefit analysis is estimated for 10 years. Interest of deposit is estimated based on the interest rate on a 1-year time deposit of the 5 largest banks for the past five years. The value of disposal at the end of the period is estimated using the direct capitalization method. The estimated future cash outflows consist of land tax, property tax, and replacement allowance, which are estimated on the basis of current expenditures, adjustments to the future announced land value, and tax rates in accordance with the House Tax Act.

The discount rate is determined based on the interest rate on a 2-year time deposit of petty cash plus 3 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium.

g. Reconciliations for Level 3 fair value measurements are as follows:

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 310,083,727	\$ 307,190,424
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Gain (loss) from investment property	518,736	(661,204)
Amount recognized in other comprehensive income		
Property revaluation surplus	926,919	-
Exchange differences resulting from translating the financial statements of foreign operations	(781,312)	(410,417)
Acquisition	-	45,000
Disposals	(107,191)	(524,900)
Transfers to property and equipment	-	(762,079)
Transfers from property and equipment	64,771,887	-
Transfers from investment property under construction	1,947,844	37,581
Transfers from prepayment for buildings and land	9,761,932	406,705
Transfers from investment property measured by costs	<u>-</u>	<u>1,053,619</u>
Ending balance	<u>\$ 396,136,577</u>	<u>\$ 306,374,729</u>

The above amount excludes the part measured by costs.

h. Refer to Note 29 for the investment properties that were pledged as collateral.

15. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold improvements	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
Cost									
Balance at January 1, 2018	\$ 123,888,389	\$ 57,812,084	\$ 6,885,863	\$ 276,131	\$ 712,137	\$ 120,132	\$ 12,439,403	\$ 708,564	\$ 202,842,703
Additions	84	-	1,040,890	-	242,865	1,533	300,356	1,237,216	2,822,944
Disposals	(6,126)	(6,113)	(511,161)	-	(3,072)	(1,960)	(575,366)	-	(1,103,798)
Reclassification	40	801,076	109,638	-	576	-	267,512	(531,135)	647,707
Others	(1,800)	-	-	-	-	-	-	-	(1,800)
Exchange differences	3,048	(60,461)	5,338	(1)	5,563	2,310	6,971	1,916	(35,316)
Balance at September 30, 2018	<u>123,883,635</u>	<u>58,546,586</u>	<u>7,530,568</u>	<u>276,130</u>	<u>958,069</u>	<u>122,015</u>	<u>12,438,876</u>	<u>1,416,561</u>	<u>205,172,440</u>
Depreciation and impairment									
Balance at January 1, 2018	103,134	21,459,719	5,252,487	275,877	418,285	83,011	10,154,500	-	37,747,013
Depreciation	-	887,018	464,082	57	73,627	6,556	491,898	-	1,923,238
Disposals	-	(3,716)	(508,622)	-	(3,072)	(1,960)	(562,376)	-	(1,079,746)
Reclassification	-	-	(17,069)	-	-	-	16,887	-	(182)
Exchange differences	-	(3,523)	103	(1)	(3,940)	1,739	2,481	-	(3,141)
Balance at September 30, 2018	<u>103,134</u>	<u>22,339,498</u>	<u>5,190,981</u>	<u>275,933</u>	<u>484,900</u>	<u>89,346</u>	<u>10,103,390</u>	<u>-</u>	<u>38,587,182</u>
Carrying amount at September 30, 2018	<u>\$ 123,780,501</u>	<u>\$ 36,207,088</u>	<u>\$ 2,339,587</u>	<u>\$ 197</u>	<u>\$ 473,169</u>	<u>\$ 32,669</u>	<u>\$ 2,335,486</u>	<u>\$ 1,416,561</u>	<u>\$ 166,585,258</u>

(Continued)

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold improvements	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
Cost									
Balance at January 1, 2019	\$ 124,316,326	\$ 58,621,063	\$ 7,769,595	\$ 276,135	\$ 869,324	\$ 121,529	\$ 12,623,173	\$ 950,474	\$ 205,547,619
Additions	-	-	561,774	-	22,476	3,878	265,280	665,104	1,518,512
Disposals	(12,249)	(20,329)	(495,508)	-	(1,446)	(11,397)	(398,529)	-	(939,458)
Reclassification	450,666	1,263	485,632	(276,135)	112,736	10,417	(244,998)	(366,283)	173,298
Transfers to investment property	(53,045,893)	(12,385,179)	-	-	-	-	-	-	(65,431,072)
Exchange differences	1,647	(48,992)	3,043	-	(8,208)	996	5,911	(1,377)	(46,980)
Balance at September 30, 2019	<u>71,710,497</u>	<u>46,167,826</u>	<u>8,324,536</u>	<u>-</u>	<u>994,882</u>	<u>125,423</u>	<u>12,250,837</u>	<u>1,247,918</u>	<u>140,821,919</u>
Depreciation and impairment									
Balance at January 1, 2019	103,134	22,636,248	5,343,495	275,960	494,551	90,622	10,145,282	-	39,089,292
Depreciation	-	748,282	547,404	-	77,684	11,775	496,652	-	1,881,797
Disposals	-	(12,906)	(486,863)	-	(1,360)	(11,043)	(381,632)	-	(893,804)
Reclassification	-	(35)	333,386	(275,960)	87,770	1,249	(421,155)	-	(274,745)
Transfers to investment property	-	(659,185)	-	-	-	-	-	-	(659,185)
Exchange differences	-	(5,695)	(13,731)	-	4,706	728	793	-	(13,199)
Balance at September 30, 2019	<u>103,134</u>	<u>22,706,709</u>	<u>5,723,691</u>	<u>-</u>	<u>663,351</u>	<u>93,331</u>	<u>9,839,940</u>	<u>-</u>	<u>39,130,156</u>
Carrying amount at December 31, 2018 and January 1, 2019	<u>\$ 124,213,192</u>	<u>\$ 35,984,815</u>	<u>\$ 2,426,100</u>	<u>\$ 175</u>	<u>\$ 374,773</u>	<u>\$ 30,907</u>	<u>\$ 2,477,891</u>	<u>\$ 950,474</u>	<u>\$ 166,458,327</u>
Carrying amount at September 30, 2019	<u>\$ 71,607,363</u>	<u>\$ 23,461,117</u>	<u>\$ 2,600,845</u>	<u>\$ -</u>	<u>\$ 331,531</u>	<u>\$ 32,092</u>	<u>\$ 2,410,897</u>	<u>\$ 1,247,918</u>	<u>\$ 101,691,763</u>

(Concluded)

- a. The above items of property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings and construction	5-70 years
Computer equipment	3-10 years
Leased assets	3 years
Leasehold improvements	3-6 years or lease term
Transportation equipment	3-7 years
Other equipment	2-15 years

- b. Property and equipment were not pledged as collateral for bank borrowings.

16. LEASE AGREEMENTS

- a. Right-of-use assets - 2019

	September 30, 2019
<u>Carrying amounts</u>	
Land and buildings	\$ 3,775,384
Office equipment	15,923
Machine equipment	3,035
Transportation equipment	<u>65,933</u>
	<u>\$ 3,860,275</u>
The right-of-use assets presented as investment properties	<u>\$ 8,897,732</u>

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Additions to right-of-use assets	<u>\$ 319,663</u>	<u>\$ 866,822</u>
Depreciation expense for right-of-use assets		
Land and buildings	\$ 336,207	\$ 963,582
Office equipment	1,270	3,771
Machine equipment	325	826
Transportation equipment	<u>10,331</u>	<u>30,789</u>
	<u>\$ 348,133</u>	<u>\$ 998,968</u>

b. Lease liabilities - 2019

	September 30, 2019
Carrying amounts	<u>\$ 12,777,040</u>

Range of discount rates for lease liabilities was as follows:

	September 30, 2019
Land and buildings	0.35%-8.57%
Office equipment	0.71%-4.76%
Machine equipment	0.70%-4.13%
Transportation equipment	0.70%-5.38%
Investment property-superficies right	2.82%-3.71%

17. INTANGIBLE ASSETS

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Others	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 4,562,898	\$ 37,659,600	\$ 391,576	\$ 3,518,004	\$ 18,867,219	\$ 230,114	\$ 65,229,411
Addition - acquired separately	277,433	-	-	-	-	10,650	288,083
Disposal	(76,540)	-	-	-	-	-	(76,540)
Reclassification	128,005	-	-	-	-	-	128,005
Exchange differences	<u>(10,481)</u>	<u>-</u>	<u>9,223</u>	<u>82,858</u>	<u>180,812</u>	<u>5,404</u>	<u>267,816</u>
Balance at September 30, 2018	<u>\$ 4,881,315</u>	<u>\$ 37,659,600</u>	<u>\$ 400,799</u>	<u>\$ 3,600,862</u>	<u>\$ 19,048,031</u>	<u>\$ 246,168</u>	<u>\$ 65,836,775</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2018	\$ 3,317,139	\$ 5,198,458	\$ -	\$ 795,546	\$ -	\$ 115,292	\$ 9,426,435
Amortization	385,799	1,559,537	-	291,268	-	36,922	2,273,526
Disposal	(76,540)	-	-	-	-	-	(76,540)
Exchange differences	<u>(12,041)</u>	<u>-</u>	<u>-</u>	<u>24,751</u>	<u>-</u>	<u>3,478</u>	<u>16,188</u>
Balance at September 30, 2018	<u>\$ 3,614,357</u>	<u>\$ 6,757,995</u>	<u>\$ -</u>	<u>\$ 1,111,565</u>	<u>\$ -</u>	<u>\$ 155,692</u>	<u>\$ 11,639,609</u>
Carrying amount at September 30, 2018	<u>\$ 1,266,958</u>	<u>\$ 30,901,605</u>	<u>\$ 400,799</u>	<u>\$ 2,489,297</u>	<u>\$ 19,048,031</u>	<u>\$ 90,476</u>	<u>\$ 54,197,166</u>

(Continued)

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Others	Total
Cost							
Balance at January 1, 2019	\$ 5,195,579	\$ 37,659,600	\$ 403,186	\$ 3,622,314	\$ 19,094,842	\$ 238,414	\$ 66,213,935
Addition - acquired separately	532,365	-	-	-	-	-	532,365
Disposal	(148,209)	-	-	-	-	-	(148,209)
Reclassification	46,015	-	-	-	-	-	46,015
Exchange differences	(15,269)	-	4,054	36,419	79,475	2,229	106,908
Balance at September 30, 2019	<u>\$ 5,610,481</u>	<u>\$ 37,659,600</u>	<u>\$ 407,240</u>	<u>\$ 3,658,733</u>	<u>\$ 19,174,317</u>	<u>\$ 240,643</u>	<u>\$ 66,751,014</u>
Amortization and impairment							
Balance at January 1, 2019	\$ 3,730,271	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 12,387,468
Amortization	477,004	1,559,537	-	301,855	-	14,735	2,353,131
Disposal	(148,209)	-	-	-	-	-	(148,209)
Exchange differences	(21,321)	-	-	12,449	-	1,633	(7,239)
Balance at September 30, 2019	<u>\$ 4,037,745</u>	<u>\$ 8,837,378</u>	<u>\$ -</u>	<u>\$ 1,532,175</u>	<u>\$ -</u>	<u>\$ 177,853</u>	<u>\$ 14,585,151</u>
Carrying amount at December 31, 2018 and January 1, 2019	<u>\$ 1,465,308</u>	<u>\$ 30,381,759</u>	<u>\$ 403,186</u>	<u>\$ 2,404,443</u>	<u>\$ 19,094,842</u>	<u>\$ 76,929</u>	<u>\$ 53,826,467</u>
Carrying amount at September 30, 2019	<u>\$ 1,572,736</u>	<u>\$ 28,822,222</u>	<u>\$ 407,240</u>	<u>\$ 2,126,558</u>	<u>\$ 19,174,317</u>	<u>\$ 62,790</u>	<u>\$ 52,165,863</u>

(Concluded)

- a. Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	2-10 years
Franchises	6.5 or 20 years
Customer relationships	5-15 years
Others	3-6 years

- b. The acquisition and movements in goodwill were as follows:

1) Cathay Life

As of September 30, 2019, December 31, 2018 and September 30, 2018, the book values of goodwill were \$10,574,291 thousand, \$10,498,082 thousand and \$10,453,195 thousand, respectively. The goodwill arose from the acquisition of which Cathay Life assumed all assets, liabilities and operations of Global Life and Singfor Life. Except for their reserved assets and liabilities on July 1, 2015, the acquisition of 100% of Conning Holdings Limited on September 18, 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of Cathay Life on February 1, 2016.

An annual impairment test for goodwill is performed regularly. Cathay Life and its subsidiaries estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for the purpose of impairment testing. The recoverable amount is calculated by applying a proper discount rate. Since the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment is recognized for goodwill.

2) Cathay United Bank

Cathay United Bank acquired China United Trust & Investment Corporation on December 29, 2007 and recognized goodwill amounting to \$6,673,083 thousand.

Cathay United Bank acquired 70% of the shares of Cambodia CUBC Bank on December 13, 2012 and recognized goodwill amounting to US\$10,570 thousand, then further acquired the remaining 30% of shares on September 16, 2013.

During impairment testing for goodwill, Cathay United Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of present operations and will be adjusted depending on the business outlook and economic trends.

3) Cathay Securities

On September 4, 2015, Cathay Securities acquired 100% of the shares of Cathay Securities (Hong Kong) and recognized goodwill amounting to \$8,629 thousand.

18. COMMERCIAL PAPER PAYABLE, NET

	September 30, 2019	December 31, 2018	September 30, 2018
Nominal amount	\$ 55,610,000	\$ 62,990,000	\$ 65,280,000
Less: Discount amount	<u>(750)</u>	<u>(633)</u>	<u>(1,462)</u>
	<u>\$ 55,609,250</u>	<u>\$ 62,989,367</u>	<u>\$ 65,278,538</u>
Interest rate	0.50%-0.70%	0.46%-0.86%	0.41%-0.66%

19. DEPOSITS AND REMITTANCES

	September 30, 2019	December 31, 2018	September 30, 2018
Checking deposits	\$ 13,777,040	\$ 15,781,941	\$ 13,071,525
Demand deposits	481,033,177	499,861,928	476,218,205
Demand savings deposits	928,000,367	847,465,305	852,294,063
Time deposits	459,467,525	450,145,909	452,925,714
Time savings deposits	383,253,959	367,920,662	366,785,379
Negotiable certificates of deposit	3,145,900	4,313,300	3,366,736
Outward remittances and remittances payable	<u>5,302,958</u>	<u>1,714,041</u>	<u>1,967,606</u>
	<u>\$ 2,273,980,926</u>	<u>\$ 2,187,203,086</u>	<u>\$ 2,166,629,228</u>

20. BONDS PAYABLE

	September 30, 2019	December 31, 2018	September 30, 2018
Subordinated financial debentures	\$ 53,900,000	\$ 55,600,000	\$ 55,600,000
Cumulative perpetual subordinated corporate bonds	45,000,000	35,000,000	35,000,000
Unsecured corporate bonds	<u>20,000,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 118,900,000</u>	<u>\$ 90,600,000</u>	<u>\$ 90,600,000</u>

a. Subordinated financial debentures

	September 30, 2019	December 31, 2018	September 30, 2018
First issue of subordinated financial debentures in 2009; fixed rate at 2.6%; maturity: July 2019	\$ -	\$ 1,500,000	\$ 1,500,000
First issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: March 2021	1,500,000	1,500,000	1,500,000
First issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: June 2021	2,500,000	2,500,000	2,500,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.48%; maturity: June 2019	-	200,000	200,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: June 2022	4,200,000	4,200,000	4,200,000
First issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: August 2022	5,600,000	5,600,000	5,600,000
First issue of subordinated financial debentures in 2013; fixed rate at 1.55%; maturity: April 2020	100,000	100,000	100,000
First issue of subordinated financial debentures in 2013; fixed rate at 1.7%; maturity: April 2023	9,900,000	9,900,000	9,900,000
First issue of subordinated financial debentures in 2014; fixed rate at 1.7%; maturity: May 2021	3,000,000	3,000,000	3,000,000
First issue of subordinated financial debentures in 2014; fixed rate at 1.85%; maturity: May 2024	12,000,000	12,000,000	12,000,000
First issue of subordinated financial debentures in 2017; fixed rate at 1.85%; maturity: April 2027	12,700,000	12,700,000	12,700,000
First issue of subordinated financial debentures in 2017; fixed rate at 1.5%; maturity: April 2024	<u>2,400,000</u>	<u>2,400,000</u>	<u>2,400,000</u>
	<u>\$ 53,900,000</u>	<u>\$ 55,600,000</u>	<u>\$ 55,600,000</u>

b. Cumulative perpetual subordinated corporate bonds

1) Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, Cathay Life issued its first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. Key terms and conditions are as follows:

- a) Issue amount: \$35,000,000 thousand.
- b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
- c) Years to maturity: Perpetual.

- d) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year from the issue date.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Right of early redemption: If the Cathy Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathy Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - g) Form of bonds: Book-entry securities
- 2) Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, Cathay Life issued its first perpetual cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:
- a) Issue amount: \$10,000,000 thousand.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: Perpetual.
 - d) Coupon rate: Fixed rate of 3%.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Right of early redemption: If the Cathy Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathy Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - g) Form of bonds: Book-entry securities.
- c. Unsecured Corporate bonds
- Pursuant to Order No. Securities-TPEX-Bond-10800038242 of the Taipei Exchange, Cathay Financial Holdings issued its first unsecured corporate bonds on May 8, 2019 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$20,000,000 thousand, which is divided into A Note of \$4,000,000 thousand, B Note of \$4,000,000 thousand and C Note of \$12,000,000 thousand by issue periods.
 - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - 3) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - 4) Coupon rate: Fixed rate of 0.83% for A Note, 0.93% for B Note and 1.04% for C Note.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - 6) Form of bonds: Book-entry securities.

21. LIABILITY RESERVES

	September 30, 2019	December 31, 2018	September 30, 2018
Insurance liability			
Unearned premium reserve	\$ 29,234,166	\$ 28,779,799	\$ 27,737,742
Loss reserve	19,588,479	17,377,650	17,232,401
Policy reserve	5,490,051,845	5,225,589,934	5,123,748,155
Special reserve	14,194,820	14,356,732	14,374,572
Premium deficiency reserve	20,258,988	22,559,651	24,146,390
Reserve for insurance contracts with the nature of financial products	10,514,325	9,318,713	9,086,704
Reserve for foreign exchange valuation	22,385,769	17,075,289	15,385,068
Other reserve	<u>1,877,542</u>	<u>1,894,570</u>	<u>1,898,570</u>
	5,608,105,934	5,336,952,338	5,233,609,602
Provisions for employee benefits	3,611,558	3,697,333	3,662,555
Other reserves	<u>1,392,456</u>	<u>1,286,055</u>	<u>1,426,070</u>
	<u>\$ 5,613,109,948</u>	<u>\$ 5,341,935,726</u>	<u>\$ 5,238,698,227</u>

As of September 30, 2019, loss reserve belonging to Cathay Life amounted to \$5,466,570,662 thousand.

a. Cathay Life and its subsidiaries

The details and changes of Cathay Life and its subsidiaries' insurance contracts and financial instruments with discretionary participation features are summarized below:

1) Unearned premium reserve

	<u>September 30, 2019</u>		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 67,351	\$ -	\$ 67,351
Individual injury insurance	6,642,845	-	6,642,845
Individual health insurance	8,702,262	-	8,702,262
Group insurance	1,500,041	-	1,500,041
Investment-linked insurance	<u>113,356</u>	-	<u>113,356</u>
	<u>17,025,855</u>	-	<u>17,025,855</u>
Less ceded unearned premium reserve:			
Individual life insurance	620,042	-	620,042
Individual injury insurance	22,605	-	22,605
Individual health insurance	135,452	-	135,452
Group insurance	<u>2,740</u>	-	<u>2,740</u>
	<u>780,839</u>	-	<u>780,839</u>
	<u>\$ 16,245,016</u>	<u>\$ -</u>	<u>\$ 16,245,016</u>

December 31, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 73,117	\$ -	\$ 73,117
Individual injury insurance	6,497,571	-	6,497,571
Individual health insurance	8,843,583	-	8,843,583
Group insurance	1,225,893	-	1,225,893
Investment-linked insurance	<u>112,153</u>	<u>-</u>	<u>112,153</u>
	<u>16,752,317</u>	<u>-</u>	<u>16,752,317</u>
Less ceded unearned premiums reserve			
Individual life insurance	509,092	-	509,092
Individual injury insurance	9,703	-	9,703
Individual health insurance	105,542	-	105,542
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>624,337</u>	<u>-</u>	<u>624,337</u>
	<u>\$ 16,127,980</u>	<u>\$ -</u>	<u>\$ 16,127,980</u>

September 30, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 104,905	\$ -	\$ 104,905
Individual injury insurance	6,188,727	-	6,188,727
Individual health insurance	8,234,195	-	8,234,195
Group insurance	1,374,100	-	1,374,100
Investment-linked insurance	<u>109,961</u>	<u>-</u>	<u>109,961</u>
	<u>16,011,888</u>	<u>-</u>	<u>16,011,888</u>
Less ceded unearned premiums reserve			
Individual life insurance	366,906	-	366,906
Individual injury insurance	11,252	-	11,252
Individual health insurance	179,713	-	179,713
Group insurance	<u>299</u>	<u>-</u>	<u>299</u>
	<u>558,170</u>	<u>-</u>	<u>558,170</u>
	<u>\$ 15,453,718</u>	<u>\$ -</u>	<u>\$ 15,453,718</u>

The changes in unearned premium reserve are summarized below:

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	16,958,081	-	16,958,081
Recovery	(16,674,312)	-	(16,674,312)
Foreign exchange	<u>(10,231)</u>	<u>-</u>	<u>(10,231)</u>
Ending balance	<u>17,025,855</u>	<u>-</u>	<u>17,025,855</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	<u>156,502</u>	<u>-</u>	<u>156,502</u>
Ending balance	<u>780,839</u>	<u>-</u>	<u>780,839</u>
Net ending balance	<u>\$ 16,245,016</u>	<u>\$ -</u>	<u>\$ 16,245,016</u>
	For the Nine Months Ended September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 15,978,199	\$ -	\$ 15,978,199
Provision	16,016,071	-	16,016,071
Recovery	(15,970,334)	-	(15,970,334)
Foreign exchange	<u>(12,048)</u>	<u>-</u>	<u>(12,048)</u>
Ending balance	<u>16,011,888</u>	<u>-</u>	<u>16,011,888</u>
Less ceded unearned premium reserve			
Beginning balance	300,568	-	300,568
Increase	<u>257,602</u>	<u>-</u>	<u>257,602</u>
Ending balance	<u>558,170</u>	<u>-</u>	<u>558,170</u>
Net ending balance	<u>\$ 15,453,718</u>	<u>\$ -</u>	<u>\$ 15,453,718</u>

2) Loss reserve

September 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance			
Filed but not paid	\$ 2,279,394	\$ 35,929	\$ 2,315,323
Not yet filed	67,361	-	67,361
Individual injury insurance			
Filed but not paid	41,941	-	41,941
Not yet filed	1,920,833	-	1,920,833
Individual health insurance			
Filed but not paid	1,098,040	-	1,098,040
Not yet filed	3,180,307	-	3,180,307
Group insurance			
Filed but not paid	60,958	-	60,958
Not yet filed	1,887,533	-	1,887,533
Investment-linked insurance			
Filed but not paid	156,289	-	156,289
Not yet filed	<u>1,392</u>	<u>-</u>	<u>1,392</u>
	<u>10,694,048</u>	<u>35,929</u>	<u>10,729,977</u>
Less ceded loss reserve			
Individual life insurance	4,641	-	4,641
Individual injury insurance	392	-	392
Individual health insurance	15,038	-	15,038
Group insurance	<u>20</u>	<u>-</u>	<u>20</u>
	<u>20,091</u>	<u>-</u>	<u>20,091</u>
	<u>\$ 10,673,957</u>	<u>\$ 35,929</u>	<u>\$ 10,709,886</u>

December 31, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance			
Filed but not paid	\$ 1,482,412	\$ 9,145	\$ 1,491,557
Not yet filed	78,293	-	78,293
Individual injury insurance			
Filed but not paid	27,845	-	27,845
Not yet filed	1,781,854	-	1,781,854
Individual health insurance			
Filed but not paid	867,032	-	867,032
Not yet filed	2,813,866	-	2,813,866
			(Continued)

December 31, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Group insurance			
Filed but not paid	\$ 51,463	\$ -	\$ 51,463
Not yet filed	1,572,121	-	1,572,121
Investment-linked insurance			
Filed but not paid	218,680	-	218,680
Not yet filed	<u>620</u>	<u>-</u>	<u>620</u>
	<u>8,894,186</u>	<u>9,145</u>	<u>8,903,331</u>
Less ceded loss reserve			
Individual life insurance	8,479	-	8,479
Individual injury insurance	-	-	-
Individual health insurance	14,030	-	14,030
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>22,509</u>	<u>-</u>	<u>22,509</u>
	<u>\$ 8,871,677</u>	<u>\$ 9,145</u>	<u>\$ 8,880,822</u>

(Concluded)

September 30, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance			
Filed but not paid	\$ 1,332,794	\$ 8,770	\$ 1,341,564
Not yet filed	81,567	-	81,567
Individual injury insurance			
Filed but not paid	37,223	-	37,223
Not yet filed	1,777,773	-	1,777,773
Individual health insurance			
Filed but not paid	831,468	-	831,468
Not yet filed	2,826,117	-	2,826,117
Group insurance			
Filed but not paid	48,943	-	48,943
Not yet filed	1,600,439	-	1,600,439
Investment-linked insurance			
Filed but not paid	148,030	-	148,030
Not yet filed	<u>971</u>	<u>-</u>	<u>971</u>
	<u>8,685,325</u>	<u>8,770</u>	<u>8,694,095</u>

(Continued)

	September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Less ceded loss reserve			
Individual life insurance	\$ 1,508	\$ -	\$ 1,508
Individual injury insurance	-	-	-
Individual health insurance	7,430	-	7,430
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,938</u>	<u>-</u>	<u>8,938</u>
	<u>\$ 8,676,387</u>	<u>\$ 8,770</u>	<u>\$ 8,685,157</u>
			(Concluded)

The changes in loss reserve are summarized below:

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 8,894,186	\$ 9,145	\$ 8,903,331
Provision	10,702,313	35,929	10,738,242
Recovery	(8,891,964)	(9,145)	(8,901,109)
Foreign exchange	<u>(10,487)</u>	<u>-</u>	<u>(10,487)</u>
Ending balance	<u>10,694,048</u>	<u>35,929</u>	<u>10,729,977</u>
Less ceded loss reserve:			
Beginning balance	22,509	-	22,509
Increase	42,387	-	42,387
Decrease	(44,390)	-	(44,390)
Foreign exchange differences	<u>(415)</u>	<u>-</u>	<u>(415)</u>
Ending balance	<u>20,091</u>	<u>-</u>	<u>20,091</u>
Net ending balance	<u>\$ 10,673,957</u>	<u>\$ 35,929</u>	<u>\$ 10,709,886</u>

For the Nine Months Ended September 30, 2018

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 7,573,219	\$ 2,678	\$ 7,575,897
Provision	8,681,557	8,770	8,690,327
Recovery	(7,564,117)	(2,678)	(7,566,795)
Foreign exchange	<u>(5,334)</u>	<u>-</u>	<u>(5,334)</u>
Ending balance	<u>8,685,325</u>	<u>8,770</u>	<u>8,694,095</u>
Less ceded loss reserve:			
Beginning balance, net	9,684	-	9,684
Increase	88	-	88
Decrease	(611)	-	(611)
Foreign exchange differences	<u>(223)</u>	<u>-</u>	<u>(223)</u>
Ending balance	<u>8,938</u>	<u>-</u>	<u>8,938</u>
Net ending balance	<u>\$ 8,676,387</u>	<u>\$ 8,770</u>	<u>\$ 8,685,157</u>

3) Policy reserve

September 30, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance (Note 1)	\$ 4,751,459,585	\$ 4,807	\$ 4,751,464,392
Injury insurance	7,310,426	-	7,310,426
Health insurance	706,398,040	-	706,398,040
Annuity insurance	1,397,689	22,435,216	23,832,905
Investment-limited insurance	<u>584,609</u>	<u>-</u>	<u>584,609</u>
Total (Note 2)	5,467,150,349	22,440,023	5,489,590,372
Less ceded policy reserve			
Life insurance	<u>422,994</u>	<u>-</u>	<u>422,994</u>
	<u>\$ 5,466,727,355</u>	<u>\$ 22,440,023</u>	<u>\$ 5,489,167,378</u>

	December 31, 2018		
	Financial Instruments with Discretionary Participation		
	Insurance Contracts	Features	Total
Life insurance (Note 1)	\$ 4,536,368,929	\$ 8,236	\$ 4,536,377,165
Injury insurance	7,446,584	-	7,446,584
Health insurance	653,629,984	-	653,629,984
Annuity insurance	1,395,567	25,839,454	27,235,021
Investment-limited insurance	<u>440,541</u>	<u>-</u>	<u>440,541</u>
Total (Note 2)	5,199,281,605	25,847,690	5,225,129,295
Less ceded policy reserve			
Life insurance	<u>365,409</u>	<u>-</u>	<u>365,409</u>
	<u>\$ 5,198,916,196</u>	<u>\$ 25,847,690</u>	<u>\$ 5,224,763,886</u>
	September 30, 2018		
	Financial Instruments with Discretionary Participation		
	Insurance Contracts	Features	Total
Life insurance (Note 1)	\$ 4,450,486,242	\$ 15,067	\$ 4,450,501,309
Injury insurance	7,416,325	-	7,416,325
Health insurance	636,265,717	-	636,265,717
Annuity insurance	1,396,276	27,465,413	28,861,689
Investment-limited insurance	<u>442,334</u>	<u>-</u>	<u>442,334</u>
Total (Note 2)	5,096,006,894	27,480,480	5,123,487,374
Less ceded policy reserve			
Life insurance	<u>362,823</u>	<u>-</u>	<u>362,823</u>
	<u>\$ 5,095,644,071</u>	<u>\$ 27,480,480</u>	<u>\$ 5,123,124,551</u>

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

Note 2: Total policy reserve after including policy reserve-payables to the insured amounted to \$5,490,051,784 thousand, \$5,225,589,886 thousand and \$5,123,748,114 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

The changes in policy reserve are summarized below:

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 5,199,281,605	\$ 25,847,690	\$ 5,225,129,295
Provision	485,101,436	987,334	486,088,770
Recovery	(225,091,055)	(4,394,957)	(229,486,012)
Foreign exchange	<u>7,858,363</u>	<u>(44)</u>	<u>7,858,319</u>
Ending balance	<u>5,467,150,349</u>	<u>22,440,023</u>	<u>5,489,590,372</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	69,794	-	69,794
Foreign exchange	<u>(12,209)</u>	<u>-</u>	<u>(12,209)</u>
Ending balance	<u>422,994</u>	<u>-</u>	<u>422,994</u>
Net ending balance	<u>\$ 5,466,727,355</u>	<u>\$ 22,440,023</u>	<u>\$ 5,489,167,378</u>
	For the Nine Months Ended September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 4,828,234,670	\$ 32,918,998	\$ 4,861,153,668
Provision	453,531,544	202,601	453,734,145
Recovery	(206,816,551)	(5,615,734)	(212,432,285)
Foreign exchange	<u>21,057,231</u>	<u>(25,385)</u>	<u>21,031,846</u>
Ending balance	<u>5,096,006,894</u>	<u>27,480,480</u>	<u>5,123,487,374</u>
Less ceded policy reserve			
Beginning balance	301,806	-	301,806
Increase	73,372	-	73,372
Foreign exchange	<u>(12,355)</u>	<u>-</u>	<u>(12,355)</u>
Ending balance	<u>362,823</u>	<u>-</u>	<u>362,823</u>
Net ending balance	<u>\$ 5,095,644,071</u>	<u>\$ 27,480,480</u>	<u>\$ 5,123,124,551</u>

4) Special reserve

	September 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies				
dividends reserve	\$ (61,387)	\$ -	\$ -	\$ (61,387)
Dividend risk reserve	62,542	-	-	62,542
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>
	December 31, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies				
dividends reserve	\$ (62,254)	\$ -	\$ -	\$ (62,254)
Dividend risk reserve	63,184	-	-	63,184
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>
	September 30, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies				
dividends reserve	\$ (61,935)	\$ -	\$ -	\$ (61,935)
Dividend risk reserve	62,706	-	-	62,706
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 771</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,095</u>

The changes of special reserve are summarized below:

	For the Nine Months Ended September 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Effects of retrospective application and restatement of IFRS 9	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning balance, as adjusted	930	-	11,083,324	11,084,254
Provision for participating policies dividends reserve	12,613	-	-	12,613
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)
Recovery of dividend risk reserve	<u>(642)</u>	<u>-</u>	<u>-</u>	<u>(642)</u>
Ending balance	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>
	For the Nine Months Ended September 30, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Beginning balance	\$ 889	\$ -	\$ 11,083,324	\$ 11,084,213
Effects of retrospective application and restatement of IFRS 9	<u>(395)</u>	<u>-</u>	<u>-</u>	<u>(395)</u>
Beginning balance, as adjusted	494	-	11,083,324	11,083,818
Provision for participating policies dividends reserve	5,808	-	-	5,808
Recovery of participating policies dividends reserve	(7,990)	-	-	(7,990)
Provision for dividend risk reserve	<u>2,459</u>	<u>-</u>	<u>-</u>	<u>2,459</u>
Ending balance	<u>\$ 771</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,095</u>

5) Premium deficiency reserve

	September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 18,728,820	\$ -	\$ 18,728,820
Individual injury insurance	1,103	-	1,103
Individual health insurance	1,400,809	-	1,400,809
Group insurance	<u>123,140</u>	<u>-</u>	<u>123,140</u>
	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>
	December 31, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 20,966,673	\$ -	\$ 20,966,673
Individual injury insurance	1,229	-	1,229
Individual health insurance	1,508,079	-	1,508,079
Group insurance	<u>72,323</u>	<u>-</u>	<u>72,323</u>
	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>
	September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 22,471,301	\$ -	\$ 22,471,301
Individual injury insurance	1,252	-	1,252
Individual health insurance	1,554,974	-	1,554,974
Group insurance	<u>112,803</u>	<u>-</u>	<u>112,803</u>
	<u>\$ 24,140,330</u>	<u>\$ -</u>	<u>\$ 24,140,330</u>

The changes in premium deficiency reserve are summarized below:

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	318,820	-	318,820
Recovery	(2,630,997)	-	(2,630,997)
Foreign exchange	<u>17,745</u>	<u>-</u>	<u>17,745</u>
Ending balance	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>

	For the Nine Months Ended September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	179,181	-	179,181
Recovery	(2,374,346)	-	(2,374,346)
Foreign exchange	<u>103,178</u>	<u>-</u>	<u>103,178</u>
Ending balance	<u>\$ 24,140,330</u>	<u>\$ -</u>	<u>\$ 24,140,330</u>

6) Other reserve

	September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>

	December 31, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

	September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,898,570</u>	<u>\$ -</u>	<u>\$ 1,898,570</u>

The changes in other reserve are summarized below:

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>
Ending balance	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>

	For the Nine Months Ended September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(18,000)</u>	<u>-</u>	<u>(18,000)</u>
Ending balance	<u>\$ 1,898,570</u>	<u>\$ -</u>	<u>\$ 1,898,570</u>

7) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	September 30, 2019	December 31, 2018	September 30, 2018
Unearned premium reserve	\$ 17,025,855	\$ 16,752,317	\$ 16,011,888
Policy reserve	5,490,051,784	5,225,129,295	5,123,487,374
Premium deficiency reserve	20,253,872	22,548,304	24,140,330
Other reserve	<u>1,877,542</u>	<u>1,894,570</u>	<u>1,898,570</u>
Book value of insurance liabilities	<u>\$ 5,529,209,053</u>	<u>\$ 5,266,324,486</u>	<u>\$ 5,165,538,162</u>
Estimated present value of cash flows	<u>\$ 4,376,753,640</u>	<u>\$ 4,244,307,094</u>	<u>\$ 4,206,707,558</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

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

Note 4: There is no merger or transfer of insurance contracts for Cathay Lujiazui Life and Cathay Life (Vietnam). Thus, the book value of related intangible assets shall not be deducted from the book value of insurance liability for liability adequacy reserve test.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on June 30, 2019, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary reported of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on June 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

8) Reserve for insurance contracts with the nature of financial products

Cathay Life and its subsidiaries issued financial instruments without discretionary participation features and recognized reserve for insurance contracts with the nature of financial products. As of September 30, 2019, December 31, 2018 and September 30, 2018, the details and changes of reserve for insurance contracts with the nature of financial products are summarized below:

	September 30, 2019	December 31, 2018	September 30, 2018
Life insurance	\$ 9,600,163	\$ 8,475,663	\$ 8,331,895
Investment-linked insurance	<u>914,162</u>	<u>843,050</u>	<u>754,809</u>
	<u>\$ 10,514,325</u>	<u>\$ 9,318,713</u>	<u>\$ 9,086,704</u>
		For the Nine Months Ended September 30	
		2019	2018
Beginning balance		\$ 9,318,713	\$ 8,761,609
Premiums received		2,955,034	1,837,214
Claims and payments		(1,998,786)	(222,244)
Net provision (recovery) of statutory reserve		505,985	(1,026,792)
Foreign exchange		<u>(266,621)</u>	<u>(263,083)</u>
Ending balance		<u>\$ 10,514,325</u>	<u>\$ 9,086,704</u>

9) Reserve for foreign exchange valuation

a) The hedging strategy and risk exposure

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

b) Reconciliation for reserve for foreign exchange valuation

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision:		
Compulsory reserve	6,543,982	4,337,403
Additional reserve	<u>12,174,679</u>	<u>5,221,010</u>
	18,718,661	9,558,413
Recovery	<u>(13,408,181)</u>	<u>(5,762,483)</u>
Ending balance	<u>\$ 22,385,769</u>	<u>\$ 15,385,068</u>

c) Effects due to reserve for foreign exchange valuation

Items	For the Nine Months Ended September 30, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 56,400,559	\$ 52,152,174	\$ (4,248,385)
Earnings per share	4.20	3.86	(0.34)
Reserve for foreign exchange valuation	-	22,385,769	22,385,769
Equity	746,606,351	732,300,632	(14,305,719)

Items	For the Nine Months Ended September 30, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 57,633,723	\$ 54,596,979	\$ (3,036,744)
Earnings per share	4.42	4.18	(0.24)
Reserve for foreign exchange valuation	-	15,385,068	15,385,068
Equity	620,376,071	611,670,913	(8,705,158)

b. Century Insurance and its subsidiaries

1) Unearned insurance premium reserve

a) Details of unearned premium reserve and ceded unearned premium reserve

Insurance by Type	September 30, 2019			
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ 1,790,142	\$ 132,989	\$ 1,031,467	\$ 891,664
Marine insurance	123,790	17,459	85,252	55,997
Land and air insurance	5,005,924	9,359	155,542	4,859,741
Liability insurance	769,633	1,010	286,206	484,437
Financial guarantee insurance	51,923	3,959	32,926	22,956
Other property insurance	897,071	64,261	622,763	338,569
Accident insurance	1,531,093	5,089	104,230	1,431,952
Health insurance	81,175	90	-	81,265
Compulsory auto liability insurance	<u>1,253,109</u>	<u>470,235</u>	<u>751,865</u>	<u>971,479</u>
	<u>\$ 11,503,860</u>	<u>\$ 704,451</u>	<u>\$ 3,070,251</u>	<u>\$ 9,138,060</u>

December 31, 2018

Insurance by Type	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ 1,876,580	\$ 202,282	
Marine insurance	160,920	7,893	105,301	63,512
Land and air insurance	4,958,232	1,117	207,212	4,752,137
Liability insurance	741,928	998	266,606	476,320
Financial guarantee insurance	51,296	680	36,484	15,492
Other property insurance	676,105	76,291	387,989	364,407
Accident insurance	1,463,714	5,146	74,007	1,394,853
Health insurance	62,309	9,562	-	71,871
Compulsory auto liability insurance	<u>1,261,457</u>	<u>470,972</u>	<u>756,874</u>	<u>975,555</u>
	<u>\$ 11,252,541</u>	<u>\$ 774,941</u>	<u>\$ 2,965,729</u>	<u>\$ 9,061,753</u>

September 30, 2018

Insurance by Type	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ 1,870,251	\$ 257,488	
Marine insurance	141,512	14,502	98,431	57,583
Land and air insurance	4,673,683	3,620	175,746	4,501,557
Liability insurance	668,690	1,063	215,261	454,492
Financial guarantee insurance	58,293	816	44,602	14,507
Other property insurance	632,200	97,370	410,478	319,092
Accident insurance	1,490,629	4,645	80,501	1,414,773
Health insurance	67,098	13,934	-	81,032
Compulsory auto liability insurance	<u>1,253,870</u>	<u>476,190</u>	<u>752,273</u>	<u>977,787</u>
	<u>\$ 10,856,226</u>	<u>\$ 869,628</u>	<u>\$ 2,862,624</u>	<u>\$ 8,863,230</u>

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

	For the Nine Months Ended September 30			
	2019		2018	
	Unearned Premium Reserves	Ceded Unearned Premium Reserve	Unearned Premium Reserves	Ceded Unearned Premium Reserve
Beginning balance	\$ 12,027,482	\$ 2,965,729	\$ 11,502,792	\$ 2,889,339
Provision	12,204,544	3,070,712	11,726,324	2,862,876
Recovery	(12,030,271)	(2,967,291)	(11,502,792)	(2,889,339)
Foreign exchange	<u>6,556</u>	<u>1,101</u>	<u>(470)</u>	<u>(252)</u>
Ending balance	<u>\$ 12,208,311</u>	<u>\$ 3,070,251</u>	<u>\$ 11,725,854</u>	<u>\$ 2,862,624</u>

2) Loss reserve

a) Loss reserve and ceded loss reserve

Items	September 30, 2019			
	Loss Reserve		Ceded Loss Reserve	
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	Retained Business (4)=(1)+(2)-(3)
Filed not yet paid	\$ 3,855,215	\$ 469,460	\$ 1,152,564	\$ 3,172,111
Not yet filed	<u>4,052,597</u>	<u>481,230</u>	<u>1,120,575</u>	<u>3,413,252</u>
	<u>\$ 7,907,812</u>	<u>\$ 950,690</u>	<u>\$ 2,273,139</u>	<u>\$ 6,585,363</u>

Items	December 31, 2018			
	Loss Reserve		Ceded Loss Reserve	
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	Retained Business (4)=(1)+(2)-(3)
Filed not yet paid	\$ 3,670,166	\$ 330,733	\$ 1,231,776	\$ 2,769,123
Not yet filed	<u>4,026,955</u>	<u>446,465</u>	<u>1,113,251</u>	<u>3,360,169</u>
	<u>\$ 7,697,121</u>	<u>\$ 777,198</u>	<u>\$ 2,345,027</u>	<u>\$ 6,129,292</u>

Items	September 30, 2018			
	Loss Reserve		Ceded Loss Reserve	
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	Retained Business (4)=(1)+(2)-(3)
Filed not yet paid	\$ 3,540,469	\$ 341,517	\$ 1,453,461	\$ 2,428,525
Not yet filed	<u>4,207,548</u>	<u>448,772</u>	<u>1,164,173</u>	<u>3,492,147</u>
	<u>\$ 7,748,017</u>	<u>\$ 790,289</u>	<u>\$ 2,617,634</u>	<u>\$ 5,920,672</u>

b) Net changes in loss reserve and ceded loss reserve

For the nine months ended September 30, 2019

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Change in Loss Reserves
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Filed not yet paid	\$ 3,872,305	\$ 3,689,416	\$ 469,460	\$ 330,733	\$ 321,616
Not yet filed	<u>4,035,989</u>	<u>4,011,028</u>	<u>481,230</u>	<u>446,465</u>	<u>59,726</u>
	<u>\$ 7,908,294</u>	<u>\$ 7,700,444</u>	<u>\$ 950,690</u>	<u>\$ 777,198</u>	<u>\$ 381,342</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,161,457	\$ 1,242,817	\$ (81,360)
Not yet filed	<u>1,112,386</u>	<u>1,105,134</u>	<u>7,252</u>
	<u>\$ 2,273,843</u>	<u>\$ 2,347,951</u>	<u>\$ (74,108)</u>

For the nine months ended September 30, 2018

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Change in Loss Reserves
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Filed not yet paid	\$ 3,541,263	\$ 3,557,040	\$ 341,517	\$ 286,595	\$ 39,145
Not yet filed	<u>4,207,594</u>	<u>3,796,257</u>	<u>448,772</u>	<u>442,692</u>	<u>417,417</u>
	<u>\$ 7,748,857</u>	<u>\$ 7,353,297</u>	<u>\$ 790,289</u>	<u>\$ 729,287</u>	<u>\$ 456,562</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,454,161	\$ 1,342,214	\$ 111,947
Not yet filed	<u>1,164,195</u>	<u>1,132,260</u>	<u>31,935</u>
	<u>\$ 2,618,356</u>	<u>\$ 2,474,474</u>	<u>\$ 143,882</u>

c) Details of liability for claims filed but not yet paid and claim not yet filed of policyholders

September 30, 2019			
Insurance by Type	Filed But Not		Total
	Yet Paid	Not Yet Filed	
Fire insurance	\$ 982,461	\$ 64,678	\$ 1,047,139
Marine insurance	229,115	34,246	263,361
Land and air insurance	1,549,421	1,397,337	2,946,758
Liability insurance	521,259	725,726	1,246,985
Financial guarantee insurance	69,703	59,140	128,843
Other property insurance	364,717	144,427	509,144
Accident insurance	99,533	517,429	616,962
Health insurance	1,998	53,618	55,616
Compulsory automobile liability insurance	<u>506,468</u>	<u>1,537,226</u>	<u>2,043,694</u>
	<u>\$ 4,324,675</u>	<u>\$ 4,533,827</u>	<u>\$ 8,858,502</u>

December 31, 2018			
Insurance by Type	Filed But Not		Total
	Yet Paid	Not Yet Filed	
Fire insurance	\$ 801,557	\$ 15,818	\$ 817,375
Marine insurance	238,811	2,757	241,568
Land and air insurance	1,385,474	1,329,879	2,715,353
Liability insurance	432,229	737,982	1,170,211
Financial guarantee insurance	70,043	67,414	137,457
Other property insurance	414,592	155,267	569,859
Accident insurance	131,876	557,243	689,119
Health insurance	2,058	48,746	50,804
Compulsory automobile liability insurance	<u>524,259</u>	<u>1,558,314</u>	<u>2,082,573</u>
	<u>\$ 4,000,899</u>	<u>\$ 4,473,420</u>	<u>\$ 8,474,319</u>

September 30, 2018			
Insurance by Type	Filed But Not		Total
	Yet Paid	Not Yet Filed	
Fire insurance	\$ 1,032,238	\$ 13,934	\$ 1,046,172
Marine insurance	284,934	13,033	297,967
Land and air insurance	1,071,988	1,384,785	2,456,773
Liability insurance	417,675	813,126	1,230,801
Financial guarantee insurance	72,182	91,491	163,673
Other property insurance	424,300	156,578	580,878
Accident insurance	80,936	585,994	666,930
Health insurance	2,027	52,477	54,504
Compulsory automobile liability insurance	<u>495,706</u>	<u>1,544,902</u>	<u>2,040,608</u>
	<u>\$ 3,881,986</u>	<u>\$ 4,656,320</u>	<u>\$ 8,538,306</u>

- d) Details of ceded loss reserve for claims filed but not yet paid and claims not yet filed of policyholders

September 30, 2019			
Insurance by Type	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 301,603	\$ 25,860	\$ 327,463
Marine insurance	122,080	19,116	141,196
Land and air insurance	46,693	42,010	88,703
Liability insurance	324,588	253,374	577,962
Financial guarantee insurance	33,664	21,912	55,576
Other property insurance	135,501	52,800	188,301
Accident insurance	5,563	33,491	39,054
Health insurance	-	28	28
Compulsory automobile liability insurance	<u>182,872</u>	<u>671,984</u>	<u>854,856</u>
	<u>\$ 1,152,564</u>	<u>\$ 1,120,575</u>	<u>\$ 2,273,139</u>

December 31, 2018			
Insurance by Type	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 354,864	\$ 7,644	\$ 362,508
Marine insurance	146,021	675	146,696
Land and air insurance	75,958	38,139	114,097
Liability insurance	259,524	258,328	517,852
Financial guarantee insurance	32,831	40,365	73,196
Other property insurance	151,157	51,462	202,619
Accident insurance	4,764	34,967	39,731
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>206,657</u>	<u>681,671</u>	<u>888,328</u>
	<u>\$ 1,231,776</u>	<u>\$ 1,113,251</u>	<u>\$ 2,345,027</u>

September 30, 2018			
Insurance by Type	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 547,107	\$ 6,742	\$ 553,849
Marine insurance	189,394	10,422	199,816
Land and air insurance	60,429	39,186	99,615
Liability insurance	251,780	276,714	528,494
Financial guarantee insurance	32,945	68,358	101,303
Other property insurance	183,524	52,332	235,856
Accident insurance	6,304	37,058	43,362
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>181,978</u>	<u>673,361</u>	<u>855,339</u>
	<u>\$ 1,453,461</u>	<u>\$ 1,164,173</u>	<u>\$ 2,617,634</u>

e) Reconciliation of loss reserve and ceded loss reserve

	For the Nine Months Ended September 30			
	2019		2018	
	Loss Reserve	Ceded Loss Reserve	Loss Reserve	Ceded Loss Reserve
Beginning balance	\$ 8,474,319	\$ 2,345,027	\$ 8,082,584	\$ 2,474,474
Provision	8,858,984	2,273,843	8,539,146	2,618,356
Recovery	(8,477,642)	(2,347,951)	(8,082,584)	(2,474,474)
Exchange differences	<u>2,841</u>	<u>2,220</u>	<u>(840)</u>	<u>(722)</u>
Ending balance	<u>\$ 8,858,502</u>	<u>\$ 2,273,139</u>	<u>\$ 8,538,306</u>	<u>\$ 2,617,634</u>

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

	For the Nine Months Ended September 30	
	2019	2018
	Beginning balance	\$ 1,478,016
Provision	48,082	62,148
Recovery	<u>(210,219)</u>	<u>(159,988)</u>
Ending balance	<u>\$ 1,315,879</u>	<u>\$ 1,477,288</u>

b) Special reserve for all insurances other than compulsory automobile liability insurance

	For the Nine Months Ended September 30, 2019		
	Liability		
	Catastrophic Event	Fluctuation of Risk	Total
Beginning balance	\$ 449,445	\$ 1,345,017	\$ 1,794,462
Provision	-	-	-
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 449,445</u>	<u>\$ 1,345,017</u>	<u>\$ 1,794,462</u>
	For the Nine Months Ended September 30, 2018		
	Liability		
	Catastrophic Event	Fluctuation of Risk	Total
Beginning balance	\$ 468,172	\$ 1,345,017	\$ 1,813,189
Provision	-	-	-
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 468,172</u>	<u>\$ 1,345,017</u>	<u>\$ 1,813,189</u>

If the Notice for the improvement of the reserves of natural disaster insurances (commercial-business earthquake, typhoon and flood insurances) for property insurance enterprises, Notice for the improvement of the reserves of co-assurance organization and Regulations governing the reserves of nuclear energy insurance were not applied, there is no material impact on Cathay Century and its' subsidiaries' pre-tax income/loss and earnings per share and the special reserve under liabilities would decrease by \$1,485,963 thousand and special reserve under equity would increase by \$508,108 thousand.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

Insurance by Type	September 30, 2019			
	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	853	1,720	-	2,573
Land and air insurance	551	1,992	-	2,543
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 1,404</u>	<u>\$ 3,712</u>	<u>\$ -</u>	<u>\$ 5,116</u>

December 31, 2018

Insurance by Type	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ -	\$ -	
Marine insurance	2,253	714	-	2,967
Land and air insurance	7,512	868	-	8,380
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 9,765</u>	<u>\$ 1,582</u>	<u>\$ -</u>	<u>\$ 11,347</u>

September 30, 2018

Insurance by Type	Premium Deficiency Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ -	\$ -	
Marine insurance	1,667	155	-	1,822
Land and air insurance	1,341	2,897	2,547	1,691
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 3,008</u>	<u>\$ 3,052</u>	<u>\$ 2,547</u>	<u>\$ 3,513</u>

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

For the Nine Months Ended September 30, 2019									
	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Premium Deficiency Reserve (5)=(1)-(2)+ (3)-(4)	Ceded Reinsurance Business		Net Changes in Ceded Premium Deficiency Reserve (8)=(6)-(7)	Net Loss Recognized for Premium Deficiency Reserve (9)=(5)-(8)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)		Provision (6)	Recovery (7)		
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	853	2,253	1,720	714	(394)	-	-	-	(394)
Land and air insurance	551	7,512	1,992	868	(5,837)	-	-	-	(5,837)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 1,404</u>	<u>\$ 9,765</u>	<u>\$ 3,712</u>	<u>\$ 1,582</u>	<u>\$ (6,231)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,231)</u>

For the Nine Months Ended September 30, 2018									
	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Premium Deficiency Reserve (5)=(1)-(2)+ (3)-(4)	Ceded Reinsurance Business		Net Changes in Ceded Premium Deficiency Reserve (8)=(6)-(7)	Net Loss Recognized for Premium Deficiency Reserve (9)=(5)-(8)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)		Provision (6)	Recovery (7)		
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marine insurance	1,667	1,145	155	102	575	-	-	-	575
Land and air insurance	1,341	8,446	2,897	2,932	(7,140)	2,547	2,578	(31)	(7,109)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 3,008</u>	<u>\$ 9,591</u>	<u>\$ 3,052</u>	<u>\$ 3,034</u>	<u>\$ (6,565)</u>	<u>\$ 2,547</u>	<u>\$ 2,578</u>	<u>\$ (31)</u>	<u>\$ (6,534)</u>

c) Reconciliation of premium deficiency reserve and ceded premium deficiency reserve

	For the Nine Months Ended September 30			
	2019		2018	
	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve
Beginning balance	\$ 11,347	\$ -	\$ 12,625	\$ 2,578
Provision	5,116	-	6,060	2,547
Recovery	(11,347)	-	(12,625)	(2,578)
Ending balance	<u>\$ 5,116</u>	<u>\$ -</u>	<u>\$ 6,060</u>	<u>\$ 2,547</u>

5) Policy reserve

a) Details of policy reserve and ceded reserve

September 30, 2019

Insurance by Type	Policy Reserve		Ceded Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ <u>61</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>61</u>

December 31, 2018

Insurance by Type	Policy Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ <u>48</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>48</u>

September 30, 2018

Insurance by Type	Unearned Premium Reserve		Reserve for Unearned Ceded Premium	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ <u>41</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>41</u>

b) Net changes in policy reserve and ceded policy reserve

For the nine months ended September 30, 2019

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Health insurance	\$ <u>40</u>	\$ <u>27</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>13</u>

Insurance by Type	Ceded Reinsurance Business		Net Changes in Ceded Policy Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Health insurance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

For the nine months ended September 30, 2018

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Health insurance	\$ 7	\$ 21	\$ -	\$ -	\$ (14)

Insurance by Type	Ceded Reinsurance Business		Net Changes in Ceded Policy Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Health insurance	\$ -	\$ -	\$ -

22. PROVISIONS FOR EMPLOYEE BENEFITS

Pension expense under defined benefit plans for the three months and nine months ended September 30, 2019 and 2018 were calculated by using the actuarially determined pension cost rate at the end of the prior financial year and recognized in below:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Employee benefit expenses	\$ 120,874	\$ 111,177	\$ 366,612	\$ 362,906

23. OTHER FINANCIAL ASSETS AND LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Other financial assets</u>			
Separate accounts insurance product assets	\$ 592,622,929	\$ 546,964,261	\$ 584,897,460
Structured time deposits	-	2,000,000	3,500,000
Others	6,720,363	6,776,864	5,524,659
Less: Loss allowance	-	(594)	(632)
	<u>\$ 599,343,292</u>	<u>\$ 555,740,531</u>	<u>\$ 593,921,487</u>

Other financial liabilities

Separate accounts insurance product liabilities	\$ 592,622,929	\$ 546,964,261	\$ 584,897,460
Principal received from the sale of structured products	65,793,146	76,615,204	76,591,026
Others	<u>3,709,677</u>	<u>4,235,713</u>	<u>3,274,826</u>
	<u>\$ 662,125,752</u>	<u>\$ 627,815,178</u>	<u>\$ 664,763,312</u>

a. The related accounts of Cathay Life were summarized as follow:

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 571,499	\$ 888,274	\$ 1,153,427
Financial assets at FVTPL	587,898,370	539,874,109	577,688,527
Other receivables	<u>4,038,108</u>	<u>6,090,351</u>	<u>5,933,190</u>
	<u>\$ 592,507,977</u>	<u>\$ 546,852,734</u>	<u>\$ 584,775,144</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 721,308	\$ 743,442	\$ 851,617
Reserve for separate account - insurance contracts	237,722,883	220,038,873	229,788,826
Reserve for separate account - investment contracts	<u>354,063,786</u>	<u>326,070,419</u>	<u>354,134,701</u>
	<u>\$ 592,507,977</u>	<u>\$ 546,852,734</u>	<u>\$ 584,775,144</u>
	For the Three Months Ended September 30	For the Nine Months Ended September 30	
	2019	2018	2019
			2018
<u>Separate account insurance product income</u>			
Premium income	\$ 8,117,998	\$ 12,677,562	\$ 23,864,315
Interest income	362	772	1,153
Gains (losses) from financial assets and liabilities at FVTPL	1,010,222	114,372	21,758,010
Foreign exchange gains (losses)	<u>(1,502,502)</u>	<u>(173,061)</u>	<u>660,420</u>
	<u>\$ 7,626,080</u>	<u>\$ 12,619,645</u>	<u>\$ 46,283,898</u>
			<u>\$ 29,682,410</u>
<u>Separate account insurance product expenses</u>			
Claims and payments	\$ 2,198,308	\$ 2,936,891	\$ 7,018,859
Cash surrender value	6,357,352	6,153,048	19,007,986
Dividends	2	3	4
(Reversal) provision of separate account reserve	(1,795,825)	2,624,457	17,642,196
Administrative expenses	903,371	937,335	2,720,485
Non-operating income and expenses	<u>(37,128)</u>	<u>(32,089)</u>	<u>(105,632)</u>
	<u>\$ 7,626,080</u>	<u>\$ 12,619,645</u>	<u>\$ 46,283,898</u>
			<u>\$ 29,682,410</u>

The commission earned for the sales of separate account insurance products from counterparties recorded under fee income for the three and nine months ended September 30, 2019 and 2018 were \$231,255 thousand, \$252,426 thousand, \$686,622 thousand and \$787,491 thousand, respectively.

b. The related accounts of Cathay Lujiazui Life were summarized as follow:

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 6,279	\$ 17,902	\$ 12,899
Financial assets at FVTPL	108,617	94,126	109,769
Interest receivable	55	55	49
Others	<u>1</u>	<u>(556)</u>	<u>(401)</u>
	<u>\$ 114,952</u>	<u>\$ 111,527</u>	<u>\$ 122,316</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ (463)	\$ 8	\$ 8
Reserve for separate account - insurance contracts	115,415	98,690	109,166
Others	<u>-</u>	<u>12,829</u>	<u>13,142</u>
	<u>\$ 114,952</u>	<u>\$ 111,527</u>	<u>\$ 122,316</u>
	For the Three Months Ended September 30	For the Nine Months Ended September 30	
	2019	2018	2019
	2018	2019	2018
<u>Separate account insurance product income</u>			
Premium income	\$ 52	\$ 91	\$ 179
Gains (losses) from financial assets and liabilities at FVTPL	2,914	(1,765)	15,247
Interest income	25	38	134
Tax expense	<u>-</u>	<u>69</u>	<u>-</u>
	<u>\$ 2,991</u>	<u>\$ (1,567)</u>	<u>\$ 15,560</u>
<u>Separate account insurance product expenses</u>			
Cash surrender value	\$ 4,036	\$ 2,674	\$ 8,398
(Reversal) provision of separate account reserve	(1,584)	(4,660)	5,148
Administrative expenses	374	419	1,324
Tax expense	<u>165</u>	<u>-</u>	<u>878</u>
	<u>\$ 2,991</u>	<u>\$ (1,567)</u>	<u>\$ 15,560</u>

24. EQUITY

a. Share capital

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	<u>18,000,000</u>	<u>18,000,000</u>	<u>18,000,000</u>
Shares authorized	<u>\$ 180,000,000</u>	<u>\$ 180,000,000</u>	<u>\$ 180,000,000</u>
Number of shares issued and fully paid (in thousands)			
Ordinary shares	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>
Preference shares	<u>1,533,300</u>	<u>1,533,300</u>	<u>1,533,300</u>
Shares issued	<u>\$ 140,965,102</u>	<u>\$ 140,965,102</u>	<u>\$ 140,965,102</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right a dividends.

On August 15, 2019, the board of directors resolved the capital increase through issuance of 606,000 thousand ordinary shares with a par value of \$10, and the issue price was \$35 per share. The capital increase was approved by the Securities and Futures Bureau of FSC on September 24, 2019.

Issuance of preference shares

- 1) On September 9, 2016, the board of directors resolved the capital raising through issuance of Series A Preference Shares. The Company issued 833,300 thousand preference shares, with a par value of \$10 per share and total amount of \$8,333,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC on October 25, 2016. The base date of capital increase was December 8, 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preference Shares are as follows:
 - a) 3.8% per annum for Series A Preference Shares (7-year IRS 1.06%+2.74%) calculated pursuant to the issue price per share. Interest rate per annum will be reset on the day after the 7th year from the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. The record date for reset of interest rate shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of the record date for reset of interest rate (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
 - b) Dividends for Series A Preference Shares are distributed once a year in cash. After shareholders’ approval of the issuer’s financial statements at its annual shareholders’ meeting, the board of directors may set the record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to the actual issued days of the given year.
 - c) If there are retained earnings, before the issuer can distribute dividends for Series A Preference Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preference share dividends.

- d) The Company has the sole discretion to distribute dividends of Series A Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series A Preference Share dividends, or preference share dividend distribution would render the Company's CAR ratio below the level required by law or by the authorities. The Company's cancellation of preference share dividend distribution shall not be deemed an event of default. Series A Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
 - e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
 - f) Holders of Series A Preference Shares shall have the same priority as holders of all subsequently issued preference shares in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
 - g) Holders of Series A Preference Shares have no voting rights at the annual shareholders' meeting, and cannot elect directors. However, holders of Series A Preference Shares have voting rights at the meeting of Series A Preference Shareholders, and at the annual shareholders' meeting on items relating to the rights of Series A Preference Shareholders.
 - h) Holders of Series A Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series A Preference Shares.
 - i) Through issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series A Preference Shares at the issue price. Rights and obligations of the unredeemed Series A Preference Shares shall remain the same as mentioned above.
- 2) On February 9, 2018, the board of directors resolved the capital raising through issuance of Series B Preference Shares. The Company issued 700,000 thousand preference shares, with a par value of \$10 per share and total amount of \$7,000,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC on May 10, 2017. The base date of capital increase was June 27, 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preference Shares are as follows:
- a) 3.55% per annum for Series B Preference Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to the issue price per share. The interest rate per annum will be reset on the day after the 7th year from the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. The record date for interest reset shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, TAIFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei's financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
 - b) If there are retained earnings, before the issuer can distribute dividends for Series B Preference Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preference share dividend.

- c) The Company has the sole discretion to distribute dividend of the Series B Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series B Preference Share dividends, or preference share dividend distribution would render the Company's CAR ratio below the level required by law or by the authorities. The Company's cancellation of preference share dividend distribution shall not be deemed an event of default. Series B Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
- d) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from the profit or additional paid-in capital.
- e) Holders of Series B Preference Shares shall have the same priority as holders of all subsequently issued preference share in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
- f) Holders of Series B Preference Shares have no voting rights at the annual shareholders' meeting, and cannot elect directors. However, holders of Series B Preference Shares have voting rights at the shareholders' meeting of Series B Preference Shareholders, and at the annual shareholders' meeting on items relating to rights of Series B Preference Shareholders.
- g) Holders of Series B Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series B Preference Shares.
- h) Through the issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series B Preference Shares at the issue price. Rights and obligations of the unredeemed Series B Preference Shares shall remain the same as mentioned above.

Issuance of overseas depositary receipt

The Company's shares have been listed on the Taiwan Stock Exchange in accordance with relevant regulations since the Company was incorporated on December 31, 2001. Since July 29, 2003, the Company has listed a portion of its ordinary shares on the Luxembourg Stock Exchange in the form of Global Depositary Shares (GDSs).

b. Capital surplus

- 1) Capital surplus are comprised as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Additional paid-in capital	\$ 157,755,009	\$ 161,523,972	\$ 161,523,972
Treasury share transactions	2,539,377	2,539,377	2,539,377
Additional paid-in capital - employee stock options	209,945	209,945	209,945
Conversion of convertible bonds	1,144,486	1,144,486	1,144,486
Others	<u>40,455</u>	<u>31,584</u>	<u>38,398</u>
	<u>\$ 161,689,272</u>	<u>\$ 165,449,364</u>	<u>\$ 165,456,178</u>

- 2) The capital surplus recorded during the conversion of shares of financial institutions may be distributed as cash dividends according to the fourth paragraph of Article 47 of the Financial Holding Company Act and other related requirements if not restricted by other regulations or may be transferred to capital in the year of conversion with the proportion of the transfer not limited by Article 72-1 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The unrestricted retained earnings of the financial institution presents the remaining balance after the appropriation of legal reserve or special reserve as required by law.

c. Retained earnings and dividends policy

In order for the Company to continue to expand and increase profitability in line with its long-term financial strategy and future demand for capital, the Company adopted a dividend policy in framing a proposal for the distribution of annual earnings for the purpose of sustainable development.

Under the dividends policy as set forth in the Company's articles ("Articles"), where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, the payment of preferred dividends, and then any remaining profit (earning of current year) together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting. When declaring the distribution of dividends, the Company should retain the funds for distribution of stock dividends, and the excess may be distributed in the form of cash dividends. However, the total distribution shall be no less than 30% of annual earnings, and the cash dividends shall be no less than 10% of the total dividends declared for the year. For the policies on the distribution of employees' compensation and remuneration of directors in the Articles, refer to employees' compensation and remuneration of directors in Note 25 e.

Legal reserve should be appropriated until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2018 and 2017 which were approved in the shareholders' meeting on June 14, 2019 and June 8, 2018, respectively, were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2018	2017
Legal reserve	\$ 5,146,724	\$ 5,636,280
Special reserve	72,631,553	184,004
Cash dividends of ordinary shares (Note)	18,844,815	31,408,025
Cash dividends of preference shares	2,667,891	1,899,924

Note: Cash dividends of ordinary shares included \$15,075,852 thousand from retained earnings and \$3,768,963 thousand from capital surplus.

d. Special reserves

	September 30, 2019	December 31, 2018	September 30, 2018
Special reserve transferred from reserve for trading default and for trading loss (1)	\$ 333,598	\$ 333,598	\$ 333,598
Special reserve reclassified from liability (2)	3,744,467	3,744,467	3,744,467
Special reserve appropriated at the first-time adoption of IFRSs (3)	2,994,565	2,994,565	2,994,565
Recovery of special reserve for appreciation of investment properties (4)	107,581,979	107,509,178	107,509,178
Special reserve transferred from insurance liabilities (5)	34,764,311	34,764,311	34,764,311
Special reserve appropriated following other equity's deduction (6)	<u>72,558,752</u>	<u>-</u>	<u>-</u>
	<u>\$ 221,977,672</u>	<u>\$ 149,346,119</u>	<u>\$ 149,346,119</u>

- 1) Cathay United Bank, Cathay Securities and Cathay Futures reclassified the appropriated default losses reserve and trading losses reserve as of December 31, 2010 as special reserve according to the relevant regulations. The special reserve can only be used to offset the accumulated deficit or be transferred to capital stock (limited to 50% of the special reserve) once the legal reserve reaches one-half of the paid-in capital. The Company set aside a special reserve of \$333,598 thousand for the year ended December 31, 2011.
- 2) According to the Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises, for the special reserves for catastrophic event and for fluctuation of risk as of January 1, 2012, amounting to \$9,022,812 thousand, Cathay Life transferred half of the reserves amounting to \$4,511,405 thousand, net of tax effect, to special reserve under retained earnings amounting to \$3,744,467 thousand; half of the reserves were kept as the initial amount of reserve for foreign exchange valuation. The Company set aside a special reserve of \$3,744,467 thousand in the year ended December 31, 2013.
- 3) At the first-time adoption of IFRSs, Cathay Life chose to use fair values as the deemed costs of investment properties in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects on the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. In accordance with Bao(Tsai) No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Jin Guan Bao Tsai No. 10102508861. The Company set aside a special reserve of \$2,994,565 thousand in the year ended December 31, 2013.
- 4) In 2014, the Group changed the subsequent measurement of investment properties from the cost model to the fair value model. According to Order No. Jin-Guan-Zheng-Fa-Zi-1030006415, in order to maintain a sound and robust financial structure of a publicly issued company, the Group appropriated a special reserve at the amount that was the same as the net increase arising the first-time application of subsequent measurement for investment property in fair value and transferred it to retained earnings.
- 5) Cathay Life transferred insurance liabilities of \$34,764,311 thousand to special reserve in accordance with Jin Guan Bao Tsai No. 10402029590. The Company set aside a special reserve of \$34,764,311 thousand in the year ended December 31, 2015.

- 6) The Group appropriated and reversed special reserves according to Jin Guan Zheng Fa No. 1010012865. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and is thereafter distributed.

e. Other equity

- 1) Exchange differences on translating the financial statements of foreign operations

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ (12,149,871)	\$ (10,823,242)
Recognized for the period	(685,354)	(1,215,662)
Share of associates accounted for using the equity method	223,436	(1,103,617)
Tax effects	(43,545)	476,584
Other comprehensive income (loss) recognized for the period	<u>(505,463)</u>	<u>(1,842,695)</u>
Ending balance	<u>\$ (12,655,334)</u>	<u>\$ (12,665,937)</u>

- 2) Unrealized gain (loss) on financial assets at FVTOCI

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance per IFRS 9	\$ (17,586,946)	\$ 37,343,476
Recognized for the period	123,074,658	(55,249,402)
Share of associates accounted for using the equity method	182,229	24,708
Reclassification adjustments		
Disposal of investments in debt instruments	(19,463,092)	(10,925,865)
Tax effects	<u>(19,950,050)</u>	<u>11,554,188</u>
Other comprehensive income (loss) recognized for the period	83,843,745	(54,596,371)
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>4,686,887</u>	<u>9,092,422</u>
Ending balance	<u>\$ 70,943,686</u>	<u>\$ (8,160,473)</u>

- 3) Gain (loss) on hedging instruments

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 173,289	\$ 203,647
Recognized for the period	144,884	23,025
Reclassification adjustments		
Hedged item that affects profit or loss	(49,335)	(66,966)
Tax effects	<u>(26,753)</u>	<u>1,427</u>
Other comprehensive income (loss) recognized for the period	<u>68,796</u>	<u>(42,514)</u>
Ending balance	<u>\$ 242,085</u>	<u>\$ 161,133</u>

- 4) Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 774,084	\$ (1,191,027)
Recognized for the period	(3,231,049)	892,630
Tax effects	646,210	(135,477)
Other comprehensive income (loss) recognized for the period	<u>(2,584,839)</u>	<u>757,153</u>
Ending balance	<u>\$ (1,810,755)</u>	<u>\$ (433,874)</u>

- 5) Remeasurement of defined benefit plans

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ (1,321,138)	\$ (1,449,679)
Recognized for the period	3,818	-
Share of associate accounted for using the equity method	(9,395)	(8,740)
Tax effects	1,754	52,789
Other comprehensive income (loss) recognized for the period	<u>(3,823)</u>	<u>44,049</u>
Ending balance	<u>\$ (1,324,961)</u>	<u>\$ (1,405,630)</u>

- 6) Property revaluation surplus

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 10,367,911	\$ 10,376,814
Recognized for the period	926,919	-
Tax effects	(54,516)	46,241
Other comprehensive income recognized for the period	<u>872,403</u>	<u>46,241</u>
Transferred to retained earnings	<u>-</u>	<u>(55,144)</u>
Ending balance	<u>\$ 11,240,314</u>	<u>\$ 10,367,911</u>

7) Other comprehensive income (loss) on reclassification using the overlay approach

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance per IFRS 9	\$ (52,816,081)	\$ 55,941,777
Recognized for the period		
Unrealized gain	126,674,435	4,554,636
Reclassification adjustments		
Disposal of investments in financial instruments	(26,997,005)	(46,824,710)
Tax effects	<u>(8,469,256)</u>	<u>2,453,196</u>
Other comprehensive income (loss) recognized for the period	<u>91,208,174</u>	<u>(39,816,878)</u>
Ending balance	<u>\$ 38,392,093</u>	<u>\$ 16,124,899</u>

f. Non-controlling interests

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance per IFRS 9	\$ 9,557,665	\$ 9,412,376
Attributed to non-controlling interest		
Net profit for the period	984,256	240,871
Exchange differences on translating financial statements of foreign operations	(106,141)	(53,483)
Unrealized (loss) gain on financial assets at fair value through other comprehensive income	(102,372)	3,139
Other comprehensive income (loss) on reclassification using the overlay approach	300,866	(81,984)
Others	<u>(628,048)</u>	<u>(360,709)</u>
Ending balance	<u>\$ 10,006,226</u>	<u>\$ 9,160,210</u>

25. NET PROFIT FOR THE PERIOD

a. Net gain on service fee and commission fee

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Service fee revenue	\$ 7,440,601	\$ 6,445,481	\$ 20,048,056	\$ 18,478,482
Commission fee revenue	<u>1,449,415</u>	<u>1,934,298</u>	<u>4,855,312</u>	<u>6,030,644</u>
	<u>8,890,016</u>	<u>8,379,779</u>	<u>24,903,368</u>	<u>24,509,126</u>
Service fee expense	(1,766,206)	(1,425,574)	(5,780,285)	(4,193,971)
Commission fee expense	<u>(5,409,849)</u>	<u>(4,886,876)</u>	<u>(16,339,098)</u>	<u>(14,123,893)</u>
	<u>(7,176,055)</u>	<u>(6,312,450)</u>	<u>(22,119,383)</u>	<u>(18,317,864)</u>
	<u>\$ 1,713,961</u>	<u>\$ 2,067,329</u>	<u>\$ 2,783,985</u>	<u>\$ 6,191,262</u>

b. Net income on insurance operations

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Retained earned premiums revenue	\$ 136,328,523	\$ 119,798,740	\$ 443,815,646	\$ 405,583,141
Separate account insurance product income	<u>7,629,071</u>	<u>12,618,078</u>	<u>46,299,458</u>	<u>29,680,272</u>
	<u>143,957,594</u>	<u>132,416,818</u>	<u>490,115,104</u>	<u>435,263,413</u>
Claims and payments	(73,071,398)	(88,742,519)	(283,323,920)	(262,560,821)
Separate account insurance product expenses	(7,629,071)	(12,618,078)	(46,299,458)	(29,680,272)
Others	<u>(300,743)</u>	<u>(223,255)</u>	<u>(831,002)</u>	<u>(816,887)</u>
	<u>(81,001,212)</u>	<u>(101,583,852)</u>	<u>(330,454,380)</u>	<u>(293,057,980)</u>
	<u>\$ 62,956,382</u>	<u>\$ 30,832,966</u>	<u>\$ 159,660,724</u>	<u>\$ 142,205,433</u>

c. Net changes in insurance liability reserves

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Net change in loss reserve	\$ (534,592)	\$ (733,810)	\$ (2,294,586)	\$ (1,436,735)
Net change in policy reserve	(96,868,412)	(61,241,843)	(256,532,977)	(241,228,473)
Net change in premium deficiency reserve	813,587	545,368	2,318,408	2,201,699
Net change in special reserve	(39,562)	(54,859)	161,913	97,563
Net change in other reserves	6,000	6,000	17,028	18,000
Net change in reserve for insurance contracts with the nature of financial products	<u>(164,796)</u>	<u>292,604</u>	<u>(505,985)</u>	<u>1,026,792</u>
	<u>\$ (96,787,775)</u>	<u>\$ (61,186,540)</u>	<u>\$ (256,836,199)</u>	<u>\$ (239,321,154)</u>

d. Employee benefit expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term benefits				
Salaries	\$ 14,263,570	\$ 12,919,627	\$ 45,124,179	\$ 38,982,712
Labor and health insurance expenses	1,094,812	1,025,507	3,454,664	3,165,801
Post-employment benefits	466,694	519,069	1,613,407	1,581,054
Remuneration of directors	25,171	23,816	124,294	124,077
Others	<u>377,458</u>	<u>315,336</u>	<u>1,283,123</u>	<u>1,034,239</u>
	<u>\$ 16,227,705</u>	<u>\$ 14,803,355</u>	<u>\$ 51,599,667</u>	<u>\$ 44,887,883</u>
An analysis of employee benefit expenses by function				
Profit from operations	\$ 3,246,342	\$ 2,650,100	\$ 10,269,547	\$ 7,756,167
Operating expenses	<u>12,981,363</u>	<u>12,153,255</u>	<u>41,330,120</u>	<u>37,131,716</u>
	<u>\$ 16,227,705</u>	<u>\$ 14,803,355</u>	<u>\$ 51,599,667</u>	<u>\$ 44,887,883</u>

As of September 30, 2019 and 2018, the total number of the employees in the Group were 55,750 and 54,067, respectively.

For the nine months ended September 30, 2019 and 2018, the average number of the Group's employees were 55,173 and 53,167, respectively, including 36 and 35 non-executive directors, respectively.

e. Employees' compensation and remuneration of directors

According to the Articles, if there is a profit in the current year, the Company should distribute 0.01% to 0.05% of profit in the current year as employees' compensation, and no more than 0.05% of profit in the current year as remuneration of directors. However, in the case of accumulated deficit, the Company's accumulated deficit need to be offset first.

The Company accrued employees' compensation and remuneration of directors at the rates of 0.01% and no higher than 0.05%, respectively, which were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Employees' compensation	\$ 1,767	\$ 1,884	\$ 5,121	\$ 5,654
Remuneration of directors	675	675	2,025	2,025

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recovered as a change in accounting estimate.

The employees' compensation and remuneration of directors for 2018 and 2017 resolved by the Company's board of directors on March 21, 2019 and March 15, 2018, respectively, were as follow:

	For the Nine Months Ended September 30	
	2018	2017
	Cash	Cash
Employees' compensation	\$ 5,307	\$ 5,812
Remuneration of directors	2,700	2,700

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

f. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Right-of-use assets	\$ 348,133	\$ -	\$ 998,968	\$ -
Property and equipment	607,931	650,724	1,881,797	1,923,238
Intangible assets	<u>784,391</u>	<u>765,363</u>	<u>2,353,131</u>	<u>2,273,526</u>
	<u>\$ 1,740,455</u>	<u>\$ 1,416,087</u>	<u>\$ 5,233,896</u>	<u>\$ 4,196,764</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 956,064</u>	<u>\$ 650,724</u>	<u>\$ 2,880,765</u>	<u>\$ 1,923,238</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 784,391</u>	<u>\$ 765,363</u>	<u>\$ 2,353,131</u>	<u>\$ 2,273,526</u>

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of tax income (expense) were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ (1,026,932)	\$ 1,566,535	\$ (1,946,655)	\$ (4,785,347)
Adjustments for prior years	302	42,999	(263,054)	(51,867)
Deferred tax				
In respect of the current period	(2,705,785)	(5,313,375)	(6,269,513)	(1,669,074)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(4,192)	-	3,569,690
Adjustments for prior years	-	-	(5,457)	-
Deferred tax assets written off	-	-	-	(9,487)
Others	<u>158,223</u>	<u>435,363</u>	<u>(692,823)</u>	<u>(1,864,473)</u>
Income tax (expense) benefits recognized in profit or loss	<u>\$ (3,574,192)</u>	<u>\$ (3,272,670)</u>	<u>\$ (9,177,502)</u>	<u>\$ (4,810,558)</u>

The Income Tax Act in the R.O.C. was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings has been reduced from 10% to 5%.

b. Income tax recognized directly in equity

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
Derecognition of investments in equity instruments at FVTOCI	\$ 261,406	\$ 114,180	\$ 370,871	\$ 696,705
Deferred tax				
Capital surplus	-	-	-	(3)
Derecognition of investments in equity instruments at FVTOCI	<u>(261,406)</u>	<u>(114,180)</u>	<u>(370,871)</u>	<u>(696,705)</u>
Total income tax benefit recognized directly in equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3)</u>

c. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Deferred tax</u>				
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL	\$ 290,481	\$ 92,620	\$ 646,210	\$ (135,477)
Exchange differences on the translation of financial statements of foreign operations	186,659	243,143	(43,545)	202,646
Unrealized gain (loss) on financial assets at FVTOCI	(4,313,747)	(32,734)	(19,924,879)	11,543,933
Losses (gains) on hedging instruments	(1,123)	3,266	(26,753)	1,427
Property revaluation surplus	-	-	(54,516)	46,241
Remeasurement of defined benefit plans	-	-	-	51,401
Shares of associates accounted for using the equity method	6,735	70,720	(23,417)	285,581
Other comprehensive income (loss) on reclassification using the overlay approach	<u>904,015</u>	<u>(604,614)</u>	<u>(8,469,256)</u>	<u>2,453,196</u>
Total income tax recognized in other comprehensive income	<u>\$ (2,926,980)</u>	<u>\$ (227,599)</u>	<u>\$ (27,896,156)</u>	<u>\$ 14,448,948</u>

d. Income tax assessments

The income tax returns of the Group assessed by tax authorities were as follows:

	<u>Year of Assessment</u>	<u>Note</u>
The Company	2014	-
Cathay Life	2014	Cathay Life was in the process of administrative remedy for 2011 and 2012.
Cathay United Bank	2014	Cathay United Bank was in the process of administrative remedy from 2011 to 2014.
Cathay Century	2014	-
Cathay Securities	2014	Cathay Securities was in the process of administrative remedy from 2011 to 2014.
Cathay Venture	2014	-
Cathay Securities Investment Trust	2014	-
Cathay Futures	2017	-
Cathay Private Equity	2017	-

In accordance with Article 49 of the Financial Holding Company Act, the Company and all subsidiaries which has existed for the entire 12 months of a tax year elected to jointly file income tax return and surtax on undistributed retained earnings with the Company as the tax payer.

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Basic earnings per share	<u>\$ 1.41</u>	<u>\$ 1.47</u>	<u>\$ 3.86</u>	<u>\$ 4.18</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Income for the Period

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income for the period attributable to owners of the Company	\$ 17,728,149	\$ 18,372,885	\$ 51,167,918	\$ 54,356,108
Less: Dividends on preference shares	<u>-</u>	<u>-</u>	<u>(2,667,891)</u>	<u>(1,899,924)</u>
Earnings used in the computation of basic earnings per share	<u>\$ 17,728,149</u>	<u>\$ 18,372,885</u>	<u>\$ 48,500,027</u>	<u>\$ 52,456,184</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousands of Shares)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>	<u>12,563,210</u>

28. RELATED-PARTY TRANSACTIONS

- a. The name and the category of related parties who engaged transactions with the Group in the reporting periods are as follows:

<u>Related Party Name</u>	<u>Related Party Category</u>
Cathay Life	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Securities Investment Trust	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Lujiazui Life	Subsidiary of the Company
Cathay Life (Vietnam)	Subsidiary of the Company
Conning Asia Pacific Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting	Subsidiary of the Company
Lin Yuan	Subsidiary of the Company
Cathay Insurance (Vietnam)	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Cathay Securities (Hong Kong)	Subsidiary of the Company
Cathay Private Equity	Subsidiary of the Company
Cathay Insurance Company Limited (China)	Associate
Taiwan Real-estate Management Corp.	Associate
Taiwan Finance Corp.	Associate
Symphox Information Co., Ltd.	Associate
New Cathay Power Corp. Corp.	Associate
Rizal Commercial Banking Corporation	Associate
PT Bank Mayapada International Tbk	Associate
Global Evolution Holding Aps	Associate
PSS Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Seaward Card Co., Ltd.	Other related party
Vietinbank	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party

(Continued)

<u>Related Party Name</u>	<u>Related Party Category</u>
Ally Logistic Property Co., Ltd.	Other related party
ThinkPower Information Co., Ltd	Other related party
Tailin Management Consulting Limited	Other related party
Yua-Yung Marketing (Taiwan) Co., Ltd.	Other related party
Kao Yi Investment Co., Ltd.	Other related party
Cathay Charity	Other related party
Cathay Real Estate Foundation	Other related party
Cathay United Bank Foundation	Other related party
Cathay Life Insurance Employees' Welfare Committee	Other related party
Cathay Real Estate Employees' Welfare Committee	Other related party
Others	Other related party

(Concluded)

b. Significant transactions with related parties were as follows:

All intercompany transactions among the Group have been eliminated on consolidated financial statements.

1) Cash and cash equivalent

Name	September 30, 2019	December 31, 2018	September 30, 2018	
<u>Due from commercial banks</u>				
Other related party				
Vietinbank	\$ <u>5,368,858</u>	\$ <u>5,309,375</u>	\$ <u>5,288,469</u>	
<u>Due to commercial banks</u>				
Other related party				
Vietinbank	\$ <u>5,423,619</u>	\$ <u>5,360,670</u>	\$ <u>5,292,805</u>	
	<u>Interest Income (Expense)</u>			
	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
Name	2019	2018	2019	2018
<u>Due from commercial banks</u>				
Other related party				
Vietinbank	\$ <u>1,383</u>	\$ <u>1,258</u>	\$ <u>4,096</u>	\$ <u>3,841</u>
<u>Due to commercial banks</u>				
Other related party				
Vietinbank	\$ <u>(1,360)</u>	\$ <u>(1,253)</u>	\$ <u>(4,011)</u>	\$ <u>(3,807)</u>

2) Financial assets at FVTPL

Name	September 30, 2019	December 31, 2018	September 30, 2018
Other related party Cathay Healthcare Management Co., Ltd.	\$ <u>246,758</u>	\$ <u>180,180</u>	\$ <u>179,768</u>

3) Loans

Name	September 30, 2019	December 31, 2018	September 30, 2018
Associate Taiwan Real-estate Management Corp.	\$ 33,000	\$ 30,000	\$ 30,000
Other related party Cathay Real Estate Development Co., Ltd.	250,000	210,000	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	-	-
Others	<u>2,705,919</u>	<u>2,456,817</u>	<u>2,271,369</u>
	<u>\$ 2,998,919</u>	<u>\$ 2,696,817</u>	<u>\$ 2,301,369</u>

Name	Interest Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Associate Taiwan Real-estate Management Corp.	\$ 149	\$ 144	\$ 439	\$ 428
Other related party Cathay Real Estate Development Co., Ltd.	327	-	797	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	44	-	64	-
Others	<u>11,042</u>	<u>12,363</u>	<u>32,023</u>	<u>37,546</u>
	<u>\$ 11,562</u>	<u>\$ 12,507</u>	<u>\$ 33,323</u>	<u>\$ 37,974</u>

4) Deposits

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay Securities Investment Consulting	\$ 148,340	\$ 187,533	\$ 141,795
Associates Symphox Information Co., Ltd.	161,126	122,139	111,072
New Cathay Power Corp.	42,638	137,979	203,928

(Continued)

Name	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
Cathay Real Estate Development Co., Ltd.	\$ 416,668	\$ 199,127	\$ 655,076
Cathay Hospitality Management Co., Ltd.	3,746	16,523	10,144
Cathay United Bank Foundation	545,517	541,888	548,107
Cathay Life Insurance Employees' Welfare Committee	2,138,613	2,221,665	2,244,063
Cathay Real Estate Employees' Welfare Committee	406,023	386,529	401,708
Tailin Management Consulting Limited	10,288	-	-
Others	<u>8,849,289</u>	<u>7,457,000</u>	<u>7,765,173</u>
	<u>\$ 12,722,248</u>	<u>\$ 11,270,383</u>	<u>\$ 12,081,066</u> (Concluded)

Name	Interest Expense			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 118	\$ 131	\$ 446	\$ 475
Associates				
Symphox Information Co., Ltd.	199	166	573	498
New Cathay Power Corp.	5	19	29	76
Other related parties				
Cathay Real Estate Development Co., Ltd.	17	20	50	36
Cathay Hospitality Management Co., Ltd.	1	4	3	20
Cathay United Bank Foundation	1,413	1,417	4,209	4,188
Cathay Life Insurance Employees' Welfare Committee	5,588	5,613	16,629	17,215
Cathay Real Estate Employees' Welfare Committee	1,084	1,070	3,140	3,011
Tailin Management Consulting Limited	24	-	29	-
Others	<u>16,340</u>	<u>14,988</u>	<u>57,313</u>	<u>47,762</u>
	<u>\$ 24,789</u>	<u>\$ 23,428</u>	<u>\$ 82,421</u>	<u>\$ 73,281</u>

5) Property transactions

- a) Cathay Life and its subsidiaries' significant transactions of contracted projects undertaken with related parties are listed below:

Name	For the Nine Months Ended September 30			
	2019		2018	
	Items	Amounts	Items	Amounts
Other related parties				
Ally Logistic Property Co., Ltd.	Logistic Republic Yangmei, etc.	\$ 580,443	Wuri E-commerce Building, etc.	\$ 678,864
Lin Yuan Property Management Co., Ltd.	Cathay Headquarters, etc.	8,636	Cathay Land Mark, etc.	13,203
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,682,430	THSR Taoyuan Commercial Park, etc.	985,320
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	<u>306,419</u>	Minsheng Jingguo Building, etc.	<u>413,919</u>
		<u>\$ 2,577,928</u>		<u>\$ 2,091,306</u>

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$383,381 thousand, \$3,383,783 thousand and \$3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$7,058,781 thousand, \$1,838,045 thousand and \$1,838,045, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$2,744,673 thousand, \$1,742,250 thousand and \$1,742,250 thousand, respectively.

- b) Real-estate rental income of Cathay Life and its subsidiaries

Name	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathy Securities Investment Consulting Co., Ltd.	<u>\$ 2,291</u>	<u>\$ 2,225</u>	<u>\$ 6,872</u>	<u>\$ 6,675</u>
Associate Symphox Information Co., Ltd.	13,287	10,270	36,499	30,661
Cathay Insurance Company Limited (China)	<u>-</u>	<u>7,203</u>	<u>6,060</u>	<u>21,153</u>
	<u>13,287</u>	<u>17,473</u>	<u>42,559</u>	<u>51,814</u>

(Continued)

Name	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related parties				
Cathay Medical Care Corp.	\$ 44,777	\$ 45,211	\$ 138,025	\$ 137,985
Cathay Real Estate Development Co., Ltd.	4,462	4,300	12,991	13,511
San Ching Engineering Co., Ltd.	1,422	1,402	4,227	4,207
Cathay Healthcare Management Co., Ltd.	17,308	14,126	51,368	42,321
Cathay Hospitality Management Co., Ltd.	48,516	53,744	145,452	169,960
Cathay Hospitality Consulting Co., Ltd.	23,348	-	75,196	-
Ally Logistic Property Co., Ltd.	139,779	116,026	422,227	357,883
Lin Yuan Property Management Co., Ltd.	1,743	-	3,652	-
	<u>281,355</u>	<u>234,809</u>	<u>853,138</u>	<u>725,867</u>
	<u>\$ 296,933</u>	<u>\$ 254,507</u>	<u>\$ 902,569</u>	<u>\$ 784,356</u>

(Concluded)

Name	Guarantee Deposits Received		
	September 30, 2019	December 31, 2018	September 30, 2018
Associate			
Symphox Information Co., Ltd.	\$ 12,996	\$ 10,363	\$ 9,798
Cathay Insurance Company Limited (China)	-	7,030	6,973
	<u>12,996</u>	<u>17,393</u>	<u>16,771</u>
Other related parties			
Cathay Medical Care Corp.	11,369	11,260	11,260
Cathay Real Estate Development Co., Ltd.	3,971	3,803	3,837
Cathay Healthcare Management Co., Ltd.	16,198	15,628	14,084
Cathay Hospitality Management Co., Ltd.	184,602	206,166	218,708
Ally Logistic Property Co., Ltd.	<u>124,168</u>	<u>57,040</u>	<u>56,752</u>
	<u>340,308</u>	<u>293,897</u>	<u>304,641</u>
	<u>\$ 353,304</u>	<u>\$ 311,290</u>	<u>\$ 321,412</u>

According to contracts, lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

c) Lease arrangements of Cathay Life and its subsidiaries

Name	Rental Expense			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related party Cathay Real Estate Development Co., Ltd.	\$ -	\$ 1,853	\$ -	\$ 5,559

According to contracts, lease periods are generally 1 to 2 years, and rentals are usually paid on a monthly basis.

d) Disposal of building decoration equipment of Cathay Life and its subsidiaries to related parties

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Other related party Cathay Hospitality Management Co., Ltd.	\$ -	\$ 452,540	\$ -

Gain on disposal of building decoration equipment of Cathay Life and its subsidiaries to Cathay Hospitality Management Co., Ltd. for the three and nine months ended September 30, 2019 and 2018 were \$0 thousand, \$13,540 thousand, \$0 thousand and \$13,540 thousand, respectively.

e) Acquisition of computer equipment and software of Cathay Life and its subsidiaries from related parties

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Other related party ThinkPower Information Co., Ltd	\$ 867	\$ -	\$ 11,052

f) Real-estate rental income of Cathay United Bank and its subsidiaries

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
	Other related party Cathay United Bank Foundation	\$ 1,158	\$ 1,158	\$ 3,474

g) Lease arrangements of Cathay United Bank and its subsidiaries

Name	Acquisition of Right-of-use Assets	
	For the Nine Months Ended	
	September 30	
	2019	2018
Other related party		
Cathay Real Estate Development Co., Ltd.	\$ <u>25,777</u>	\$ <u>-</u>

The lease period and contract method are in accordance with the contract provisions, the general lease terms are two to five years and the payments are mainly made on a monthly basis.

Name	Lease Liabilities		
	September 30,	December 31,	September 30,
	2019	2018	2018
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ <u>25,812</u>	\$ <u>-</u>	\$ <u>-</u>

Name	Rental Expense			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2019	2018	2019	2018
Other related party				
Cathay Real Estate Development Co., Ltd.	\$ <u>-</u>	\$ <u>5,577</u>	\$ <u>2,502</u>	\$ <u>14,767</u>

Name	Guarantee Deposits Paid		
	September 30,	December 31,	September 30,
	2019	2018	2018
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ <u>4,625</u>	\$ <u>4,608</u>	\$ <u>4,608</u>

The lease period and contract method are in accordance with the contract provisions, the general lease terms are two to five years and the payments are mainly made on a monthly basis.

6) Prepayments for long-term investments

Name	September 30,	December 31,	September 30,
	2019	2018	2018
Associate			
Cathay Insurance Company Limited (China)	\$ <u>-</u>	\$ <u>2,200,394</u>	\$ <u>-</u>

The boards of directors of Cathay Life and Cathay Century resolved on September 17, 2018 to increase investment of CNY245 million to Cathay Insurance Company Limited (China). The Investment Commission of the Ministry of Economic Affairs authorized the remittance on December 6, 2018 and November 23, 2018 through the two-character letter No. 10700277110 and No. 10700281680. The capital increase was approved by the Bank of China Banking and Insurance Regulatory Commission on January 23, 2019.

7) Guarantee deposits received

Name	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ 5,000	\$ 5,000
San Ching Engineering Co., Ltd.	453,225	440,700	443,535
Cathay Hospitality Management Co., Ltd.	235,319	256,883	104,537
Ally Logistic Property Co., Ltd.	151,080	139,386	303,386
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>\$ 951,698</u>	<u>\$ 949,043</u>	<u>\$ 856,458</u>

8) Payables

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Securities Investment Consulting	\$ 8,894	\$ -	\$ -
Associate			
Symphox Information Co., Ltd.	209,555	29,398	128,521
Other related parties			
Seaward Card Co., Ltd.	33,573	34,034	30,452
Lin Yuan Property Management Co., Ltd.	<u>58,633</u>	<u>-</u>	<u>47,823</u>
	<u>\$ 310,655</u>	<u>\$ 63,432</u>	<u>\$ 206,796</u>

9) Balances of beneficiary certificates purchased from related parties

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Associate				
Global Evolution Holdings ApS	Market value	<u>\$ 2,861,244</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
	Cost	<u>\$ 2,694,249</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>

10) Investment balances of related parties' discretionary accounts

Name	September 30, 2019	December 31, 2018	September 30, 2018
Other related parties			
Cathay Charity	\$ 79,765	\$ 68,993	\$ 73,633
Cathay Real Estate Foundation	<u>52,674</u>	<u>47,019</u>	<u>50,340</u>
	<u>\$ 132,439</u>	<u>\$ 116,012</u>	<u>\$ 123,973</u>

11) Discretionary account balances managed by related parties

Name	September 30, 2019	December 31, 2018	September 30, 2018
Associate			
Global Evolution Holdings ApS	<u>\$ 7,081,553</u>	<u>\$ 6,494,247</u>	<u>\$ 6,556,024</u>

12) Service fee income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 4,041	\$ 4,381	\$ 11,683	\$ 13,156
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>2,252</u>	<u>1,499</u>	<u>4,513</u>	<u>4,191</u>
	<u>\$ 6,293</u>	<u>\$ 5,880</u>	<u>\$ 16,196</u>	<u>\$ 17,347</u>

13) Premium income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2019	2018	2019	2018
Associate				
Symphox Information Co., Ltd.	\$ 28	\$ -	\$ 3,356	\$ -
Other related party				
Cathay Medical Care Corporate	14,229	13,745	33,192	35,994
Cathay Real Estate Development Co., Ltd.	2,364	2,339	3,350	4,719
San Ching Engineering Co., Ltd.	437	1,547	2,472	4,947
Others	<u>143,734</u>	<u>82,199</u>	<u>318,642</u>	<u>216,171</u>
	<u>\$ 160,792</u>	<u>\$ 99,890</u>	<u>\$ 361,012</u>	<u>\$ 261,831</u>

14) Net other non-interest gain

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related party Cathay Healthcare Management Co., Ltd.	\$ <u>927</u>	\$ <u>820</u>	\$ <u>3,705</u>	\$ <u>3,216</u>

15) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Securities Investment Consulting	\$ 8,888	\$ -	\$ 8,888	\$ -
Associate Symphox Information Co., Ltd.	210,493	225,790	666,208	699,175
Other related parties Seaward Card Co., Ltd.	83,408	75,881	237,833	220,561
Cathay Real Estate Development Co., Ltd.	5,445	2,749	13,018	7,186
ThinkPower Information Co., Ltd	785	-	5,075	-
Lin Yuan Property Management Co., Ltd.	194,959	202,063	584,481	597,464
Cathay Healthcare Management Co., Ltd.	19,264	8,780	48,153	38,592
Cathay Charity	5,300	-	5,300	5,300
Cathay Medical Care Corp.	<u>746</u>	<u>1,054</u>	<u>3,158</u>	<u>2,953</u>
	<u>\$ 529,288</u>	<u>\$ 516,317</u>	<u>\$ 1,572,114</u>	<u>\$ 1,571,231</u>

16) Acquisition of shares issued by related parties

Name	Items	For the Nine Months Ended September 30	
		2019	2018
Associate Rizal Commercial Banking Corporation	Ordinary shares	\$ -	\$ 1,992,264
PT Band Mayapada International Tpk	Ordinary shares	-	898,860
PSS Co., Ltd.	Ordinary shares	-	407,671
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>387,816</u>	<u>-</u>
		<u>\$ 387,816</u>	<u>\$ 3,298,795</u>

17) Guarantees

September 30, 2019

Name	Maximum Amount Guaranteed During the Period	Balance of Guaranteed at the End of the Period	Balance of Guaranteed Liability Reserve	Interest Rate	Collaterals
Other related parties					
Yua-Yung Marketing (Taiwan) Co., Ltd.	\$ <u>54,440</u>	\$ <u>54,440</u>	\$ <u>6</u>	0.65%-0.8%	Securities

18) Key management personnel compensation

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 179,055	\$ 165,541	\$ 716,725	\$ 645,762
Post-employment benefits	4,706	4,552	16,093	13,427
Other long-term employee benefits	<u>-</u>	<u>-</u>	<u>34</u>	<u>26</u>
	\$ <u>183,761</u>	\$ <u>170,093</u>	\$ <u>732,852</u>	\$ <u>659,215</u>

The management of the Group includes the chairman, directors, president, senior executive vice president, senior vice general managers and vice general managers.

c. The Company

1) Cash in banks

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company				
Cathay United Bank	Demand deposits	\$ <u>80,683</u>	\$ <u>139,920</u>	\$ <u>379,679</u>

Interest income from Cathay United Bank for the three months and the nine months ended September 30, 2019 and 2018 were \$176 thousand, \$329 thousand and \$650 thousand and \$627 thousand, respectively.

2) Receivables

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company				
Cathay Life	Interest	\$ 1,008,000	\$ 65,589	\$ 1,008,000
Cathay United Bank	Consolidated income tax	1,532,949	-	848,486
Cathay Century	Consolidated income tax	283,025	64,901	210,097
Cathay Securities	Consolidated income tax	37,986	24,916	96,862
Cathay Securities Investment Trust	Consolidated income tax	130,175	82,083	44,861
Cathay Venture	Consolidated income tax	<u>4,588</u>	<u>29,331</u>	<u>-</u>
		<u>\$ 2,996,723</u>	<u>\$ 266,820</u>	<u>\$ 2,208,306</u>

3) Guarantee deposits paid

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 30,071</u>	<u>\$ 12,588</u>	<u>\$ 12,588</u>

4) Financial assets at FVTPL

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

5) Lease agreements

a) Lease liabilities

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Life	<u>\$ 60,541</u>	<u>\$ -</u>	<u>\$ -</u>

b) Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	<u>\$ 254</u>	<u>\$ -</u>	<u>\$ 909</u>	<u>\$ -</u>

6) Payables

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company				
Cathay Life	Consolidated income tax, etc.	\$ 12,934,473	\$ 8,998,563	\$ 3,896,598
Cathay United Bank	Consolidated income tax	<u>-</u>	<u>485,773</u>	<u>-</u>
		<u>\$ 12,934,473</u>	<u>\$ 9,484,336</u>	<u>\$ 3,896,598</u>

7) Interest income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	\$ 317,589	\$ 322,175	\$ 942,411	\$ 993,115
Cathay Century	<u>-</u>	<u>968</u>	<u>-</u>	<u>10,192</u>
	<u>\$ 317,589</u>	<u>\$ 323,143</u>	<u>\$ 942,411</u>	<u>\$ 1,003,307</u>

8) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay Life	\$ 22,666	\$ 15,628	\$ 44,634	\$ 47,746
Other related parties				
Cathay Real Estate Development Co., Ltd.	2,870	-	5,382	-
Seaward Card Co., Ltd.	<u>3,681</u>	<u>-</u>	<u>6,428</u>	<u>-</u>
	<u>\$ 29,217</u>	<u>\$ 15,628</u>	<u>\$ 56,444</u>	<u>\$ 47,746</u>

9) Subscription of shares issued by related parties

Name	Items	For the Nine Months Ended September 30	
		2019	2018
Subsidiary of the Company			
Cathay Life	Ordinary shares	<u>\$ -</u>	<u>\$ 42,000,000</u>

d. Significant transactions between subsidiaries and related parties that are more than \$100 million

1) Cathay Life and its subsidiaries

a) Property transactions

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

i. Significant transactions of contracted projects undertaken with related parties are listed below:

Name	For the Nine Months Ended September 30			
	2019		2018	
	Items	Amounts	Items	Amounts
Other related parties				
Ally Logistic Property Co., Ltd.	Logistic Republic Yangmei, etc.	\$ 580,443	Wuri E-commerce Building, etc.	\$ 678,864
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,682,430	THSR Taoyuan Commercial Park, etc.	985,320
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	<u>306,419</u>	Minsheng Jingguo Building, etc.	<u>413,919</u>
		<u>\$ 2,569,292</u>		<u>\$ 2,078,103</u>

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$383,381 thousand, \$3,383,783 thousand and \$3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$7,058,781 thousand, \$1,838,045 thousand and \$1,838,045 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$2,744,673 thousand, \$1,742,250 thousand and \$1,742,250 thousand, respectively.

ii. Real-estate rental income

Name	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay United Bank	\$ 169,181	\$ 174,007	\$ 465,145	\$ 509,207
Other related parties Ally Logistic Property Co., Ltd.	139,779	116,026	422,227	357,883
Cathay Hospitality Management Co., Ltd.	48,516	53,744	145,452	169,960
Cathay Medical Care Corp.	<u>44,777</u>	<u>45,211</u>	<u>138,025</u>	<u>137,985</u>
	<u>\$ 402,253</u>	<u>\$ 388,988</u>	<u>\$ 1,170,849</u>	<u>\$ 1,175,035</u>

Name	Guarantee Deposits Received		
	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	\$ 175,220	\$ 189,738	\$ 187,119
Other related parties Ally Logistic Property Co., Ltd.	124,168	57,040	56,752
Cathay Hospitality Management Co., Ltd.	<u>184,602</u>	<u>206,166</u>	<u>218,708</u>
	<u>\$ 483,990</u>	<u>\$ 452,944</u>	<u>\$ 462,579</u>

According to contracts, lease periods are usually between 2 and 5 years and rental incomes are collected on a monthly basis.

iii. Disposals of building decoration equipment to related parties

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related party Cathay Hospitality Management Co., Ltd.	<u>\$ -</u>	<u>\$ 452,540</u>	<u>\$ -</u>	<u>\$ 452,540</u>

b) Shares transactions

i. Issuance of shares for cash by Cathay Life

Name	Items	For the Nine Months Ended September 30	
		2019	2018
The Company Cathay Financial Holdings	Ordinary shares	\$ <u>-</u>	\$ <u>42,000,000</u>

ii. Acquisition of shares issued by related parties

Name	Items	For the Nine Months Ended September 30	
		2019	2018
Subsidiary of the Company Cathay Venture Inc.	Ordinary shares	\$ 1,567,574	\$ -
Associate Rizal Commercial Banking Corporation	Ordinary shares	-	1,992,264
PT Bank Mayapada Internasional Tbk	Ordinary shares	-	898,860
PSS Co., Ltd.	Ordinary shares	-	407,671
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>387,816</u>	<u>-</u>
		<u>\$ 1,955,390</u>	<u>\$ 3,298,795</u>

c) Cash in banks

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	Time deposits	\$ 1,139,620	\$ 2,715,620	\$ 2,523,338
	Demand deposit	18,301,410	28,726,895	18,368,021
	Checking deposits	242,919	268,337	202,821
	Securities deposits	232,756	6	6
Indovina Bank	Time deposits	<u>368,619</u>	<u>1,536,338</u>	<u>2,435,945</u>
		<u>\$ 20,285,324</u>	<u>\$ 33,247,196</u>	<u>\$ 23,530,131</u>

d) Loans

Name	For the Nine Months Ended September 30, 2019		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,012,640</u>	1.03%-3.44%	<u>\$ 953,712</u>

Name	For the Nine Months Ended September 30, 2018		
	Maximum	Rate	Ending Balance
Other related party	\$ 944,336	1.03%-3.44%	\$ 814,891

e) Balance of beneficiary certificates purchased from related parties

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company				
Cathy Securities Investment Trust Co., Ltd.	Market value	\$ 45,714,165	\$ -	\$ -
	Cost	\$ 42,784,798	\$ -	\$ -
Cathay Private Equity	Market value	\$ 245,276	\$ -	\$ -
	Cost	\$ 245,425	\$ -	\$ -
Associate				
Global Evolution Holding ApS	Market value	\$ 2,861,244	\$ 2,138,492	\$ -
	Cost	\$ 2,694,249	\$ 2,142,144	\$ -

f) Discretionary account management balance

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Securities Investment Trust Co., Ltd.	\$ 219,887,784	\$ 210,965,710	\$ 257,443,695
Associate			
Global Evolution Holding ApS	7,081,553	6,494,247	6,556,024
	\$ 226,969,337	\$ 217,459,957	\$ 263,999,719

g) Other receivables

Name	September 30, 2019	December 31, 2018	September 30, 2018
The Company			
Cathay Financial Holdings (Note)	\$ 12,934,473	\$ 8,998,563	\$ 3,896,598

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

h) Prepayments for investments

	September 30, 2019	December 31, 2018	September 30, 2018
Associate			
Cathay Insurance Company Limited (China)	\$ -	\$ 1,100,344	\$ -

i) Guarantee deposits paid

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay Futures Co., Ltd.	<u>\$ 3,069,414</u>	<u>\$ 1,511,584</u>	<u>\$ 1,930,649</u>

j) Guarantee deposits received

Name	September 30, 2019	December 31, 2018	September 30, 2018
Other related party			
Ally Logistic Property Co., Ltd.	\$ 151,080	\$ 139,386	\$ 303,386
San Ching Engineering Co., Ltd.	453,225	440,700	443,535
Cathay Hospitality Management Co., Ltd.	235,319	256,883	104,537
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>\$ 946,698</u>	<u>\$ 944,043</u>	<u>\$ 851,458</u>

k) Other payables

Name	September 30, 2019	December 31, 2018	September 30, 2018
The Company			
Cathay Financial Holding Co., Ltd. (Note)	\$ 1,008,000	\$ 65,589	\$ 1,008,000
Subsidiary of the Company			
Cathay United Bank	<u>339,336</u>	<u>89,605</u>	<u>368,730</u>
	<u>\$ 1,347,336</u>	<u>\$ 155,194</u>	<u>\$ 1,376,730</u>

Note: The payables consist of interest expenses accrued from bonds payable.

l) Bonds payable

Name	September 30, 2019	December 31, 2018	September 30, 2018
The Company			
Cathay Financial Holdings	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

m) Premium income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related party				
Others	<u>\$ 143,734</u>	<u>\$ 82,199</u>	<u>\$ 318,642</u>	<u>\$ 216,171</u>

n) Other operating revenue

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Securities Investment Trust	\$ 35,714	\$ 34,263	\$ 102,189	\$ 97,203

o) Other operating costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay United Bank Cathay Securities Investment Trust	\$ 271,561	\$ 251,257	\$ 880,639	\$ 760,119
	46,441	99,908	138,228	303,518
	\$ 318,002	\$ 351,165	\$ 1,018,867	\$ 1,063,637

p) Finance costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
The Company Cathay Financial Holdings	\$ 317,589	\$ 317,589	\$ 942,411	\$ 942,411

Finance costs consist of interest expenses accrued from bond payable.

q) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay United Bank Associate Symphox Information Co., Ltd.	\$ 1,301,858	\$ 1,514,435	\$ 4,821,580	\$ 4,596,133
	56,187	31,076	182,824	178,969
Other related party Lin Yuan Property Management Co., Ltd.	192,688	200,114	577,298	590,312
	\$ 1,550,733	\$ 1,745,625	\$ 5,581,702	\$ 5,365,414

r) Non-operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company				
Cathay United Bank	\$ 36,535	\$ 43,511	\$ 120,352	\$ 136,336
Cathay Century	<u>175,544</u>	<u>156,396</u>	<u>496,909</u>	<u>438,174</u>
	<u>\$ 212,079</u>	<u>\$ 199,907</u>	<u>\$ 617,261</u>	<u>\$ 574,510</u>

Non-operating income is mainly generated from Cathay Life and its subsidiaries' integrated marketing activities.

s) Other

As of September 30, 2019, December 31, 2018 and September 30, 2018, the nominal amounts (in thousands) of the financial instrument transactions between Cathay Life and Cathay United Bank are summarized below:

Items	September 30, 2019	December 31, 2018	September 30, 2018
SWAP	<u>US\$ 3,335,000</u>	<u>US\$ 3,752,000</u>	<u>US\$ 3,237,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans and deposits

Loans

September 30, 2019

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-09.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Self-used housing mortgage loans	246	\$ 9,847,741	\$ 1,726,406	V	\$ -	Real estate and stock	None	\$ 2,530	\$ 22,157
Others	Cathay Real Estate Development Co., Ltd.	2,040,000	250,000	V	-	Real estate	None	(1,500)	2,500

December 31, 2018

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-12.31	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Self-used housing mortgage loans	208	\$ 1,762,016	\$ 1,455,805	V	\$ -	Real estate	None	\$ (1,046)	\$ 18,481
Others	Cathay Real Estate Development Co., Ltd.	400,000	210,000	V	-	Real estate	None	4,000	4,000

September 30, 2018

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-09.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Self-used housing mortgage loans	201	\$ 1,709,997	\$ 1,428,469	V	\$ -	Real estate	None	\$ (784)	\$ 18,812

Deposits

	September 30, 2019	December 31, 2018	September 30, 2018
The Company			
Cathay Financial Holdings	\$ 80,683	\$ 139,920	\$ 379,679
Subsidiary of the Company			
Cathay Life	18,636,931	30,744,095	20,469,169
Cathay Century	1,948,855	2,724,193	2,022,388
Cathay Securities	3,293,071	2,550,090	2,657,821
Cathay Futures	1,385,577	1,345,519	1,300,544
Cathay Venture	52,787	113,380	69,996
Cathay Securities Investment Trust	127,270	149,076	120,453
Cathay Securities Investment			
Consulting	148,340	187,533	141,795
Cathay Life (Vietnam)	662,996	1,809,689	2,441,792
Cathay Insurance (Vietnam)	201,447	147,705	182,761
Lin Yuan	931,624	623,035	547,130
Associate			
Symphox Information Co., Ltd.	161,126	122,139	111,072
New Cathay Power Corp.	42,638	137,979	203,928
Other related parties			
Cathay United Bank Foundation	545,517	541,888	548,107
Cathay Life Insurance Employees' Welfare Committee	2,138,613	2,221,665	2,244,063
Cathay Real Estate Employees' Welfare Committee	406,023	386,529	401,708
Cathay Real Estate Development Co., Ltd.	416,668	199,127	655,076
Fund managed by Cathay Securities Investment Trust	119,151	137,823	66,793
Others	<u>8,849,289</u>	<u>7,457,000</u>	<u>7,765,173</u>
	<u>\$ 40,148,606</u>	<u>\$ 51,738,385</u>	<u>\$ 42,329,448</u>

Items	September 30, 2019	December 31, 2018	September 30, 2018
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Due from commercial banks

Other related parties			
Vietinbank	\$ 5,368,858	\$ 5,309,375	\$ 5,288,469

Due to commercial banks

Other related parties			
Vietinbank	5,423,619	5,360,670	5,292,805

Transactions terms with related parties are similar to those with third parties, expect for the preferential interest rates set by the employees' interest rates on deposits and loans within prescribed limits.

b) Derivatives

September 30, 2019

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life	SWAP - exchange between customers (USD)	2018.12.04-2020.05.12	\$ 103,525,070	\$ 3,414,884	Valuation adjustment for financial assets at FVTPL	\$ 1,179,688
					Valuation adjustment for FVTPL financial liabilities	(237,981)
Cathay Century	SWAP - exchange between customers (USD)	2019.02.12-2020.05.11	2,629,257	80,776	Valuation adjustment for financial assets at FVTPL	38,748
					Valuation adjustment for FVTPL financial liabilities	(1,075)

December 31, 2018

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life	SWAP - exchange between customers (USD)	2018.01.18-2019.12.09	\$ 115,310,216	\$ 3,885,814	Valuation adjustment for financial assets at FVTPL	\$ 1,852,498
					Valuation adjustment for FVTPL financial liabilities	(64,937)
Cathay Century	SWAP - exchange between customers (USD)	2018.05.07-2019.05.28	2,726,017	85,529	Valuation adjustment for financial assets at FVTPL	21,757
					Valuation adjustment for FVTPL financial liabilities	(3,143)

September 30, 2018

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life	SWAP - exchange between customers (USD)	2018.01.18-2019.08.21	\$ 3,237,000	\$ 3,338,332	Valuation adjustment for financial assets at FVTPL	\$ 1,635,612
					Valuation adjustment for FVTPL financial liabilities	(165,927)
Cathay Century	SWAP - exchange between customers (USD)	2018.01.08-2019.05.09	88,700	111,186	Valuation adjustment for financial assets at FVTPL	70,334
					Valuation adjustment for FVTPL financial liabilities	(1,088)

c) Lease agreements

Lease Liabilities

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company			
Cathay Life	\$ <u>1,960,331</u>	\$ <u>-</u>	\$ <u>-</u>

Items	For the Three Months Ended September 30		For the Nine Months Ended September 30		Payment Term
	2019	2018	2019	2018	

Rental expense

Subsidiary of the Company					
Cathay Life	\$ <u>52,801</u>	\$ <u>174,007</u>	\$ <u>156,292</u>	\$ <u>509,207</u>	Monthly

Refundable Deposits Paid

	September 30, 2019	December 31, 2018	Payment Term
Subsidiary of the Company			
Cathay Life	\$ <u>175,220</u>	\$ <u>189,738</u>	\$ <u>187,119</u>

d) Others

Items	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Commissions and handling fees income</u>				
Subsidiary of the Company				
Cathay Life	\$ 1,570,671	\$ 1,765,601	\$ 5,687,772	\$ 5,354,893
Cathay Century	39,459	36,372	113,487	121,100
<u>Commissions and handling fees expense</u>				
Subsidiary of the Company				
Cathay Life	36,778	43,511	120,352	136,336
Associate				
Symphox Information Co., Ltd.	135,381	175,896	410,906	470,289
Other related party				
Seaward Card Co., Ltd.	54,420	53,687	169,433	157,168
<u>Premium paid</u>				
Subsidiary of the Company				
Cathay Century	28,462	27,683	112,432	104,624

Items	September 30, 2019	December 31, 2018	September 30, 2018
<u>Related party receivables for allocation of integrated income tax systems account</u>			
The Company			
Cathay Financial Holding	\$ -	\$ 485,773	\$ -
<u>Related party receivables for insurance commission</u>			
Subsidiary			
Cathay Life	339,336	89,605	368,730
<u>Guarantee deposits paid</u>			
Subsidiary of the Company			
Cathay Venture	119,434	78,095	81,601
<u>Accounts payable</u>			
Associate			
Symphox Information Co., Ltd.	161,701	19,680	97,683
<u>Related party payables for allocation of integrated income tax systems account</u>			
The Company			
Cathay Financial Holding Co., Ltd.	1,532,949	-	848,486

The terms of the foregoing transactions with related parties are similar to those with third parties.

3) Cathay Century and its subsidiaries

a) Trading transactions

Items	Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2019	2018	2019	2018
Net premium income	Subsidiary of the Company	<u>\$ 33,323</u>	<u>\$ 36,480</u>	<u>\$ 211,100</u>	<u>\$ 201,191</u>
Operating costs					
Marketing costs	Subsidiary of the Company Cathay Life	<u>\$ 173,345</u>	<u>\$ 154,583</u>	<u>\$ 489,813</u>	<u>\$ 424,658</u>
Operating expenses					
Integrative marketing costs	Subsidiary of the Company Cathay United Bank	<u>\$ 31,875</u>	<u>\$ 29,652</u>	<u>\$ 91,556</u>	<u>\$ 101,256</u>

b) Payables to related parties

Items	Name	September 30, 2019	December 31, 2018	September 30, 2018
Other payables	The Company Cathay Financial Holdings	<u>\$ 283,025</u>	<u>\$ 64,901</u>	<u>\$ 210,097</u>

c) Cash in bank

Items	Name	September 30, 2019	December 31, 2018	September 30, 2018
Checking deposits and demand deposits	Subsidiary of the Company Cathay United Bank	\$ 1,348,055	\$ 2,100,993	\$ 1,404,188
Time deposits	Subsidiary of the Company Cathay United Bank	600,800	623,200	618,200
	Indovina Bank	<u>184,687</u>	<u>144,687</u>	<u>174,441</u>
		<u>\$ 2,133,542</u>	<u>\$ 2,868,880</u>	<u>\$ 2,196,829</u>

d) Financial assets at FVTPL (beneficiary certificate)

	September 30, 2019	December 31, 2018	September 30, 2018
Other related party	\$ <u>731,233</u>	\$ <u>359,128</u>	\$ <u>351,040</u>

e) Discretionary account management balance

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay Securities Investment Trust	\$ <u>988,750</u>	\$ <u>848,925</u>	\$ <u>910,134</u>

f) Prepayments for investment

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay Insurance Co., Ltd. (China)	\$ <u>-</u>	\$ <u>1,100,050</u>	\$ <u>-</u>

g) Lease agreements

Lease agreements are mainly for offices and parking spaces. Rental expenses are usually paid on a monthly basis.

Items	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Acquisition of right-of-use assets</u>				
Subsidiary of the Company Cathay Life	\$ <u>210,625</u>	\$ <u>-</u>	\$ <u>210,625</u>	\$ <u>-</u>

Items	Name	September 30, 2019	December 31, 2018	September 30, 2018
Lease liabilities	Subsidiary of the Company Cathay Life	\$ <u>202,435</u>	\$ <u>-</u>	\$ <u>-</u>

h) SWAP

The nominal amount of the derivative instruments between Cathay Century and related parties are listed below:

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	US\$ <u>88,700</u>	US\$ <u>88,700</u>	US\$ <u>88,700</u>

4) Cathay Securities and its subsidiaries

a) Cash in bank

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	<u>\$ 3,654,931</u>	<u>\$ 3,836,853</u>	<u>\$ 3,598,088</u>

Cash in bank includes cash and cash equivalents, and receivable for underwriting of securities, pending settlement money and restricted assets recorded under other current assets.

The terms of the foregoing transactions are similar to those unrelated parties.

b) Customer's margin accounts

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	<u>\$ 1,023,717</u>	<u>\$ 910,355</u>	<u>\$ 360,342</u>

c) Futures trader's equity

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay Life	\$ 3,069,414	\$ 1,511,584	\$ 1,930,649
Cathay Securities Investment Trust (Note)	1,466,304	994,480	1,239,649
Other	<u>141,268</u>	<u>99,920</u>	<u>88,425</u>
	<u>\$ 4,676,986</u>	<u>\$ 2,605,984</u>	<u>\$ 3,258,723</u>

Note: The traders include those of investment trusts managed by Cathay Securities Investment Trust.

d) Brokerage Service fee income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Life	<u>\$ 50,463</u>	<u>\$ 33,440</u>	<u>\$ 165,084</u>	<u>\$ 119,017</u>

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	\$ <u>69,822</u>	\$ <u>101,890</u>	\$ <u>74,134</u>

b) Accounts receivables

	September 30, 2019	December 31, 2018	September 30, 2018
Fund managed by Cathay Securities Investment Trust	\$ <u>206,191</u>	\$ <u>154,280</u>	\$ <u>152,251</u>

c) Accounts payables

	September 30, 2019	December 31, 2018	September 30, 2018
Cathay Financial Holdings (Note)	\$ <u>130,175</u>	\$ <u>82,083</u>	\$ <u>44,861</u>

Note: The payables consist of tax payable under the consolidated income tax system.

d) Operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of the Company Cathay Life	\$ 46,441	\$ 99,908	\$ 138,228	\$ 303,518
Other related parties Fund managed by Cathay Securities Investment Trust	<u>616,815</u>	<u>465,587</u>	<u>1,667,725</u>	<u>1,371,105</u>
	<u>\$ 663,256</u>	<u>\$ 565,495</u>	<u>\$ 1,805,953</u>	<u>\$ 1,674,623</u>

6) Cathay Venture

a) Cash and cash equivalents

	Items	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary of the Company Cathay United Bank	Security accounts	\$ <u>57,287</u>	\$ <u>112,359</u>	\$ <u>36,313</u>

b) Financial assets at FVTPL

	September 30, 2019	December 31, 2018	September 30, 2018
Other related party			
Fund managed by Cathay Securities Investment Trust	\$ 539,043	\$ 49,875	\$ 53,825
Cathay Healthcare Management Co., Ltd.	<u>246,758</u>	<u>180,180</u>	<u>179,768</u>
	<u>\$ 785,801</u>	<u>\$ 230,055</u>	<u>\$ 233,593</u>

29. PLEDGED ASSETS

The Group's assets pledged as collaterals or with limited use are summarized below:

Items	Description	September 30, 2019	December 31, 2018	September 30, 2018
Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts, overdraft guarantee, government bonds, collateral for court guarantees, provisions for business and collaterals	\$ 14,939,457	\$ 16,515,144	\$ 21,212,056
Financial assets at FVTPL	Collateral for securities lending and guarantees for future transactions	997,334	1,179,454	1,940,025
Financial assets at FVTOCI	Business reserves and collaterals	6,579	14,353	253,701
Financial assets at amortized cost	Business reserves and collaterals	57,512,824	64,423,052	64,169,571
Investment properties	Short-term loans	<u>290,341</u>	<u>290,341</u>	<u>290,341</u>
		<u>\$ 73,746,535</u>	<u>\$ 82,422,344</u>	<u>\$ 87,865,694</u>

30. COMMITMENTS AND CONTINGENT LIABILITIES

a. Cathay United Bank

Lee & Li, Attorneys-at-Law alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of Cathay United Bank in its operation, and the plaintiffs claimed damages from Cathay United Bank in the amount of approximately \$991,002 thousand. The case has been pending in the court since July 2007, and Cathay United Bank won favorable decisions in both the first and second instances. The proceedings are currently pending in the Supreme Court. Both Cathay United Bank and its attorneys hold that this case have not had a material adverse effect on the financial position of the Bank.

- b. As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay United Bank and its subsidiaries had the following entrusted item and guarantees:

	September 30, 2019	December 31, 2018	September 30, 2018
Trust and security held for safekeeping	\$ 749,654,465	\$ 750,988,804	\$ 756,992,142
Travelers checks for sale	268,980	299,765	327,809
Bills for collection	36,624,560	36,044,907	38,546,180
Book-entry for government bonds and depository for short-term marketable securities under management	406,287,783	400,999,309	417,507,259
Entrusted financial management business	9,560,330	21,016,659	10,843,321
Guarantees on duties and contracts	13,505,393	13,534,956	8,578,417
Unused commercial letters of credit	6,430,586	6,008,561	6,519,104
Irrevocable loan commitments	152,769,575	155,229,226	198,142,756
Unused credit card lines commitments	615,949,979	592,059,512	585,380,466
Underwritten securities	316,628	1,000,000	2,320,000
Financial guarantee contracts	1,881,618	2,511,838	3,185,731

- c. As of September 30, 2019, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,950,900 thousand, US\$2,635,211 thousand, EUR442,744 thousand and GBP1,558 thousand.

31. FINANCIAL STATEMENTS OF CATHAY FINANCIAL HOLDING CO., LTD.

Cathay Financial Holding Co., Ltd.

Balance Sheets
(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019	December 31, 2018	September 30, 2018	LIABILITIES AND EQUITY	September 30, 2019	December 31, 2018	September 30, 2018
CASH AND CASH EQUIVALENTS	\$ 86,281	\$ 445,353	\$ 385,269	COMMERCIAL PAPER PAYABLE, NET	\$ 50,090,000	\$ 59,260,000	\$ 59,940,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	36,400,000	35,444,500	36,302,000	PAYABLES	13,282,516	9,894,697	4,151,852
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	111,146	102,304	95,066	CURRENT TAX LIABILITIES	-	1,719,191	3,071,905
RECEIVABLES, NET	2,996,723	266,902	2,208,306	BONDS PAYABLE	20,000,000	-	-
CURRENT TAX ASSETS	5,415,587	6,428,841	533,606	PROVISIONS	831,144	739,257	941,939
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	761,448,355	548,662,186	631,104,441	LEASE LIABILITIES	69,280	-	-
PROPERTY AND EQUIPMENT, NET	59,635	11,767	11,152	DEFERRED TAX LIABILITIES	266,714	266,714	266,713
RIGHT-OF-USE ASSETS	68,846	-	-	OTHER LIABILITIES	<u>164,100</u>	<u>164,069</u>	<u>164,218</u>
INTANGIBLE ASSETS, NET	-	1,330	2,660	Total liabilities	<u>84,703,754</u>	<u>72,043,928</u>	<u>68,536,627</u>
DEFERRED TAX ASSETS	345,880	352,601	358,575	EQUITY			
OTHER ASSETS	<u>65,707</u>	<u>59,474</u>	<u>46,255</u>	Share capital			
TOTAL	<u>\$ 806,998,160</u>	<u>\$ 591,775,258</u>	<u>\$ 671,047,330</u>	Ordinary shares	125,632,102	125,632,102	125,632,102
				Preference shares	15,333,000	15,333,000	15,333,000
				Capital surplus	161,689,272	165,449,364	165,456,178
				Retained earnings			
				Legal reserve	46,122,845	40,976,121	40,976,121
				Special reserve	221,977,672	149,346,119	149,346,119
				Unappropriated earnings	46,512,387	95,553,376	101,779,154
				Other equity	<u>105,027,128</u>	<u>(72,558,752)</u>	<u>3,988,029</u>
				Total equity	<u>722,294,406</u>	<u>519,731,330</u>	<u>602,510,703</u>
				TOTAL	<u>\$ 806,998,160</u>	<u>\$ 591,775,258</u>	<u>\$ 671,047,330</u>

Cathay Financial Holding Co., Ltd.

Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
REVENUE				
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 17,199,947	\$ 18,408,323	\$ 50,545,805	\$ 55,198,532
Other operating income	<u>1,006,153</u>	<u>806,140</u>	<u>1,922,891</u>	<u>2,358,628</u>
Total revenue	<u>18,206,100</u>	<u>19,214,463</u>	<u>52,468,696</u>	<u>57,557,160</u>
EXPENSES AND LOSSES				
Operating expenses	(364,634)	(285,334)	(907,836)	(816,046)
Other expenses and losses	<u>(165,036)</u>	<u>(92,470)</u>	<u>(353,421)</u>	<u>(206,564)</u>
Total expenses and losses	<u>(529,670)</u>	<u>(377,804)</u>	<u>(1,261,257)</u>	<u>(1,022,610)</u>
INCOME BEFORE TAX	17,676,430	18,836,659	51,207,439	56,534,550
INCOME TAX BENEFIT (EXPENSE)	<u>51,719</u>	<u>(463,774)</u>	<u>(39,521)</u>	<u>(2,178,442)</u>
NET INCOME	<u>17,728,149</u>	<u>18,372,885</u>	<u>51,167,918</u>	<u>54,356,108</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Gain on equity instruments at fair value through other comprehensive income	22	295	8,842	3,930
Share of other comprehensive income (loss) of associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	(4,232,190)	2,229,174	4,192,857	1,461,017
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	1,001
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income (loss) of associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	<u>20,226,216</u>	<u>(8,586,133)</u>	<u>168,697,294</u>	<u>(96,916,963)</u>
Other comprehensive income (loss) for the period, net of income tax	<u>15,994,048</u>	<u>(6,356,664)</u>	<u>172,898,993</u>	<u>(95,451,015)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 33,722,197</u>	<u>\$ 12,016,221</u>	<u>\$ 224,066,911</u>	<u>\$ (41,094,907)</u>
EARNINGS PER SHARE				
Basic	<u>\$1.41</u>	<u>\$1.47</u>	<u>\$3.86</u>	<u>\$4.18</u>

Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Other Equity														Total Equity
	Share Capital			Retained Earnings			Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss	Remeasurement Using the Overlay Benefit Plans	Gains on Property Revaluation	Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach	
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings									
BALANCE AT JANUARY 1, 2018	\$ 125,632,102	\$ 8,333,000	\$ 130,452,105	\$ 35,339,841	\$ 149,106,971	\$ 99,296,739	\$ (10,823,242)	\$ -	\$ 53,789,800	\$ 203,647	\$ (1,191,027)	\$ (1,449,679)	\$ 10,376,814	\$ -	\$ 599,067,071
Effect of retrospective application and retrospective restatement	-	-	-	-	-	(3,653,038)	-	37,343,476	(53,789,800)	-	-	-	-	55,941,777	35,842,415
BALANCE, AT JANUARY 1, 2018 AS RESTATED	125,632,102	8,333,000	130,452,105	35,339,841	149,106,971	95,643,701	(10,823,242)	37,343,476	-	203,647	(1,191,027)	(1,449,679)	10,376,814	55,941,777	634,909,486
Appropriation of 2017 earnings															
Legal reserve	-	-	-	5,636,280	-	(5,636,280)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	234,146	(234,146)	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(31,408,025)	-	-	-	-	-	-	-	-	(31,408,025)
Cash dividends on preference shares	-	-	-	-	-	(1,899,924)	-	-	-	-	-	-	-	-	(1,899,924)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	1,748	-	-	-	-	-	-	-	-	-	-	-	1,748
Net income for the nine months ended September 30, 2018	-	-	-	-	-	54,356,108	-	-	-	-	-	-	-	-	54,356,108
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	-	(1,842,695)	(54,596,371)	-	(42,514)	757,153	44,049	46,241	(39,816,878)	(95,451,015)
Total comprehensive income (loss) for nine months ended September 30, 2018	-	-	-	-	-	54,356,108	(1,842,695)	(54,596,371)	-	(42,514)	757,153	44,049	46,241	(39,816,878)	(41,094,907)
Issuance of preference shares	-	7,000,000	35,000,000	-	-	-	-	-	-	-	-	-	-	-	42,000,000
Share-based payment transactions	-	-	2,325	-	-	-	-	-	-	-	-	-	-	-	2,325
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(9,092,422)	-	9,092,422	-	-	-	-	-	-	-
Other	-	-	-	-	5,002	50,142	-	-	-	-	-	-	(55,144)	-	-
BALANCE AT SEPTEMBER 30, 2018	\$ 125,632,102	\$ 15,333,000	\$ 165,456,178	\$ 40,976,121	\$ 149,346,119	\$ 101,779,154	\$ (12,665,937)	\$ (8,160,473)	\$ -	\$ 161,133	\$ (433,874)	\$ (1,405,630)	\$ 10,367,911	\$ 16,124,899	\$ 602,510,703
BALANCE AT JANUARY 1, 2019	\$ 125,632,102	\$ 15,333,000	\$ 165,449,364	\$ 40,976,121	\$ 149,346,119	\$ 95,553,376	\$ (12,149,871)	\$ (17,586,946)	\$ -	\$ 173,289	\$ 774,084	\$ (1,321,138)	\$ 10,367,911	\$ (52,816,081)	\$ 519,731,330
Appropriation of 2018 earnings															
Legal reserve	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	-	(15,075,852)
Cash dividends on preference shares	-	-	-	-	-	(2,667,891)	-	-	-	-	-	-	-	-	(2,667,891)
Issuance of cash dividends from capital surplus	-	-	(3,768,963)	-	-	-	-	-	-	-	-	-	-	-	(3,768,963)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	8,871	-	-	-	-	-	-	-	-	-	-	-	8,871
Net income for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	-	-	-	-	-	-	-	-	51,167,918
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(505,463)	83,843,745	-	68,796	(2,584,839)	(3,823)	872,403	91,208,174	172,898,993
Total comprehensive income (loss) for nine months ended September 30, 2019	-	-	-	-	-	51,167,918	(505,463)	83,843,745	-	68,796	(2,584,839)	(3,823)	872,403	91,208,174	224,066,911
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(4,686,887)	-	4,686,887	-	-	-	-	-	-	-
BALANCE AT SEPTEMBER 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,272	\$ 46,122,845	\$ 221,977,672	\$ 46,512,387	\$ (12,655,334)	\$ 70,943,686	\$ -	\$ 242,085	\$ (1,810,755)	\$ (1,324,961)	\$ 11,240,314	\$ 38,392,093	\$ 722,294,406

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 51,207,439	\$ 56,534,550
Adjustments for:		
Depreciation expenses	47,404	1,954
Amortization expenses	1,330	3,989
Gain on of financial assets and liabilities at fair value through profit or loss	(955,500)	(1,326,500)
Interest income	(943,732)	(1,004,015)
Interest expenses	325,376	179,281
Share of gain of associates accounted for using the equity method	(50,545,805)	(55,198,532)
Loss on disposal of property and equipment	-	88
Reversal of impairment loss on financial assets	-	(2,888)
Unrealized foreign exchange gain	-	(2,474)
Others	-	2,325
Changes in operating assets and liabilities		
Other assets	(349)	(161)
Payables	(77,393)	12,122
Provisions	8,576	8,473
Other liabilities	31	416
Cash used in operations	(932,623)	(791,372)
Interest received	1,403	173,392
Interest paid	(235,697)	(193,577)
Income tax refunded	944,214	-
Income taxes paid	-	(1,424,707)
Net cash used in operating activities	(222,703)	(2,236,264)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets measured at amortized costs	-	6,000,000
Acquisition of investments accounted for using the equity method	-	(42,000,000)
Acquisition of property and equipment	(52,030)	(1,947)
Increase in other assets	(17,483)	-
Dividends received	10,658,658	11,716,278
Net cash flows generated from (used in) investing activities	10,589,145	(24,285,669)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in commercial paper payable	(9,170,000)	17,000,000
Proceeds from issuance of bonds	20,000,000	-
Repayments of the principal portion of lease liabilities	(42,808)	-
Issuance of ordinary shares for cash	-	42,000,000
Dividends paid	(21,512,706)	(33,307,949)
Net cash flows (used in) generated from financing activities	(10,725,514)	25,692,051
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	-	2,474
NET DECREASE IN CASH AND CASH EQUIVALENTS	(359,072)	(827,408)
CASH AND CASH EQUIVALENTS AT THE BEGINNINGS OF THE PERIOD	445,353	1,212,677
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 86,281	\$ 385,269

32. INFORMATION OF THE COMPANY'S SUBSIDIARIES

a. Condensed balance sheets and condensed statements of comprehensive income

Cathay Life Insurance Co., Ltd.

Condensed Balance Sheets (In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Cash and cash equivalents	\$ 297,594,452	\$ 180,819,497
Receivables	77,044,160	67,933,033
Financial assets at fair value through profit or loss	1,223,234,622	1,083,292,456
Financial assets at fair value through other comprehensive income	900,416,397	971,903,909
Financial assets measured at amortized cost	2,597,102,878	2,226,200,859
Financial assets for hedging	702,253	201,416
Investments accounted for using the equity method	102,290,982	96,491,287
Other financial assets	-	3,499,368
Investment property	449,224,626	424,750,656
Loans	538,497,879	604,145,333
Reinsurance assets	1,289,576	1,307,271
Property and equipment	29,676,768	29,901,777
Right-of-use assets	507,113	-
Intangible assets	32,002,637	34,080,147
Deferred tax assets	23,698,355	32,956,202
Other assets	32,506,821	37,194,054
Separate account insurance product assets	<u>592,507,977</u>	<u>584,775,144</u>
Total	<u>\$ 6,898,297,496</u>	<u>\$ 6,379,452,409</u>
Liabilities		
Payables	\$ 34,345,649	\$ 21,289,940
Current tax liabilities	261,305	-
Financial liabilities at fair value through profit or loss	19,584,896	34,994,991
Bonds payable	80,000,000	70,000,000
Insurance liabilities	5,526,784,720	5,168,572,452
Reserve for insurance contracts with the nature of financial products	991,917	873,143
Reserve for foreign exchange valuation	22,385,769	15,385,068
Provisions	56,245	56,245
Lease liabilities	9,380,387	-
Deferred tax liabilities	49,398,676	31,508,336
Other liabilities	7,421,034	7,977,179
Separate account insurance product liabilities	<u>592,507,977</u>	<u>584,775,144</u>
Total liabilities	<u>6,343,118,575</u>	<u>5,935,432,498</u>
Equity		
Ordinary shares	57,265,274	57,265,274
Capital surplus	51,544,796	51,542,739
Retained earnings	356,739,053	340,550,012
Other equity	<u>89,629,798</u>	<u>(5,338,114)</u>
Total equity	<u>555,178,921</u>	<u>444,019,911</u>
Total	<u>\$ 6,898,297,496</u>	<u>\$ 6,379,452,409</u>

Cathay Life Insurance Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended	
	September 30	
	2019	2018
Operating revenue	\$ 656,500,313	\$ 597,288,535
Operating costs	(605,585,807)	(547,929,578)
Operating expenses	<u>(16,639,800)</u>	<u>(15,896,352)</u>
Operating income	34,274,706	33,462,605
Non-operating income and expenses	<u>1,147,306</u>	<u>1,065,201</u>
Profit before income tax	35,422,012	34,527,806
Income tax (expense) benefit	<u>(5,329,230)</u>	<u>1,644,713</u>
Net income	30,092,782	36,172,519
Other comprehensive income (loss)	<u>168,484,559</u>	<u>(92,370,260)</u>
Total comprehensive income (loss)	<u>\$ 198,577,341</u>	<u>\$ (56,197,741)</u>
Basic earnings per share	<u>\$5.25</u>	<u>\$6.63</u>

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 1,245,565	\$ 852,036
Receivables	793,755	867,899
Financial assets at fair value through profit or loss	36,253,870	26,367,520
Financial assets measured at amortized cost	130,803	1,947,627
Loans	736,625	345,805
Reinsurance assets	52,991	30,840
Property and equipment	116,284	108,555
Right-of-use assets	315,234	-
Intangible assets	33,139	31,463
Other assets	2,669,282	2,986,397
Separate account insurance product assets	<u>114,952</u>	<u>122,316</u>
Total	\$ 42,462,500	\$ 33,660,458
Liabilities		
Payables	\$ 1,392,449	\$ 1,642,194
Current tax liabilities	42,418	273,610
Insurance liabilities	20,223,453	13,860,467
Reserve for insurance contracts with the nature of financial instruments	9,522,409	8,213,560
Lease liabilities	316,851	-
Other liabilities	42,591	44,002
Separate account insurance product liabilities	<u>114,952</u>	<u>122,316</u>
Total liabilities	31,655,123	24,156,149
Equity		
Ordinary shares	13,497,155	13,497,155
Retained earnings	(2,777,810)	(3,533,827)
Other equity	<u>88,032</u>	<u>(459,019)</u>
Total equity	10,807,377	9,504,309
Total	\$ 42,462,500	\$ 33,660,458

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended	
	September 30	
	2019	2018
Operating revenue	\$ 10,356,411	\$ 8,890,870
Operating costs	(8,316,723)	(7,266,185)
Operating expenses	(1,421,760)	(1,300,867)
Operating income	617,928	323,818
Non-operating income and expenses	45,414	(262)
Profit before income tax	663,342	323,556
Income tax benefit (expense)	61,807	(334,741)
Net income (loss)	725,149	(11,185)
Other comprehensive income (loss)	299,531	(471,604)
Total comprehensive income (loss)	\$ 1,024,680	\$ (482,789)
Basic earnings per share	Note	Note

Note: Cathay Lujiazui Life is a limited company; there is no information about its earning per share.

Cathay Life Insurance Company (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Cash and cash equivalents	\$ 1,113,887	\$ 3,866,310
Receivables	559,623	355,610
Financial assets at fair value through profit or loss	12,389,317	7,720,792
Financial assets measured at amortized cost	239,502	478,805
Loans	59,576	38,711
Property and equipment	28,085	11,432
Right-of-use assets	123,798	-
Intangible assets	4,409	238
Other assets	81,108	79,330
Total	\$ 14,599,305	\$ 12,551,228
Liabilities		
Payables	\$ 184,972	\$ 96,984
Insurance liabilities	4,015,335	3,144,174
Lease liabilities	122,977	-
Other liabilities	96	223
Total liabilities	4,323,380	3,241,381
Equity		
Ordinary shares	9,090,730	9,090,730
Retained earnings	240,348	(48,672)
Other equity	944,847	267,789
Total equity	10,275,925	9,309,847
Total	\$ 14,599,305	\$ 12,551,228

Cathay Life Insurance Company (Vietnam)

**Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)**

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 1,647,338	\$ 1,151,495
Operating costs	(1,013,476)	(1,320,100)
Operating expenses	(520,048)	(360,299)
Operating income (loss)	113,814	(528,904)
Non-operating income and expenses	2,040	2,803
Profit (loss) before income tax	115,854	(526,101)
Income tax expense	-	(1,013)
Net income (loss)	115,854	(527,114)
Other comprehensive income	594,821	191,602
 Total comprehensive income (loss)	 \$ 710,675	 \$ (335,512)
 Basic earnings per share	 Note	 Note

Note: Cathay Life (Vietnam) is a limited company; therefore, there is no information about its earnings per share.

Lin Yuan (Shanghai) Real Estate Co., Ltd.

**Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)**

	<u>September 30</u>	
	2019	2018
Assets		
Current assets	\$ 1,230,539	\$ 998,086
Investment property	7,054,642	7,014,568
Property and equipment	<u>2</u>	<u>5</u>
Total	<u>\$ 8,285,183</u>	<u>\$ 8,012,659</u>
Liabilities		
Current liabilities	\$ 1,074	\$ 1,183
Deferred tax liabilities	449,538	369,799
Other liabilities	<u>86,331</u>	<u>84,357</u>
Total liabilities	<u>536,943</u>	<u>455,339</u>
Equity		
Ordinary shares	7,223,435	7,223,435
Retained earnings	1,109,873	771,587
Other equity	<u>(585,068)</u>	<u>(437,702)</u>
Total equity	<u>7,748,240</u>	<u>7,557,320</u>
Total	<u>\$ 8,285,183</u>	<u>\$ 8,012,659</u>

Lin Yuan (Shanghai) Real Estate Co., Ltd.

**Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)**

	<u>For the Nine Months Ended September 30</u>	
	2019	2018
Operating revenue	\$ 294,067	\$ 216,715
Operating expenses	<u>(22,500)</u>	<u>(24,304)</u>
Operating income	271,567	192,411
Non-operating income and expenses	<u>(13)</u>	<u>(62)</u>
Profit before income tax	271,554	192,349
Income tax expense	<u>(51,953)</u>	<u>(35,353)</u>
Net income	219,601	156,996
Other comprehensive loss	<u>(208,707)</u>	<u>(127,532)</u>
Total comprehensive income	<u>\$ 10,894</u>	<u>\$ 29,464</u>
Basic earnings per share	Note	Note

Note: Lin Yuan is a limited company; therefore, there is no information about its earnings per share.

Cathay Woolgate Exchange Holding 1 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Current assets	\$ 2,749,955	\$ 2,316,733
Investment property	<u>10,422,930</u>	<u>11,329,216</u>
Total	<u>\$ 13,172,885</u>	<u>\$ 13,645,949</u>
 Liabilities		
Current liabilities	\$ 70,848	\$ 78,758
Total liabilities	<u>70,848</u>	<u>78,758</u>
 Equity		
Ordinary shares	16,654,013	16,654,013
Retained earnings	885,890	743,333
Other equity	<u>(4,437,866)</u>	<u>(3,830,155)</u>
Total equity	<u>13,102,037</u>	<u>13,567,191</u>
Total	<u>\$ 13,172,885</u>	<u>\$ 13,645,949</u>

Cathay Woolgate Exchange Holding 1 Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 509,601	\$ (66,798)
Operating expenses	<u>(529)</u>	<u>(580)</u>
Operating revenue (expenses)	509,072	(67,378)
Income tax expense	<u>(118,586)</u>	<u>(89,814)</u>
Net income (loss)	390,486	(157,192)
Other comprehensive loss	<u>(273,720)</u>	<u>(101,736)</u>
Total comprehensive income (loss)	<u>\$ 116,766</u>	<u>\$ (258,928)</u>
Basic earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company; therefore, there is no information about its earnings per share.

Cathay Woolgate Exchange Holding 2 Limited

**Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)**

	September 30	
	2019	2018
Assets		
Current assets	\$ 27,317	\$ 23,433
Investment property	<u>105,282</u>	<u>114,436</u>
Total	<u>\$ 132,599</u>	<u>\$ 137,869</u>
 Liabilities		
Current liabilities	\$ 784	\$ 742
Total liabilities	<u>784</u>	<u>742</u>
 Equity		
Ordinary shares	168,222	168,222
Retained earnings	8,416	7,610
Other equity	<u>(44,823)</u>	<u>(38,705)</u>
Total equity	<u>131,815</u>	<u>137,127</u>
Total	<u>\$ 132,599</u>	<u>\$ 137,869</u>

Cathay Woolgate Exchange Holding 2 Limited

**Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)**

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 5,135	\$ (677)
Operating expenses	<u>(529)</u>	<u>(581)</u>
Operating revenue (expenses)	4,606	(1,258)
Income tax expense	<u>(1,184)</u>	<u>(755)</u>
Net income (loss)	3,422	(2,013)
Other comprehensive loss	<u>(2,745)</u>	<u>(1,026)</u>
Total comprehensive income (loss)	<u>\$ 677</u>	<u>\$ (3,039)</u>
Basic earnings per share	Note	Note

Note: Cathay Woolgate Exchange Holding 2 Limited is a limited company; therefore, there is no information about its earnings per share.

Cathay Walbrook Holding 1 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Current assets	\$ 939,843	\$ 646,267
Investment property	<u>20,330,272</u>	<u>21,664,116</u>
Total	<u>\$ 21,270,115</u>	<u>\$ 22,310,383</u>
Liabilities		
Current liabilities	\$ 142,254	\$ 80,558
Non-current liabilities	<u>12,493,699</u>	<u>13,078,109</u>
Total liabilities	<u>12,635,953</u>	<u>13,158,667</u>
Equity		
Ordinary shares	10,189,090	10,189,090
Retained earnings	542,067	657,713
Other equity	<u>(2,096,995)</u>	<u>(1,695,087)</u>
Total equity	<u>8,634,162</u>	<u>9,151,716</u>
Total	<u>\$ 21,270,115</u>	<u>\$ 22,310,383</u>

Cathay Walbrook Holding 1 Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended	
	September 30	
	2019	2018
Operating revenue	\$ 498,786	\$ 213,424
Operating costs	(366,053)	(350,845)
Operating expenses	<u>(830)</u>	<u>(1,348)</u>
Profit (loss) before income tax	131,903	(138,769)
Income tax expense	<u>(49,676)</u>	<u>(10,688)</u>
Net income (loss)	82,227	(149,457)
Other comprehensive loss	<u>(177,486)</u>	<u>(68,443)</u>
Total comprehensive loss	<u>\$ (95,259)</u>	<u>\$ (217,900)</u>
Basic earnings per share	Note	Note

Note: Cathay Walbrook Holding 1 Limited is a limited company; therefore, there is no information about its earnings per share.

Cathay Walbrook Holding 2 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Current assets	\$ 46,323	\$ 31,281
Investment property	<u>1,070,014</u>	<u>1,140,217</u>
Total	<u>\$ 1,116,337</u>	<u>\$ 1,171,498</u>
Liabilities		
Current liabilities	\$ 7,338	\$ 4,130
Non-current liabilities	<u>657,563</u>	<u>688,322</u>
Total liabilities	<u>664,901</u>	<u>692,452</u>
Equity		
Ordinary shares	536,268	536,268
Retained earnings	25,188	31,779
Other equity	<u>(110,020)</u>	<u>(89,001)</u>
Total equity	<u>451,436</u>	<u>479,046</u>
Total	<u>\$ 1,116,337</u>	<u>\$ 1,171,498</u>

Cathay Walbrook Holding 2 Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended	
	September 30	
	2019	2018
Operating revenue	\$ 26,231	\$ 11,232
Operating costs	(19,266)	(18,465)
Operating expenses	<u>(555)</u>	<u>(823)</u>
Profit (loss) before income tax	6,410	(8,056)
Income tax expense	<u>(2,508)</u>	<u>(412)</u>
Net income (loss)	3,902	(8,468)
Other comprehensive loss	<u>(9,274)</u>	<u>(3,578)</u>
Total comprehensive loss	<u>\$ (5,372)</u>	<u>\$ (12,046)</u>
Basic earnings per share	Note	Note

Note: Cathay Walbrook Holding 2 Limited is a limited company; therefore, there is no information about its earnings per share.

Conning Holdings Limited
Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Current assets	\$ 4,904,961	\$ 4,783,010
Financial assets at fair value through profit or loss	1,145,633	578,676
Financial assets at fair value through other comprehensive income	4,546	3,620
Investments accounted for using the equity method	2,829,896	2,689,511
Property and equipment	668,964	530,839
Right-of-use assets	852,633	-
Intangible assets	10,245,571	10,503,508
Deferred tax assets	100,938	96,793
Other non-current assets	217,639	225,857
Total	\$ 20,970,781	\$ 19,411,814
Liabilities		
Current liabilities	\$ 3,335,929	\$ 3,034,481
Provisions	161,418	168,031
Lease liabilities	903,807	-
Deferred tax liabilities	400,371	389,978
Other non-current liabilities	387,389	394,498
Total liabilities	5,188,914	3,986,988
Equity		
Ordinary shares	99,343	99,343
Capital surplus	15,624,196	15,624,196
Retained earnings	462,514	201,534
Other equity	(946,077)	(1,126,701)
Non-controlling interests	541,891	626,454
Total equity	15,781,867	15,424,826
Total	\$ 20,970,781	\$ 19,411,814

Conning Holdings Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 5,444,928	\$ 4,731,555
Operating costs	(637,578)	(526,014)
Operating expenses	<u>(4,228,587)</u>	<u>(3,955,736)</u>
Profit before income tax	578,763	249,805
Income tax expense	<u>(145,626)</u>	<u>(85,983)</u>
Net income	433,137	163,822
Other comprehensive income	<u>110,814</u>	<u>327,041</u>
Total comprehensive income	<u>\$ 543,951</u>	<u>\$ 490,863</u>
Basic earnings per share	Note	Note

Note: CHL is a limited company; therefore, there is no information about its earnings per share.

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 10,317,680	\$ 8,733,902
Receivables	2,627,613	2,245,640
Financial assets at fair value through profit or loss	8,163,375	7,252,405
Financial assets at fair value through other comprehensive income	1,202,755	1,431,800
Financial assets measured at amortized cost	7,841,729	8,440,127
Investments accounted for using the equity method	2,743,865	1,669,049
Loans	230,265	228,586
Reinsurance assets	6,046,454	5,981,962
Property and equipment	152,145	59,423
Right-of-use assets	231,673	-
Intangible assets	60,116	54,293
Deferred tax assets	115,943	154,495
Other assets	<u>641,956</u>	<u>656,062</u>
Total	<u>\$ 40,375,569</u>	<u>\$ 36,907,744</u>
Liabilities		
Payables	\$ 2,614,014	\$ 2,281,088
Financial liabilities at fair value through profit or loss	53,369	111,773
Lease liabilities	231,674	-
Insurance liabilities	23,915,153	23,131,872
Provisions	439,051	427,118
Deferred tax liabilities	288,156	289,023
Other liabilities	<u>887,779</u>	<u>441,692</u>
Total liabilities	<u>28,429,196</u>	<u>26,682,566</u>
Equity		
Ordinary shares	3,057,052	3,057,052
Capital surplus	502,500	502,500
Retained earnings	8,814,737	7,346,453
Other equity	<u>(427,916)</u>	<u>(680,827)</u>
Total equity	<u>11,946,373</u>	<u>10,225,178</u>
Total	<u>\$ 40,375,569</u>	<u>\$ 36,907,744</u>

Cathay Century Insurance Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 14,926,364	\$ 13,981,543
Operating costs	(10,100,146)	(9,367,663)
Operating expenses	(2,863,490)	(2,715,827)
Operating profit	1,962,728	1,898,053
Non-operating income and expenses	(1,233)	(10,871)
Profit before income tax	1,961,495	1,887,182
Income tax expense	(313,771)	(309,064)
Net income	1,647,724	1,578,118
Other comprehensive income (loss)	384,731	(527,618)
 Total comprehensive income	 \$ 2,032,455	 \$ 1,050,500
 Basic earnings per share	 \$5.39	 \$5.16

Cathay Insurance Co., Ltd. (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 218,357	\$ 171,611
Receivables	63,820	68,323
Financial assets measured at amortized cost	514,211	496,743
Reinsurance assets	156,112	318,837
Property and equipment	5,790	7,118
Right-of-use assets	7,555	-
Intangible assets	3,438	564
Other assets	45,395	45,400
Total	\$ 1,014,678	\$ 1,108,596
Liabilities		
Payables	\$ 94,338	\$ 81,400
Insurance liabilities	267,178	428,867
Lease liabilities	7,568	-
Deferred tax liabilities	135	106
Other liabilities	13,659	10,952
Total liabilities	382,878	521,325
Equity		
Ordinary shares	845,585	845,585
Retained earnings	(85,340)	(117,090)
Other equity	(128,445)	(141,224)
Total equity	631,800	587,271
Total	\$ 1,014,678	\$ 1,108,596

Cathay Insurance Co., Ltd. (Vietnam)

**Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)**

	For the Nine Months Ended September 30	
	2019	2018
Operating income	\$ 189,796	\$ 161,187
Operating costs	(62,812)	(59,226)
Operating expenses	<u>(115,814)</u>	<u>(104,429)</u>
Operating profit (loss)	11,170	(2,468)
Non-operating income and expenses	<u>873</u>	<u>1,975</u>
Profit (loss) before income tax	12,043	(493)
Income tax expense	<u>-</u>	<u>-</u>
Net income (loss)	12,043	(493)
Other comprehensive income (loss)	<u>5,933</u>	<u>(1,794)</u>
 Total comprehensive income (loss)	 <u>\$ 17,976</u>	 <u>\$ (2,287)</u>
 Basic earnings per share	 Note	 Note

Note: Cathay Insurance (Vietnam) is a limited company; therefore, there is no information about its earnings per share.

Cathay United Bank Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 69,172,698	\$ 73,490,826
Due from the Central Bank and call loans to other banks	108,543,745	124,246,298
Financial assets at fair value through profit or loss	287,774,478	271,878,099
Financial assets at fair value through other comprehensive income	267,402,802	186,608,040
Financial assets measured at amortized cost	406,188,338	323,158,899
Securities purchased under resale agreements	37,370,170	86,647,173
Receivables	125,550,630	82,897,261
Loans	1,490,331,343	1,515,799,129
Investments accounted for using the equity method	25,362,897	24,617,510
Other financial assets	37	1,044
Property and equipment	24,441,244	24,830,964
Right-of-use assets	3,746,526	-
Investment property	1,657,086	1,461,472
Intangible assets	7,583,778	7,328,718
Deferred tax assets	4,580,356	2,023,442
Other assets	<u>40,210,146</u>	<u>32,187,606</u>
Total	<u>\$ 2,899,916,274</u>	<u>\$ 2,757,176,481</u>
Liabilities		
Due to the Central Bank and other banks	\$ 95,295,867	\$ 74,222,631
Financial liabilities at fair value through profit or loss	117,136,096	109,047,775
Securities sold under repurchase agreements	22,142,666	62,055,662
Payables	70,495,457	26,922,426
Current tax liabilities	392,089	20,305
Deposits and remittances	2,244,140,430	2,142,334,782
Financial debentures payable	53,900,000	55,600,000
Other financial liabilities	64,692,261	76,491,161
Provisions	3,342,323	3,321,199
Lease liabilities	3,783,625	-
Deferred tax liabilities	3,264,065	1,883,888
Other liabilities	<u>7,805,420</u>	<u>8,064,345</u>
Total liabilities	<u>2,686,390,299</u>	<u>2,559,964,174</u>
Equity		
Ordinary shares	96,658,353	91,197,623
Capital surplus	33,610,983	33,610,983
Retained earnings	78,437,707	72,617,502
Other equity	<u>4,818,932</u>	<u>(213,801)</u>
Total equity	<u>213,525,975</u>	<u>197,212,307</u>
Total	<u>\$ 2,899,916,274</u>	<u>\$ 2,757,176,481</u>

Cathay United Bank Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Interest income	\$ 38,643,750	\$ 36,532,063
Interest expense	<u>(14,239,178)</u>	<u>(13,611,328)</u>
Net interest income	24,404,572	22,920,735
Non-interest income	<u>22,113,382</u>	<u>22,234,819</u>
Total income	46,517,954	45,155,554
Provision for bad debt, commitments and guaranteed liability reserve	(1,464,382)	(1,679,248)
Operating expenses	<u>(23,657,459)</u>	<u>(22,409,052)</u>
Profit before income tax	21,396,113	21,067,254
Income tax expense	<u>(2,782,000)</u>	<u>(2,817,000)</u>
Net income	18,614,113	18,250,254
Other comprehensive income (loss)	<u>3,146,316</u>	<u>(2,700,367)</u>
 Total comprehensive income	 <u>\$ 21,760,429</u>	 <u>\$ 15,549,887</u>
 Basic earnings per share	 <u>\$1.93</u>	 <u>\$1.89</u>

Indovina Bank Limited
Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Cash and cash equivalents	\$ 6,234,811	\$ 5,841,354
Due from the Central Bank and call loans to other banks	3,716,527	5,542,389
Financial assets at fair value through profit or loss	5,476,112	2,197,696
Financial assets at fair value through other comprehensive income	10,367,413	8,287,254
Financial assets measured at amortized cost	684,898	2,056,761
Securities purchased under resale agreements	4,272,727	4,137,515
Receivables	694,912	146,169
Loans	39,379,183	31,172,678
Property and equipment	821,350	370,157
Right-of-use assets	81,664	-
Intangible assets	23,325	11,970
Deferred tax assets	24,965	28,981
Other assets	<u>50,868</u>	<u>522,207</u>
Total	<u>\$ 71,828,755</u>	<u>\$ 60,315,131</u>
 Liabilities		
Due to the Central Bank and other banks	\$ 17,748,091	\$ 11,279,618
Payables	1,821,956	661,869
Current tax liabilities	232,784	45,345
Deposits and remittances	43,747,716	40,646,676
Provisions	3,532	19,681
Lease liabilities	59,202	-
Other liabilities	<u>37,633</u>	<u>51,798</u>
Total liabilities	<u>63,650,914</u>	<u>52,704,987</u>
 Equity		
Ordinary shares	6,094,911	6,094,911
Retained earnings	1,900,404	1,511,714
Other equity	<u>182,526</u>	<u>3,519</u>
Total equity	<u>8,177,841</u>	<u>7,610,144</u>
Total	<u>\$ 71,828,755</u>	<u>\$ 60,315,131</u>

Indovina Bank Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
Interest income	\$ 3,237,871	\$ 2,611,302
Interest expense	<u>(1,806,024)</u>	<u>(1,373,783)</u>
Net interest income	1,431,847	1,237,519
Non-interest income	<u>431,379</u>	<u>255,612</u>
Total income	<u>1,863,226</u>	<u>1,493,131</u>
Provision for bad debt, commitments and guaranteed liability reserve	(83,364)	(565,753)
Operating expenses	<u>(547,118)</u>	<u>(441,092)</u>
Profit before income tax	1,232,744	486,286
Income tax expense	<u>(217,477)</u>	<u>(180,500)</u>
Net income	1,015,267	305,786
Other comprehensive (loss) income	<u>(133,560)</u>	<u>179,265</u>
Total comprehensive income	<u>\$ 881,707</u>	<u>\$ 485,051</u>
Basic earnings per share	Note	Note

Note: Indovina Bank is a limited company; therefore, there is no information about its earnings per share.

Cathay United Bank (Cambodia) Corporation Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 1,128,346	\$ 3,797,720
Due from the Central Bank and call loans to other banks	2,210,768	1,935,384
Financial assets at fair value through other comprehensive income	794	782
Receivables	64,866	130,753
Current tax assets	7,812	-
Loans	7,634,709	6,132,522
Property and equipment	172,544	159,237
Right-of-use assets	82,532	-
Intangible assets	57,925	62,960
Other assets	52,991	55,281
Total	\$ 11,413,287	\$ 12,274,639
Liabilities		
Due to the Central Bank and other banks	\$ 1,034,066	\$ -
Payables	106,830	136,646
Current tax liabilities	48,992	34,449
Deposits and remittances	6,871,934	8,852,061
Provisions	7,044	-
Lease liabilities	83,856	-
Deferred tax liabilities	7,647	9,843
Other liabilities	12,002	19,107
Total liabilities	8,172,371	9,052,106
Equity		
Ordinary shares	3,020,769	3,020,769
Retained earnings	147,611	179,943
Other equity	72,536	21,821
Total equity	3,240,916	3,222,533
Total	\$ 11,413,287	\$ 12,274,639

Cathay United Bank (Cambodia) Corporation Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Interest income	\$ 495,589	\$ 424,822
Interest expense	<u>(80,684)</u>	<u>(77,432)</u>
Net interest income	414,905	347,390
Non-interest income	<u>69,529</u>	<u>70,857</u>
Total income	<u>484,434</u>	<u>418,247</u>
Provision for bad debt, commitments and guaranteed liability reserve	(58,416)	(55,609)
Operating expenses	<u>(247,363)</u>	<u>(212,267)</u>
Profit before income tax	178,655	150,371
Income tax expense	<u>(42,547)</u>	<u>(31,904)</u>
Net income	136,108	118,467
Other comprehensive income	<u>31,749</u>	<u>73,478</u>
Total comprehensive income	<u>\$ 167,857</u>	<u>\$ 191,945</u>
Basic earnings per share	<u>\$1.36</u>	<u>\$1.18</u>

Cathay United Bank (China) Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Cash and cash equivalents	\$ 181,927	\$ 4,308,534
Due from the Central Bank and call loans to other banks	8,333,730	5,894,867
Financial assets at fair value through profit or loss	471,093	821,647
Financial assets at fair value through other comprehensive income	20,592,569	16,831,390
Debt instruments measured at amortized cost	455,243	-
Receivables	4,817,164	2,880,304
Loans	16,568,692	16,338,882
Property and equipment	109,670	52,633
Right-of-use assets	93,541	-
Intangible assets	127,241	112,775
Deferred tax assets	24,089	65,275
Other assets	66,899	83,711
Total	\$ 51,841,858	\$ 47,390,018
Liabilities		
Due to the Central Bank and other banks	\$ 20,289,042	\$ 25,935,495
Financial liabilities at fair value through profit or loss	411,170	474,671
Securities sold under repurchase agreements	3,374,865	-
Payables	4,964,635	365,691
Current tax liabilities	77,790	26,759
Deposits and remittances	5,716,642	5,099,375
Other financial liabilities	981,065	-
Provisions	12,670	16,058
Lease liabilities	94,534	-
Other liabilities	50,328	29,606
Total liabilities	35,972,741	31,947,655
Equity		
Ordinary shares	14,377,562	14,377,562
Capital surplus	2,522,670	2,522,670
Retained earnings	376,086	39,739
Other equity	(1,407,201)	(1,497,608)
Total equity	15,869,117	15,442,363
Total	\$ 51,841,858	\$ 47,390,018

Cathay United Bank (China) Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
Interest income	\$ 1,356,327	\$ 166,850
Interest expense	<u>(554,912)</u>	<u>(74,498)</u>
Net interest income	801,415	92,352
Non-interest income	<u>6,798</u>	<u>54,985</u>
Total income	<u>808,213</u>	<u>147,337</u>
Provision for bad debt, commitments and guaranteed liability reserve	55,130	(11,132)
Operating expenses	<u>(567,312)</u>	<u>(44,585)</u>
Profit before income tax	296,031	91,620
Income tax expense	<u>(55,369)</u>	<u>(26,759)</u>
Net income	240,662	64,861
Other comprehensive loss	<u>(366,714)</u>	<u>(172,956)</u>
Total comprehensive loss	<u>\$ (126,052)</u>	<u>\$ (108,095)</u>
Basic earnings per share	Note 2	Note 2

Note 1: CUBCN Bank has been included in the consolidated financial statements as a subsidiary since September 3, 2018.

Note 2: CUBCN Bank is a limited company; therefore, there is no information about its earnings per share.

Cathay Securities Corporation
Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Current assets	\$ 22,254,668	\$ 22,614,590
Financial assets at fair value through other comprehensive income - non-current	169	138
Investments accounted for using the equity method	2,115,752	2,019,873
Property and equipment	103,825	136,950
Right-of-use assets	114,792	-
Intangible assets	60,897	48,103
Deferred tax assets	9,563	18,073
Other non-current assets	701,157	586,444
Total	\$ 25,360,823	\$ 25,424,171
Liabilities		
Current liabilities	\$ 16,778,606	\$ 17,600,549
Lease liabilities - non-current	56,171	-
Deferred tax liabilities	3,044	809
Other non-current liabilities	26,458	30,168
Total liabilities	16,864,279	17,631,526
Equity		
Ordinary shares	6,000,000	5,700,086
Capital surplus	491,766	491,766
Retained earnings	1,508,221	1,232,271
Other equity	496,557	368,522
Total equity	8,496,544	7,792,645
Total	\$ 25,360,823	\$ 25,424,171

Cathay Securities Corporation

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Revenues	\$ 2,587,544	\$ 2,522,382
Service fee expenses	(81,803)	(90,515)
Employee benefit expenses	(939,851)	(807,570)
Share of the profit (loss) of associates accounted for using the equity method	10,032	(7,058)
Operating expenses	(962,891)	(1,107,621)
Non-operating income and expenses	18,898	17,375
Profit before income tax	631,929	526,993
Income tax expense	(82,502)	(92,079)
Net income	549,427	434,914
Other comprehensive income	221,128	112,699
Total comprehensive income	\$ 770,555	\$ 547,613
Basic earnings per share	\$0.92	0.72

Cathay Futures Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2019	2018
Current assets	\$ 8,180,772	\$ 6,695,697
Financial assets at fair value through other comprehensive income - non-current	548,429	424,047
Property and equipment	65,280	67,861
Investment property	290,341	290,341
Right-of-use assets	6,216	-
Intangible assets	22,981	28,068
Other non-current assets	<u>151,924</u>	<u>148,270</u>
Total	<u>\$ 9,265,943</u>	<u>\$ 7,654,284</u>
Liabilities		
Current liabilities	\$ 7,817,524	\$ 6,353,135
Deferred tax liabilities	6,742	7,010
Other non-current liabilities	<u>1,675</u>	<u>1,676</u>
Total liabilities	<u>7,825,941</u>	<u>6,361,821</u>
Equity		
Ordinary shares	667,000	667,000
Retained earnings	251,528	232,085
Other equity	<u>521,474</u>	<u>393,378</u>
Total equity	<u>1,440,002</u>	<u>1,292,463</u>
Total	<u>\$ 9,265,943</u>	<u>\$ 7,654,284</u>

Cathay Futures Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Revenues	\$ 213,658	\$ 226,939
Operating expenses	<u>(240,646)</u>	<u>(238,655)</u>
Operating loss	(26,988)	(11,716)
Non-operating income and expenses	<u>83,099</u>	<u>63,267</u>
Profit before income tax	56,111	51,551
Income tax expense	<u>(8,135)</u>	<u>(4,110)</u>
Net income	47,976	47,441
Other comprehensive income	<u>225,818</u>	<u>95,811</u>
 Total comprehensive income	 <u>\$ 273,794</u>	 <u>\$ 143,252</u>
 Basic earnings per share	 <u>\$0.72</u>	 <u>\$0.71</u>

Cathay Securities (Hong Kong) Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
	2019	2018
Assets		
Current assets	\$ 1,652,335	\$ 1,057,444
Property and equipment	13,105	19,038
Right-of-use assets	26,426	-
Intangible assets	1,954	1,927
Other non-current assets	<u>40,593</u>	<u>33,708</u>
 Total	 <u>\$ 1,734,413</u>	 <u>\$ 1,112,117</u>
 Liabilities		
Current liabilities	\$ 1,056,452	\$ 402,576
Non-current liabilities	<u>10,706</u>	<u>-</u>
Total liabilities	<u>1,067,158</u>	<u>402,576</u>
 Equity		
Ordinary shares	1,108,244	1,108,244
Retained earnings	(411,096)	(358,258)
Other equity	<u>(29,893)</u>	<u>(40,445)</u>
Total equity	<u>667,255</u>	<u>709,541</u>
 Total	 <u>\$ 1,734,413</u>	 <u>\$ 1,112,117</u>

Cathay Securities (Hong Kong) Limited

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2019	2018
Revenues	\$ 75,038	\$ 56,274
Service fee expenses	(2,650)	(3,275)
Employee benefit expenses	(36,896)	(30,752)
Operating expenses	(77,281)	(77,603)
Non-operating income and expenses	<u>4,585</u>	<u>2,226</u>
Loss before income tax	(37,204)	(53,130)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(37,204)	(53,130)
Other comprehensive income	<u>6,624</u>	<u>15,786</u>
 Total comprehensive loss	 <u>\$ (30,580)</u>	 <u>\$ (37,344)</u>
 Basic earnings per share	 Note	 Note

Note: Cathay Securities (Hong Kong) is a limited company, therefore there is no information about earnings per share.

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Current assets	\$ 2,417,768	\$ 2,091,882
Financial assets at fair value through other comprehensive income - non-current	9,161	9,511
Investments accounted for using the equity method	459,822	528,710
Property and equipment	35,053	45,373
Right-of-use assets	14,266	-
Intangible assets	11,300	8,019
Deferred tax assets	22,530	19,749
Other non-current assets	254,838	288,001
Total	\$ 3,224,738	\$ 2,991,245
Liabilities		
Current liabilities	\$ 589,666	\$ 414,761
Non-current liabilities	126,325	122,365
Total liabilities	715,991	537,126
Equity		
Ordinary shares	1,500,000	1,500,000
Capital surplus	13,908	13,908
Retained earnings	1,076,626	1,000,726
Other equity	(81,787)	(60,515)
Total equity	2,508,747	2,454,119
Total	\$ 3,224,738	\$ 2,991,245

Cathay Securities Investment Trust Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 1,942,791	\$ 1,815,412
Operating expenses	<u>(1,291,296)</u>	<u>(1,138,900)</u>
Operating profit	651,495	676,512
Non-operating income and expenses	<u>(12,271)</u>	<u>(16,984)</u>
Profit before income tax	639,224	659,528
Income tax expense	<u>(131,757)</u>	<u>(133,684)</u>
Net income	507,467	525,844
Other comprehensive loss	<u>(10,999)</u>	<u>(16,249)</u>
Total comprehensive income	<u>\$ 496,468</u>	<u>\$ 509,595</u>
Basic earnings per share	<u>\$3.38</u>	<u>\$3.51</u>

Cathay Private Equity Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
	2019	2018
Assets		
Current assets	\$ 37,972	\$ 48,997
Other non-current assets	<u>6,526</u>	<u>266</u>
Total	<u>\$ 44,498</u>	<u>\$ 49,263</u>
 Liabilities		
Current liabilities	\$ 3,444	\$ 348
Total liabilities	<u>3,444</u>	<u>348</u>
 Equity		
Ordinary shares	50,000	50,000
Retained earnings	<u>(8,946)</u>	<u>(1,085)</u>
Total equity	<u>41,054</u>	<u>48,915</u>
Total	<u>\$ 44,498</u>	<u>\$ 49,263</u>

Cathay Private Equity Co., Ltd.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 2,082	\$ -
Operating expenses	<u>(10,995)</u>	<u>(1,253)</u>
Operating loss	(8,913)	(1,253)
Non-operating income and expenses	<u>25</u>	<u>24</u>
Loss before income tax	(8,888)	(1,229)
Income tax benefit	<u>1,782</u>	<u>246</u>
Net loss	<u>(7,106)</u>	<u>(983)</u>
Total comprehensive loss	<u>\$ (7,106)</u>	<u>\$ (983)</u>
Basic loss per share	<u>\$(1.42)</u>	<u>\$(0.20)</u>

Cathay Venture Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2019	2018
Current assets	\$ 1,584,761	\$ 179,885
Financial assets at fair value through profit or loss - non-current	3,705,326	3,255,145
Investments accounted for using the equity method	270,720	275,822
Property and equipment	3,689	2,568
Right-of-use assets	1,106	-
Deferred tax assets	50,959	9,267
Other non-current assets	1,126	1,126
Total	\$ 5,617,687	\$ 3,723,813
Liabilities		
Current liabilities	\$ 33,149	\$ 29,474
Non-current liabilities	7,667	6,101
Total liabilities	40,816	35,575
Equity		
Ordinary shares	4,565,146	3,359,087
Capital surplus	576,503	128,625
Retained earnings	435,316	200,824
Other equity	(94)	(298)
Total equity	5,576,871	3,688,238
Total	\$ 5,617,687	\$ 3,723,813

Cathay Venture Inc.

Condensed Statements of Comprehensive Income
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Nine Months Ended September 30	
	2019	2018
Operating revenue	\$ 283,786	\$ 173,106
Operating costs	(22,554)	(24,031)
Operating expenses	(10,718)	(10,215)
Non-operating income and expenses	(25)	(684)
Profit before income tax	250,489	138,176
Income tax benefit	23,277	2,041
Net income	273,766	140,217
Other comprehensive income	-	11
Total comprehensive income	\$ 273,766	\$ 140,228
Basic earnings per share	\$0.71	\$0.41

- b. The profitability of the Company, the Group and its insurance subsidiaries, banking subsidiaries and security subsidiaries.

For the nine months ended September 30, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.64	0.54	9.72	8.27	13.63
The Company	7.32	7.32	8.25	8.24	98.18
Cathay Life	0.53	0.45	7.77	6.60	4.58
Cathay Century	5.03	4.22	17.85	15.00	11.04
Cathay United Bank	0.75	0.66	10.30	8.96	40.01
Cathay Securities	2.60	2.26	7.79	6.77	21.23

For the nine months ended September 30, 2018

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.66	0.60	9.46	8.69	15.22
The Company	8.32	8.00	9.14	8.79	94.78
Cathay Life	0.55	0.58	7.57	7.93	6.06
Cathay Century	5.04	4.22	18.20	15.22	11.29
Cathay United Bank	0.77	0.67	11.12	9.63	40.42
Cathay Securities	1.98	1.63	7.01	5.78	17.24

Note: Net income ratio = Net income/Net revenue

33. BUSINESS OR TRADING ACTIVITIES WITHIN SUBSIDIARIES

- a. Integration of business activities

In order to improve the Group's competitiveness and enhance its operation synergy, the Company integrates various services, such as banking, insurance, and securities, and builds up a full-functioning financial platform; with 657 operating location all over Taiwan and about 30 thousand professional salesperson, the Company provides comprehensive financial planning and one-stop shopping services to its clients.

- b. Cross utilization of information

To provide diversified financial commodities and services to clients, the Company has referred to the Financial Holding Company Act, Personal Data Protection Act, Regulations for Co-selling Activities among Subsidiaries of Financial Holding Company, Self-discipline Standards for Financial Holding Company and its Subsidiaries and other related regulations issued by the FSC, to stipulate the Regulations for Co-selling Activities among Subsidiaries of Cathay Financial Holdings, contracts for Co-selling Activities among Subsidiaries of Cathay Financial Holdings, Non-disclosure Agreement of Business Information and Customers' Personal Data among Subsidiary of Cathay Financial Holdings, Joint Statement for Security Measures of Cathay Financial Holdings and its Subsidiaries, Operation Rules of Cathay Financial Holdings Marketing Planning Division for Monitoring Subsidiaries' Selling Activities, and Guidelines of Cathay Financial Holdings' Data Storage Management; by providing

customers with exit mechanism, the Company strives to cross-utilize clients' personal data under a legal and safe environment and provide comprehensive and integrated financial commodities and services to clients.

c. Business facilities and locations

In order to achieve the target of providing comprehensive financial services by one-stop shopping, the Group keeps on expanding co-selling activities to the extent allowed by laws and regulations.

- 1) Cathay United Bank is engaged in co-selling activities for securities business through its 164 branches. Cathay United Bank has been engaged in insurance agency business since April 29, 2016 and promoted life insurance products in its 164 branches.
- 2) Cathay Life is engaged in co-selling activities for banking and property and casualty insurance businesses in its service units (104 locations).
- 3) Cathay Securities sets up co-selling offices in Cathay Life's 32 branches (Zhongxiao and others). As permitted by laws, to facilitate account opening services through sharing business facilities and locations.

d. Allocation of revenues, costs, expenses, profits and losses

Revenue, costs, expenses, profits or losses arising from integrated business activities among the Company and its subsidiaries are allocated to each subsidiary based on the related business features or other reasonable allocation methods.

34. SEGMENT INFORMATION

a. General information on operating segments

The Group separated operating segments based on the nature of business and classified them into five reportable segments for management purposes:

- 1) Banking operating segment: The banking operating segment is engaged in permitted businesses of commercial banks provided by the Banking Act of the Republic of China, foreign exchange business, guarantee business, advisory service of foreign currency investments, trust business, offshore banking units and other financial business of investments from returning expatriates.
- 2) Life insurance operating segments: The life insurance operating segment is engaged in interest-sensitive sales of traditional insurance, investment-linked insurance and annuity insurance and providing financial planning services and policy loan services.
- 3) Property insurance operating segment: The property insurance operating segment is engaged in fire insurance, marine insurance, land and air insurance, liability insurance, financial guarantee insurance, reinsurance and other insurance.
- 4) Securities operating segment: The securities operating segment is engaged in securities brokerage, discretionary and underwriting and is dedicated to capabilities of research development and design to provide security financial services with a variety of new financial products.
- 5) Other operating segment: Such segment includes assets, liabilities, revenue and expenditures which cannot be directly attributable to or reasonably allocated to certain operating segments.

To determine allocation of resources and performance measure, the management monitors results of each operating segment. The accounting policies for each operating segment are the same as those stated in Note 4 the summary of significant accounting policies.

- b. Information of reporting segment income was as follows:

For the three months ended September 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 9,199,820	\$ 40,313,182	\$ 130,598	\$ 29,254	\$ (133,636)	\$ 49,539,218
Net income and gains other than interest income	5,559,259	80,115,328	1,739,721	896,741	2,034,936	90,345,985
Profit from operations	14,759,079	120,428,510	1,870,319	925,995	1,901,300	139,885,203
Provision for bad debt, commitments and guaranteed liability reserve	(633,545)	246,343	-	(256)	-	(387,458)
Net changes in insurance liability reserve	-	(96,663,278)	(124,497)	-	-	(96,787,775)
Operating expenses	(7,972,290)	(9,687,369)	(767,884)	(616,848)	(2,073,044)	(21,117,435)
Profit (loss) from continuing operations before taxes	6,153,244	14,324,206	977,938	308,891	(171,744)	21,592,535
Income tax expense	(960,237)	(2,370,107)	(109,729)	(15,860)	(118,259)	(3,574,192)
Net income (loss) from continuing operations	5,193,007	11,954,099	868,209	293,031	(290,003)	18,018,343

For the three months ended September 30, 2018

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 8,670,032	\$ 38,542,540	\$ 137,416	\$ 45,230	\$ (90,025)	\$ 47,305,193
Net income and gains other than interest income	8,561,706	42,466,184	1,735,160	689,785	2,992,631	56,445,466
Profit from operations	17,231,738	81,008,724	1,872,576	735,015	2,902,606	103,750,659
Provision for bad debt, commitments and guaranteed liability reserve	(819,883)	197,891	-	234	-	(621,758)
Net changes in insurance liability reserve	-	(60,892,363)	(294,177)	-	-	(61,186,540)
Operating expenses	(8,118,629)	(8,736,133)	(740,485)	(546,765)	(1,945,099)	(20,087,111)
Profit from continuing operations before taxes	8,293,226	11,578,119	837,914	188,484	957,507	21,855,250
Income tax expense	(1,105,901)	(1,989,365)	(77,770)	(20,576)	(79,058)	(3,272,670)
Net income from continuing operations	7,187,325	9,588,754	760,144	167,908	878,449	18,582,580

For the nine months ended September 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 27,187,538	\$ 119,578,507	\$ 394,998	\$ 93,823	\$ (314,140)	\$ 146,940,726
Net income and gains other than interest income	12,292,138	210,012,961	4,721,480	2,326,700	6,406,683	235,759,962
Profit from operations	39,479,676	329,591,468	5,116,478	2,420,523	6,092,543	382,700,688
Provision for bad debt, commitments and guaranteed liability reserve	(1,551,032)	930,451	-	(196)	-	(620,777)
Net changes in insurance liability reserve	-	(256,549,105)	(287,094)	-	-	(256,836,199)
Operating expenses	(24,236,022)	(29,546,627)	(2,287,926)	(1,713,795)	(6,129,666)	(63,914,036)
Profit (loss) from continuing operations before taxes	13,692,622	44,426,187	2,541,458	706,532	(37,123)	61,329,676
Income tax expense	(3,104,919)	(5,160,497)	(313,797)	(82,586)	(515,703)	(9,177,502)
Net income (loss) from continuing operations	10,587,703	39,265,690	2,227,661	623,946	(552,826)	52,152,174

For the nine months ended September 30, 2018

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 24,682,113	\$ 107,376,957	\$ 410,166	\$ 136,297	\$ (200,249)	\$ 132,405,284
Net income and gains other than interest income	13,215,182	200,343,220	4,450,708	2,211,843	6,147,047	226,368,000
Profit from operations	37,897,295	307,720,177	4,860,874	2,348,140	5,946,798	358,773,284
Provision for bad debt, commitments and guaranteed liability reserve	(2,311,743)	247,294	-	(927)	-	(2,065,376)
Net changes in insurance liability reserve	-	(239,112,862)	(208,292)	-	-	(239,321,154)
Operating expenses	(22,298,365)	(26,051,292)	(2,174,185)	(1,740,007)	(5,715,368)	(57,979,217)
Profit from continuing operations before taxes	13,287,187	42,803,317	2,478,397	607,206	231,430	59,407,537
Income tax (expense) benefit	(3,056,358)	1,183,855	(309,023)	(92,079)	(2,536,953)	(4,810,558)
Net income (loss) from continuing operations	10,230,829	43,987,172	2,169,374	515,127	(2,305,523)	54,596,979

Note: All intercompany transactions among the operating segments have been eliminated.

35. RISK MANAGEMENT FOR INSURANCE CONTRACTS AND FINANCIAL INSTRUMENTS

a. Cathay Life and its subsidiaries

1) Risk management objectives, policies, procedures and methods:

a) Objectives of risk management

Cathay Life's risk management policy aims to promote operational efficiency, ensure asset safety, increase shareholders' value, and comply with applicable domestic and oversea laws and regulations for the purpose of steady growth and sustainable management.

- b) Framework of risk management, organizational structure and responsibilities
- i. The board of directors
 - i) The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and review it regularly and allocate resources in the most effective manner.
 - ii) The board of directors and senior management should consistently promote, execute risk management and keep the consistency of the operational objectives of Cathay Life as well as operational strategies and operations management.
 - iii) The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
 - iv) The board of directors should delegate authority to risk management department to deal with violation to risk limits by other departments.
 - ii. Risk management committee
 - i) The committee should propose the risk management policies, framework and organizational functions and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly and making necessary suggestions for improvement.
 - ii) The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
 - iii) The committee should assist and monitor the risk management activities.
 - iv) The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
 - v) The committee should enhance cross-department interaction and communication.
 - iii. Chief risk officer
 - i) The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of Cathay Life.
 - ii) The chief risk officer should be able to access any business information which may have an impact on risk overview of Cathay Life.
 - iii) The chief risk officer should be in charge of overall risk management of Cathay Life.
 - iv) The chief risk officer should participate in Cathay Life's important decision-making process and, as appropriate, provide opinions from a risk management perspective.
 - iv. Risk management department
 - i) The department is responsible for operational affairs such as monitoring, measuring and evaluating daily risks, which should be performed independently to business units.

ii) The department should perform the following functions with regard to different business activities:

- Propose and execute the risk management policies set by the board of directors.
- Propose the risk limits based on risk appetite.
- Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.
- Regularly present risk management reports.
- Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
- Assist to execute stress testing.
- Execute back testing if necessary.
- Other risk management related issues.

v. Business units

i) Each business unit should assign a risk management coordinator to assist in execution of the risk management of each business unit.

ii) The duties of the risk management include the following:

- Identify and measure risks and report risk exposures and potential impacts on time.
- Regularly review the risks and their limits and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions.
- Assist to develop the risk model and ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.
- Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
- Assist to collect data related to operational risk.
- Manager of a business unit is responsible for daily risk management and risk reporting of the unit, if necessary, and takes necessary actions to such risks.
- Manager of a business unit should supervise the unit to submit risk management information regularly to the risk management department.

vi. Audit department

The department is responsible to audit each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Life.

Each subsidiary's risk management department or related unit should develop risk management policies based on the nature of its business and needs and report to Cathay Life's risk management committee for future reference.

c) Range and nature of risk assessment or risk reporting

Cathay Life's risk management procedures include risk identification, risk measurement, risk control and risk reporting. Cathay Life sets its management standards for market risk, credit risk, country risk, liquidity risk, operational risk, insurance risk, and asset and liability matching risk, capital adequacy, as well as for information security and personal data management. Cathay Life also develops methods of assessment and evaluation, monitors its risks and regularly provides the risk management reports.

i. Market risk

Market risk is the risk of losses in value of Cathay Life's financial assets arising from the changes in market prices of financial instruments. Cathay Life adopts measurement indicators for market risk based on VaR and reviews regularly. In addition, Cathay Life performs back testing to ensure the accuracy of the market risk model regularly. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events regularly. In response to the implementation of foreign exchange valuation reserve, Cathay Life determines the ceiling of foreign exchange risk, implements warning system and monitors foreign exchange risk regularly.

ii. Credit risk

Credit risk is the risk of losses on Cathay Life's rights due to that the counterparty or debtor does not perform the contractual obligation. Cathay Life applies credit rating, credit concentration and VaR of credit as measurement indicators which are reviewed regularly. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events regularly.

iii. Country risk

Country risk is the risk that Cathay Life suffers losses from loans, financial investments and long-term investments in a specific country as a result of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. Cathay Life adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. The Company reviews and adjusts the indicator on a regular basis.

iv. Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. Cathay Life has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, funding reporting system has been established under which the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. Cash flow analysis model is also applied to set the annual assets allocation plan to maintain appropriate liquidity of assets. Market liquidity risk is the risk of significant changes in fair values when Cathay Life sells or offsets its positions during a market disorder or a lack of

sufficient market depth. Cathay Life has established a liquidity threshold for investment positions. Each investment department evaluates the market trading volumes and adequacy of positions held according to the features and objectives of its investment positions.

v. Operational risk

Operational risk is the risk of losses caused by misconducts or errors of internal process, personnel, and system by external issues. Operational risk includes legal risk but excludes strategic risk and reputation risk. Cathay Life has set the standard operating procedures based on the nature of the business and established reporting system for loss events of operation risk as well as to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life's operation and ability to provide customer services while minimizing the losses under a major crisis, Cathay Life has established emergency handling mechanism and information system damage responses.

vi. Insurance risk

Cathay Life assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and Cathay Life may bear losses due to unexpected changes when paying claims and related expenses. This risk is involved with policy design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

vii. Asset and liability matching risk

This risk resulted from the differences between the changes in values of assets and those of liabilities. Cathay Life measures the risk with capital costs, duration, cash flow management and scenario analysis.

viii. Risk-based capital (RBC) ratio

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

ix. Risk of information security and personal data management

The risk of information security and personal data management refers to the damage resulted from confidentiality, accuracy and availability of information asset, or damage caused by stealing, tampering, damaging, losing or leaking personal data. Cathay Life has a security and personal data management policy to reduce the impact of information security incidents and personal data damages.

d) Process of assuming, measuring, monitoring and controlling risks and the underwriting policies to determine the proper risk classification and premium levels

i. The process of assuming, measuring, monitoring and controlling insurance risks

i) Stipulate Cathay Life's insurance risk management standards including the definitions and range of risks, management structure, risk management indicators and other risk management measures.

ii) Establish methods to evaluate insurance risks.

- iii) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
 - iv) Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the related departments should propose corresponding solutions to the risk management committee of Cathay Life and that of the Company.
 - ii. The underwriting policies to determine proper risk classification and premium levels
 - i) Underwriters should comply with the rules of financial underwriting. For underwriting a new policy of an existing policyholders, the underwriter should consider previous information as well as the exceptional cases from insurance notification database and total insured amounts in insurance enterprises, to check if the number of policies, the insured amounts and the premiums are reasonable and affordable according to the policyholder's financial resources and socioeconomic status and to determine if the policyholder is capable of paying renewal premiums.
 - ii) Cathay Life has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards.
 - iii) Cathay Life has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.
- e) The scope of insurance risk assessment and management from a company-wide perspective
 - i. Insurance risk assessment covers the following risks:
 - i) Product design and pricing risk: The risk arises from improper design of products, inconsistent terms and conditions and pricing or unexpected changes.
 - ii) Underwriting risk: unexpected losses arise from solicitation activities, underwriting and approval activities, other expenditure activities, etc.
 - iii) Reinsurance risk: this risk occurs when a company fails to reinsure the excess risk over the limits or a reinsurer fails to fulfill its obligations such that premiums, claims or expenses cannot be reimbursed.
 - iv) Catastrophe risk: this risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect Cathay Life's credit rating or solvency.
 - v) Claim risk: this risk arises from mishandling claims.
 - vi) Reserve-related risk: this risk occurs when Cathay Life does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.
 - ii. The scope of management of insurance risk
 - i) Develop a risk control framework of Cathay Life's insurance risk to empower related development to execute risk management.
 - ii) Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management structure, risk management indicators and other risk management measures.

- iii) Develop related response in consideration of Cathay Life's growth strategy and changes in the domestic and global economic and financial environments.
 - iv) Determine methods to measure insurance risks.
 - v) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
 - vi) Other insurance risk management issues.
- f) Method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

Cathay Life limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering Cathay Life's risk taking ability, risk profiling and legal issues factors to determine whether to retain or cede a policy. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, Cathay Life has established reinsurer selection standards.

- g) Asset/liability management
- i. Cathay Life established an asset/liability management committee to improve the asset/liability management structure, ensure the application of the asset/liability management policy and review the performance from strategy and practice aspect on a regular basis to reduce all types of risks Cathay Life faces.
 - ii. Authorized departments review the measurement of asset/liability matching risk and report to the asset/liability management committee regularly and results are also reported to the risk management committee of Cathay Life. Furthermore, the annual report is delivered to the risk management committee of the Company.
 - iii. When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of Cathay Life and that of the Company.
- h) The procedures to manage, monitor and control a special event for which the Company is committed to assuming additional liabilities or funding addition capital

Pursuant to the applicable laws and regulations, Cathay Life's RBC ratio should be higher than a certain number. In order to enhance Cathay Life's capital management and to maintain a proper RBC ratio, Cathay Life has established a set of capital adequacy management standards as follows:

- i. Capital adequacy management
 - i) Regularly provide capital adequacy management reports and analysis to the finance department of the Company.
 - ii) Regularly provide the capital adequacy management analysis report to the risk management committee.
 - iii) Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting RBC ratio.
 - iv) Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

ii. Exception management process

When RBC ratio exceeds the internal risk criteria or other exceptions occur, Cathay Life is required to notify the risk management department and the finance department and the risk management department of Cathay Financial Holdings together with the capital adequacy analysis report and actions.

i) Policies for hedge or mitigation of risk and monitoring procedures on continuous effectiveness of hedging instruments

i. Cathay Life enters into derivative transactions to reduce market risk and credit risk of the asset positions including stock index options, index futures, interest rate futures, IRS, forwards, CCS and credit default swaps for hedging the equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk from Cathay Life's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.

ii. Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

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

j) The policies and procedures against the concentration of credit and investment risks

Considering the credit risk factors, Cathay Life has set up the measurement indicators for credit and investment positions by business groups, industries and countries. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant loans or make investment in general. However, if Cathay Life has to undertake the business under certain circumstances, Cathay Life shall follow the internal regulations, including but not limited to "Guidelines for sovereign risk management", "Guidelines for securities investment risk limit" and "Guidelines for credit and investment risk management on conglomerate and other juristic person institute".

2) Information of insurance risk

a) Sensitivity of insurance risk - insurance contracts and financial instruments with discretionary participation features

i. Cathay Life

	For the Nine Months Ended September 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,148,174	Decrease (increase)	\$ 1,718,539
Expense	×1.05 (×0.95)	Decrease (increase)	2,452,839	Decrease (increase)	1,962,271
Surrender rate	×1.05 (×0.95)	Increase (decrease)	438,462	Increase (decrease)	350,770
Rate of return	+0.1%	Increase	4,268,837	Increase	3,415,070
Rate of return	-0.1%	Decrease	4,271,990	Decrease	3,417,592

	For the Nine Months Ended September 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,001,831	Decrease (increase)	\$ 1,601,465
Expense	×1.05 (×0.95)	Decrease (increase)	2,128,027	Decrease (increase)	1,702,422
Surrender rate	×1.05 (×0.95)	Increase (decrease)	280,592	Increase (decrease)	224,473
Rate of return	+0.1%	Increase	3,989,843	Increase	3,191,874
Rate of return	-0.1%	Decrease	3,992,789	Decrease	3,194,231

ii. Cathay Lujiazui Life

	For the Nine Months Ended September 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 110,981	Decrease (increase)	\$ 87,735
Expense	×1.05 (×0.95)	Decrease (increase)	64,214	Decrease (increase)	48,161
Surrender rate	×1.10 (×0.90)	Increase (decrease)	69,634	Increase (decrease)	52,226
Rate of return	+0.25%	Increase	529,206	Increase	396,905
Rate of return	-0.25%	Decrease	580,928	Decrease	435,696

	For the Nine Months Ended September 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 116,442	Decrease (increase)	\$ 87,332
Expense	×1.05 (×0.95)	Decrease (increase)	60,629	Decrease (increase)	45,471
Surrender rate	×1.10 (×0.90)	Increase (decrease)	76,886	Increase (decrease)	57,665
Rate of return	+0.25%	Increase	423,334	Increase	317,500
Rate of return	-0.25%	Decrease	464,709	Decrease	348,532

iii. Cathay Life (Vietnam)

	For the Nine Months Ended September 30, 2019				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 965	Decrease (increase)	\$ 772
Expense	×1.05 (×0.95)	Decrease (increase)	33,859	Decrease (increase)	27,087
Surrender rate	×1.05 (×0.95)	Increase (decrease)	5,808	Increase (decrease)	4,646
Rate of return	+0.1%	Increase	9,791	Increase	7,833
Rate of return	-0.1%	Decrease	9,798	Decrease	7,838

	For the Nine Months Ended September 30, 2018				
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/Morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 494	Decrease (increase)	\$ 395
Expense	×1.05 (×0.95)	Decrease (increase)	22,801	Decrease (increase)	18,241
Surrender rate	×1.10 (×0.95)	Increase (decrease)	6,462	Increase (decrease)	5,169
Rate of return	+0.1%	Increase	7,260	Increase	5,808
Rate of return	-0.1%	Decrease	7,266	Decrease	5,813

i) Changes in income before tax listed above referred to the effects of income before tax for the nine months ended September 30, 2019 and 2018. The changes in equity of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) were assumed that the income tax was calculated at rates of 20%, 25% and 20% of pre-tax income, respectively.

ii) As an increase (decrease) of 0.1% in discount rates is applied to liability adequacy test, the result of the test is still adequate for Cathay Life and there is no impact on income before tax and equity. However, if the discount rate keeps declining significantly, income before tax and equity may be affected.

iii) Sensitivity Test

- Mortality/morbidity sensitivity test is executed by multiplying the mortality rate, and the morbidity rate of injury insurance by changes in scenarios, resulting in the corresponding changes in income before tax.

- Expense sensitivity test is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by changes in scenarios, resulting in the corresponding changes in income before tax.
- Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
- Rate of return sensitivity test is executed by adjusting rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating costs as well as general expenses, administration expenses, employee training expenses of operating expenses and expected credit impairment losses and gains on reversal from non-investments.

Note 2: Rate of return is calculated as follows (to be annualized):

$$2 \times (\text{net investment} - \text{finance costs}) / (\text{the beginning balance of available funds} + \text{the ending balance of available funds, net incomes (losses) on investment} + \text{finance costs})$$

b) Concentration of insurance risks

Cathay Life's insurance business is mainly from the R.O.C., and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). Cathay Life reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

In principle, Cathay Life reviews the overall results of claims and payments and its ability to assume risk periodically, and performs an evaluation of insurance risks according to the retention amounts, which is submitted for approval by authority. Cathay Life cedes the excess of insurance risks over the retention amounts to reinsurers. At the same time, Cathay Life considers unexpected human and natural disasters to estimate the reasonable maximum of losses according to the retained risks regularly; Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses and its ability to assume risks. Hence, the insurance risks to some degree have been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, special reserve for catastrophic events should be provided for huge claims and payments due to future catastrophic events, and special reserve for fluctuation of risk should be provided for abnormal changes in loss ratio and claims of each insurance type. The annual increase of special reserve for catastrophic events and fluctuation of risks should be recorded in special reserve of equity, net of tax in accordance with IAS 12.

c) Claim development trend

i. Cathay Life

i) Direct business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2012Q4-2013Q3	\$ 14,247,232	\$ 17,629,588	\$ 17,941,782	\$ 17,995,716	\$ 18,035,760	\$ 18,060,584	\$ 18,077,206	\$ -	\$ -
2013Q4-2014Q3	14,397,589	17,761,644	18,098,010	18,192,255	18,189,858	18,212,182	18,229,683	17,501	17,536
2014Q4-2015Q3	14,692,358	18,265,362	18,613,904	18,701,037	18,738,383	18,765,023	18,783,399	45,016	45,106
2015Q4-2016Q3	15,684,311	19,355,665	19,691,862	19,770,388	19,809,845	19,837,928	19,857,391	87,003	87,177
2016Q4-2017Q3	16,765,826	20,661,210	21,052,051	21,138,188	21,180,559	21,210,706	21,231,561	179,510	179,870
2017Q4-2018Q3	18,893,765	23,395,979	23,820,559	23,919,391	23,968,542	24,001,671	24,024,164	628,185	629,441
2018Q4-2019Q3	20,940,466	25,918,101	26,394,364	26,503,691	26,558,098	26,594,131	26,618,382	5,677,916	5,689,272
								Expected future payment	\$ 6,648,402
								Add: Assumed reserve for incurred but not reported claim	44,756
								Reserve for unreported claim	6,693,158
								Add: Reported but not paid claim	3,656,777
								Claims reserve balance	<u>\$ 10,349,935</u>

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2012Q4-2013Q3	\$ 14,404,516	\$ 17,813,932	\$ 18,131,882	\$ 18,186,719	\$ 18,227,083	\$ 18,252,601	\$ 18,269,367	\$ -	\$ -
2013Q4-2014Q3	14,488,939	17,896,520	18,236,636	18,331,599	18,329,998	18,352,599	18,370,222	17,623	17,658
2014Q4-2015Q3	14,822,271	18,434,222	18,785,549	18,874,208	18,911,743	18,938,949	18,957,548	45,805	45,896
2015Q4-2016Q3	15,804,471	19,501,696	19,844,120	19,923,161	19,962,992	19,991,506	20,011,086	87,925	88,100
2016Q4-2017Q3	16,845,302	20,797,324	21,191,027	21,277,948	21,320,680	21,351,228	21,372,187	181,160	181,523
2017Q4-2018Q3	19,016,850	23,550,400	23,980,369	24,080,348	24,130,057	24,163,898	24,186,732	636,332	637,605
2018Q4-2019Q3	20,986,589	25,991,135	26,471,229	26,581,394	26,636,239	26,672,889	26,697,543	5,710,954	5,722,376
								Expected future payment	\$ 6,693,158
								Add: Reported but not paid claim	3,651,597
								Retained claims reserve balance	<u>\$ 10,344,755</u>

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

In accordance with Jin Guan Bao Shou No. 10402133590 issued on December 22, 2015 by the FSC, reserve for claims not yet filed is provided claims filed and adjusted for related expenses; reserve for claims filed but not yet paid is provided on a case-by-case basis. Loss reserve is the sum of the above reserve, and due to uncertainty, estimation, and judgment, there is a high degree of complexity in provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes are recognized as profit or loss as incurred. Notification to Cathay Life may be delayed in certain cases, and estimates of the payments for cases not yet filed are involved with a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

ii. Cathay Lujiazui Life

i) Direct business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
2012Q4-2013Q3	\$ 240,295	\$ 469,284	\$ 507,189	\$ 511,048	\$ 511,048	\$ 511,048	\$ 511,048	\$ -	
2013Q4-2014Q3	355,283	571,141	606,949	616,309	616,309	616,309	616,309	-	
2014Q4-2015Q3	208,519	390,267	417,666	422,622	422,622	422,622	422,622	-	
2015Q4-2016Q3	247,433	440,247	471,361	502,721	502,721	502,721	502,721	-	
2016Q4-2017Q3	254,560	452,928	493,108	505,300	505,300	505,300	505,300	12,192	
2017Q4-2018Q3	303,356	343,721	369,221	378,351	378,351	378,351	378,351	34,630	
2018Q4-2019Q3	384,087	636,608	683,837	700,746	700,746	700,746	700,746	316,659	
								Expected future payment	\$ 363,481
								Less: Expected reported but not paid claim	(1,720)
								Reserve for unreported claim	361,761
								Add: Reported but not paid claim	13,372
								Claims reserve balance	<u>\$ 375,133</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
2012Q3-2013Q3	\$ 234,890	\$ 462,689	\$ 500,571	\$ 504,409	\$ 504,409	\$ 504,409	\$ 504,409	\$ -	
2013Q3-2014Q3	346,974	562,829	598,595	607,952	607,952	607,952	607,952	-	
2014Q3-2015Q3	186,869	368,212	395,590	400,339	400,339	400,339	400,339	-	
2015Q3-2016Q3	237,525	421,736	452,306	483,666	483,666	483,666	483,666	-	
2016Q3-2017Q3	242,848	438,141	471,775	483,722	483,722	483,722	483,722	11,947	
2017Q3-2018Q3	289,398	316,666	339,883	348,490	348,490	348,490	348,490	31,824	
2018Q3-2019Q3	364,440	608,845	653,484	670,032	670,032	670,032	670,032	305,592	
								Expected future payment	\$ 349,363
								Less: Expected reported but not paid claim	(1,720)
								Add: Reported but not paid claim	12,579
								Retained claims reserve balance	<u>\$ 360,222</u>

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

Cathay Lujiazui Life provides loss reserve for claims filed but not paid and claims not yet filed. Due to uncertainty, estimation, and judgment, there is a high degree of complexity in provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes are recognized as profit or loss as incurred. Notification to Cathay Lujiazui Life may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

iii. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend):

Accident Year	Development Year				
	1	2	3	4	5
2014Q4-2015Q3	1,178	1,292	1,292	1,295	1,295
2015Q4-2016Q3	1,249	2,327	2,327	2,327	2,327
2016Q4-2017Q3	8,811	11,967	11,967	11,972	11,972
2017Q4-2018Q3	43,139	49,629	49,629	49,649	49,649
2018Q4-2019Q3	123,258	147,518	147,518	147,577	147,577

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

Cathay Life (Vietnam) provides loss reserve for claims filed but not paid and claims not yet filed. Reserve for claims not yet filed is estimated by multiplying the loss ratio of earned premiums based upon the past loss experiences instead of loss triangle method which was approved by local authorities in Vietnam; therefore, provision for loss reserve is not determined by the aboved table. Estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments.

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

a) Credit risk

The credit risk of the insurance contracts occurs as the reinsurers fail to perform the obligations of reinsurance contracts, which may result in impairment losses on reinsurance assets.

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

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

b) Liquidity risk

The table below is the analysis of the net (undiscounted) cash flow of insurance contracts and of financial instruments with discretionary participation features. The figures shown in this table are the total insurance payments and expenses of valid insurance contracts in the future on the balance sheet date. The actual future payment amounts may differ due to the difference between the actual and expected experiences.

Unit: Billion

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	Within 1 Year	1 to 5 Years	Over 5 Years
September 30, 2019	\$ (2,055)	\$ 2,218	\$ 181,298
December 31, 2018	(1,095)	1,993	175,216
September 30, 2018	(980)	1,483	173,488

Note: Separate account products are not included.

c) Market risk

Cathay Life measures insurance liabilities by the discounted rates required by the authorities. The authorities regularly review the assumption of the discount rate for policy reserves; however, the change of the assumption may not be at the same time, in the same direction of change with the market price and interest rate, and only applied to new contracts. Therefore, the impacts of those possible changes in market risk on the provision of policy reserve for Cathay Life's valid insurance contracts are considered minor to profit or loss of equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of Cathay Life. Furthermore, the reasonably possible change in the market risk may have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities. Based on the reasonably possible changes in current market risk, it has little impact on the adequacy of recognized insurance liabilities.

b. Cathay Century and its subsidiaries

1) Risk management objectives, policies, procedures and methods:

a) Framework of risk management, organizational structure and responsibilities

i. Board of directors

- i) Board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- ii) Board of directors should establish an appropriate risk management framework and culture, ratify the appropriate risk management policy and allocate resources in the most effective manner.

iii) Board of directors should consider the effect of the aggregated risks of business's overall perspective; should also follow the legal capital requirement and the relevant financial or business operating regulations that affect capital allocation.

ii. Risk management department

i) Risk management committee

- The committee should propose the risk management policies, framework, and organization functions and establish quantitative and qualitative management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly, and making necessary suggestions for improvement.
- The committee should execute the risk management policies set by the board of directors and review development, build-up and performance of overall management mechanisms regularly.
- The committee should assist and monitor the risk management activities performed by each department.
- The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
- The committee should enhance cross-department interaction and communication.

ii) Chief risk officer

The appointment of chief risk officers of Cathay Century and its subsidiaries should be approved by the board of directors, who should maintain independence and should not concurrently play a business or financial role nor has the right to access any information which may affect Cathay Century and its subsidiaries' risk overview.

- The chief risk officer should be in charge of the overall risk management.
- The chief risk officer should participate in the important decision making process and provide appropriate suggestions from a risk management perspective.
- The chief risk officers should be a member of risk management committee.

iii) Risk management department

Cathay Century and its subsidiaries established a risk management department, which is responsible for monitoring, measuring and evaluating major risks, performed independently to business units.

Duties of risk management department are as follows:

- Propose and execute the risk management policies set by the board of directors.
- Propose the risk limits based on risk appetite.
- Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.

- Regularly present risk management reports.
- Regularly review the risk limits and its use of each business unit.
- Assist to execute stress testing and back testing if necessary.
- Other risk management related issues.

iii. Business unit

i) The risk management duties of the manager of a business unit are as follows:

- Manage and report daily risk of the business unit and take necessary responsive actions.
- Supervise the unit to submit risk management information regularly to the risk management department.

ii) The risk management duties of a business unit are as follows:

- Identify and measure risks and report risk exposures.
- Evaluate the impacts (quantitative or qualitative) when risks occur and deliver the risk information in a timely and accurate manner.
- Regularly review the risks and their limits to ensure the effective execution of risk limits within business unit.
- Monitor risk exposures and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions.
- Assist to develop the risk model and ensure that the risk measurement, application of model, and the parameter settings are reasonable and consistent.
- Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
- Assist to collect data related to operational risk.

iv. Audit department

The department is responsible for the audit of each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Century.

b) Risk reporting and the scope and nature of risk assessment for property insurance business

i. Risk reporting

i) Each business unit should regularly deliver risk information to risk management department are required, and report the excess of risk limits and responding measures when risk exposure exceeds the limit.

ii) The risk management department summarizes the risk information provided by each department, tracks the uses of major risk limit, submits a monthly risk management report to the general manager, and makes quarterly report to the risk management committee and board of directors.

ii. Risk reporting range and nature of risk assessment for property insurance business

The risk management department of Cathay Century and its subsidiaries and the Company collaborated in building the market risk management system. The system structure was developed in consideration of the system functionality, data source, completeness of data upload, and the safety of the environment of the system. The front-end of investment department has acquired the information system related to the investment market. The risk management system focuses on risk quantification, which is needed by middle-end, and would be only authorized to risk management personnel.

c) Processes to undertake, evaluate, supervise and control insurance risk of property insurance business and underwriting policies to ensure proper risk classification and premium level.

In Cathay Century and its subsidiaries, risk management department is responsible for monitoring and integrating insurance risks as a whole, and setting up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control and regularly reports execution to risk management department in accordance with laws and regulations, internal rules, and professional knowledge and experience related to its duties. The risk management department proposes the insurance risk management report to the risk management committee and the board of directors each quarter.

d) The scope of insurance risk assessment and management from a company-wide perspective

Insurance risk management of Cathay Century and its subsidiaries covers product design and pricing, underwriting, reinsurance, catastrophe, claim, and reserve. Proper management mechanisms are set up and executed thoroughly.

e) Methods to limit insurance risk exposure and avoid inappropriate concentration risk

When Cathay Century and its subsidiaries implement business, the underwriter evaluates the quality of the business based on the underwriting criteria of each insurance to decide whether to undertake the business to properly hedge and control the risk and reduce the exposure.

In addition, for reinsurance business, risk management mechanism is set up in accordance with the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms. The capabilities of undertaking risk is considered to develop reinsurance risk management plan and maximum of accumulated retained risks of each risk unit for execution.

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

According to Cathay Century and its subsidiaries' risk management mechanism for the reinsurance business, the maximum of the retained risks of each risk unit is based on 10% of the total of shareholder's equities and special reserves under liabilities (excluding those for compulsory automobile insurance). The following table summarizes the maximum of the retained risks of each risk unit by types of insurance:

Insurance by Type	For the Year Ended December 31	
	2019	2018
Fire insurance	\$ 1,182,000	\$ 1,233,000
Marine insurance	1,182,000	1,233,000
Engineering insurance	1,182,000	1,233,000
Miscellaneous insurance/Liability insurance	1,182,000	1,233,000
Healthy and Accident insurance	1,182,000	1,233,000
Automobile insurance	50,000	1,233,000
Liability insurance	250,000	1,233,000

f) Asset-liability management

i. Asset liability management with risk identification and measurement

Financial accounting and actuarial department should identify the possible market risk, liquidity risk and insurance risk that may occur during operation. The cash inflows from assets are measured to evaluate whether it's sufficient to cover the cash outflow in liabilities by cash flow test method (but not limited to); that is, whether the asset allocation has reasonable liquidity to pay expenditures from liabilities in future years.

ii. Asset-liability coordinate with risk response

When market risk, liquidity risk and insurance risk events occur, financial, accounting and actuarial service department should take appropriate reactions to asset liability risk, and report to the risk management department and propose to the risk management department and risk management committee for examination.

g) Procedures to manage, monitor and control a special event for which property insurance business is committed to assuming additional liabilities or funding additional capital

Cathay Century and its subsidiaries have established a set of capital adequacy management standards, including RBC management indicators for regular review, under which RBC is calculated each quarter and RBC management report is prepared every half year as implementation of RBC management.

If the RBC ratio exceeds the control criteria (risk limit) or other exceptions occur, the related departments should propose reactions to the risk management committee and inform the Company to review the impact on the Group's CAR.

2) Receivables and payables of insurance contracts

a) Receivables

Insurance by Type	Premiums Receivable		
	September 30, 2019	December 31, 2018	September 30, 2018
Fire insurance	\$ 666,450	\$ 683,291	\$ 682,372
Marine insurance	236,263	280,529	234,416
Land and air insurance	171,821	161,746	78,402
Liability insurance	279,939	209,834	205,284
Financial guarantee insurance	29,632	30,796	35,513
Other property insurance	418,816	253,298	229,302
Accident insurance	154,261	113,629	118,569
Health insurance	12,337	7,979	9,015
Compulsory auto liability insurance	<u>35,161</u>	<u>19,090</u>	<u>18,731</u>
	2,004,680	1,760,192	1,611,604
Less: Loss allowance	<u>(58,457)</u>	<u>(74,252)</u>	<u>(67,788)</u>
Net amount	<u>\$ 1,946,223</u>	<u>\$ 1,685,940</u>	<u>\$ 1,543,816</u>

Aging analysis of premiums receivable:

	September 30, 2019	December 31, 2018	September 30, 2018
Less than 90 days	\$ 1,416,059	\$ 1,533,285	\$ 1,132,216
Over 90 days	<u>588,621</u>	<u>226,907</u>	<u>479,388</u>
	<u>\$ 2,004,680</u>	<u>\$ 1,760,192</u>	<u>\$ 1,611,604</u>

The overdue amounts as of September 30, 2019, December 31, 2018 and September 30, 2018 in the above premiums receivable were \$588,621 thousand, \$226,131 thousand and \$478,799 thousand, respectively, and loss allowance of \$44,344 thousand, \$58,942 thousand and \$56,619 thousand were provided, respectively.

b) Liability on policyholders' claims filed and losses not yet filed

Claims and payments recoverable for policyholders' claims filed and paid

Insurance by Type	Claims Filed and Paid		
	September 30, 2019	December 31, 2018	September 30, 2018
Fire insurance	\$ 27,656	\$ 44,225	\$ 12,210
Marine insurance	21,532	12,631	31,269
Land and air insurance	43,883	46,598	46,257
Liability insurance	34,045	53,431	31,775
Financial guarantee insurance	(456)	188	149
Other property insurance	31,359	19,525	13,574
Accident insurance	13,796	18,497	16,132
Health insurance	-	-	-
Compulsory auto liability insurance	<u>167,291</u>	<u>154,031</u>	<u>153,735</u>
	339,106	349,126	305,101
Less: Loss allowance	<u>(3,391)</u>	<u>(3,491)</u>	<u>(3,051)</u>
Net amount	<u>\$ 335,715</u>	<u>\$ 345,635</u>	<u>\$ 302,050</u>

c) Payables

Insurance by Type	September 30, 2019		
	Commission Payable	Others	Total
Fire insurance	\$ 29,819	\$ 11,847	\$ 41,666
Marine insurance	5,669	15,167	20,836
Land and air insurance	60,662	91,952	152,614
Liability insurance	24,607	19,543	44,150
Financial guarantee insurance	3,764	616	4,380
Other property insurance	4,239	9,275	13,514
Accident insurance	11,346	40,895	52,241
Health insurance	3,251	5,854	9,105
Compulsory automobile liability insurance	<u>30,487</u>	<u>-</u>	<u>30,487</u>
	<u>\$ 173,844</u>	<u>\$ 195,149</u>	<u>\$ 368,993</u>

December 31, 2018			
Insurance by Type	Commission Payable	Others	Total
Fire insurance	\$ 24,649	\$ 12,551	\$ 37,200
Marine insurance	7,297	16,492	23,789
Land and air insurance	26,313	91,261	117,574
Liability insurance	12,332	23,479	35,811
Financial guarantee insurance	3,787	491	4,278
Other property insurance	4,734	12,983	17,717
Accident insurance	8,661	28,501	37,162
Health insurance	2,590	2,564	5,154
Compulsory automobile liability insurance	<u>24,817</u>	-	<u>24,817</u>
	<u>\$ 115,180</u>	<u>\$ 188,322</u>	<u>\$ 303,502</u>

September 30, 2018			
Insurance by Type	Commission Payable	Others	Total
Fire insurance	\$ 38,022	\$ 13,194	\$ 51,216
Marine insurance	6,129	15,447	21,576
Land and air insurance	21,769	82,781	104,550
Liability insurance	13,304	18,573	31,877
Financial guarantee insurance	4,185	766	4,951
Other property insurance	4,389	9,973	14,362
Accident insurance	9,765	31,431	41,196
Health insurance	3,101	3,506	6,607
Compulsory automobile liability insurance	<u>27,846</u>	-	<u>27,846</u>
	<u>\$ 128,510</u>	<u>\$ 175,671</u>	<u>\$ 304,181</u>

d) Due from (to) reinsurers and ceding companies - reinsurance

September 30, 2019		
Items	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C	\$ 139,336	\$ 328,541
AON	78,353	232,086
Willis	30,632	14,025
Central Re	30,715	110,999
Others (individually below 5%)	<u>278,412</u>	<u>747,317</u>
	557,448	1,432,968
Less: Loss allowance	<u>(33,987)</u>	-
Net amount	<u>\$ 523,461</u>	<u>\$ 1,432,968</u>

	December 31, 2018	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 135,160	\$ 351,019
AON	29,292	65,670
Cathay (China)	36,346	796
Central Re	6,555	78,273
EverApex	859	78,547
FP Marine Risks	33,838	8,187
Guy Carpenter	33,344	18,508
Marsh	12,879	225,517
Willis	32,241	45,542
Others (individually below 5%)	<u>145,710</u>	<u>627,165</u>
	466,224	1,499,224
Less: Loss allowance	<u>(17,818)</u>	<u>-</u>
Net amount	<u>\$ 448,406</u>	<u>\$ 1,499,224</u>

	September 30, 2018	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 135,890	\$ 333,103
AON	40,020	90,922
SOMPO	32,735	32,610
Willis	74,470	28,111
Central Re	28,950	106,165
Guy Carpenter	31,810	18,173
Others (individually below 5%)	<u>195,020</u>	<u>660,025</u>
	538,895	1,269,109
Less: Loss allowance	<u>(25,411)</u>	<u>-</u>
Net amount	<u>\$ 513,484</u>	<u>\$ 1,269,109</u>

The overdue amounts as of September 30, 2019, December 31, 2018 and September 30, 2018 in the above due from (to) reinsurers and ceding companies were \$12,323 thousand, \$13,169 thousand and \$19,997 thousand, respectively, and loss allowances of \$12,323 thousand, \$13,169 thousand and \$19,997 thousand were provided, respectively.

Due from and due to the reinsurers and ceding companies cannot be offset, except for those meeting requirements in Article 42 of IAS 32.

3) Acquisition cost of insurance contracts

For the Three Months Ended September 30, 2019					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 49,335	\$ 2,699	\$ 17,405	\$ 4,347	\$ 73,786
Marine insurance	13,315	748	6,123	366	20,552
Land and air insurance	252,252	170	8,407	103,855	364,684
Liability insurance	50,715	37	38	6,004	56,794
Financial guarantee insurance	1,700	91	2,621	34	4,446
Other property insurance	14,712	2,005	14,317	879	31,913
Accident insurance	119,141	286	245	33,365	153,037
Health insurance	22,137	-	-	4,938	27,075
Compulsory auto liability insurance	-	102,580	-	-	102,580
	<u>\$ 523,307</u>	<u>\$ 108,616</u>	<u>\$ 49,156</u>	<u>\$ 153,788</u>	<u>\$ 834,867</u>

For the Three Months Ended September 30, 2018					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 49,038	\$ 3,946	\$ 26,422	\$ 3,141	\$ 82,547
Marine insurance	16,078	498	5,554	331	22,461
Land and air insurance	238,460	1	641	94,808	333,910
Liability insurance	40,535	46	19	3,352	43,952
Financial guarantee insurance	3,400	2	28	26	3,456
Other property insurance	17,241	2,012	21,135	638	41,026
Accident insurance	100,594	22	326	27,075	128,017
Health insurance	17,670	300	1,202	3,568	22,740
Compulsory auto liability insurance	-	99,609	-	-	99,609
	<u>\$ 483,016</u>	<u>\$ 106,436</u>	<u>\$ 55,327</u>	<u>\$ 132,939</u>	<u>\$ 777,718</u>

For the Nine Months Ended September 30, 2019					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 138,826	\$ 10,396	\$ 56,988	\$ 11,961	\$ 218,171
Marine insurance	47,637	1,368	12,676	1,043	62,724
Land and air insurance	768,477	171	8,410	303,075	1,080,133
Liability insurance	132,383	84	102	13,794	146,363
Financial guarantee insurance	9,901	95	2,679	34	12,709
Other property insurance	52,747	4,920	36,604	2,374	96,645
Accident insurance	321,442	423	690	87,156	409,711
Health insurance	56,067	132	147	12,534	68,880
Compulsory auto liability insurance	-	294,600	-	-	294,600
	<u>\$ 1,527,480</u>	<u>\$ 312,189</u>	<u>\$ 118,296</u>	<u>\$ 431,971</u>	<u>\$ 2,389,936</u>

For the Nine Months Ended September 30, 2018

Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance		Total
			Commission Expenses	Others	
Fire insurance	\$ 135,208	\$ 8,447	\$ 69,126	\$ 9,162	\$ 221,943
Marine insurance	47,193	1,015	9,182	928	58,318
Land and air insurance	728,623	1	660	260,351	989,635
Liability insurance	117,403	90	303	8,900	126,696
Financial guarantee insurance	11,162	5	83	26	11,276
Other property insurance	51,717	2,984	31,589	1,777	88,067
Accident insurance	289,346	207	552	71,854	361,959
Health insurance	46,862	437	2,226	9,241	58,766
Compulsory auto liability insurance	-	289,482	-	-	289,482
	<u>\$ 1,427,514</u>	<u>\$ 302,668</u>	<u>\$ 113,721</u>	<u>\$ 362,239</u>	<u>\$ 2,206,142</u>

Acquisition costs of the insurance contracts were not deferred.

4) Profit and loss analysis of the insurance business

Direct underwriting business

For the Three Months Ended September 30, 2019

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 572,437	\$ (304,705)	\$ 56,378	\$ 183,873	\$ 27,121	\$ 609,770
Marine insurance	131,400	(38,965)	14,429	83,481	(24,186)	96,641
Land and air insurance	2,281,184	(76,330)	356,277	1,397,657	43,863	559,717
Liability insurance	418,399	44,884	56,757	153,559	(53,075)	216,274
Financial guarantee insurance	19,582	(14,321)	1,825	31,312	6,481	(5,715)
Other property insurance	353,964	144,682	17,599	89,515	(33,125)	135,293
Accident insurance	946,150	16,259	152,791	442,421	(60,219)	394,898
Health insurance	131,512	10,064	27,075	28,958	2,679	62,736
Compulsory auto liability insurance	<u>742,951</u>	<u>(1,387)</u>	<u>102,580</u>	<u>451,483</u>	<u>(12,678)</u>	<u>202,953</u>
	<u>\$ 5,597,579</u>	<u>\$ (219,819)</u>	<u>\$ 785,711</u>	<u>\$ 2,862,259</u>	<u>\$ (103,139)</u>	<u>\$ 2,272,567</u>

For the Three Months Ended September 30, 2018

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 700,492	\$ (158,772)	\$ 56,125	\$ 92,567	\$ (66,894)	\$ 777,466
Marine insurance	142,070	(29,354)	16,907	55,140	29,184	70,193
Land and air insurance	2,129,197	(101,791)	333,269	1,315,120	98,389	484,210
Liability insurance	363,198	20,906	43,933	143,599	102,596	52,164
Financial guarantee insurance	34,992	4,897	3,428	4,673	(12,651)	34,645
Other property insurance	191,819	11,870	19,891	48,279	17,516	94,263
Accident insurance	805,043	(13,480)	127,691	349,193	24,863	316,776
Health insurance	99,763	5,243	21,538	28,637	(1,410)	45,755
Compulsory auto liability insurance	<u>744,002</u>	<u>(12,895)</u>	<u>99,609</u>	<u>378,290</u>	<u>38,909</u>	<u>240,089</u>
	<u>\$ 5,210,576</u>	<u>\$ (273,376)</u>	<u>\$ 722,391</u>	<u>\$ 2,415,498</u>	<u>\$ 230,502</u>	<u>\$ 2,115,561</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 2,492,176	\$ (92,617)	\$ 161,181	\$ 508,907	\$ 79,022	\$ 1,835,683
Marine insurance	465,527	(38,090)	50,048	223,932	8,524	221,113
Land and air insurance	6,946,490	42,637	1,071,723	4,074,618	229,328	1,528,184
Liability insurance	1,130,940	27,700	146,261	468,872	76,206	411,901
Financial guarantee insurance	91,257	627	10,030	56,530	(20,947)	45,017
Other property insurance	786,338	220,942	60,044	210,177	(37,318)	332,493
Accident insurance	2,594,940	67,813	409,020	1,090,399	(74,095)	1,101,803
Health insurance	327,823	18,866	68,733	74,271	4,528	161,425
Compulsory auto liability insurance	<u>2,150,832</u>	<u>(8,348)</u>	<u>294,600</u>	<u>1,640,365</u>	<u>(57,237)</u>	<u>281,452</u>
	<u>\$ 16,986,323</u>	<u>\$ 239,530</u>	<u>\$ 2,271,640</u>	<u>\$ 8,348,071</u>	<u>\$ 208,011</u>	<u>\$ 5,919,071</u>

For the Nine Months Ended September 30, 2018

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 2,410,423	\$ (28,995)	\$ 152,817	\$ 484,327	\$ (181,323)	\$ 1,983,597
Marine insurance	489,944	1,811	49,136	177,840	(1,196)	262,353
Land and air insurance	6,541,399	25,644	988,975	3,890,418	206,962	1,429,400
Liability insurance	996,453	19,105	126,393	386,382	203,588	260,985
Financial guarantee insurance	105,440	12,738	11,193	13,325	18,840	49,344
Other property insurance	569,899	8,578	56,478	256,751	34,084	214,008
Accident insurance	2,371,381	40,424	361,407	866,840	72,966	1,029,744
Health insurance	267,516	14,925	56,540	73,754	3,675	118,622
Compulsory auto liability insurance	<u>2,176,421</u>	<u>(16,447)</u>	<u>289,482</u>	<u>1,295,905</u>	<u>37,964</u>	<u>569,517</u>
	<u>\$ 15,928,876</u>	<u>\$ 77,783</u>	<u>\$ 2,092,421</u>	<u>\$ 7,445,542</u>	<u>\$ 395,560</u>	<u>\$ 5,917,570</u>

Reinsurance inward business

For the Three Months Ended September 30, 2019						
Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 108,574	\$ (9,185)	\$ 17,405	\$ 54,931	\$ 81,862	\$ (36,439)
Marine insurance	27,619	7,179	6,123	9,687	19,502	(14,872)
Land and air insurance	19,260	9,446	8,408	880	1,421	(895)
Liability insurance	514	(119)	38	29	(71)	637
Financial guarantee insurance	9,227	3,322	2,621	51	13,231	(9,998)
Other property insurance	64,284	(778)	14,316	14,310	(8,248)	44,684
Accident insurance	3,707	(59)	245	1,494	1,319	708
Health insurance	-	(2,251)	-	-	(23)	2,274
Compulsory auto liability insurance	<u>198,621</u>	<u>(149)</u>	<u>-</u>	<u>197,142</u>	<u>(1,601)</u>	<u>3,229</u>
	<u>\$ 431,806</u>	<u>\$ 7,406</u>	<u>\$ 49,156</u>	<u>\$ 278,524</u>	<u>\$ 107,392</u>	<u>\$ (10,672)</u>

For the Three Months Ended September 30, 2018						
Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 146,149	\$ 48,022	\$ 26,422	\$ 39,777	\$ 21,322	\$ 10,606
Marine insurance	18,557	4,384	5,554	3,643	4,764	212
Land and air insurance	4,049	2,987	641	612	(11)	(180)
Liability insurance	823	(47)	19	-	(1,185)	2,036
Financial guarantee insurance	397	(82)	28	22	(297)	726
Other property insurance	79,005	43,899	21,135	24,628	35,494	(46,151)
Accident insurance	3,130	784	326	577	(245)	1,688
Health insurance	12,022	8,765	1,202	9,169	628	(7,742)
Compulsory auto liability insurance	<u>197,187</u>	<u>(5,026)</u>	<u>-</u>	<u>198,749</u>	<u>(1,012)</u>	<u>4,476</u>
	<u>\$ 461,319</u>	<u>\$ 103,686</u>	<u>\$ 55,327</u>	<u>\$ 277,177</u>	<u>\$ 59,458</u>	<u>\$ (34,329)</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 355,264	\$ (69,293)	\$ 56,988	\$ 187,488	\$ 148,563	\$ 31,518
Marine insurance	53,523	9,566	12,676	30,665	13,220	(12,604)
Land and air insurance	19,316	8,242	8,411	884	1,705	74
Liability insurance	2,116	12	102	58	568	1,376
Financial guarantee insurance	10,012	3,279	2,679	652	12,332	(8,930)
Other property insurance	185,122	(12,030)	36,603	108,127	(23,444)	75,866
Accident insurance	10,622	(57)	690	2,742	1,907	5,340
Health insurance	5,270	(9,472)	147	8,939	283	5,373
Compulsory auto liability insurance	<u>566,264</u>	<u>(737)</u>	<u>-</u>	<u>659,232</u>	<u>18,358</u>	<u>(110,589)</u>
	<u>\$ 1,207,509</u>	<u>\$ (70,490)</u>	<u>\$ 118,296</u>	<u>\$ 998,787</u>	<u>\$ 173,492</u>	<u>\$ (12,576)</u>

For the Nine Months Ended September 30, 2018

Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 352,931	\$ 101,682	\$ 69,126	\$ 114,409	\$ 2,579	\$ 65,135
Marine insurance	34,548	7,344	9,182	20,792	13,545	(16,315)
Land and air insurance	4,094	958	660	654	(833)	2,655
Liability insurance	1,905	(127)	303	265	(567)	2,031
Financial guarantee insurance	1,160	(65)	83	1,747	1,367	(1,972)
Other property insurance	125,704	34,638	31,589	54,149	43,816	(38,488)
Accident insurance	8,861	1,358	552	1,551	418	4,982
Health insurance	17,486	8,591	2,226	16,046	895	(10,272)
Compulsory auto liability insurance	<u>566,388</u>	<u>(8,630)</u>	<u>-</u>	<u>749,896</u>	<u>(218)</u>	<u>(174,660)</u>
	<u>\$ 1,113,077</u>	<u>\$ 145,749</u>	<u>\$ 113,721</u>	<u>\$ 959,509</u>	<u>\$ 61,002</u>	<u>\$ (166,904)</u>

Ceded reinsurance business

For the Three Months Ended September 30, 2019						
Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 326,409	\$ (256,084)	\$ 26,854	\$ 54,211	\$ 5,116	\$ 496,312
Marine insurance	78,256	(26,999)	11,118	53,422	(12,817)	53,532
Land and air insurance	71,849	(18,201)	21,627	43,882	(8,215)	32,756
Liability insurance	176,013	40,368	33,033	37,056	(32,194)	97,750
Financial guarantee insurance	7,967	(12,944)	1,853	23,829	(6,864)	2,093
Other property insurance	279,809	155,258	19,891	56,317	(17,998)	66,341
Accident insurance	56,571	(7,680)	14,599	18,957	(2,748)	33,443
Health insurance	-	-	-	-	28	(28)
Compulsory auto liability insurance	<u>312,024</u>	<u>(832)</u>	<u>-</u>	<u>269,942</u>	<u>(7,318)</u>	<u>50,232</u>
	<u>\$ 1,308,898</u>	<u>\$ (127,114)</u>	<u>\$ 128,975</u>	<u>\$ 557,616</u>	<u>\$ (83,010)</u>	<u>\$ 832,431</u>

For the Three Months Ended September 30, 2018						
Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 411,433	\$ (110,287)	\$ 26,174	\$ 39,958	\$ (42,706)	\$ 498,294
Marine insurance	91,161	(19,958)	14,033	40,373	20,251	36,462
Land and air insurance	72,510	(22,320)	22,583	46,773	5,685	19,789
Liability insurance	137,520	21,791	21,457	35,148	47,621	11,503
Financial guarantee insurance	27,844	7,622	4,577	3,312	(15,127)	27,460
Other property insurance	111,414	(12,453)	20,137	10,619	14,040	79,071
Accident insurance	53,275	1,083	12,895	20,534	(3,884)	22,647
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	<u>311,521</u>	<u>(7,766)</u>	<u>-</u>	<u>227,507</u>	<u>23,201</u>	<u>68,579</u>
	<u>\$ 1,216,678</u>	<u>\$ (142,288)</u>	<u>\$ 121,856</u>	<u>\$ 424,224</u>	<u>\$ 49,081</u>	<u>\$ 763,805</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,593,200	\$ (105,453)	\$ 114,022	\$ 245,934	\$ (37,035)	\$ 1,375,732
Marine insurance	314,597	(20,704)	44,128	167,325	(5,523)	129,371
Land and air insurance	221,185	(51,672)	64,682	143,342	(25,395)	90,228
Liability insurance	405,220	19,600	81,738	149,671	60,110	94,101
Financial guarantee insurance	58,290	(3,559)	12,032	46,239	(17,620)	21,198
Other property insurance	574,780	234,761	64,973	106,134	(14,363)	183,275
Accident insurance	176,185	30,223	45,223	55,162	(677)	46,254
Health insurance	-	-	-	-	28	(28)
Compulsory auto liability insurance	<u>898,382</u>	<u>(5,008)</u>	<u>-</u>	<u>951,316</u>	<u>(33,472)</u>	<u>(14,454)</u>
	<u>\$ 4,241,839</u>	<u>\$ 98,188</u>	<u>\$ 426,798</u>	<u>\$ 1,865,123</u>	<u>\$ (73,947)</u>	<u>\$ 1,925,677</u>

For the Nine Months Ended September 30, 2018

Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,488,128	\$ (43,650)	\$ 102,652	\$ 169,936	\$ (1,168)	\$ 1,260,358
Marine insurance	332,425	8,891	43,830	111,515	8,562	159,627
Land and air insurance	233,284	(50,974)	71,251	145,658	(38,437)	105,786
Liability insurance	326,037	(1,875)	62,942	103,099	79,621	82,250
Financial guarantee insurance	77,055	13,627	13,672	7,940	(6,188)	48,004
Other property insurance	340,094	31,740	56,854	79,046	75,021	97,433
Accident insurance	175,853	25,708	42,348	48,844	2,661	56,292
Health insurance	-	-	-	-	(324)	324
Compulsory auto liability insurance	<u>906,610</u>	<u>(9,930)</u>	<u>-</u>	<u>763,404</u>	<u>24,134</u>	<u>129,002</u>
	<u>\$ 3,879,486</u>	<u>\$ (26,463)</u>	<u>\$ 393,549</u>	<u>\$ 1,429,442</u>	<u>\$ 143,882</u>	<u>\$ 1,939,076</u>

5) Sensitivity to insurance risk

a) Cathay Century

Insurance by Type	Premium Income	Expected Loss Rate	Impact on Profit or Loss of 5% Change in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Fire insurance	\$ 2,346,405	42.03%	\$ (117,320)	\$ (98,603)
Marine insurance	459,254	40.43%	(22,963)	(9,833)
Land and air insurance	6,852,230	64.41%	(342,611)	(330,313)
Liability insurance	1,130,050	53.73%	(56,503)	(38,716)
Financial guarantee insurance	91,257	183.21%	(4,563)	(2,994)
Other property insurance	784,015	67.24%	(39,201)	(29,532)
Accident insurance	2,574,330	43.07%	(128,717)	(120,886)
Health insurance	327,823	41.38%	(16,391)	(16,368)
Compulsory automobile liability insurance	2,150,832	Not applicable	Not applicable	Not applicable
	<u>\$ 16,716,196</u>		<u>\$ (728,269)</u>	<u>\$ (647,245)</u>

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Century, profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

b) Cathay Insurance (Vietnam)

Insurance by Type	Premium Income	Expected Loss Rate	Impact on Profit or Loss of 5% Change in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Automobile insurance	\$ 94,260	39.29%	\$ (4,713)	\$ (4,701)
Marine insurance	6,273	22.58%	(314)	(80)
Fire insurance	145,771	144.65%	(7,288)	(1,001)
Engineering insurance	2,323	75.90%	(116)	(34)
Accident insurance	20,610	33.47%	(1,030)	(1,029)
Liability insurance	<u>890</u>	48.22%	<u>(45)</u>	<u>(14)</u>
	<u>\$ 270,127</u>		<u>\$ (13,506)</u>	<u>\$ (6,859)</u>

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Insurance (Vietnam), profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

6) Risk concentration

a) Cathay Century

i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

As of September 30, 2019, according to related underwriting guidelines for the commercial insurance with low frequency of occurrence and enormous possible losses, the underwriting department, reinsurance department and risk management department have reviewed or discussed in project meeting.

ii) Exposure to unanticipated changes in trend

As of September 30, 2019, there is no exposure to unanticipated change in trend.

iii) Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Regulations for Assisting in Filing Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of September 30, 2019, there are no material litigation or legal risks that may lead to substantial losses incurred by a single contract or have an extensive effect on several contracts.

iv) Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may arise accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Century established “Operation Standards under Crisis”, under which crisis handling team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to maintain financial stability. As of September 30, 2019, there is no interaction among risks resulting from a catastrophe.

v) When a non-linear relationship as a certain key variable has approached to the extent that future cash flows may be materially influenced

Since the 3rd stage of liberalization of property insurance premium rate took effect, Cathay Century has conducted regular reviews on voluntary automobile insurance, commercial fire insurance, and residential fire insurance in accordance with regulations. When the actual loss rate exceeds the expected loss rate to a certain percentage, premium rates will be properly adjusted to avoid persistent enlargement of losses. In addition, the actuarial department observes the changes in trend of loss rates of each product on irregular basis and adjusts pricing and coverage in a timely manner to effectively lower insurance risks.

For investment instruments, changes in risk indicators are monitored on a regular basis with cash flow analysis as well as stress testing, to control and manage the impact of fluctuations in major risk factors.

In addition, stress testing is performed for the overall business every year to assess the impacts on financial positions due to extreme scenarios of the assets and insurance risk and understand the major risk factors to response in advance.

vi) Concentration of geographic regions and operating segments

Cathay Century's catastrophe insurance for earthquakes and floods are mainly in Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

ii. Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature

The following table summarizes Cathay Century's concentration of risk before and after reinsurance by insurance type:

Insurance Type	For the Three Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 543,604	\$ 108,138	\$ 301,810	\$ 349,932	7.49
Marine insurance	129,506	27,619	76,974	80,151	1.72
Land and air insurance	2,242,878	19,260	71,848	2,190,290	46.90
Liability insurance	418,244	447	175,893	242,798	5.20
Financial guarantee insurance	19,582	9,227	7,967	20,842	0.45
Other property insurance	352,986	64,283	279,222	138,047	2.96
Accident insurance	939,709	3,707	56,571	886,845	18.99
Health insurance	131,512	-	-	131,512	2.81
Compulsory automobile liability insurance	742,951	198,621	312,024	629,548	13.48
Total	\$ 5,520,972	\$ 431,302	\$ 1,282,309	\$ 4,669,965	100.00

Insurance Type	For the Nine Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 2,346,405	\$ 355,601	\$ 1,460,963	\$ 1,241,043	8.98
Marine insurance	459,254	53,523	310,214	202,563	1.47
Land and air insurance	6,852,230	19,300	221,146	6,650,384	48.12
Liability insurance	1,130,050	2,049	404,620	727,479	5.26
Financial guarantee insurance	91,257	10,012	58,290	42,979	0.31
Other property insurance	784,015	185,122	573,386	395,751	2.86
Accident insurance	2,574,330	10,622	176,185	2,408,767	17.43
Health insurance	327,823	5,270	-	333,093	2.41
Compulsory automobile liability insurance	2,150,832	566,264	898,382	1,818,714	13.16
Total	\$ 16,716,196	\$ 1,207,763	\$ 4,103,186	\$ 13,820,773	100.00

- iii. Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as earthquake, typhoon, and flood along with related hung claims, result in tremendous impact to the property insurance business.

To control and manage risk with low frequency of occurrence but enormous impact, Cathay Century assesses the risk of natural disasters and special insured items (for example, high-tech factory, power plant and traffic engineering) holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

b) Cathay Insurance (Vietnam)

- i. Situations that may cause concentration of insurance risk:

- i) Single insurance contract or several related contracts

As of September 30, 2019, according to related underwriting guidelines for the commercial insurance with low frequency of occurrence and enormous possible losses, the underwriting department and reinsurance department have reviewed or discussed in project meeting.

- ii) Exposure to unanticipated changes in trend

As of September 30, 2019, there is no exposure to unanticipated change in trend.

- iii) Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Procedure for Subrogation” and “The Proceedings of the Court” are set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of September 30, 2019, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

- iv) Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Insurance (Vietnam) established the Points for Handling Major Events of Cathay Insurance (Vietnam) under which crisis handling team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to keep financial stability. As of September 30, 2019, there is no interaction among risks resulting from a catastrophe.

- v) Concentration of geographical regions and operating segments

Cathay Insurance (Vietnam)’s catastrophe insurance for earthquakes and floods are mainly in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

- ii. Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature.

The following table summarizes the Cathay Insurance (Vietnam)’s concentration of risk before and after reinsurance by insurance type:

Insurance Type	For the Three Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 38,306	\$	\$ 1	\$ 38,305	75.83
Flood insurance	1,894	-	1,283	611	1.21
Fire insurance	28,833	438	24,598	4,673	9.24
Engineering insurance	978	-	587	391	0.77
Accident insurance	6,441	-	-	6,441	12.75
Liability insurance	155	67	120	102	0.20
Total	\$ 76,607	\$ 505	\$ 26,589	\$ 50,523	100.00

Insurance Type	For the Nine Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 94,260	\$ 17	\$ 39	\$ 94,238	71.81
Flood insurance	6,273	-	4,384	1,889	1.44
Fire insurance	145,771	1,164	133,736	13,199	10.06
Engineering insurance	2,323	-	1,394	929	0.71
Accident insurance	20,610	-	-	20,610	15.71
Liability insurance	890	67	600	357	0.27
Total	\$ 270,127	\$ 1,248	\$ 140,153	\$ 131,222	100.00

- c) Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control and manage risk with low frequency occurrence but enormous impact, Cathay Insurance (Vietnam) assesses the risk of natural disasters and special insured items holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

7) Development trends of claims

a) Cathay Century

Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	Total
Accumulated estimated claim payments End of the underwriting year	\$	\$ 5,773,901	\$ 7,066,945	\$ 7,559,012	\$ 12,235,424	\$ 8,134,147	\$ 9,090,990	\$ 7,562,218	
After the first year		6,109,827	7,217,836	7,418,703	11,455,620	8,025,062	8,628,206	-	
After the second year		6,169,858	7,156,309	7,548,387	10,970,548	7,972,723	-	-	
After the third year		6,103,460	7,135,341	7,495,744	11,101,429	-	-	-	
After the fourth year		6,135,016	7,133,873	7,444,985	-	-	-	-	
After the fifth year		6,114,404	7,153,055	-	-	-	-	-	
After the sixth year		6,058,643	-	-	-	-	-	-	
Final estimated claim payments		6,058,643	7,153,055	7,444,985	11,101,429	7,972,723	8,628,206	7,562,218	
Accumulated claims disbursed		6,003,292	6,930,303	7,391,060	10,871,046	7,649,700	7,509,083	3,411,292	
Adjustment	59,946	55,351	222,752	53,925	230,383	323,023	1,119,123	4,150,926	\$ 6,215,429
Amount recognized in balance sheet	\$ 59,946	\$ 55,351	\$ 222,752	\$ 53,925	\$ 230,383	\$ 323,023	\$ 1,119,123	\$ 4,296,072	\$ 6,360,575

Note: The upper part of table illustrates claim payments estimated in underwriting years by property insurance business. The lower part of the table illustrates the reconciliation of the accumulated claims disbursed to the balance sheet.

The above table excludes direct loss reserve of compulsory insurance of \$1,425,807 thousand and assumed loss reserve of \$950,690 thousand.

b) Cathay Insurance (Vietnam)

Since the claim data of Cathay Insurance (Vietnam) is still immature, the historical experience for development trend of claim are not available. Cathay Insurance (Vietnam) provided loss reserve for claims incurred but not yet filed at 5% of retained premiums following the suggestion by Vietnamese Ministry of Finance 2842/BTC/QLBH.

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,586,459,556	\$ 1,428,824,049	\$ 1,407,933,384
Financial assets at FVTOCI	1,202,571,937	1,127,810,270	1,188,757,135
Financial assets for hedging	702,253	216,611	201,416
Measured at amortized cost			
Cash and cash equivalents	343,245,590	206,576,054	235,551,443
Due from the Central Bank and other banks	110,869,396	104,223,315	121,969,884
Financial assets measured at amortized cost	3,014,160,425	2,688,221,788	2,562,779,822
Notes and bonds purchased under resale agreements	63,391,762	59,212,899	112,158,805
Discounts and loans, net	2,080,288,090	2,176,775,907	2,160,435,755
Receivables, net	210,297,923	161,216,190	165,043,950
Other financial assets	599,343,292	555,740,531	593,921,487
Guarantee deposits paid	61,416,607	57,523,991	59,004,159
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	138,241,318	129,698,896	145,383,363
Financial liabilities for hedging	38,240	-	-
Financial liabilities at amortized cost			
Due to the Central Bank and other banks	112,585,730	81,432,233	87,171,203
Notes and bonds sold under repurchase agreements	27,419,737	59,307,037	65,194,295
Commercial paper payable, net	55,609,250	62,989,367	65,278,538
Payables	124,011,839	66,727,399	61,232,574
Deposits and remittances	2,273,980,926	2,187,203,086	2,166,629,228
Bonds payable	118,900,000	90,600,000	90,600,000
Other borrowings	217,276	336,381	97,094
Other financial liabilities	662,125,752	627,815,178	664,763,312
Guarantee deposits received	7,581,916	6,059,194	6,972,925

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

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

- 1) The carrying amount of cash and cash equivalents, accounts receivable, short-term debts and accounts payable approximates their fair value due to their short maturities.
- 2) 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.
- 3) Fair values 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).
- 4) Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instruments (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).
- 5) 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 the interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- 6) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded on the Taipei Exchange.

c. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

Items	September 30, 2019				December 31, 2018				September 30, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets												
Financial assets at FVTPL												
Stocks	\$ 565,652,693	\$ 483,336,253	\$ 76,606,471	\$ 5,709,969	\$ 673,969,471	\$ 595,193,754	\$ 72,200,110	\$ 6,575,607	\$ 705,478,169	\$ 621,975,383	\$ 76,879,997	\$ 6,622,789
Bonds	305,462,219	13,003,987	290,386,081	2,072,151	247,536,253	14,790,150	231,090,829	1,655,274	205,125,550	19,268,367	184,736,019	1,121,164
Other	643,290,573	370,658,324	183,296,293	89,335,956	455,969,651	196,842,000	182,125,718	77,001,933	433,510,258	165,979,123	195,232,237	72,298,898
Financial assets at FVTOCI												
Stocks	51,216,778	41,458,303	-	9,758,475	43,192,054	34,662,164	154,309	8,375,581	52,643,331	44,036,487	180,446	8,426,398
Bonds (Note)	1,152,462,465	213,672,357	938,790,108	-	1,086,899,086	114,029,003	972,870,083	-	1,138,485,631	156,275,591	982,210,040	-
Liabilities												
Financial liabilities at FVTPL												
Financial liabilities designated as at FVTPL	60,075,661	-	60,075,661	-	51,441,482	-	51,441,482	-	51,470,506	-	51,470,506	-
Held for trading	1,793,666	1,793,666	-	-	2,521,778	2,521,778	-	-	2,165,515	2,066,665	98,850	-
Derivative instruments												
Assets												
Financial assets at FVTPL	72,054,071	1,222,706	70,481,116	350,249	51,348,674	512,621	38,751,836	12,084,217	63,819,407	628,990	50,841,294	12,349,123
Financial assets for hedging	702,253	-	702,253	-	216,611	-	216,611	-	201,416	-	201,416	-
Liabilities												
Financial liabilities at FVTPL	76,371,991	628,739	75,393,003	350,249	75,735,636	271,010	63,380,409	12,084,217	91,747,342	232,081	79,243,431	12,271,830
Derivative financial liabilities for hedging	38,240	-	38,240	-	-	-	-	-	-	-	-	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

- For the nine months ended September 30, 2018, Cathay Life and its subsidiaries transferred shares mandatorily classified as FVTPL of \$240,195 thousand from Level 2 to Level 1 due to the availability of market prices.
- For the nine months ended September 30, 2018, Cathay Century and its subsidiaries transferred shares mandatorily classified as FVTPL of \$140,125 thousand from Level 2 to Level 1 due to the availability of market prices.
- For the nine months ended September 30, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value.

2) Reconciliation for movements in Level 3 fair value measurements

	For the Nine Months Ended September 30, 2019		
	Financial Assets		Financial Liabilities
	At FVTPL	At FVTOCI	At FVTPL
Beginning balance	\$ 97,317,031	\$ 8,375,581	\$ 12,084,217
Recognized in profit or loss			
Loss on financial assets and liabilities at FVTPL	(5,355,683)	-	(10,942,346)
Loss on reclassification using the overlay approach	(1,553,915)	-	-
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	14,595	44	-
Other comprehensive income reclassified using the overlay approach	1,553,915	-	-
Gain on equity instruments at FVTOCI	-	1,269,555	-
Purchases	18,728,304	140,485	23,000
Disposals	(13,234,241)	(27,190)	(814,622)
Transfers to Level 3	19,942	-	-
Transfers out of Level 3	(21,623)	-	-
Ending balance	<u>\$ 97,468,325</u>	<u>\$ 9,758,475</u>	<u>\$ 350,249</u>
	For the Nine Months Ended September 30, 2018		
	Financial Assets		Financial Liabilities
	At FVTPL	At FVTOCI	At FVTPL
Beginning balance	\$ 70,194,011	\$ 8,805,837	\$ 8,822,872
Recognized in profit or loss			
Losses on financial assets and liabilities at FVTPL	13,836,407	-	5,246,992
Gain on reclassification using the overlay approach	(5,704,885)	-	-
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	5,990	102	292
Other comprehensive income reclassified using the overlay approach	5,704,885	-	-
Gain on equity instruments at FVTOCI	-	1,220,525	-
Purchases	19,869,866	257,787	48,128
Disposals	(8,833,298)	(209,539)	(1,846,454)
Transfers to Level 3	411,620	-	-
Transfers out of Level 3	(3,092,622)	(1,648,314)	-
Ending balance	<u>\$ 92,391,974</u>	<u>\$ 8,426,398</u>	<u>\$ 12,271,830</u>

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2019 and 2018, unrealized losses of \$11,515,293 thousand and unrealized gains of \$6,242,005 thousand were related to financial assets held at the end of the period, respectively.

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2019 and 2018, unrealized losses of \$10,942,346 thousand and unrealized gains of \$5,246,992 thousand were related to financial liabilities held at the end of the period, respectively.

3) Information on significant unobservable inputs applied for Level 3 fair value measurement

The significant unobservable inputs applied for recurring Level 3 fair value measurement were as follows:

Cathay Life and its subsidiaries

September 30, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	4%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest	23%-39%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-20%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates
December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	22%-37%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	70%-140%	The higher the dividend payout ratio, the higher the fair value estimates

September 30, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of marketability	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	15%-48%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(63%)-61%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates

Cathay United Bank and its subsidiaries

September 30, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the shares.

December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the shares

September 30, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at fair value through profit or loss	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
Financial assets at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of shares
	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the shares
	Value of net assets approach	Value of net assets	N/A	The higher the value of net assets, the higher the fair value of the shares

Cathay Century and its subsidiaries

September 30, 2019				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

December 31, 2018				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

September 30, 2018				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

Cathay Securities and its subsidiaries

September 30, 2019					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	Sensitivity of the Input to Fair Value
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

December 31, 2018					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	Sensitivity of the Input to Fair Value
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

September 30, 2018					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	Sensitivity of the Input to Fair Value
Investments in equity instruments at fair value through other comprehensive income	Market comparison approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value	Rate of discount for lack of marketability (3%)-3%, floating rate of fair value 3.67%-(3.67%)

4) Valuation process for Level 3 fair value measurements.

The Group's risk management department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs. 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 Group's accounting policies at each reporting date.

d. Fair values of financial instruments not measured at fair value

Other than cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resale agreements, receivables, loans, guarantee deposits paid, due to the Central Bank and other banks, securities sold under repurchase agreements, commercial paper payable, bonds payable, other borrowings, payables, deposits and guarantee deposits received, the items whose carrying amount approximate their fair value, the fair values of the Group's financial instruments which are not measured at fair value are listed in the table below:

September 30, 2019

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Debt instruments measured at amortized cost (Note)	\$ 3,025,598,286	\$ 133,108,853	\$ 3,089,618,569	\$ 5,100,302	\$ 3,227,827,724

December 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Debt instruments measured at amortized cost (Note)	\$ 2,704,025,477	\$ 121,132,583	\$ 2,480,186,972	\$ 6,061,288	\$ 2,607,380,843
Other financial assets	1,999,406	-	2,009,973	-	2,009,973

September 30, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Debt instruments measured at amortized cost (Note)	\$ 2,577,229,213	\$ 109,298,941	\$ 2,384,662,556	\$ 12,264,307	\$ 2,506,225,804
Other financial assets	3,499,368	-	3,520,134	-	3,520,134

Note: Guarantee deposits paid in bonds are included.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis. Significant unobservable inputs used in Level 3 fair value measurement were the discount rates that reflect the credit risk of counterparties and the cash flows that reflect the feature of early reimbursement.

e. Hedge accounting disclosures

Cathay Life and its subsidiaries

1) Cash flow hedges

The future cash flows of the floating-rate assets held by Cathay Life and its subsidiaries may fluctuate due to the changes in market interest rates and thus lead to risks. Accordingly, Cathay Life and its subsidiaries held IRS to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

a) Hedging instruments

September 30, 2019					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
		Interest rate swaps	\$ 6,800,000		
Interest rate swaps	1,358,088	-	38,240	Financial liabilities for hedging	(38,214)

December 31, 2018					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
		Interest rate swaps	\$ 6,800,000		

September 30, 2018					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
		Interest rate swaps	\$ 6,800,000		

b) Maturities of the nominal amount of hedging instruments and average price or rate

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2019</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 677,605	\$ 7,480,483	\$ -
Average fixed rate	-	-	1.7%-2.5%	1.6%-2.5%	-
<u>December 31, 2018</u>					
Interest rate swaps					
Nominal principal	-	-	-	3,800,000	3,000,000
Average fixed rate	-	-	-	1.6%	1.7%
<u>September 30, 2018</u>					
Interest rate swaps					
Nominal principal	-	-	-	2,800,000	4,000,000
Average fixed rate	-	-	-	1.6%	1.7%

c) Hedged items

For the Nine Months Ended September 30, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other Comprehensiv e Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Item Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (35,784)	\$ 203,060	N/A	\$ 35,784	\$ -	\$ -	\$ (49,335)	Net other non-interest gain
Payables	38,214	(38,240)	N/A	(38,214)	-	-	-	Net other non-interest gain
Discontinued hedge - floating-rate bonds	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Net other non-interest gain
For the Nine Months Ended September 30, 2018								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other Comprehensiv e Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Item Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (23,025)	\$ 201,416	N/A	\$ 23,025	\$ -	\$ -	\$ (68,053)	Net other non-interest gain
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ -	N/A	N/A	N/A	1,087	Net other non-interest gain

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 173,289	\$ 203,647
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	(2,430)	23,025
Amount reclassified from the cash flow hedge reserve to profit or loss	(49,335)	(66,966)
Income tax	<u>2,710</u>	<u>1,427</u>
Ending balance	<u>\$ 124,234</u>	<u>\$ 161,133</u>

2) Fair value hedges

The book value of the foreign currency denominated assets held by Cathay Life may fluctuate due to the changes in market exchange rates and thus lead to risk. Accordingly, Cathay Life held derivative instruments related to exchange rates to hedge risks arising from changes in exchange rates. Information of hedge accounting is as follows:

a) Hedging instruments

Hedging Instrument	September 30, 2019				Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument				
		Assets	Liabilities			
Cross currency swaps	\$ 10,044,893	\$ 499,193	\$ -		Financial assets for hedging	\$ 351,879

b) Maturities of the nominal amount of hedging instruments and average price or rate

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 10,044,893
Interest rate	-	-	-	-	2.20%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285-1.1353

c) Hedged items

	For the Nine Months Ended September 30, 2019							
	Book Value of Hedged Item		Cumulative Adjustment for Change in Fair Value of Hedged Item Included in the Book Value of the Hedged Item		Line item in the Statement of Financial Position That Includes the Hedged items	Charges in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period	Ineffectiveness Recognized in Profit or loss	Line item in Profit or Loss That Includes the Hedge Ineffectiveness
	Assets	Liabilities	Assets	Liabilities				
Overseas bonds	\$ 10,044,893	\$ -	\$ (351,879)	\$ -	Financial assets at amortized cost	\$ (351,879)	\$ -	\$ -

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

**For the Nine
Months Ended
September 30,
2019**

Foreign currency basis-related period

Beginning balance	\$ -
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	147,314
Income tax	<u>(29,463)</u>
Ending balance	<u>\$ 117,851</u>

- f. Offsetting of financial assets and financial liabilities

Cathay Life and its subsidiaries

Cathay Life and its subsidiaries engage in derivative financial instruments that do not meet the offsetting criteria of standards, but enters into master netting arrangements or other similar agreements with counterparties. Financial instruments subject to master netting arrangements or other similar agreements could be settled at net amount as agreed by both parties of the transaction, or the financial instrument should be settled at gross amount otherwise. However, if one of both parties of the transaction defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

September 30, 2019

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Assets Recognized on the Balance Sheet	<u>Relevant Amount That Has Not Been Offset on the Balance Sheet</u>		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 9,925,349	\$ -	\$ 9,925,349	\$ 9,049,564	\$ 1,295,155	\$ (419,370)
Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	<u>Relevant Amount That Has Not Been Offset on the Balance Sheet</u>		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 19,441,309	\$ -	\$ 19,441,309	\$ 9,049,564	\$ 4,168,281	\$ 6,223,464

December 31, 2018

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Assets Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 5,584,159	\$ -	\$ 5,584,159	\$ 5,424,679	\$ -	\$ 159,480

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 27,499,106	\$ -	\$ 27,499,106	\$ 5,424,679	\$ 10,921,864	\$ 11,152,563

September 30, 2018

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Assets Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 7,487,110	\$ -	\$ 7,487,110	\$ 7,094,266	\$ 125,779	\$ 267,065

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Derivative financial instruments	\$ 34,994,991	\$ -	\$ 34,994,991	\$ 7,094,266	\$ 12,694,262	\$ 15,206,463

Cathay United Bank and its subsidiaries

Cathay United Bank and its subsidiaries engages in financial instrument transactions that are offset in accordance with IAS 32, section 42, and the financial assets and financial liabilities that are relevant to such transactions are presented in the balance sheets at net amounts.

Cathay United Bank and its subsidiaries is also engaged in financial instrument transactions that are not offset in accordance with the regulations, but entered into enforceable master netting arrangements or other similar agreements with counterparties, for example: global master repurchase agreements, global securities lending agreements, or other similar agreements. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities was disclosed as follows:

September 30, 2019

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 62,593,985	\$ -	\$ 62,593,985	\$ 57,323,025	\$ 2,983,186	\$ 2,287,774

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

September 30, 2019

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 57,323,025	\$ -	\$ 57,323,025	\$ 57,323,025	\$ -	\$ -

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

December 31, 2018

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 49,475,706	\$ -	\$ 49,475,706	\$ 49,475,706	\$ -	\$ -

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

December 31, 2018

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 51,966,013	\$ -	\$ 51,966,013	\$ 49,475,706	\$ 2,490,307	\$ -

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

September 30, 2018

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 56,542,428	\$ -	\$ 56,542,428	\$ 56,542,428	\$ -	\$ -

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

September 30, 2018

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 57,478,419	\$ -	\$ 57,478,419	\$ 56,542,428	\$ 935,991	\$ -

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

Cathay Securities and its subsidiaries

Cathay Securities and its subsidiaries enters into secured repurchase agreements with counterparties, for which Cathay Securities provides securities as collateral. Only in the event of default, insolvency or bankruptcy, these transactions are allowed to be offset, which does not meet the offsetting criteria of financial instrument transactions, Article 42 of IAS 32, and they are not subject to enforceable master netting arrangements or other similar agreements and should be settled at gross amounts. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

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

September 30, 2019

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ <u>1,902,206</u>	\$ <u>-</u>	\$ <u>1,902,206</u>	\$ <u>1,915,756</u>	\$ <u>-</u>	\$ <u>(13,550)</u>

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

December 31, 2018

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ <u>3,332,528</u>	\$ <u>-</u>	\$ <u>3,332,528</u>	\$ <u>3,379,521</u>	\$ <u>-</u>	\$ <u>(46,993)</u>

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

September 30, 2018

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ 3,138,633	\$ -	\$ 3,138,633	\$ 3,140,892	\$ -	\$ (2,259)

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

g. Transfers of financial assets

Financial assets transferred that have not been fully removed

Cathay United Bank and its subsidiaries

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

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

September 30, 2019					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through other comprehensive income					
Repurchase agreements	\$ 26,793,197	\$ 25,236,750	\$ 26,793,197	\$ 25,236,750	\$ 1,556,447
Financial assets at amortized cost					
Repurchase agreements	255,203	280,781	258,913	280,781	(21,868)

December 31, 2018					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 581,159	\$ 523,342	\$ 581,159	\$ 523,342	\$ 57,817
Available for sale financial assets					
Repurchase agreements	44,424,315	42,613,744	44,424,315	42,613,744	1,810,571
Held to maturity financial assets					
Repurchase agreements	14,649,885	11,447,258	13,056,317	11,447,258	1,609,059
Debt instrument investments for which no active market exists					
Repurchase agreements	1,493,132	1,390,165	1,493,132	1,390,165	102,967

September 30, 2018					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 995,963	\$ 913,548	\$ 995,963	\$ 913,548	\$ 82,415
Financial assets at fair value through other comprehensive income					
Repurchase agreements	49,325,883	46,113,710	49,325,833	46,113,710	3,212,123
Financial assets at amortized cost					
Repurchase agreements	18,134,642	14,824,026	16,478,723	14,824,026	1,654,697
Securities sold under agreements					
Repurchase agreements	212,926	204,378	212,926	204,378	8,548

Cathay Securities and its subsidiaries

Transferred financial assets that are part of Cathay Securities and its subsidiaries' daily operations that do not meet the criteria for full derecognition are mostly made up of notes and bonds issued under repurchase agreements. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities and its subsidiaries are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities and its subsidiaries will not be able to use, sell or pledge the said transferred financial assets during the effective period. However, Cathay Securities and its subsidiaries are still exposed to interest rate risk and credit risk, hence the assets are not fully derecognized.

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

September 30, 2019

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Carrying Value of Related Financial Liabilities	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through <u>other comprehensive income</u>					
Repurchase bonds	\$ 1,915,756	\$ 1,902,206	\$ 1,915,756	\$ 1,902,206	\$ 13,550

December 31, 2018

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Carrying Value of Related Financial Liabilities	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at fair value through <u>other comprehensive income</u>					
Repurchase bonds	\$ 3,379,521	\$ 3,332,528	\$ 3,379,521	\$ 3,332,528	\$ 46,993

September 30, 2018

Categories of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Carrying Value of Related Financial Liabilities	Fair Value of Related Financial Liabilities	Net Fair Value
<u>Financial assets at fair value through other comprehensive income</u>					
Repurchase bonds	\$ 3,140,892	\$ 3,138,633	\$ 3,140,892	\$ 3,138,633	\$ 2,259

h. Financial risk management objectives and policies

Cathay Life and its subsidiaries

Cathay Life's major financial instruments include equity and debt investments, derivative instruments, receivables, payables and bonds payable. The main financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Credit risk analysis

a) Sources of credit risk

When engaged in financial transactions, Cathay Life is exposed to credit risks, including issuer credit risk, counterparty credit risk and credit risk of underlying assets:

- i. Issuer credit risk is the risk that Cathay Life may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations on agreed conditions due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk that Cathay Life may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.
- iii. Credit risk of underlying assets is the risk that Cathay Life may suffer losses due to deterioration of the credit quality, increase of credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Concentration risk

- i. Regional distribution of maximum risk exposure for Cathay Life's financial assets:

September 30, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 214,498,960	\$ 14,172,956	\$ 135,652	\$ 68,471,407	\$ 57,253	\$ 297,336,228
Financial assets at FVTPL	33,670,230	32,290,066	104,008,821	40,984,794	88,929,421	299,883,332
Financial assets at FVTOCI	44,626,755	44,110,032	173,118,907	370,741,910	237,085,959	869,683,563
Financial assets for hedging	94,992	-	499,193	108,068	-	702,253
Financial assets measured at amortized cost	<u>187,136,416</u>	<u>172,314,161</u>	<u>433,064,135</u>	<u>1,149,918,125</u>	<u>654,670,041</u>	<u>2,597,102,878</u>
	<u>\$ 480,027,353</u>	<u>\$ 262,887,215</u>	<u>\$ 710,826,708</u>	<u>\$ 1,630,224,304</u>	<u>\$ 980,742,674</u>	<u>\$ 4,064,708,254</u>
Proportion	11.8%	6.5%	17.5%	40.1%	24.1%	100%

December 31, 2018

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 108,663,821	\$ 598,577	\$ 136,389	\$ 54,671,101	\$ 201,744	\$ 164,271,632
Financial assets at FVTPL	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at FVTOCI	90,868,582	31,038,900	168,157,801	359,145,961	242,495,856	891,707,100
Financial assets for hedging	96,344	-	-	120,267	-	216,611
Financial assets measured at amortized cost	183,624,214	140,559,799	382,921,822	1,001,042,809	549,913,112	2,258,061,756
Other financial assets	-	-	1,999,406	-	-	1,999,406
	<u>\$ 419,474,044</u>	<u>\$ 198,888,638</u>	<u>\$ 639,964,843</u>	<u>\$ 1,449,097,022</u>	<u>\$ 874,770,956</u>	<u>\$ 3,582,195,503</u>
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100%

September 30, 2018

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 118,093,718	\$ 714,999	\$ 140,484	\$ 61,553,226	\$ 99,728	\$ 180,602,155
Financial assets at FVTPL	37,035,475	22,902,626	62,089,583	21,064,772	84,037,549	227,130,005
Financial assets at FVTOCI	95,723,167	32,892,871	177,841,472	387,926,008	242,600,147	936,983,665
Financial assets for hedging	88,482	-	-	112,934	-	201,416
Financial assets measured at amortized cost	195,220,081	138,829,398	368,213,528	980,733,587	543,204,265	2,226,200,859
Other financial assets	-	-	3,499,368	-	-	3,499,368
	<u>\$ 446,160,923</u>	<u>\$ 195,339,894</u>	<u>\$ 611,784,435</u>	<u>\$ 1,451,390,527</u>	<u>\$ 869,941,689</u>	<u>\$ 3,574,617,468</u>
Proportion	12.5%	5.5%	17.1%	40.6%	24.3%	100.0%

ii. Regional distribution of maximum risk exposure for Cathay Life's secured loans:

September 30, 2019

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 245,145,911	\$ 42,158,168	\$ 65,797,795	\$ 7,384,055	\$ 360,485,929
Non-accrual loans	417,306	72,575	114,910	-	604,791
	<u>\$ 245,563,217</u>	<u>\$ 42,230,743</u>	<u>\$ 65,912,705</u>	<u>\$ 7,384,055</u>	<u>\$ 361,090,720</u>
Proportion	68.0%	11.7%	18.3%	2.0%	100%

December 31, 2018

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
Non-accrual loans	878,642	36,044	54,067	-	968,753
	<u>\$ 288,319,462</u>	<u>\$ 48,528,186</u>	<u>\$ 71,445,373</u>	<u>\$ 8,193,993</u>	<u>\$ 416,487,014</u>
Proportion	69.2%	11.6%	17.2%	2.0%	100%

September 30, 2018

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 302,274,856	\$ 46,447,230	\$ 74,209,520	\$ 5,141,008	\$ 428,072,614
Non-accrual loans	871,218	31,426	54,275	-	956,919
	<u>\$ 303,146,074</u>	<u>\$ 46,478,656</u>	<u>\$ 74,263,795</u>	<u>\$ 5,141,008</u>	<u>\$ 429,029,533</u>
Proportion	70.7%	10.8%	17.3%	1.2%	100.0%

c) Categories for credit risk quality

Cathay Life classified credit risk into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- i. Low credit risk indicates that an entity or a subject has a robust ability to perform financial commitment. Even though it encounters material uncertainty or exposes to unfavorable conditions, its ability to perform financial commitment will be kept and maintained.
- ii. Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
- iii. High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. The capability to perform the commitment depends on the favorability of its business environment and financial conditions.
- iv. Credit impaired indicates that an entity or a subject fails to fulfill its obligations, and Cathay Life evaluates the potential losses and determines it as impaired.

d) Determination on the credit risk that has increased significantly since initial recognition

- i. Cathay Life assesses whether there is a significant increase in credit risk of a financial instrument applicable for impairment requirements under IFRS 9 since initial recognition at each reporting date. To make this assessment, Cathay Life considers reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- ii. If the credit risk of a financial instrument is determined to be low at the reporting date, it indicates that the credit risk of the financial instrument has not increased significantly since initial recognition.

e) The definition of default and credit-impaired financial assets

Cathay Life's definition of default on financial assets is the same as that of a credit-impaired financial asset. If one or more of the following criteria are met, a financial asset is considered defaulted and credit-impaired:

- i. Quantitative factor: when the contractual payments are overdue for more than 90 days, the financial asset is considered defaulted and credit-impaired.
- ii. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments, or that they have significant financial difficulties, for example:
 - i) The issuers or borrowers have entered into bankruptcy or are probable to enter into bankruptcy or financial reorganization.
 - ii) The issuers fail to pay interest or principal according to the issue terms and conditions.
 - iii) The collaterals of the borrowers are provisionally seized or enforced.
 - iv) The borrowers claim for a change of credit conditions due to financial difficulties.

- iii. The abovementioned definitions of default on a financial asset and a credit-impaired financial asset are applicable to all financial assets held by Cathay Life, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.
- f) Measurement of expected credit loss

- i. The methodology and assumptions applied

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Life measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments whose credit risk has increased significantly since initial recognition or those which have been credit-impaired, Cathay Life measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

In the measurement of expected credit losses, 12-month and lifetime expected credit losses are the multiply of exposure at default (“EAD”), loss given default (“LGD”) and probability of default (“PD”) of issuers, guarantee agencies or borrowers for 12 months and the lifetime, respectively, in consideration of time value of money.

PD is the rate that a default occurs on issuers, guarantee agencies or borrowers. LGD is the loss rate resulted from a default of issuers, guarantee agencies or borrowers. Loss given default used by Cathay Life in impairment assessment is based on information regularly issued by Moody’s. Probability of default is based on information regularly issued by Taiwan Ratings Corp. and Moody’s and is determined based upon current observable information and macroeconomic information (for example, gross domestic product and economic growth rate) with adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of financial assets.

- ii. Forward-looking information considerations

Cathay Life takes forward-looking information into consideration while measuring expected credit losses of financial assets.

- g) Gross carrying amounts of maximum credit risk exposure and categories for credit quality

- i. Financial assets of Cathay Life

	September 30, 2019					
	Stage 1		Stage 2		Stage 3	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Gross Carrying Amount
Investment grade						
Debt instruments at FVTOCI	\$ 854,603,526	\$ -	\$ -	\$ -	\$ -	\$ 854,603,526
Financial assets measured at amortized cost	2,565,457,577	-	-	-	(1,003,240)	2,564,454,337
Non-investment grade						
Debt instruments at FVTOCI	14,652,849	427,188	-	-	-	15,080,037
Financial assets measured at amortized cost	27,195,565	5,953,109	-	-	(500,133)	32,648,541

December 31, 2018						
	Stage 1		Stage 2		Stage 3	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Gross Carrying Amount
Investment grade						
Debt instruments at FVTOCI	\$ 868,624,804	\$ -	\$ -	\$ -	\$ -	\$ 868,624,804
Financial assets measured at amortized cost	2,221,201,714	-	-	-	(853,594)	2,220,348,120
Other financial assets	2,000,000	-	-	-	(594)	1,999,406
Non-investment grade						
Debt instruments at FVTOCI	22,790,603	215,072	76,621	-	-	23,082,296
Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636
September 30, 2018						
	Stage 1		Stage 2		Stage 3	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Gross Carrying Amount
Investment grade						
Debt instruments at FVTOCI	\$ 912,901,924	\$ -	\$ -	\$ -	\$ -	\$ 912,901,924
Financial assets measured at amortized cost	2,193,435,325	-	-	-	(857,711)	2,192,577,614
Other financial assets	3,500,000	-	-	-	(632)	3,499,368
Non-investment grade						
Debt instruments at FVTOCI	23,863,159	218,582	-	-	-	24,081,741
Financial assets measured at amortized cost	26,051,177	8,364,260	-	-	(792,192)	33,623,245

Note: Investment grade assets refer to those with credit ratings of at least BBB-; non-investment grade assets are those with credit ratings lower than BBB-.

ii. Secured loans and non-accrual loans of Cathay Life

September 30, 2019							
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 353,626,032	\$ 696,661	\$ 6,768,027	\$ -	\$ (947,403)	\$ (4,090,118)	\$ 356,053,199
December 31, 2018							
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 411,821,024	\$ 111,237	\$ 4,554,753	\$ -	\$ (682,254)	\$ (5,126,352)	\$ 410,678,408
September 30, 2018							
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 424,156,170	\$ 429,711	\$ 4,443,652	\$ -	\$ (665,131)	\$ (5,322,835)	\$ 423,041,567

h) Reconciliation for loss allowance is summarized below:

i. Debt instrument investments at FVTOCI

	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(2,661)	2,661	-	-	-
New financial assets originated or purchased	121,537	-	7	-	121,544
Financial assets that have been derecognized during the period	(223,009)	(64,281)	(12,462)	-	(299,752)
Changes in models/risk parameters	7,208	67,000	-	-	74,208
Foreign exchange and other movements	<u>4,256</u>	<u>709</u>	<u>116</u>	<u>-</u>	<u>5,081</u>
September 30, 2019	<u>\$ 375,611</u>	<u>\$ 23,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,749</u>
	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 455,064	\$ 96,965	\$ -	\$ -	\$ 552,029
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(1,209)	1,209	-	-	-
Transferred to 12-month expected credit loss	127	(127)			-
New financial assets originated or purchased	209,736	-	-	-	209,736
Financial assets that have been derecognized during the period	(178,116)	(138,140)	-	-	(316,256)
Changes in models/risk parameters	38,902	57,464	-	-	96,366
Foreign exchange and other movements	<u>10,578</u>	<u>190</u>	<u>-</u>	<u>-</u>	<u>10,768</u>
September 30, 2018	<u>\$ 535,082</u>	<u>\$ 17,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 552,643</u>

ii. Financial assets measured at amortized cost

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(542)	542	-	-	-
New financial assets originated or purchased	380,587	-	-	-	380,587
Financial assets that have been derecognized during the period	(297,146)	(236,044)	(658,551)	-	(1,191,741)
Changes in models/risk parameters	66,882	(35,921)	-	-	30,961
Foreign exchange and other movements	6,934	8,029	(51,893)	-	(36,930)
September 30, 2019	<u>\$ 1,061,145</u>	<u>\$ 442,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,503,373</u>

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(4,597)	4,597	-	-	-
New financial assets originated or purchased	207,269	-	-	-	207,269
Financial assets that have been derecognized during the period	(72,843)	(364,160)	-	-	(437,003)
Changes in models/risk parameters	24,706	360,190	-	-	384,896
Foreign exchange and other movements	18,503	16,380	-	-	34,883
September 30, 2018	<u>\$ 927,138</u>	<u>\$ 722,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,649,903</u>

iii. Other financial assets

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 594	\$ -	\$ -	\$ -	\$ 594
Financial assets that have been derecognized during the period	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
September 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Lifetime Expected Credit Losses</u>				Total of Impairment Charged in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	<u>(269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269)</u>
September 30, 2018	<u>\$ 632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 632</u>

iv. Secured loans and non-accrual receivable

	<u>Lifetime Expected Credit Losses</u>				Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2019	\$ 90,567	\$ 201	\$ 591,486	\$ -	\$ 682,254	\$ 5,126,352	\$ 5,808,606
Changes due to financial instruments recognized as at January 1							
Transferred to lifetime expected credit losses	(608)	608	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,302)	(93)	1,395	-	-	-	-
Transferred to 12-month expected credit losses	1,662	(77)	(1,585)	-	-	-	-
New financial assets originated or purchased	1,782	-	7,903	-	9,685	-	9,685
Financial assets that have been derecognized during the period	(10,067)	(26)	(102,255)	-	(112,348)	-	(112,348)
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(1,036,234)	(1,036,234)
Changes in models/risk parameters	<u>(6,608)</u>	<u>69</u>	<u>374,351</u>	<u>-</u>	<u>367,812</u>	<u>-</u>	<u>367,812</u>
September 30, 2019	<u>\$ 75,426</u>	<u>\$ 682</u>	<u>\$ 871,295</u>	<u>\$ -</u>	<u>\$ 947,403</u>	<u>\$ 4,090,118</u>	<u>\$ 5,037,521</u>

	<u>Lifetime Expected Credit Losses</u>				Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2018	\$ 108,879	\$ 1,211	\$ 601,271	\$ -	\$ 711,361	\$ 5,438,078	\$ 6,149,439
Changes due to financial instruments recognized as at January 1							
Transferred to lifetime expected credit losses	(799)	1,493	(694)	-	-	-	-
Transferred to credit-impaired financial assets	(182)	(86)	268	-	-	-	-
Transferred to 12-month expected credit losses	1,213	(1,057)	(156)	-	-	-	-
New financial assets originated or purchased	16,140	20	9,824	-	25,984	-	25,984
Financial assets that have been derecognized during the period	(8,468)	(52)	(52,043)	-	(60,563)	-	(60,563)
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(115,243)	(115,243)
Changes in models/risk parameters	<u>(6,911)</u>	<u>(992)</u>	<u>(3,748)</u>	<u>-</u>	<u>(11,651)</u>	<u>-</u>	<u>(11,651)</u>
September 30, 2018	<u>\$ 109,872</u>	<u>\$ 537</u>	<u>\$ 554,722</u>	<u>\$ -</u>	<u>\$ 665,131</u>	<u>\$ 5,322,835</u>	<u>\$ 5,987,966</u>

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

i) Exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 are based upon the lifetime expected credit losses under simplified approach. Loss allowance measured by a provision matrix under simplified approach is as follows:

	Recognition				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>September 30, 2019</u>					
Gross carrying amount (Note)	\$ 20,105,699	\$ 96,192	\$ 8,074	\$ -	\$ 20,209,965
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,924	807	-	2,731

Note: Cathay Life's receivables included notes receivable in the amount of \$7,206 thousand and other receivables in the amount of \$20,202,759 thousand.

	Recognition				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>December 31, 2018</u>					
Gross carrying amount (Note)	\$ 11,311,658	\$ 111,076	\$ 1,219	\$ 3	\$ 11,423,956
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	2,222	123	1	2,346

Note: Cathay Life's receivables included notes receivable in the amount of \$72,825 thousand and other receivables in the amount of \$11,351,131 thousand.

	Recognition				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>September 30, 2018</u>					
Gross carrying amount (Note)	\$ 22,432,621	\$ 115,542	\$ 906	\$ 72	\$ 22,549,141
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	2,313	92	36	2,441

Note: Cathay Life's receivables included notes receivable in the amount of \$5,433 thousand and other receivables in the amount of \$22,543,708 thousand.

The movements of loss allowance were as follows:

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 2,346	\$ 2,175
Provision for the current period	<u>385</u>	<u>266</u>
Ending balance	<u>\$ 2,731</u>	<u>\$ 2,441</u>

2) Liquidity risk analysis

a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of performing matured commitment because its fails to realize assets or obtain sufficient funds. Market liquidity risk is the risk of significant changes in fair values when Cathay Life sells or offsets its positions during a market disorder or a lack of sufficient market depth.

b) Liquidity risk management

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

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

The analysis of cash outflows to Cathay Life and its subsidiaries is listed below and based on the residual terms to maturity on the balance sheet date. The disclosed amounts are prepared in accordance with contract cash flows and, accordingly for certain line items, the disclosed amounts are different to the amounts on consolidated balance sheets.

The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

	September 30, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 36,599,222	\$ 801,654	\$ 348,610	\$ 1,191,520	\$ 41,291
Bonds payable (Note)	252,000	927,385	2,715,000	8,145,000	88,745,000
<u>Derivative financial liabilities</u>					
Foreign currency swaps	20,979,468	128,655	-	-	-
Foreign exchange forward contracts	2,818,552	93,300	-	-	-
Interest rate swaps	2,297	1,480	3,574	2,045	-
Options	143,587	-	-	-	-
Cross currency swaps	-	-	542	-	-
	December 31, 2018				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 31,044,618	\$ 239,517	\$ 285,769	\$ 1,242,728	\$ 9,636
Bonds payable (Note)	414,540	1,194,411	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
Foreign currency swaps	23,555,917	10,107,225	-	-	-
Foreign exchange forward contracts	5,538,893	53,900	-	-	-
Interest rate swaps	14,230	3,686	3,978	2,587	-

	September 30, 2018				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 23,722,338	\$ 645,821	\$ 257,543	\$ 1,280,802	\$ 7,385
Bonds payable (Note)	252,000	705,670	2,415,000	7,245,000	79,660,000
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	34,816,201	8,008,982	-	-	-
Foreign currency swaps	3,123,279	-	-	-	-
Interest rate swaps	14,251	8,944	4,163	845	-

Note: For the bonds payable without maturity dates, the contract cash flows were determined for 10 years as remaining periods.

3) Market risk analysis

- Sources of market risk

Market risk is the risk that changes in market risk factors, such as exchange rate, product price, interest rate, credit spread and stock price, may decrease Cathay Life and its subsidiaries' income or value of investment portfolio.

Cathay Life and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying Value at Risk ("VaR") and stress testing continuously.

a) Value at Risk

VaR is the maximum loss on the portfolio at a given confidence level and over a given period. Currently, Cathay Life and its subsidiaries adopts one-week VaR at 95% and 99% confidence level to measure market risk.

b) Stress testing

Cathay Life and its subsidiaries evaluates the potential risks occurred in extreme and abnormal events regularly in addition to VaR models.

Cathay Life and its subsidiaries performs stress testing on positions regularly by applying simple sensitivity test and scenario analysis. Such tests cover the losses on positions resulted from a change in specific risk factors in various kinds of historical scenarios.

i. Simple sensitivity test

Simple sensitivity test is to measure the changes in the value of the investment portfolio caused by specific risk factors.

ii. Scenario analysis

Scenario analysis is to measure the changes in the total value of investment positions caused by hypothetical stress events, including the following scenarios:

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Life and its subsidiaries evaluates that losses would be incurred for the current investment portfolio in the event.

ii) Hypothetical scenario

Cathay Life and its subsidiaries simulates rational expectations for the possible extreme market changes to evaluate the losses incurred for the investment positions by considering the fluctuations in related risk factors and the relevance between the investment targets and the risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. Cathay Life and its subsidiaries' risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

Risk Factors	Changes (+/-)	For the Nine Months Ended September 30	
		2019	2018
Equity risk (price)	-10%	\$ (52,805,101)	\$ (72,802,064)
Interest rate risk (yield curve)	+100bps	(112,396,873)	(114,349,099)
Exchange risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(11,619,149)	(8,770,112)

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

c) Sensitivity analysis

Summarization of Sensitivity Analysis

For the Nine Months Ended September 30, 2019

Risk Factors	Variables (+/-)	Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 7,233,836	\$ 4,501,505
	CNY (CNH)/USD appreciates 1%	1,203,259	355,500
	HKD/USD appreciates 1%	(2,788)	382,262
	EUR/USD appreciates 1%	140,302	162,308
	GBP/USD appreciates 1%	(116,155)	278,723
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	(75)	(921,129)
	Yield curve (CNY) parallel shifts up 1bp	-	(16,566)
	Yield curve (EUR) parallel shifts up 1bp	99	(13,294)
	Yield curve (GBP) parallel shifts up 1bp	-	(7,619)
	Yield curve (NTD) parallel shifts up 1bp	249	(85,528)
	Equity price risk	Equity price increases 1%	(145,643)

For the Nine Months Ended September 30, 2018

Risk Factors	Variables (+/-)	Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 3,835,512	\$ 5,022,301
	CNY (CNH)/USD appreciates 1%	800,684	506,268
	HKD/USD appreciates 1%	1,564	591,675
	EUR/USD appreciates 1%	81,724	210,300
	GBP/USD appreciates 1%	48,207	255,153
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	(1,395)	(922,490)
	Yield curve (AUD) parallel shifts up 1bp	-	-
	Yield curve (EUR) parallel shifts up 1bp	1,172	(9,895)
	Yield curve (NTD) parallel shifts up 1bp	583	(171,436)
Equity price risk	Equity price increases 1%	26,378	7,263,324

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Provision or reversal of reserve for foreign exchange valuation changes is not considered in profit or loss due to foreign currency risk.

Note 5: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

Cathay United Bank and its subsidiaries

Cathay United Bank's risk control and hedging strategy follows the requirements of the customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopted different risk management methods to identify its risks and Cathay United Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

Cathay United Bank setup the risk management committee, whose responsibilities are as follows:

- 1) To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- 2) To manage and decide the strategy about the Bank's credit risk, market risk and operational risk.
- 3) To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- 4) To analyze the issues that the Bank's business unit brought up for discussion.
- 5) Other issues.

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

1) Credit risk

Credit risk represents the risk of loss that Cathay United Bank would incur if counterparty fails to perform its contractual obligations. Sources of credit risk cover both on and off balance sheet accounts.

a) Credit risk policy and implementation

i. Cathay United Bank, Indovina Bank and CUBCN Bank

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

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

ii. CUBC Bank

CUBC Bank's board of directors resolved that a risk management department would be established to manage the credit risk. CUBC Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee.

Loan committee is the top lending authority within CUBC Bank. It is in charge with approval of all credit in excess of CUBC Bank's lending authorities. Certain customers are required to provide appropriate collateral for the related loans, and CUBC Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

b) Judgment that credit risk has increased significantly since initial recognition

i. Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank assess the movement in default risk during the expected lifetime of various types of credit assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition. To make this assessment, Cathay United Bank and CUBCN Bank have considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after the initial recognition. The key indicators for consideration include:

i) Quantitative indicators

- Changes on credit rating

When the credit rating at the reporting date has decreased to some extent compared with that on initial recognition and the credit rating has not met the investment grade, it is determined that the credit risk has increased significantly since the initial recognition.

- Information on the overdue status of the contract

When the contract payment was overdue for more than 30 days as at the reporting date, it is determined that the credit risk has increased significantly since the initial recognition.

ii) Qualitative indicators

When the information observed at the reporting date meets the following conditions, it is determined that the credit risk has increased significantly since the initial recognition.

- The refund records are reported.
- Accountants have expressed significant doubt on its ability to continue as a going concern.
- Other internal or external information on judging the credit quality changes.

ii. Indovina Bank

Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

i) Notch downgrade

A notch downgrade of obligor's internal or external ratings between the current grade and the grade at initial recognition greater than specific threshold would be classified as a significant increase in credit risk since initial recognition.

ii) Low credit risk criteria

An exposure rated below Moody's investment grade (i.e. the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency) at the reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) Past due information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

iv) Internal credit assessment indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

iii. CUBC Bank

CUBC Bank observes the following indicators at each reporting date in order to determine if the financial asset is credit impaired:

i) Past due information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

ii) Loan classification from NBC

A loan contract with special mention position at reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) Internal credit assessment indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

c) Default and credit impairment of financial asset

i. Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank's definition of default on financial assets is the same with the one of judging the credit impairment of financial assets. Where one or more of the following conditions are met, Cathay United Bank determines the financial assets to be subject to default and credit impairment.

i) Quantitative indicators

- Changes on credit rating

When the credit rating of the financial asset at the reporting date falls into the default level, it is determined to be credit impaired.

- Information on the overdue status of the contract

When the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

ii) Qualitative indicator

When the information observed at the reporting date meets the following conditions, the financial asset is determined to be credit impaired.

- Bailout, reorganization, individual agreement due to debtor's financial difficulties.
- Lawsuit action has been taken
- Debt settlement, debt negotiation.
- Other internal or external information on judging the deterioration in credit quality.

The aforementioned definition of default and credit impairment applies to all financial assets held by Cathay United Bank, and is consistent with the definition applied on the significant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

ii. Indovina Bank

Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk subjected to default:

i) Notch downgrade

An obligor who has failed to pay one or more of its financial obligations or is rated as default at the reporting date is considered to be credit-impaired.

ii) Past due information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

iii) Internal credit assessment indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

iii. CUBC Bank

CUBC Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk subjected to default:

i) Past due information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

ii) Loan classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) Internal credit assessment indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

d) The measurement of expected credit loss

i. Cathay United Bank and CUBCN Bank

For the purpose of assessing the expected credit losses, Cathay United Bank and CUBCN Bank classify the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category, and so on.

Credit Category	Definition
Enterprise loan	Grouped by risk characteristics, enterprise size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

When the credit risk of the financial instrument has not increased significantly after initial recognition (Stage 1), Cathay United Bank and CUBCN Bank should measure the allowance for losses using 12-month expected credit losses. When the credit risk of the financial instrument has increased significantly (Stage 2) or the financial instrument is credit impaired (Stage 3) after initial recognition, Cathay United Bank and CUBCN Bank should measure the allowance for losses based on lifetime expected credit losses.

For the measurement of the expected credit loss, Cathay United Bank and CUBCN Bank calculate its expected credit losses over 12 months and the life time respectively by multiplying three factors, i.e. probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) of the borrower over the next 12 months and the life time, also considering the effect of the life time value of money.

The PD and LGD applied in the impairment assessment of the credit business of Cathay United Bank and CUBCN Bank are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the forward-looking macroeconomic information (such as economic growth rate, etc.).

Cathay United Bank and CUBCN Bank assessed the EAD of loans at the reporting date. According to internal and external information, Cathay United Bank and CUBCN Bank consider the portion of the loan commitments that is expected to be drawn on over the next 12 months after the reporting date and the lifetime, to determine the EAD for calculating the expected credit losses.

The PD used in the impairment assessment of Cathay United Bank and CUBCN Bank's debt instruments measured at fair value through other comprehensive income and measured at amortized cost, represents the PD of the issuer, guarantee agency or borrower. The LGD represents the loss rate resulted from the default of the issuer, guarantee agency or borrower. The LGD used in Cathay United Bank and CUBCN Bank relevant impairment assessment is based on the information regularly published by Moody's, an international credit rating agency; the PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated after adjusting the historical data based on the currently observable data and the looking-forward macroeconomic information (e.g., gross domestic product and economic growth rate, etc.). The EAD is measured at the amortized cost of financial assets and interests receivable.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change in 2019.

ii. Indovina Bank

Indovina Bank has grouped their exposures on the basis of shared credit risk characteristic, including product and counterparty types as follows.

Category	Description
Loan portfolio	Grouped by counterparty type and enterprise size, such as large corporate, SME and retail loans.
Bond portfolio	Grouped by product class, external credit rating and payment ranks, such as sovereign and corporate bonds.

i) Loan portfolio

The segmentation of Indovina Bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and enterprise size. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

ii) Bond portfolio

The segmentation of Indovina Bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

iii. Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank measures their expected credit losses by the following segments.

Category	Description
Loan	Grouped by product, counterparty types and loan classification by NBC, such as retail annuity and non-retail annuity.
Credit Card	Grouped as a whole by product characteristic

The segmentation of CUBC Bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

e) Write-off policy

Cathay United Bank and its subsidiaries write off all or part of their financial assets when all or part of their financial assets cannot reasonably be expected to be recovered.

Indicators that show that the financial assets cannot be reasonably collected are as follows:

- i. The recovery activity has stopped.
- ii. Assessed the borrower doesn't have sufficient assets or sources of income to pay the overdraft.

Financial assets have been written-off by Cathay United Bank and its subsidiaries may still have ongoing recovery activity, and continue to follow the relevant policies to litigation proceedings.

f) Consideration of forward-looking information

Cathay United Bank and CUBCN Bank

Cathay United Bank and CUBCN Bank use historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and use the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD and LGD differ depending on the type of financial instruments.

The significant economic factors identified by Cathay United Bank and CUBCN Bank in 2019 are as follows:

Credit Category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	Consumer Price Index Government Expenditures GDP % Proportion of investment in GDP (%)	GDP %
	Consumer loan	
Credit card	Price Index Proportion of government revenue in GDP (%)	

Indovina Bank

Indovina Bank carries out quantitative and qualitative analyses based on historical data in identifying the local and global economic factors impacting the credit risk and expected credit losses of different portfolios, and uses the regression model, interpolation adjustments and historical situation in analyzing and estimating the impairment parameters after forward-looking adjustments. The selected economic factors and their effects on PDs varied from different types of portfolios.

The macroeconomic factors selected by Indovina Bank for the forward-looking adjustments in 2019 are as follows:

Segment	Selected Factors
Loan portfolio	Vietnam GDP growth rate
Bond portfolio	Global GDP growth rate
	Global inflation index

Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank builds the expected credit loss parameter model based on the historical default and loss data, taking into consideration the local risk distribution and borrower characteristics when using the local overall economic data in carrying out the forward looking adjustments of estimation parameters using the interpolation method.

The macroeconomic factors selected by CUBC Bank for the forward-looking adjustments in 2019 are as follows.

Segment	Selected Factors
Enterprise loan	Cambodia GDP growth rate
Consumer loan	
Credit card	

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

i. Categories of credit risk

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

ii. Grades of credit quality

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

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

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

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

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

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

iii. Hedge of credit risk and easing policy

i) Collateral

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

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

ii) Limit of credit risk and control of credit risk concentration

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

iii) Net settlement agreement

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

iv. Cathay United Bank's maximum exposure to credit risk

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

i) Cathay United Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2019	December 31, 2018	September 30, 2018
Irrevocable loan commitments	\$ 151,976,389	\$ 154,605,389	\$ 197,550,766
Credit card commitments	692,991,384	669,232,204	653,775,721
Unused commercial letters of credit	5,413,454	4,217,682	4,639,987
Guarantees on duties and contracts	13,505,393	13,534,956	8,578,417

ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2019	December 31, 2018	September 30, 2018
Financial guarantee contracts	\$ 1,389,371	\$ 2,262,842	\$ 2,840,524
Unused commercial letters of credit	836,415	1,017,801	1,083,014
Irrevocable loan commitments	667	-	-

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2019	December 31, 2018	September 30, 2018
Financial guarantee contracts	\$ 24,388	\$ 78,161	\$ 61,878
Credit card commitments	323,110	447,040	439,718

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2019	December 31, 2018	September 30, 2018
Financial guarantee contracts	\$ 467,859	\$ 170,835	\$ 283,329
Unused commercial letters of credit	180,717	773,078	796,103
Irrevocable loan commitments	792,519	623,837	591,990

To reduce the risk from any businesses, Cathay United Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collateral and guarantors. For obtaining of collateral, Cathay United Bank has collateral management guidelines, to ensure that collateral meet the specific criteria and has the effect of reducing the business risk.

The management deems Cathay United Bank and its subsidiaries are able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use more strict rating procedures when extending credits and conduct reviews regularly.

The carrying amount of the maximum credit risk exposure of on-balance-sheet financial assets are as follows:

Cathay United Bank and its subsidiaries' discounts and loans:

	September 30, 2019			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,509,638,536	\$ 58,508,578	\$ 12,768,952	\$ -	\$ 1,580,916,066
Less: Allowance impairment	(2,711,798)	(1,456,176)	(5,567,120)	-	(9,735,094)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(17,267,045)	(17,267,045)
	<u>\$ 1,506,926,738</u>	<u>\$ 57,052,402</u>	<u>\$ 7,201,832</u>	<u>\$ (17,267,045)</u>	<u>\$ 1,553,913,927</u>

Cathay United Bank and its subsidiaries' receivables:

	September 30, 2019			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 129,397,098	\$ 1,496,092	\$ 2,222,852	\$ -	\$ 133,116,042
Less: Allowance impairment	(562,512)	(133,544)	(1,580,096)	-	(2,276,152)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(52,742)	(52,742)
	<u>\$ 128,834,586</u>	<u>\$ 1,362,548</u>	<u>\$ 642,756</u>	<u>\$ (52,742)</u>	<u>\$ 130,787,148</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	December 31, 2018			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,549,705,049	\$ 59,275,734	\$ 11,769,709	\$ -	\$ 1,620,750,492
Less: Allowance impairment	(3,914,449)	(1,667,321)	(4,912,617)	-	(10,494,387)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(14,932,854)	(14,932,854)
	<u>\$ 1,545,790,600</u>	<u>\$ 57,608,413</u>	<u>\$ 6,857,092</u>	<u>\$ (14,932,854)</u>	<u>\$ 1,595,323,251</u>

Cathay United Bank and its subsidiaries' receivables:

	December 31, 2018			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 83,956,813	\$ 1,660,989	\$ 2,422,873	\$ -	\$ 88,040,675
Less: Allowance impairment	(126,022)	(116,965)	(1,768,492)	-	(2,011,479)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(50,470)	(50,470)
	<u>\$ 83,830,791</u>	<u>\$ 1,544,024</u>	<u>\$ 654,381</u>	<u>\$ (50,470)</u>	<u>\$ 85,978,726</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	September 30, 2018			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,534,784,016	\$ 48,576,951	\$ 11,340,847	\$ -	\$ 1,594,701,814
Less: Allowance impairment	(4,287,118)	(1,828,073)	(4,859,926)	-	(10,975,117)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(14,283,486)	(14,283,486)
	<u>\$ 1,530,496,898</u>	<u>\$ 46,748,878</u>	<u>\$ 6,480,921</u>	<u>\$ (14,283,486)</u>	<u>\$ 1,569,443,211</u>

Cathay United Bank and its subsidiaries' receivables:

	September 30, 2018			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1	Stage 2	Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses		
Total carrying amount	\$ 84,167,814	\$ 1,386,550	\$ 2,470,312	\$ -	\$ 88,024,676
Less: Allowance impairment	(123,890)	(106,697)	(1,770,446)	-	(2,001,033)
Difference from impairment charged in accordance with "Regulations Governing the Procedures to Evaluate Assets"	-	-	-	(48,983)	(48,983)
	<u>\$ 84,043,924</u>	<u>\$ 1,279,853</u>	<u>\$ 699,866</u>	<u>\$ (48,983)</u>	<u>\$ 85,974,660</u>

v. Credit risk concentration of Cathay United Bank and its subsidiaries

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

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

Industry Type Items	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 118,131,808	7.40	\$ 117,141,000	7.16	\$ 115,206,571	7.18
Financial institutions and insurance	76,799,272	4.81	74,995,593	4.58	86,524,195	5.39
Leasing and real estate	142,428,313	8.93	140,808,012	8.60	132,515,369	8.26
Individuals	888,894,583	55.70	900,573,664	55.03	885,591,064	55.19
Others	<u>369,522,906</u>	<u>23.16</u>	<u>403,005,618</u>	<u>24.63</u>	<u>384,833,345</u>	<u>23.98</u>
	<u>\$ 1,595,776,882</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,604,670,544</u>	<u>100.00</u>

Geographic Region Items	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,307,802,306	81.96	\$ 1,360,278,586	83.12	\$ 1,332,878,578	83.06
Asia	206,963,646	12.97	160,134,030	9.78	138,490,695	8.63
America	45,673,111	2.86	31,418,258	1.92	49,987,173	3.12
Others	<u>35,337,819</u>	<u>2.21</u>	<u>84,693,013</u>	<u>5.18</u>	<u>83,314,098</u>	<u>5.19</u>
	<u>\$ 1,595,776,882</u>	<u>100.00</u>	<u>\$ 1,636,523,887</u>	<u>100.00</u>	<u>\$ 1,604,670,544</u>	<u>100.00</u>

2) Liquidity risk

a) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

b) Liquidity risk management strategy and principles

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds Cathay United Bank believes it can generate within that period. As part of our liquidity risk management, Cathay United Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

c) Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

i. Financial assets held to manage liquidity risk

Cathay United Bank holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income, discounts and loans, and securities purchased under resell agreements.

ii. Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

	September 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 57,895,243	\$ 27,047,523	\$ 10,404,878	\$ 172,286	\$ 95,519,930
Non-derivative financial liabilities at fair value					
through profit or loss	401,788	-	261,218	53,298,757	53,961,763
Securities sold under repurchase agreements	13,339,822	1,352,279	20	7,613,325	22,305,446
Payables	58,440,124	6,564,038	983,997	352,375	66,340,534
Deposits and remittances	318,443,971	946,165,199	856,369,022	126,172,118	2,247,150,310
Financial debentures payable	-	5,568	433,877	53,800,000	54,239,445
Lease liabilities	-	18,315	50,035	3,715,275	3,783,625
Other capital outflow at maturity	20,043,647	37,857,589	5,836,347	1,373,431	65,111,014

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year				Total
	Year	1-5 Years	5-10 Years	10-15 Years	
Lease liabilities	\$ 68,350	\$ 3,350,126	\$ 365,149	\$ -	\$ 3,783,625

	December 31, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 33,388,821	\$ 17,227,043	\$ 17,187,533	\$ 147,450	\$ 67,950,847
Non-derivative financial liabilities at fair value					
through profit or loss	-	-	610,767	51,992,332	52,603,099
Securities sold under repurchase agreements	30,140,774	10,582,338	-	15,436,901	56,160,013
Payables	12,118,626	6,512,187	909,069	402,186	19,942,068
Deposits and remittances	353,788,658	872,227,988	834,010,982	116,509,145	2,176,536,773
Financial debentures payable	7,800	727,699	1,537,213	53,900,000	56,172,712
Other capital outflow at maturity	27,116,530	40,057,002	8,599,063	1,251,007	77,023,602

	September 30, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 45,817,577	\$ 18,119,833	\$ 10,382,145	\$ 137,889	\$ 74,457,444
Non-derivative financial liabilities at fair value through profit or loss	495,239	-	257,087	50,867,415	51,619,741
Securities sold under repurchase agreements	33,960,130	12,673,582	-	15,422,289	62,056,001
Payables	17,350,310	1,935,316	7,119,765	517,035	26,922,426
Deposits and remittances	326,043,642	930,338,638	776,493,354	112,200,434	2,145,076,068
Financial debentures payable	14,303	1,060	2,035,811	53,900,000	55,951,174
Other capital outflow at maturity	24,680,826	39,402,504	11,918,792	965,428	76,967,550

iii. Maturity analysis of derivative financial liabilities

Net settled derivative financial instruments engaged by Cathay United Bank include:

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

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

	September 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 134,113	\$ 89,258	\$ 4,432	\$ 61	\$ 227,864
Interest rate derivative instruments	39,880	317,678	532,506	26,162,208	27,052,272
	<u>\$ 173,993</u>	<u>\$ 406,936</u>	<u>\$ 536,938</u>	<u>\$ 26,162,269</u>	<u>\$ 27,280,136</u>
	December 31, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 86,688	\$ 45,095	\$ 229,800	\$ 199	\$ 361,782
Interest rate derivative instruments	21,092	285,082	543,248	23,522,719	24,372,141
	<u>\$ 107,780</u>	<u>\$ 330,177</u>	<u>\$ 773,048</u>	<u>\$ 23,522,918</u>	<u>\$ 24,733,923</u>
	September 30, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 21,006	\$ 14,655	\$ 83,498	\$ 220	\$ 119,379
Interest rate derivative instruments	4,086,278	121,146	498,815	20,333,274	25,039,513
	<u>\$ 4,107,284</u>	<u>\$ 135,801</u>	<u>\$ 582,313</u>	<u>\$ 20,333,494</u>	<u>\$ 25,158,892</u>

Gross settled derivative financial instruments engaged by Cathay United Bank include:

- i) Foreign exchange derivative instruments: Currency futures and swaps;
- ii) Interest rate derivative instruments: Cross currency swaps;
- iii) Credit derivative instruments: All derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand Cathay United Bank's gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on contract cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

	September 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (1,959,588)	\$ (4,045,436)	\$ (951,360)	\$ (150,562)	\$ (7,106,946)
Cash inflow	6,059	48,705	193	2	54,959
Interest rate derivative instruments					
Cash outflow	(65,457)	(83,449)	-	(548,372)	(697,278)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,025,045)	(4,128,885)	(951,360)	(698,934)	(7,804,224)
Cash inflow subtotal	6,059	48,705	193	2	54,959
Net cash flow	<u>\$ (2,018,986)</u>	<u>\$ (4,080,180)</u>	<u>\$ (951,167)</u>	<u>\$ (698,932)</u>	<u>\$ (7,749,265)</u>
	December 31, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (3,875,082)	\$ (4,718,572)	\$ (558,507)	\$ (296,855)	\$ (9,449,016)
Cash inflow	24,170	17,928	717	-	42,815
Interest rate derivative instruments					
Cash outflow	(10,384)	(56,742)	(107,229)	(423,860)	(598,215)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,885,466)	(4,775,314)	(665,736)	(720,715)	(10,047,231)
Cash inflow subtotal	24,170	17,928	717	-	42,815
Net cash flow	<u>\$ (3,861,296)</u>	<u>\$ (4,757,386)</u>	<u>\$ (665,019)</u>	<u>\$ (720,715)</u>	<u>\$ (10,004,416)</u>
	September 30, 2018				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (4,086,601)	\$ (7,283,600)	\$ (1,415,226)	\$ (177,717)	\$ (12,963,144)
Cash inflow	7,524	16,173	562	-	24,259
Interest rate derivative instruments					
Cash outflow	(16,195)	(33,398)	(67,786)	(318,952)	(436,331)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(4,102,796)	(7,316,998)	(1,483,012)	(496,669)	(13,399,475)
Cash inflow subtotal	7,524	16,173	562	-	24,259
Net cash flow	<u>\$ (4,095,272)</u>	<u>\$ (7,300,825)</u>	<u>\$ (1,482,450)</u>	<u>\$ (496,669)</u>	<u>\$ (13,375,216)</u>

iv. Maturity analysis of off-balance sheet items

- i) Irrevocable commitments: Include Cathay United Bank's irrevocable loan commitments and credit card commitments.
- ii) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit lines in a financing guarantee agreement.

Maturity analysis of off-balance sheet items are shown as follows:

September 30, 2019

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 98,318,671	\$ 39,887,880	\$ 13,769,838	\$ 151,976,389
Credit card commitments	38,899,195	236,530,144	417,562,045	692,991,384
Financial guarantee contracts	13,340,165	5,252,122	326,560	18,918,847

December 31, 2018

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 109,990,204	\$ 35,237,143	\$ 9,378,042	\$ 154,605,389
Credit card commitments	55,543,412	237,450,848	376,237,944	669,232,204
Financial guarantee contracts	12,492,672	4,793,131	466,835	17,752,638

September 30, 2018

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 160,921,261	\$ 31,518,574	\$ 5,110,931	\$ 197,550,766
Credit card commitments	41,687,388	235,099,978	376,988,355	653,775,721
Financial guarantee contracts	10,160,216	3,006,156	52,032	13,218,404

3) Market risk

a) Source and definition of market risk

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

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

b) Market risk management strategy and process

Market risk management process

i. Identification and measurement

The operations department and risk management department of Cathay United Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR) etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

ii. Monitoring and reporting

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

c) Risk management policy of the trading book

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

i. Strategy

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

ii. Policy and procedure

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

iii. Valuation policy

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

iv. Method of measurement

i) The assumption and calculation of VaR: See the VaR section.

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

d) Interest risk management of trading book

i. Definition of interest risk

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

ii. Interest risk management procedure of the trading book

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

iii. Method of measurement

i) The assumptions and calculation of the VaR: See VaR section.

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

e) Interest risk management of the banking book

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

i. Strategy

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

ii. Management procedure

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

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

iii. Method of measurement

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

f) Foreign exchange risk management

i. Definition of foreign exchange risk

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

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

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

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

iii. The significant portfolio of foreign currency financial assets and liabilities are as follows:

	September 30, 2019		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 15,982,804	31.0420	\$ 496,138,202
CNY	5,873,095	4.3603	25,608,456
HKD	10,052,995	3.9592	39,801,818
<u>Financial liabilities</u>			
Monetary items			
USD	12,805,138	31.0420	397,497,094
CNY	8,355,341	4.3603	36,431,793
AUD	1,613,598	20.9766	33,847,800

	December 31, 2018		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 13,372,308	30.7330	\$ 410,971,142
CNY	5,166,157	4.4742	23,114,420
HKD	8,325,249	3.9240	32,668,277
<u>Financial liabilities</u>			
Monetary items			
USD	12,941,117	30.7330	397,719,349
CNY	8,476,523	4.4742	37,925,659
AUD	1,808,396	21.6775	39,201,504

	September 30, 2018		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 13,852,598	30.5510	\$ 423,210,721
CNY	4,197,001	4.4401	18,635,104
HKD	8,695,275	3.9053	33,957,657
<u>Financial liabilities</u>			
Monetary items			
USD	12,869,482	30.5510	393,175,545
CNY	8,150,911	4.4401	36,190,860
AUD	1,788,545	22.0517	39,440,458

As the Company has a large variety of foreign currencies, it is not possible to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange gains were \$385,591 thousand, \$483,503 thousand, \$1,029,363 thousand and \$1,297,736 thousand for the three and nine months ended September 30, 2019 and 2018, respectively.

g) Risk management of equity securities price

i. Definition of risk of equity securities price

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

ii. Purpose of risk management in equity securities prices

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

iii. Procedure of risk management of equity securities prices

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

iv. Measurement methodology

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

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

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistical confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of the potential amount of loss within one day, while the statistical confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Based on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

September 30, 2019				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 77,746	\$ 212,043	\$ 40,550	\$ 118,285
Foreign exchange	127,451	198,936	35,686	35,686
Equity securities price	285,942	393,133	159,476	159,476

December 31, 2018				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 307,882	\$ 701,219	\$ 52,816	\$ 57,761
Foreign exchange	147,353	202,948	104,364	136,066
Equity securities price	318,530	424,067	230,176	282,533

September 30, 2018				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 456,185	\$ 858,800	\$ 73,007	\$ 73,007
Foreign exchange	141,575	202,948	104,364	116,177
Equity securities price	296,393	424,067	206,747	342,354

Note: Above information about factors of market risks is defined by risk management of the trading book.

Cathay United Bank enters into a variety of derivative transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

h) Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. Cathay United Bank's stress testing considers various types of risk factors and reporting the results will be reported to the executive management.

Stress Test				
Market/Product	Scenario	September 30, 2019	December 31, 2018	September 30, 2018
Stock market	Major stock exchanges +15%	\$ 1,337,011	\$ 990,610	\$ 1,671,285
	Major stock exchanges -15%	(1,337,011)	(935,918)	(1,671,285)
Interest rate/bond market	Major interest rate + 100bp	(1,689,903)	(417,490)	(524,840)
	Major interest rate - 100bp	1,986,134	701,613	623,280
Foreign exchange market	Major currencies +3%	280,845	245,686	109,381
	Major currencies - 3%	(267,381)	(233,535)	(82,414)
Composite	Major Stock Exchanges -15%	(2,746,069)	(1,107,722)	(2,086,744)
	Major Interest Rate +100bp			
	Major Currencies +3%			

Note: The information of stress test is defined by risk management policy of the trading book.

i) Sensitivity analysis

i. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

ii. Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuations.

iii. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change in the equity of the securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying share price fluctuation. Cathay United Bank’s equity portfolios include shares and equity index options.

		September 30, 2019	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 68,018	\$ -
	HKD+1%	(19,490)	-
	JPY+1%	14,461	-
	AUD+1%	(779)	-
	CNY+1%	6,246	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(6,177)	-
	Yield curves (HKD) parallel shift+1bp	11	-
	Yield curves (JPY) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(882)	-
	Yield curves (CNY) parallel shift+1bp	(1,059)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	633	88,501
		December 31, 2018	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 108,556	\$ -
	HKD+1%	(6,980)	-
	JPY+1%	(905)	-
	AUD+1%	(354)	-
	CNY+1%	2,563	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	1,347	-
	Yield curves (HKD) parallel shift+1bp	183	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(359)	-
	Yield curves (CNY) parallel shift+1bp	(210)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	(1,011)	66,545

		<u>September 30, 2018</u>	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity	USD+1%	\$ 37,861	\$ -
	HKD+1%	(6,616)	-
	JPY+1%	4,324	-
	AUD+1%	(42,111)	-
	CNY+1%	(15,891)	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	848	-
	Yield curves (HKD) parallel shift+1bp	244	-
	Yield curves (JPY) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(181)	-
	Yield curves (CNY) parallel shift+1bp	(359)	-
	Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	255

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' major financial instruments include equity and debt investments, derivatives, receivables, payables and bonds payable. The major risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk analysis

Market risk is the risk resulting from changes in market risk factors, such as exchange rate, product price, interest rate, credit spread, and stock price, may decrease Cathay Century and its subsidiaries' income or value of investment portfolio.

Cathay Century and its subsidiaries continues to use market risk management tools such as value at risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

a) Value at Risk

VaR is used to measure the maximum potential loss of a portfolio in a given period and confidence level when the market risk factors changes. Cathay Century and its subsidiaries calculate VaR on the next day (week or two weeks) at 99% confidence level.

b) Stress testing

In addition to the VaR model, Cathay Century and its subsidiaries periodically use stress testing to assess the potential risk of extreme and abnormal events.

Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century and its subsidiaries conduct stress testing regularly on positions by simple sensitivity analysis test and scenario analysis. Such tests cover the losses on positions resulting from changes of various risk factors in various historical scenarios.

i. Simple sensitivity test

Simple sensitivity test measures the changes in the value of the investment portfolio caused by specific risk factors.

ii. Scenario analysis

Scenario analysis measures the changes in the total value of the investment portfolio under a stress event, including the follows scenarios:

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Century and its subsidiaries evaluate that losses would be incurred for the current investment portfolio in the event.

ii) Hypothetical scenario

Cathay Century and its subsidiaries make reasonable assumptions for extreme market changes that may occur in the future, puts related changes in related risk factors to the current investment portfolio and considers the correlation between the investment targets and risk factors to estimate the possible loss of investments.

The risk management department performs stress testing with historical and hypothetical scenarios regularly. Cathay Century and its subsidiaries' risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

Risk Factors	Changes (+/-)	September 30, 2019	December 31, 2018	September 30, 2018
Equity risk (stock index)	-10%	\$ (425,282)	\$ (339,393)	\$ (499,381)
Interest rate risk (yield curve)	+20bps	(155,032)	(145,145)	(149,410)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(91,972)	(109,381)	(108,984)

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects to the consolidated financial statements.

i) Foreign currency risk

Cathay Century and its subsidiaries has foreign currency-denominated assets and liabilities, which expose the Cathay Century and its subsidiaries to foreign currency risk.

The carrying amounts of Cathay Century and its subsidiaries' foreign currency-denominated monetary assets and monetary liabilities and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 38.

ii) Interest rate risk

Cathay Century and its subsidiaries is exposed to interest rate risk because entities in the Cathay Century and its subsidiaries hold debt instrument at both fixed and floating interest rates. The risk is managed by the Cathay Century and its subsidiaries by maintaining an appropriate mix of fixed and floating rate debt instrument.

iii) Price risk

Cathay Century and its subsidiaries was exposed to equity price risk through its investments in listed shares and mutual funds. Equity price exposures were managed by utilizing futures. That positions of futures do not exceed the hedged positions.

c) Sensitivity analysis

September 30, 2019			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 21,398	\$ 2,222
	CNY appreciates 1% against the NTD	2,502	-
	HKD appreciates 1% against the NTD	530	3,977
	EUR appreciates 1% against the NTD	96	275
	VND appreciates 1% against the NTD	6,318	-
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,646)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(82)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,252)	(847)
Equity securities price sensitivity	1% increase in equity security price	-	42,528

December 31, 2018			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 34,043	\$ 5,143
	CNY appreciates 1% against the NTD	8,888	-
	HKD appreciates 1% against the NTD	901	3,538
	EUR appreciates 1% against the NTD	318	295
	VND appreciates 1% against the NTD	6,138	-
	Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(4,935)
Yield curve (CNY): Upward parallel shift by 1bp		(92)	-
Yield curve (NTD): Upward parallel shift by 1bp		(1,354)	(946)
Equity securities price sensitivity	1% increase in equity security price	-	33,939
September 30, 2018			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 37,162	\$ 6,362
	CNY appreciates 1% against the NTD	12,766	-
	HKD appreciates 1% against the NTD	482	4,305
	EUR appreciates 1% against the NTD	79	553
	VND appreciates 1% against the NTD	5,873	-
	Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,114)
Yield curve (CNY): Upward parallel shift by 1bp		(95)	-
Yield curve (NTD): Upward parallel shift by 1bp		(1,355)	(980)
Equity securities price sensitivity	1% increase in equity security price	-	49,938

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Provision or reversal of reserve for foreign exchange valuation changes is not considered in profit or loss due to foreign currency risk.

Note 5: Information of subsidiaries is not disclosed due to immaterial effects to the consolidated financial statements.

2) Credit risk

a) Cathay Century and its subsidiaries' credit risk exposure of financial transactions include issuer credit risk, counterparty credit risk and credit risk of underlying assets.

i. Issuer credit risk is the risk that Cathay Century and its subsidiaries or banks may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations due to default, bankruptcy or liquidation.

ii. Counterparty credit risk is the risk that Cathay Century and its subsidiaries may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.

iii. Credit risk of the underlying assets is the risk that Cathay Century may suffer losses due to deterioration of the credit quality, increase in credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Credit risk concentration analysis

i. Regional distribution of maximum risk exposure for Cathay Century's financial assets:

September 30, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,301,142	\$ -	\$ -	\$ -	\$ 218,356	\$ 10,519,498
Financial assets at FVTPL	789,450	-	-	-	-	789,450
Financial assets at FVTOCI	753,955	-	-	-	-	753,955
Financial assets at amortized cost	1,913,399	359,210	1,506,989	3,274,427	1,816,313	8,870,338
Total	\$ 13,757,946	\$ 359,210	\$ 1,506,989	\$ 3,274,427	\$ 2,034,669	\$ 20,933,241
Proportion of each region to total	65.72%	1.72%	7.20%	15.64%	9.72%	100.00%

December 31, 2018

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,026,154	\$ -	\$ -	\$ -	\$ 140,839	\$ 10,166,993
Financial assets at FVTPL	785,960	-	-	-	-	785,960
Financial assets at FVTOCI	1,045,844	-	-	-	-	1,045,844
Financial assets at amortized cost	2,118,265	356,861	1,493,025	3,275,261	1,802,130	9,045,542
Total	\$ 13,976,223	\$ 356,861	\$ 1,493,025	\$ 3,275,261	\$ 1,942,969	\$ 21,044,339
Proportion of each region to total	66.41%	1.70%	7.10%	15.56%	9.23%	100.00%

September 30, 2018

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 8,710,244	\$ -	\$ -	\$ -	\$ 171,610	\$ 8,881,854
Financial assets at FVTPL	787,906	-	-	-	-	787,906
Financial assets at FVTOCI	1,049,600	-	-	-	-	1,049,600
Financial assets at amortized cost	2,568,680	355,151	1,484,433	3,267,354	1,782,116	9,457,734
Total	\$ 13,116,430	\$ 355,151	\$ 1,484,433	\$ 3,267,354	\$ 1,953,726	\$ 20,177,094
Proportion of each region to total	65.01%	1.76%	7.36%	16.19%	9.68%	100.00%

- c) Determinants for whether the credit risk has increased significantly since initial recognition
- i. Cathay Century and its subsidiaries assess, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Century and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit ratings, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
 - ii. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

d) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Quantitative factors: When contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- ii. Qualitative factors: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers and borrowers have entered bankruptcy or are probable to enter bankruptcy or financial reorganization.
 - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - iii) The collateral of the borrowers are seized provisionally or enforced.
 - iv) The borrowers apply for a change of credit conditions due to financial difficulties.
- iii. The above-mentioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

e) Measurement of expected credit losses

- i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century measures the loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Century measures the loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

In the measurement of expected credit losses, Cathay Century took into consideration the 12-month and lifetime probability of default (“PD”) of issuers, guarantee agencies or borrowers, which is included in loss given default (“LGD”) and multiplied by the exposure at default (“EAD”), at the same time taking into consideration the time value of money, when calculating the 12-month and lifetime expected credit losses.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Century in impairment assessment is based on information regularly issued by Moody’s. Probability of default is based on information regularly issued by Taiwan Ratings and Moody’s and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

f) Gross carrying amount of maximum credit risk exposure and category of credit quality

i. Financial assets of Cathay Century and its subsidiaries

	September 30, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 753,955	\$ -	\$ -	\$ -	\$ -	\$ 753,955
Financial assets measured at amortized cost	8,874,412	-	-	-	(4,074)	8,870,338
	December 31, 2018					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 1,045,844	\$ -	\$ -	\$ -	\$ -	\$ 1,045,844
Financial assets measured at amortized cost	9,049,129	-	-	-	(3,587)	9,045,542
	September 30, 2018					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 1,049,600	\$ -	\$ -	\$ -	\$ (179)	\$ 1,049,421
Financial assets measured at amortized cost	9,312,284	-	-	-	(3,478)	9,308,806
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	150,000	-	-	-	(1,072)	148,928

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

ii. Secured Loans

September 30, 2019							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Secured Loans	\$ 233,061	\$ -	\$ -	\$ -	\$ (2,796)	\$ -	\$ 230,265
December 31, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Secured Loans	\$ 239,701	\$ -	\$ -	\$ -	\$ (2,885)	\$ -	\$ 236,816
September 30, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance With Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Secured Loans	\$ 231,363	\$ -	\$ -	\$ -	\$ (2,777)	\$ -	\$ 228,586

g) Reconciliation for loss allowance is summarized below:

i. Debt instrument investments at FVTOCI

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 148	\$ -	\$ -	\$ -	\$ 148
Changes in models/risk parameters	(80)	-	-	-	(80)
September 30, 2019	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68</u>
January 1, 2018	\$ 150	\$ -	\$ -	\$ -	\$ 150
Changes in models/risk parameters	29	-	-	-	29
September 30, 2018	<u>\$ 179</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179</u>

ii. Financial assets measured at amortized cost

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 3,542	\$ -	\$ -	\$ -	\$ 3,542
Changes in models/risk parameters	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
September 30, 2019	<u>\$ 4,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,022</u>
January 1, 2018	\$ 3,571	\$ -	\$ -	\$ -	\$ 3,571
Changes in models/risk parameters	<u>909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>909</u>
September 30, 2018	<u>\$ 4,480</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,480</u>

iii. Other financial assets

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 45	\$ -	\$ -	\$ -	\$ 45
Changes in models/risk parameters	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>
September 30, 2019	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>
January 1, 2018	\$ 68	\$ -	\$ -	\$ -	\$ 68
Changes in models/risk parameters	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
September 30, 2018	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</u>

iv. Secured loans

	Lifetime Expected Credit Losses					Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Charged in Accordance with IFRS 9		
January 1, 2019	\$ 53	\$ -	\$ -	\$ -	\$ 53	\$ 2,832	\$ 2,885
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>(85)</u>	<u>(89)</u>
September 30, 2019	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49</u>	<u>\$ 2,747</u>	<u>\$ 2,796</u>

(Continued)

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets			
January 1, 2018	\$ 45	\$ -	\$ -	\$ -	\$ 45	\$ 3,079	\$ 3,124
Financial assets that have been derecognized during the period	8	-	-	-	8	-	8
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(355)	(355)
September 30, 2018	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ 2,724</u>	<u>\$ 2,777</u>

(Concluded)

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

h) Exposure to credit risk and loss allowance of receivables

The Company applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, and the estimation of lifetime credit loss was as follows:

September 30, 2019

September 30, 2019	Not Overdue	Overdue	Total
Carrying amount	\$ 1,618,727	\$ 591,482	\$ 2,210,209
Expected credit loss rate	1.00%	7.98%	-
Lifetime expected credit losses	\$ 16,141	\$ 47,205	\$ 63,346

December 31, 2018

December 31, 2018	Not Overdue	Overdue	Total
Carrying amount	\$ 1,766,984	\$ 228,874	\$ 1,995,858
Expected credit loss rate	1.00%	26.95%	-
Lifetime expected credit losses	\$ 17,640	\$ 61,684	\$ 79,324

September 30, 2018

September 30, 2018	Not Overdue	Overdue	Total
Carrying amount	\$ 1,347,036	\$ 481,742	\$ 1,828,778
Expected credit loss rate	1.00%	12.36%	-
Lifetime expected credit losses	\$ 13,312	\$ 59,561	\$ 72,873

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

b) Liquidity risk management

Cathay Century established a completed capital liquidity management mechanism by assessing the business features and short-term cash flow. Considering the trading volume and holding position, Cathay Century carefully manages the market liquidity risk.

According to the actual management need or special situations, Cathay Century uses cash flow model and stress testing to assess cash flow risk. Moreover, Cathay Century has drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

The analysis of cash outflows to Cathay Century and its subsidiaries are listed below and based on the residual terms to maturity on the balance sheet date. The disclosed amounts are prepared in accordance with contract cash flows and, accordingly for certain line items, the disclosed amounts are different to the amounts on consolidated balance sheets.

The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

September 30, 2019

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,681,474	\$ 13,813	\$ 5,570	\$ 7,495	\$ -
Lease liabilities	68,630	64,720	106,173	3,050	-
<u>Derivative financial liabilities</u>					
Swap	53,369	-	-	-	-

December 31, 2018

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,607,649	\$ 5,053	\$ 4,379	\$ 5,696	\$ -
<u>Derivative financial liabilities</u>					
Swap	50,041	-	-	-	-

September 30, 2018

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,336,270	\$ 14,371	\$ 3,744	\$ 5,643	\$ -
<u>Derivative financial liabilities</u>					
Swap	97,275	14,498	-	-	-

Cathay Securities and its subsidiaries

1) Risk management system

a) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks during its operating activities in compliance with domestic and foreign regulations as well as in an efficient and flexible manner to maximize the profit.

b) Risk management policies

Cathay Securities complies with the risk management policies as a guiding principle to establish significant risk management matters such as objectives, coverage, organization duties and operating, management principles and reports.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operating risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Before initiating a business, Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management mechanism and methods to ensure that such business is compliant with the management policies.

c) Risk management organization

i. Board of directors

The board of directors takes the ultimate responsibilities for risk management. The board of directors approves the risk management policy, ensures that approved risk management policies are in accordance with the nature of operating activities and types of business and cover different types of risk, and monitors the effective implementation of risk management policies.

ii. Risk management committee

The risk management committee is responsible for reviewing risk management policies, principles, and rules of trading transactions, and for determining the appropriate degree of risk exposure and monitoring the implementation of the risk management policies. The risk management committee is under the board of directors and the chairman of board of directors takes chair of the committee, and the members include the general manager, finance supervisor, accounting manager, risk management supervisor, and the relevant trading department supervisor. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

iii. Risk management department

The risk management department is under the board of directors. The supervisor and staff of the department are prohibited from holding positions at the trading or settlement department. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies regularly to ensure that those policies are suitable for business development. The risk management department also establishes online monitoring and prevention systems and reaction mechanisms, according to the development of Cathay Securities and its subsidiaries.

iv. Business unit

Each business unit participates in the setting of the risk management mechanism and executes daily risk management and reporting to ensure that the risk model used by the business unit is implemented with the consistent credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

v. Auditing office

The auditing office executes risk management and internal control procedures regularly, and traces and documents findings and deviations of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

vi. Finance department

The finance department participates in the setting of the risk management mechanism. The department is responsible for executing liquidity risk management and providing the liquidity risk report to the risk management department regularly.

vii. Accounting department

The accounting department participates in the setting of the risk management mechanism and provides the form of capital adequacy to the risk management department monthly.

viii. Legal affairs office

The legal affairs office executes legal risk management to ensure that business operations and risk management procedures are all in compliance with the regulations.

d) Risk management workflows

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

i. Market risk

i) Definition

Market risk is the risk of losses in Cathay Securities and its subsidiaries' investment positions, including shares, bonds, and derivatives etc. arising from changes in the market prices of financial instruments.

ii) Controls

Cathay Securities and its subsidiaries set up rules of trading transactions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and implement those control procedures efficiently through the front desk risk control staff and on-line monitoring system. Furthermore, Cathay Securities and its subsidiaries provide the market risk management report regularly that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, and back-testing model and perform stress testing by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

ii. Credit risk

i) Definition

Credit risk is the risk of loss incurred by Cathay Securities and its subsidiaries as a result of a counterparty or debtor not being able to perform its contract obligations due to deterioration of financial conditions or other factors.

ii) Controls

Cathay Securities and its subsidiaries check and review the credit position of each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on the credit rating model. Investment concentration and risks are analyzed and documented regularly. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch). In addition, the customers covered by the high-risk range of self-managed credit integrity and the credit balance of the underlying account for a certain percentage of the market credit balance are regularly reviewed and the credit risk emergency notification mechanism for the Company is established.

iii. Operational risk

i) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategy risk and credit risk.

ii) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes, including trading, confirmation, settlement, financial accounting, and trading documents archiving for future reference, etc., of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading documents are archived for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand the causes of the loss.

In addition, the auditing office is established under the board of directors. The functions of the office are to implement daily process checks to establish completed internal audit control and provide internal review reports periodically to lower the loss arising from the operational failures.

iv. Liquidity risk

i) Definition

Fund liquidity refers to Cathay Securities and its subsidiaries' acquisition of funds to maintain its needed flexibility to support asset growth or to repay liabilities; market liquidity refers to the managing and avoidance of risk of loss resulting from significant changes in the market price of held positions due to the lack of market depth or market disruption.

ii) Controls

The measurement index for liquidity risk is established and Cathay Securities compiles the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet dates. Capital allocation planning is based on the compiled structure analysis as of the balance sheet dates. Meanwhile, credit lines of short-term financing are acquired from other financial institutions and receipts and payments are managed properly to sustain appropriate liquidity and ensure payment ability.

v. Legal risk

i) Definition

Legal risk is the risk of loss that results from a counterparty being unable to legally enter into a contract due to the contract being defective or eligibility of the counterparty.

ii) Controls

The procedures of making and reviewing legal documentation are established. All documents related to the contracts are required to be reviewed and approved by the legal office and may be reviewed with reference to external lawyers' opinions if needed.

vi. Capital adequacy management

i) Definition

Cathay Securities and its subsidiaries implement capital management to maintain an appropriate capital adequacy ratio, promote business growth and ensure a robust capital structure.

ii) Controls

Cathay Securities established the capital adequacy index and compiles the capital adequacy management report regularly to evaluate the appropriateness of the capital adequacy ratio and the robustness of the capital structure.

vii. Reputation risk and strategy risk

i) Definition

Reputation risk is the risk of loss resulting from negative aspects of Cathay Securities and its subsidiaries' operations, leading to the loss of customers or revenue, and the need for Cathay Securities and its subsidiaries to bear large amounts of legal fees or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

ii) Controls

In response to significant events related to reputation and strategy risk, Cathay Securities and its subsidiaries establish internal regulations to mitigate the risk of losses when significant events occur.

Risk management policies and principles are established based on the above-mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraints for each risk and review the appropriateness of each constraint regularly. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay Financial Holdings to elaborate on Cathay Securities and its subsidiaries' risk tolerance and the appropriateness of the current risk management scheme.

e) Hedging and mitigation of risk strategies

The hedging and mitigation risk strategies for Cathay Securities refer to the implementation of dynamic hedging through the purchase and sale of target investment products to duplicate the same cash flows when derivatives mature. The hedging for outstanding stock warrants and structured products is based on the principle of Delta Neutral. If the prices of those investment positions fluctuate significantly in the financial markets, when the regulations for hedging operations are breached due to the impact from significant events, or when the risk personnel's implementation of hedging strategies are in violation of the regulations of hedging operations, the business department is required to explain in writing and report to the risk management department.

Cathay Securities establishes the approval limit and stop-loss mechanism based on the attributes of each product. When the position meets the stop-loss point, the risk management department will inform the supervisor or position administrator in time and monitor the change in the position. In addition, the business department should operate in accordance with the approval limits. If the stop-loss point is met, the investment should be sold or the business department is required to provide an exception report detailing the reason and specific response measures.

2) Market risk analysis

Cathay Securities and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying market risk management tools such as sensitivity analysis, Value at Risk ("VaR") and stress testing continuously.

a) Sensitivity analysis

Sensitivity analysis is used to measure the degree of impact on each product and investment portfolio due to fluctuations in specific market factors. The relevant monitoring and control regulations are set based on the differences in the types of risk and business attributes of Cathay Securities and its subsidiaries. The degree of risk exposure is monitored and measured by the following sensitivities:

i. Measurement based on interest factors

Price value of basis point (PVBP): Denoting the change in the value of a position given a 1 basis point change in the yield curve.

ii. Measurement based on commodity factors

i) Delta: Measuring the change in the value of a position given a 1% price change of a certain underlying asset.

ii) Gamma: Measuring the dollar amount of change in Delta of a position given a 1% price change of a certain underlying asset.

iii) Vega: Denoting the change in the value of a position given a 1% price change of a certain underlying asset.

b) VaR

VaR is used to measure the risk of the largest potential loss of the investment portfolio arising from movements in market risk factors over a specific time frame and at a certain confidence level. Cathay Securities and its subsidiaries currently measure the VaR of an investment portfolio for the next day at a 99% confidence level. Also, back testing of the VaR model is performed each year to ensure the accuracy of this model.

VaR on one single trading day within the 99% confidence level

	For the Nine Months Ended September 30, 2019			
	Average	Highest	Lowest	End of Period
VaR	\$ 15,924	\$ 21,983	\$ 9,609	\$ 15,041
	For the Nine Months Ended September 30, 2018			
	Average	Highest	Lowest	End of Period
VaR	\$ 39,667	\$ 154,268	\$ 8,807	\$ 16,158

c) Stress testing

Cathay Securities and its subsidiaries perform stress testing on a monthly basis to assess the degree of impact on the asset portfolio arising from foreign and domestic significant events and find the risk factors which exert greater significant influence on the asset portfolio, follow up review and report such factors according to the market conditions and customized or extreme scenarios which take rapid changes in foreign and domestic financial environments into consideration are also performed periodically and the maximum losses arising from these scenarios are measured to ensure that Cathay Securities and its subsidiaries manage the risk from each potential scenario effectively.

Stress testing scenarios, which include the historical scenario and hypothesis scenario, are described as follows:

i. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical events and taking the fluctuations of risk factors into the consideration such as the immediate, significant, and comprehensive impact on financial markets from the bankruptcy of Lehman Brothers in 2008 and the Great East Japan earthquake in 2011.

ii. Hypothesis Scenario

Cathay Securities and its subsidiaries make reasonable expected hypotheses on possible future extreme market fluctuations, include movements of the related risk factors in the current investment portfolio, and measure the loss amount generated from such events on the investment position, including the 10% drop in the total stock market value arising from the breakdown of the global system.

**For the Nine Months Ended September 30, 2019
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (22,689)
Interest rate risk (yield curve)	+100bps	(69,821)
Exchange rate risk (exchange rate)	+3%	(3,891)
Product risk (price)	-10%	(434)

**For the Nine Months Ended September 30, 2018
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (21,689)
Interest rate risk (yield curve)	+100bps	(137,615)
Exchange rate risk (exchange rate)	+3%	(11,786)
Product risk (price)	-10%	-

3) Credit risk analysis

a) Source of credit risk

Credit risk refers to the credit risk that Cathay Securities and its subsidiaries may encounter due to engagement in financial transactions which include the credit risks from issuers, counterparties, and underlying assets:

- i. Issuer credit risk refers to the risk of financial loss that Cathay Securities and its subsidiaries may incur as a result of issuers, guarantors or banks not fulfilling their payment obligations due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk of financial loss that Cathay Securities and its subsidiaries may incur when a counterparty does not fulfill its settlement or payment obligations on the designated date.

- iii. Underlying asset credit risk refers to the risk of loss that Cathay Securities and its subsidiaries may encounter when the credit quality of the target financial instrument turns weak, credit charges increase, credit rating reduces or when the terms of the contracts are violated.

Financial assets that expose Cathay Securities and its subsidiaries to credit risk include bank accounts, debt securities, trading of over-the-counter derivatives, repurchase and resale of debts, trading from the securities lending, refundable deposits, futures deposits in banks, other refundable deposits and accounts receivable etc.

- b) Determinants for whether the credit risk has increased significantly since initial recognition
 - i. Cathay Securities and its subsidiaries assess, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Securities and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
 - ii. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.
- c) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Securities and its subsidiaries is the same as that of a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Qualitative factor: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers and borrowers have entered bankruptcy or are probable to file bankruptcy or undergo financial reorganization.
 - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
- ii. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Securities and its subsidiaries, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

d) Measurement of expected credit losses

i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Securities and its subsidiaries measure the loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Securities and its subsidiaries multiply exposure at default by the 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Securities and its subsidiaries also consider the effect of the time value of money when calculating the 12-month expected credit losses and the lifetime expected credit losses.

Default rate is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate that results from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Securities and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) after adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

Cathay Securities and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

e) Loss allowance of accounts receivables

The movements of the loss allowance of accounts receivables were as follows:

	Receivable	Other Receivables	Overdue Receivables	Securities Financing Receivables	Security Lending Receivable	Total
Balance at January 1, 2019	\$ 88	\$ 12	\$ 95,047	\$ 132	\$ 7	\$ 95,286
Increase (decrease)	<u>144</u>	<u>(2)</u>	<u>20</u>	<u>25</u>	<u>9</u>	<u>196</u>
Balance at September 30, 2019	<u>\$ 232</u>	<u>\$ 10</u>	<u>\$ 95,067</u>	<u>\$ 157</u>	<u>\$ 16</u>	<u>\$ 95,482</u>
Balance at January 1, 2018	\$ 69	\$ 9	\$ 93,966	\$ 186	\$ -	\$ 94,230
Increase	<u>87</u>	<u>2</u>	<u>857</u>	<u>(19)</u>	<u>1</u>	<u>928</u>
Balance at September 30, 2018	<u>\$ 156</u>	<u>\$ 11</u>	<u>\$ 94,823</u>	<u>\$ 167</u>	<u>\$ 1</u>	<u>\$ 95,158</u>

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of September 30, 2019, December 31, 2018 and September 30, 2018, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$9,206,952 thousand, \$9,910,801 thousand and \$13,651,357 thousand, respectively.

a) Cash flow analysis

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

September 30, 2019

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
Financial liabilities					
Short-term borrowings	\$ 217,276	\$ -	\$ -	\$ -	\$ 217,276
Commercial paper payable	5,519,250	-	-	-	5,519,250
Financial liabilities at FVTPL	2,034,437	32	-	-	2,034,469
Liabilities for bonds with repurchase agreements	1,902,206	-	-	-	1,902,206
Deposits for securities borrowed	47,299	94,598	141,897	567,580	851,374
Securities lending margin - deposits received	5,387	10,774	16,161	64,651	96,973
Futures trader's equity	6,913,926	-	-	-	6,913,926
Ledgers of securities firms' settlement accounts customer's equity	6,432	-	-	-	6,432
Payables	6,499,432	-	180,871	275,973	6,956,276
Other financial liabilities	119,820	-	-	-	119,820
Lease liabilities - current	6,940	13,918	20,858	39,497	81,213
Others	78,887	-	-	-	78,887
Total	<u>\$ 23,351,292</u>	<u>\$ 119,322</u>	<u>\$ 359,787</u>	<u>\$ 947,701</u>	<u>\$ 24,778,102</u>
% to the total	<u>94.24%</u>	<u>0.48%</u>	<u>1.45%</u>	<u>3.83%</u>	<u>100%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

September 30, 2019

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
Financial assets					
Cash and cash equivalents	\$ 3,079,685	\$ -	\$ -	\$ -	\$ 3,079,685
Financial assets at FVTPL					
Lending securities	248,069	-	-	-	248,069
Operation securities	6,106,531	-	-	-	6,106,531
Call option-futures	29,244	-	-	-	29,244
Futures trading margin	953,838	-	-	-	953,838
Structured products	61,846	-	-	-	61,846
Financial assets at fair value through other comprehensive income - current	1,915,756	-	-	-	1,915,756
Securities financing receivables	174,624	344,786	517,179	2,068,712	3,105,301
Refinancing margin and refinancing deposits receivable	4,922	9,844	14,766	59,055	88,587
Security lending receivable	27,486	54,972	82,460	-	164,918
Customer's margin accounts	6,922,501	-	-	-	6,922,501
Security lending deposits price and security lending margin deposits paid	45,641	91,282	136,923	547,696	821,542
Receivables	5,685,111	-	-	8,575	5,693,686
Others	1,079,835	-	-	900,000	1,979,835
	<u>26,335,089</u>	<u>500,884</u>	<u>751,328</u>	<u>3,584,038</u>	<u>31,171,339</u>
Residual cash	<u>\$ 2,983,797</u>	<u>\$ 381,562</u>	<u>\$ 391,541</u>	<u>\$ 2,636,337</u>	<u>\$ 6,393,237</u>

December 31, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 336,381	\$ -	\$ -	\$ -	\$ 336,381
Commercial paper payable	3,729,367	-	-	-	3,729,367
Financial liabilities at FVTPL	2,712,304	-	-	-	2,712,304
Liabilities for bonds with repurchase agreements	3,332,528	-	-	-	3,332,528
Deposits for securities borrowed	42,173	84,346	126,519	506,073	759,111
Securities lending margin - deposit received	731	1,462	2,193	8,773	13,159
Futures trader's equity	5,839,564	-	-	-	5,839,564
Ledgers of securities firms' settlement accounts customer's equity	7,653	-	-	-	7,653
Payables	4,863,717	-	-	345,795	5,209,512
Other financial liabilities	105,870	-	-	-	105,870
Others	44,731	647	-	-	45,378
Total	<u>\$ 21,015,019</u>	<u>\$ 86,455</u>	<u>\$ 128,712</u>	<u>\$ 860,641</u>	<u>\$ 22,090,827</u>
% to the total	<u>95.13%</u>	<u>0.39%</u>	<u>0.58%</u>	<u>3.90%</u>	<u>100.00%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

December 31, 2018

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,158,088	\$ -	\$ -	\$ -	\$ 3,158,088
Financial assets at FVTPL					
Operation securities	4,634,086	-	-	-	4,634,086
Call option-futures	19,149	-	-	-	19,149
Futures trading margin	433,813	-	-	-	433,813
Structured products	272	-	-	-	272
Financial assets at fair value through other comprehensive income - current	3,379,521	-	-	-	3,379,521
Securities financing receivables	146,700	293,400	440,100	1,760,405	2,640,605
Refinancing margin and refinancing deposits receivable	1,215	2,430	3,645	14,586	21,876
Security lending receivable	66,890	-	-	-	66,890
Customer's margin accounts	5,847,830	-	-	-	5,847,830
Security lending deposits price and security lending margin deposits paid	102,118	204,236	306,354	1,225,411	1,838,119
Receivables	4,721,054	-	-	25,942	4,746,996
Others	381,826	-	-	900,000	1,281,826
	<u>22,892,562</u>	<u>500,066</u>	<u>750,099</u>	<u>3,926,344</u>	<u>28,069,071</u>
Residual cash	<u>\$ 1,877,543</u>	<u>\$ 413,611</u>	<u>\$ 621,387</u>	<u>\$ 3,065,703</u>	<u>\$ 5,978,244</u>

September 30, 2018

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 97,095	\$ -	\$ -	\$ -	\$ 97,095
Commercial paper payable	5,338,539	-	-	-	5,338,539
Financial liabilities at FVTPL	2,292,696	-	-	-	2,292,696
Liabilities for bonds with repurchase agreements	3,138,633	-	-	-	3,138,633
Deposits for securities borrowed	40,744	81,488	122,232	488,924	733,388
Securities lending margin - deposit received	302	604	906	3,618	5,430
Futures trader's equity	5,275,371	-	-	-	5,275,371
Ledgers of securities firms' settlement account customer's equity	18,528	-	-	-	18,528
Payables	5,813,643	-	-	414,473	6,228,116
Other financial liabilities	99,865	-	-	-	99,865
Others	76,513	-	-	1,278	77,791
Total	\$ 22,191,929	\$ 82,092	\$ 123,138	\$ 908,293	\$ 23,305,452
% to the total	95.22%	0.35%	0.53%	3.90%	100%

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

September 30, 2018

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,784,318	\$ -	\$ -	\$ -	\$ 2,784,318
Financial assets at FVTPL					
Operation securities	5,359,852	-	-	-	5,359,852
Call option-futures	19,618	-	-	-	19,618
Futures trading margin	599,511	-	-	-	599,511
Financial assets at fair value through other comprehensive income - current	3,171,087	-	-	-	3,171,087
Securities financing receivables	203,135	406,270	609,405	2,437,617	3,656,427
Refinancing margin and refinancing deposits receivable	1,962	3,924	5,886	23,549	35,321
Security lending receivable	12,640	-	-	-	12,640
Customer's margin accounts	5,280,951	-	-	-	5,280,951
Security lending deposits price and security lending margin deposits paid	62,118	124,236	186,354	745,424	1,118,132
Receivables	5,850,509	-	-	16,988	5,867,497
Others	457,361	-	-	902,983	1,360,344
	23,803,062	534,430	801,645	4,126,561	29,265,698
Residual cash	\$ 1,611,133	\$ 452,338	\$ 678,507	\$ 3,218,268	\$ 5,960,246

b) Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing regularly to measure and evaluate the changes of capital liquidity under extreme and abnormal events to ensure that Cathay Securities and its subsidiaries maintain capital liquidity. Stress scenarios include significant fluctuations in the financial markets, the occurrence of various credit events, the unexpected tightening of capital liquidity in the financial markets and other assumptions that may cause financial liquidity stress, and are used to measure Cathay Securities and its subsidiaries' abilities to meet the demand for cash and the changes in cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are performed to prevent the occurrence of the stress events:

- i. Cathay Securities and its subsidiaries make fund raising and balance sheet adjustments in accordance with the Crisis Management Principles and Regulations of Emergency Management.

- ii. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- iii. Balance sheet adjustments: (i) sale of securities (ii) recovery of short-term capital invested in the currency market.

i. Structured entities

1) Consolidated structured entities

The consolidated structured entities in Cathay Life and its subsidiaries' consolidated financial statements are the real estate investments and management organizations. As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay Life and its subsidiaries provided loans amounting to GBP345,000 thousand as financial support to the entities for operation and investment needs.

2) Unconsolidated structured entities

Cathay Life and its subsidiaries

- a) Cathay Life and its subsidiaries holds interests in structured entities which are not consolidated in Cathay Life and its subsidiaries' consolidated financial statements and Cathay Life and its subsidiaries does not provide financial support or other support to these structured entities. The maximum exposure to these structured entities is the carrying amount of the related assets held by Cathay Life and its subsidiaries. The information of these unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in units or limited partnership interests issued by the funds
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entities

- b) As of September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<u>September 30, 2019</u>	
	<u>Private Equity Funds</u>	<u>Asset-backed Securities</u>
Financial assets at FVTPL	\$ 89,332,356	\$ 32,530,305
Financial assets at FVTOCI	-	33,991,317
Financial assets measured at amortized cost	-	187,315,213
	<u>\$ 89,332,356</u>	<u>\$ 253,836,835</u>

	December 31, 2018	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 77,198,514	\$ 29,059,383
Financial assets at FVTOCI	-	53,974,279
Financial assets measured at amortized cost	<u>-</u>	<u>152,673,283</u>
	<u>\$ 77,198,514</u>	<u>\$ 235,706,945</u>

	September 30, 2018	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 72,298,898	\$ 26,924,992
Financial assets at FVTOCI	-	60,289,315
Financial assets measured at amortized cost	<u>-</u>	<u>154,492,083</u>
	<u>\$ 72,298,898</u>	<u>\$ 241,706,390</u>

Cathay United Bank and its subsidiaries

- a) Cathay United Bank and its subsidiaries hold interests in structured entities which are not included in Cathay United Bank and its subsidiaries' consolidated financial statements. Cathay United Bank and its subsidiaries does not provide financial support or other support to the unconsolidated structured entities. Cathay United Bank's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets Cathay United Bank recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entity

- b) As of September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amounts of assets recognized by Cathay United Bank and its subsidiaries' asset relating to its interests in unconsolidated structured entities are disclosed as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets at FVTOCI	\$ 25,396,788	\$ 3,191,683	\$ 5,436,017
Investments in debt instruments measured at amortized cost	<u>37,966,143</u>	<u>47,970,374</u>	<u>44,438,687</u>
	<u>\$ 63,362,931</u>	<u>\$ 51,162,057</u>	<u>\$ 49,874,704</u>

Cathay Century and its subsidiaries

- a) Cathay Century and its subsidiaries hold interests in structured entities which are not included in Cathay Century and its subsidiaries' consolidated financial statements. Cathay Century and its subsidiaries' does not provide financial support or other support to the unconsolidated structured entities. Cathay Century's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets Cathay Century recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entity

- b) As of September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amounts of assets recognized by Cathay Century relating to its interests in unconsolidated structured entities are disclosed as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets at FVTPL	\$ 72,637	\$ 96,907	\$ 110,692
Investments assets measured at amortized cost	<u>618,546</u>	<u>640,847</u>	<u>649,654</u>
	<u>\$ 691,183</u>	<u>\$ 737,754</u>	<u>\$ 760,346</u>

37. CAPITAL MANAGEMENT

The Group's capital adequacy ratios meet the statutory requirements currently. Under the pretext that the Group meets the statutory capital adequacy requirements, dynamic capital management mechanism is utilized to increase the capital efficiency of the subsidiaries. After reallocation of capital, the subsidiaries' capabilities of risk-taking are not affected due to lower level of retained core capital. Accordingly, the Company conducts overall planning based on the status of the subsidiaries' capital in order to improve the capital efficiency of the Group.

38. OTHERS

a. Significant assets and liabilities denominated in foreign currencies

The group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than the functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

	September 30, 2019		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 126,418,940	31.0420	\$ 3,924,297,274
CNY	23,169,938	4.3604	101,029,595
AUD	3,593,161	20.9766	75,372,408
HKD	10,056,389	3.9592	39,815,255
Non-monetary items			
USD	8,429,231	31.0420	261,660,198
HKD	9,755,291	3.9592	38,623,855
<u>Financial liabilities</u>			
Monetary items			
USD	14,084,488	31.0420	437,212,809
CNY	8,357,181	4.3604	36,439,982
AUD	1,613,598	20.9766	33,847,800
	December 31, 2018		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 116,959,170	30.7330	\$ 3,594,506,172
CNY	21,336,505	4.4762	95,506,464
Non-monetary items			
USD	9,875,093	30.7330	303,491,233
<u>Financial liabilities</u>			
Monetary items			
USD	13,039,573	30.7330	400,745,197

	September 30, 2018		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 116,005,275	30.5510	\$ 3,544,077,157
CNY	19,950,417	4.4396	88,571,871
Non-monetary items			
USD	9,130,479	30.5510	278,945,264
<u>Financial liabilities</u>			
Monetary items			
USD	12,943,916	30.5510	395,449,578

As the Group has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains (losses) for the three and nine months ended September 30, 2019 and 2018 were \$(7,571,766) thousand, \$(1,084,137) thousand, \$18,141,810 thousand and \$44,482,153 thousand, respectively.

b. Information for discretionary investment

1) Cathay Life and its subsidiaries

- a) As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay Life contracts with securities investment trust enterprises for discretionary investment service and the related investments are as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Domestic shares	\$ 113,695,998	\$ 118,377,980	\$ 131,810,818
Overseas shares	53,610,884	60,215,861	62,776,698
Reverse repurchase bonds	14,794,000	12,410,000	20,181,000
Cash in banks	37,563,130	17,914,307	42,075,924
Beneficiary certificates	7,101	1,830,959	482,679
Futures and options	<u>216,671</u>	<u>216,603</u>	<u>116,576</u>
	<u>\$ 219,887,784</u>	<u>\$ 210,965,710</u>	<u>\$ 257,443,695</u>

The carrying amounts of the financial assets operated discretionarily by securities investment trust enterprises are equal to their fair values.

- b) As of September 30, 2019, the limits of the discretionary investments were as follows (in thousands):

	September 30, 2019	December 31, 2018	September 30, 2018
NTD	\$ 87,872,589	\$ 97,872,589	\$ 111,642,149
CNY	952,200	1,417,500	1,850,000
HKD	961,384	2,023,000	2,239,000

2) Cathay Century and its subsidiaries

- a) Cathay Century contracts with securities investment trust companies for discretionary investment management. The investment details are disclosed as follows:

	September 30, 2019	
	Carrying Amount	Fair Value
Listed shares	\$ 1,043,039	\$ 1,043,039
Repurchase agreements collateralized by bonds	400,045	400,045
Cash in banks	228,531	228,531
Future margins	<u>2,010</u>	<u>2,010</u>
	<u>\$ 1,673,625</u>	<u>\$ 1,673,625</u>

	December 31, 2018	
	Carrying Amount	Fair Value
Listed shares	\$ 736,041	\$ 736,041
Repurchase agreements collateralized by bonds	150,000	150,000
Cash in banks	640,437	640,437
Future margins	<u>2,009</u>	<u>2,009</u>
	<u>\$ 1,528,487</u>	<u>\$ 1,528,487</u>

	September 30, 2018	
	Carrying Amount	Fair Value
Listed shares	\$ 1,005,936	\$ 1,005,936
Repurchase agreements collateralized by bonds	380,159	380,159
Cash in banks	297,019	297,019
Future margins	<u>2,009</u>	<u>2,009</u>
	<u>\$ 1,685,123</u>	<u>\$ 1,685,123</u>

- b) As of September 30, 2019, December 31, 2018 and September 30, 2018, Cathay Century and its subsidiaries entered into discretionary account management contracts which all amounted to \$1,200,000 thousand.

c. Disclosure information as required by the Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality - loans

(In Thousands of New Taiwan Dollars, %)

Period		September 30, 2019					December 31, 2018				
Item		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Corporate banking	Secured	\$ 571,523	\$ 222,937,429	0.26%	\$ 2,888,408	505.39%	\$ 644,195	\$ 227,897,863	0.28%	\$ 3,766,751	584.72%
	Unsecured	533,586	343,190,640	0.16%	7,775,939	1457.30%	331,466	373,235,080	0.09%	6,355,264	1,917.32%
Consumer banking	Residential mortgage (Note 4)	665,780	345,493,347	0.19%	5,510,424	827.66%	578,026	360,295,667	0.16%	5,659,620	979.13%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	166,509	78,947,587	0.21%	2,688,989	1614.92%	147,936	67,099,680	0.22%	1,786,928	1,207.91%
	Other (Note 6)	Secured	1,132,714	499,438,620	0.23%	6,055,822	534.63%	686,253	487,812,126	0.14%	5,523,179
Unsecured		150,548	25,586,277	0.59%	443,604	294.66%	122,954	22,692,944	0.54%	417,942	339.92%
Loan		3,220,660	1,515,593,900	0.21%	25,363,186	787.52%	2,510,830	1,539,033,360	0.16%	23,509,684	936.33%
		Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Credit cards		\$ 121,625	\$ 76,791,456	0.16%	\$ 1,824,486	1500.09%	\$ 94,675	\$ 70,829,556	0.13%	\$ 1,430,027	1,510.46%
Accounts receivable factored without recourse (Note 7)		-	2,723,799	-	42,072	-	-	1,918,964	-	47,207	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.

Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the children of the borrowers who are still minors.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Type	Items	September 30, 2019		September 30, 2018	
		Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables	Not Reported as Nonperforming Loans	Not Reported as Nonperforming Receivables
	Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	\$ 2,248	\$ 81,460	\$ 2,956	\$ 110,700
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	51,139	1,182,524	34,583	1,176,680
	Total	\$ 53,387	\$ 1,263,984	\$ 37,539	\$ 1,287,380

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 and September 20, 2016 (Ref. No. 09700318940 and No. 10500134790).

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

September 30, 2019			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development activities	\$ 29,320,572	13.73
2	Group B - packaging and testing of semi-conductors	17,006,347	7.96
3	Group C - air transport	9,551,100	4.47
4	Group D - other	8,891,393	4.16
5	Group E - other financial intermediation	8,748,828	4.10
6	Group F - real estate development activities	6,400,000	3.00
7	Group G - other financial intermediation	5,067,522	2.37
8	Group H - other financial intermediation	4,630,956	2.17
9	Group I - wired telecommunications activities	4,465,128	2.09
10	Group J - overseas financial institution	4,449,095	2.08

September 30, 2018			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development activities	\$ 31,621,214	16.03
2	Group B - activities of other holding companies	8,307,912	4.21
3	Group C - other financial intermediation	8,040,250	4.08
4	Group D - air transport	7,791,308	3.95
5	Group E - wired telecommunications activities	6,543,908	3.32
6	Group F - real estate development activities	6,435,000	3.26
7	Group G - manufacture of computers	4,916,103	2.49
8	Group H - other financial intermediation	4,380,880	2.22
9	Group I - financial lease activities	3,893,469	1.97
10	Group J - smelting and refining of iron and steel	3,733,935	1.89

3) Information on interest rate sensitivity

Interest Rate Sensitivity
September 30, 2019

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,793,524,378	\$ 5,989,567	\$ 91,012,016	\$ 121,175,025	\$ 2,011,700,986
Interest rate-sensitive liabilities	210,322,714	1,330,455,575	246,497,699	95,451,402	1,882,727,390
Interest rate-sensitive gap	1,583,201,664	(1,324,466,008)	(155,485,683)	25,723,623	128,973,596
Net worth					213,525,975
Ratio of interest rate-sensitive assets to liabilities					106.85%
Ratio of interest rate sensitivity gap to net worth					60.40%

September 30, 2018

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,848,379,327	\$ 19,203,987	\$ 34,885,755	\$ 100,930,475	\$ 2,003,399,544
Interest rate-sensitive liabilities	201,482,268	1,222,253,712	237,844,626	93,321,982	1,754,902,588
Interest rate-sensitive gap	1,646,897,059	(1,203,049,725)	(202,958,871)	7,608,493	248,496,956
Net worth					197,212,307
Ratio of interest rate-sensitive assets to liabilities					114.16%
Ratio of interest rate sensitivity gap to net worth					126.00%

Note 1: The above amounts included only New Taiwan dollar amounts held by Cathay United Bank (i.e., excluding foreign currencies).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in New Taiwan dollars).

**Interest Rate Sensitivity
September 30, 2019**

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 8,302,958	\$ 715,224	\$ 1,025,962	\$ 8,320,963	\$ 18,365,107
Interest rate-sensitive liabilities	10,041,374	2,552,151	2,944,735	3,406,768	18,945,028
Interest rate-sensitive gap	(1,738,416)	(1,836,927)	(1,918,773)	4,914,195	(579,921)
Net worth					6,878,615
Ratio of interest rate-sensitive assets to liabilities					96.94%
Ratio of interest rate sensitivity gap to net worth					(8.43%)

September 30, 2018

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 7,586,307	\$ 716,823	\$ 1,124,893	\$ 6,458,257	\$ 15,886,280
Interest rate-sensitive liabilities	10,679,315	2,769,111	2,866,371	3,683,412	19,998,209
Interest rate-sensitive gap	(3,093,008)	(2,052,288)	(1,741,478)	2,774,845	(4,111,929)
Net worth					6,455,183
Ratio of interest rate-sensitive assets to liabilities					79.44%
Ratio of interest rate sensitivity gap to net worth					(63.70%)

Note 1: The above amounts included only U.S. dollar amounts held by Cathay United Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in U.S. dollars)

4) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
September 30, 2019

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,807,289,224	\$ 446,126,532	\$ 379,964,169	\$ 387,817,087	\$ 238,747,268	\$ 334,109,211	\$ 1,020,524,957
Main capital outflow on maturity	3,290,752,215	199,429,803	249,889,939	517,934,215	625,608,022	468,505,767	1,229,384,469
Gap	(483,462,991)	246,696,729	130,074,230	(130,117,128)	(386,860,754)	(134,396,556)	(208,859,512)

September 30, 2018

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,689,500,726	\$ 428,274,945	\$ 379,114,190	\$ 311,505,592	\$ 239,757,189	\$ 327,386,122	\$ 1,003,462,688
Main capital outflow on maturity	3,166,409,423	137,429,533	271,093,071	480,544,949	551,258,267	594,790,071	1,131,293,532
Gap	(476,908,697)	290,845,412	108,021,119	(169,039,357)	(311,501,078)	(267,403,949)	(127,830,844)

Note: The above amounts included only New Taiwan dollar amounts held by Cathay United Bank (i.e., excluding foreign currencies).

Maturity Analysis of Assets and Liabilities
September 30, 2019

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 62,474,212	\$ 17,915,337	\$ 13,537,814	\$ 11,037,567	\$ 8,563,949	\$ 11,419,545
Main capital outflow on maturity	67,174,766	16,885,010	17,644,200	12,422,549	13,154,208	7,068,799
Gap	(4,700,554)	1,030,327	(4,106,386)	(1,384,982)	(4,590,259)	4,350,746

September 30, 2018

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 62,646,380	\$ 16,854,628	\$ 13,245,082	\$ 10,073,352	\$ 12,764,693	\$ 9,708,625
Main capital outflow on maturity	68,663,327	17,380,552	15,407,190	11,554,640	16,508,989	7,811,956
Gap	(6,016,947)	(525,924)	(2,162,108)	(1,481,288)	(3,744,296)	1,896,669

Note: The above amounts included only U.S. dollar amounts held by Cathay United Bank and excluded contingent assets and contingent liabilities.

39. SUPPLEMENTAL DISCLOSURES

a. Information about significant transactions:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over \$300 million or 10% of the paid-in capital	None
2	Acquisition or disposal of individual real estate at prices over \$300 million or 10% of the paid-in capital	None
3	Discount on processing fee the transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by subsidiaries	None
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

b. Information of investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	None
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	Table 3
3	Discount on processing fee for transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by investees	None
6	Related information of financial assets securitization or real estate securitization by investees	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided to others	Note
9	Endorsements/guarantees provided	None
10	Marketable securities held as of September 30, 2019	Table 2 (Note)
11	Marketable securities acquired or disposed of at costs or prices over \$300 million or 10% of the paid-in capital	None
12	Derivative transactions	Note 7

Note: Disclosure requirements are not applicable to Cathay Life, Cathay United Bank, Cathay Century and Cathay Securities.

c. Investments in mainland China

Code	Description	Explanation
1	Name of companies, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in investees in the mainland China area.	Table 4
2	Significant transaction elements like price, disbursement condition and unrealizable income generated directly or indirectly through a third area, by investee in mainland China.	None
3	Notes, endorsements and collateral provided directly or indirectly through an investee in a third area in mainland China.	None
4	Capital financing directly or indirectly through an investee in a third area in mainland China.	None
5	Other significant transactions which may affect the decisions of users of the financial statements	None

- d. The important intercompany transactions among the Group are disclosed in Table 5 following the Note 28 to Consolidated Financial Statements.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL

SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Cathay Financial Holding Co., Ltd.	Cathay Life Insurance Co., Ltd.	Subsidiary	\$ 1,008,000	Note 1	\$ -	-	\$ -	\$ -
	Cathay United Bank Co., Ltd.	Subsidiary	1,532,949	Note 2	-	-	-	-
Cathay United Bank Co., Ltd.	Cathay Life Insurance Co., Ltd.	Fellow subsidiaries	339,336	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.	Parent company	12,934,473	Note 2	-	-	-	-

Note 1: The ending balance consisted of interest receivables arising from subsidiary debt, which is not applicable for the calculation of the turnover rate.

Note 2: The ending balance consisted of receivables arising from consolidated income tax return, which is not applicable for the calculation of the turnover rate.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note	
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value		
Cathay Venture Inc.	<u>Corporate bonds</u>								
	SmartGames CB	N/A	Financial assets at fair value through profit or loss	-	\$ 7	-	\$ 7		
	Guanghe CBI	N/A	"	-	75,984	-	75,984		
	A2G CB	N/A	"	-	1,399	-	1,399		
	PT Cemerlang Multimedia CB	N/A	"	-	50,727	-	50,727		
	Huang Chieh Mental Composite Material Tech. Co., Ltd. CB	N/A	"	-	71,502	-	71,502		
	OneDegree CB	N/A	"	-	9,897	-	9,897		
	<u>Beneficiary certificates</u>								
	Mega Diamond Money Market Fund	N/A	"	"	31,861	400,561	-	400,561	
	Taishin 1699 Money Market Fund	N/A	"	"	29,531	400,567	-	400,567	
	Cathay Taiwan Money Market Fund	N/A	"	"	43,273	539,679	-	539,679	
	<u>Shares</u>								
	Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	"	141	5,078	28.20	5,078	
	Dun-Yang Energy Corp.	Investee accounted for using the equity method	"	"	3,897	43,226	32.20	43,226	
	Yong-Chang Energy Corp.	Investee accounted for using the equity method	"	"	3,975	42,327	32.32	42,327	
	RI-Zhao Energy Corp.	Investee accounted for using the equity method	"	"	4,040	45,556	32.32	45,556	
	Tien-Tai Optronics Corporation	Investee accounted for using the equity method	"	"	10,646	134,533	33.64	134,533	
	Kwan's International Co., Ltd.	N/A	Financial assets at fair value through profit or loss	"	759	37,965	-	37,965	
	F-Rotam Global AgroSciences Limited (Cayman)	N/A	"	"	1,404	24,015	-	24,015	
	F-Yeong Guan Energy Technology Group Co., Ltd.	N/A	"	"	96	5,186	-	5,186	
	F-Fulgent Sun International (Holding) Co., Ltd.	N/A	"	"	747	66,259	-	66,259	
	F-Hiroca Holdings Ltd.	N/A	"	"	439	28,585	-	28,585	
	Pili International Multimedia Co., Ltd.	N/A	"	"	51	1,987	-	1,987	
	Min Aik Precision Industrial Co., Ltd.	N/A	"	"	240	5,316	-	5,316	
	Man Zai Industrial Co., Ltd.	N/A	"	"	349	6,910	-	6,910	
	Taisun-KY	N/A	"	"	139	17,382	-	17,382	
	Senhwa Biosciences, Inc.	N/A	"	"	1,200	80,760	1.61	80,760	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Tanvex BioPharma, Inc. (F-Tanvex)	N/A	Financial assets at fair value through profit or loss	1,250	\$ 81,250	-	\$ 81,250	
	Kayee International Group Co., Ltd.	N/A	"	403	40,703	-	40,703	
	Global Tek Fabrication Co., Ltd.	N/A	"	976	48,019	1.48	48,019	
	Cryomax Cooling System Corp.	N/A	"	1,248	21,708	1.89	21,708	
	Shane Global Holdings Inc.	N/A	"	4,276	555,841	4.28	555,841	
	Brighton-Best International (Taiwan) Inc.	N/A	"	5,573	186,696	-	186,696	
	Nan Pao Resins Chemical Co., Ltd.	N/A	"	323	48,819	-	48,819	
	Compal Broadband Networks, Inc.	N/A	"	78	2,285	-	2,285	
	Ching Chan Optical Technology Co., Ltd.	N/A	"	821	25,492	2.23	25,492	
	Fusheng Precision Co., Ltd.	N/A	"	800	143,200	-	143,200	
	Remotek Corp.	N/A	"	480	7,265	2.20	7,265	
	TWi Biotechnology, Inc.	N/A	"	491	7,041	-	7,041	
	Fittech Co., Ltd.	N/A	"	178	9,062	-	9,062	
	Smartdisplayer Technology Co., Ltd.	N/A	"	1,000	20,790	4.01	20,790	
	Sincere Biotech Co., Ltd.	N/A	"	700	20,034	3.50	20,034	
	BioGend Therapeutics Co., Ltd.	N/A	"	2,000	42,980	2.44	42,980	
	Mars Semiconductor Corp.	N/A	"	528	8,787	2.36	8,787	
	CDIB Bioscience Venture Management (BVI), Inc.	N/A	"	19	618	1.88	618	
	Proconn Technology Co., Ltd.	N/A	"	2,055	678	3.30	678	
	EasyCard Investment Holdings Co., Ltd.	N/A	"	1,430	41,777	1.37	41,777	
	Lien-An Service Co., Ltd.	N/A	"	125	991	5.00	991	
	Koatech Technology Corporation	N/A	"	101	1,069	-	1,069	
	Ares Green Technology Corporation	N/A	"	425	15,924	1.25	15,924	
	Mega Union Technology Inc.	N/A	"	2,653	53,959	9.37	53,959	
	Cathay Healthcare Management Co., Ltd.	N/A	"	8,250	246,758	15.00	246,758	
	FashionGuide Co., Ltd.	N/A	"	714	6,220	4.26	6,220	
	Sunmile Group Holding Co., Limited	N/A	"	528	-	1.85	-	
	Beauty Essentials Internation Ltd.	N/A	"	43,252	103,804	4.39	103,804	
	SMS Holdings One I	N/A	"	1	-	5.00	-	
	Shengzhuang Holdings	N/A	"	122	-	1.09	-	
	Bioengine Capital Inc.	N/A	"	4,500	105,840	3.16	105,840	
	WinWay Technology Co., Ltd.	N/A	"	1,062	101,199	3.73	101,199	
	Bravo ideas Digital Co., Ltd.	N/A	"	1,600	7,216	3.58	7,216	
	Episonica Holding	N/A	"	2,255	56,142	11.12	56,142	
	Andros Pharmaceuticals Co., Ltd.	N/A	"	1,050	12,128	4.19	12,128	
	Transound Electronics Co., Ltd.	N/A	"	1,200	9,360	3.40	9,360	
	Hypercrystal Co., Ltd.	N/A	"	2,000	25,180	13.80	25,180	
	Amaryllo International B.V.	N/A	"	1,000	4,240	5.68	4,240	
	Noratech Pharmaceuticals, Inc.	N/A	"	1,000	21,850	-	21,850	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Kuang Ming Shipping Corp.	N/A	Financial assets at fair value through profit or loss	157	\$ 459	-	\$ 459	
	TOt Biopharm Co., Ltd.	N/A	"	1,978	33,436	2.36	33,436	
	Grandsys Inc.	N/A	"	1,860	22,859	7.77	22,859	
	SinoGreenergy	N/A	"	-	1	10.00	1	
	DTCO (Samoa)	N/A	"	325	3,310	2.87	3,310	
	Tennrich International Corp.	N/A	"	1,938	1,531	3.19	1,531	
	Allianz Pharmascience Limited	N/A	"	2,000	34,520	6.85	34,520	
	KKDAY	N/A	"	5,668	32,762	2.90	32,762	
	SmartGames	N/A	"	164	1,942	2.13	1,942	
	SSC Holdco Limited	N/A	"	100	69,790	-	69,790	
	PSS Co., Ltd.	N/A	"	330	14,147	-	14,147	
	Altek Semiconductor	N/A	"	800	20,752	1.80	20,752	
	World Known MFG	N/A	"	1,500	67,905	5.00	67,905	
	Anywhere2Go	N/A	"	2	10,391	-	10,391	
	Genetex International Corporation	N/A	"	1,340	43,537	3.55	43,537	
	Rani Therapeutics, LLC	N/A	"	119	11,133	-	11,133	
	ThinkPower Information Co., Ltd.	N/A	"	960	27,215	15.00	27,215	
	Mimetas B.V.	N/A	"	8	10,863	2.81	10,863	
	Yonggu Group Inc. (Cayman)	N/A	"	1,130	50,019	-	50,019	
	Xiongchuang (Samoa)	N/A	"	19	27,664	4.50	27,664	
	91APP	N/A	"	8,333	18,583	-	18,583	
	Acepodia Inc.	N/A	"	1,848	32,637	5.81	32,637	
	Greenway Environmental Technology Co., Ltd.	N/A	"	4,375	61,031	11.22	61,031	
	Calchen Pharmaceuticals, Inc.	N/A	"	338	24,336	-	24,336	
	Chu Chien Technology Limited	N/A	"	2,302	72,073	1.57	72,073	
	Pacific 8 Venture	N/A	"	-	83,868	-	83,868	
	Monk's hill Venture Fund	N/A	"	-	26,440	-	26,440	
	Validus	N/A	"	145	61,657	-	61,657	
	Vizionfocus Inc.	N/A	"	1,700	47,600	3.49	47,600	
	Finaxar	N/A	"	87	30,920	-	30,920	
	Aetheral Co., Ltd.	N/A	"	582	34,429	9.23	34,429	
	King Point Enterprise Co., Ltd.	N/A	"	1,000	33,000	2.53	33,000	
	Tigerair Taiwan Co., Ltd.	N/A	"	1,829	74,989	-	74,989	
	Intudo Venture II, LP	N/A	"	-	18,653	-	18,653	
	Taiwan Aerospace Corp.	N/A	"	1	15	-	15	
	Hua Zhi Venture Capital Co., Ltd.	N/A	"	-	2	-	2	
	HWA VI Venture Capital Corp.	N/A	"	-	2	-	2	
	CDIB BioScience Ventures I, Inc.	N/A	"	-	1	-	1	
	WK Technology Fund Co., Ltd.	N/A	"	-	1	-	1	
	WK Technology Fund IV Co., Ltd.	N/A	"	-	1	-	1	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Cathay Futures Co., Ltd.	WK Technology Fund V Co., Ltd.	N/A	Financial assets at fair value through profit or loss	-	\$ 1	-	\$ 1	
	WK Technology Fund VIII Co., Ltd.	N/A	"	-	1	-	1	
	WK Technology Fund VI Co., Ltd.	N/A	"	-	1	-	1	
	WK Technology Fund VII Co., Ltd.	N/A	"	-	1	-	1	
	<u>Preference shares</u> Winking Entertainment Co., Ltd.	N/A	"	1,418	32,041	0.15	32,041	
	<u>Shares</u> Taiwan Futures Exchange	N/A	Financial assets at fair value through other comprehensive income	5,401	548,429	1.52	548,429	

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date (Note 2)	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Cathay Life Insurance Co., Ltd.	Land located at Sanmin Section, Taoyuan City	2019.05.03	\$ 981,851	Installment payments according to contracts	Mr. Lu and other six natural person	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	323,890	Lump sum	Taipei	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	389,855	Lump sum	Taipei	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Sanmin Section, Taoyuan City	2019.07.10	397,327	Installment payments according to contracts	Mr. Yang	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Note 2: The term "event date" refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investments from Taiwan as of September 30, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of September 30, 2019	Accumulated Repatriation of Investment Income as of September 30, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 725,149	50.0	\$ 362,574 (Note 2,b,2))	\$ 5,403,688	\$ -
Cathay Insurance Company Limited (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	(81,585)	49.0	(39,976) (Note 2,b,3))	4,438,270	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	219,601	100.0	163,287 (Note 2,b,2))	7,439,388	-
Cathay United Bank (China) Co., Ltd.	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	240,662	100.0	240,662 (Note 2,b,2))	15,869,117	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(85,466)	33.3	(28,460) (Note 2,b,3))	418,768	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	24,826	33.3	8,267 (Note 2,b,3))	194,852	-
Cathay Investment Consulting (Shanghai) Co., Ltd. (Note 5)	Investment consulting	38,965	a	38,965	-	9,329	29,636	(737)	100.0	(737) (Note 2,b,3))	-	-

Accumulated Outward Remittance for Investments in Mainland China as of September 30, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 34,854,311	\$ 34,863,640	\$ 477,447,369

Note 1: The 3 methods of investment are as follows:

- a. Direct investment in China.
- b. Reinvestment in China through companies located in a third region
- c. Others.

Note 2: The column of investment profit or loss for the period:

- a. It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- b. It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
 - 1) The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 - 2) The financial statement is audited and certified by the parent company's auditors in Taiwan.
 - 3) Other basis.

(Continued)

Note 3: The related figure in the schedule should be expressed in New Taiwan dollars.

Note 4: CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY\$100 million in mainland China.

Note 5: Cathay Investment Consulting (Shanghai) Co., Ltd. has completed liquidation on February 26, 2019.

Note 6: Information on investments in mainland China

- a. On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand, approved by the MOEAIC on December 20, 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life’s subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. Cathay Life injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized Cathay Life to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of September 30, 2019, Cathay Life’s remittances to the subsidiary totaled approximately CNY900,000 thousand and US\$78,210 thousand.
- b. On October 17, 2007, MOEAIC authorized Cathay Life to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on October 8, 2007. On March 6, 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized Cathay Life to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized Cathay Life to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized Cathay Life to remit CNY245,000 thousand on December 6, 2018. As of September 30, 2019, Cathay Life’s remittances to this general insurance company totaled approximately CNY445,000 thousand and US\$28,140 thousand.
- c. On November 1, 2011 and April 11, 2012, MOEAIC authorized Cathay Life to remit CNY300,000 (US\$47,000) thousand and CNY500,000 (US\$80,000) thousand, respectively. A total of US\$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life’s subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on August 15, 2012. On April 1, 2013, MOEAIC authorized Cathay Life to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of September 30, 2019, Cathay Life’s remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY1,500,000 thousand.
- d. On January 9, 2012, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish an insurance subsidiary (in the form of a joint venture with Cathay Life) of which was also approved by China Insurance Regulatory Commission on October 8, 2007. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century in Shanghai has acquired a business license of an enterprise as a legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized Cathay Life to remit CNY200,000 thousand to increase the share capital. On June 13, 2013 and March 18, 2014, a remittance of CNY100,000 and CNY100,000 as share capital were authorized by China Insurance Regulatory Commission. On November 23, 2018, MOEAIC authorized Cathay Century to remit CNY245,000 thousand as share capital. As of September 30, 2019, Cathay Life’s remittances to this general insurance company totaled approximately US\$97,290 thousand.
- e. MOEAIC approved Cathay United Bank to remit to China CNY400,000,000 (US\$60,067,239). According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY400,000,000 (US\$59,768,397.46). The remaining amount of US\$298,841.54 was repatriated by Shanghai Branch, Cathay United Bank on November 5, 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in January 18, 2011 and were approved on January 24, 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY600,000,000 (US\$95,024,128) to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY600,000,000 (US\$94,929,198.64). The remaining amount of US\$94,929.36 was repatriated by Cathay United Bank’s Shanghai Branch on February 1, 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on March 20, 2012 and were approved on March 26, 2012. MOEAIC approved Cathay United Bank’s Shanghai Branch to increase the working capital of CNY1,000,000,000 (US\$164,000,000) on February 27, 2014. According to MOEAIC, further approved working capital of Cathay United Bank’s Qingdao Branch was CNY600,000,000 (US\$98,199,673) on January 21, 2014. And the approved working capital of Cathay United Bank’s Shamchun Branch was CNY400,000,000 (US\$60,708,160.7) on January 5, 2015.
- f. The registered capital of Cathay United Bank (China) Co., Ltd. was CNY3 billion, whose working capital was transferred from Cathay United Bank (Shanghai), Cathay United Bank (Qingdao), Cathay United Bank (Shenzhen) upon obtaining approval from the authorities.
- g. On January 9, 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management’s capital is CNY200,000 thousand, and has acquired a business license of an enterprise legal person on August 16, 2013. On November 9, 2016, the board of Cathay Securities Investments Trust approved to increase investment in CDBS Cathay Asset Management accounted for using the equity method as percentage of original ownership amounted to CNY53,280 thousand. The proposal was authorized by the FSC and MOEAIC on May 16, 2017 and June 9, 2017, respectively, on September 29, 2017 increase capital and will be executed after obtaining approval by the China authorities. As of December 31, 2019, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY119,880 thousand.

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Revenue or Assets (Note 3)
0	Cathay Financial Holdings	Cathay Life	a	Financial assets at fair value through profit or loss	\$ 35,000,000	Not significantly different with that of third parties	0.35
		Cathay Life	a	Income tax payable for consolidated income tax	12,934,120	"	0.13
		Cathay Life	a	Interest revenues	942,411	"	0.25
		Cathay Life	a	Interest receivable	1,008,000	"	0.01
		Cathay United Bank	a	Income tax payable for consolidated income tax	1,532,949	"	0.02
		Cathay Century	a	Income tax payable for consolidated income tax	283,025	"	-
		Cathay Securities Investment Trust	a	Income tax payable for consolidated income tax	130,175	"	-
1	Cathay Life	Cathay United Bank	c	Guarantee deposits received	175,220	"	-
		Cathay United Bank	c	Cash and cash equivalents	18,636,931	"	0.19
		Cathay United Bank	c	Gains on investment property	465,145	"	0.12
		Cathay United Bank	c	Other operating expenses	4,632,920	"	1.21
		Cathay United Bank	c	Payables	339,336	"	-
		Cathay United Bank	c	Service fee and commission fee	1,054,852	"	0.28
		Cathay United Bank	c	Net other non-interest gain	120,352	"	0.03
		Cathay United Bank	c	Gains on financial assets and liabilities at fair value through profit or loss	3,414,884	"	0.89
		Cathay United Bank	c	Financial liabilities at fair value through profit or loss	941,707	"	-
		Cathay Century	c	Net other non-interest gain	490,871	"	0.13
		Cathay Futures	c	Guarantee deposits paid	3,069,414	"	0.03
		Cathay Securities Investment Trust	c	Service fee and commission fee	138,228	"	0.04
		Cathay Walbrook Holding 1 Limited	c	Loans	12,492,673	"	0.13
		Cathay Walbrook Holding 1 Limited	c	Interest revenues	365,590	"	0.10
		Cathay Walbrook Holding 2 Limited	c	Loans	657,509	"	-
		Conning holding limited	c	Payables	214,193	"	-
		Conning holding limited	c	Service fee and commission fee	645,492	"	0.17
2	Cathay United Bank	Cathay Century	c	Deposits	1,948,855	"	0.02
		Cathay Century	c	Service fee and commission fee	113,487	"	0.03
		Cathay Century	c	Other operating expenses	112,432	"	0.03
		Cathay Securities	c	Deposits	3,293,071	"	0.03
		Cathay Securities Investment Trust	c	Deposits	127,270	"	-

(Continued)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Revenue or Assets (Note 3)
		Cathay Futures	c	Deposits	\$ 1,385,577	Not significantly different with that of third parties	0.01
		Cathay Futures	c	Guarantee deposits paid	119,434	"	-
		Cathay Life (Vietnam)	c	Deposits	267,600	"	-
		Indovina Bank	c	Interest revenues	119,922	"	0.03
		Indovina Bank	c	Call loans from banks	6,208,400	"	0.06
		CUBC Bank	c	Call loans from banks	838,134	"	-
		CUBCN Bank	c	Call loans from banks	4,888,840	"	0.05
		CUBCN Bank	c	Due to other banks	9,596,567	"	0.10
		CUBCN Bank	c	Interest revenues	142,119	"	0.04
		CUBCN Bank	c	Interest receivables	340,065	"	-
3	Indovina Bank	Cathay Insurance (Vietnam)	c	Deposits	200,607	"	-
		Cathay Life (Vietnam)	c	Deposits	394,479	"	-

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

- a. Parent company to subsidiary.
- b. Subsidiary to parent company.
- c. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:

For balance sheet accounts: Transaction amount ÷ Total consolidated assets

For income statement accounts: Accumulated transaction amount ÷ Total consolidated profit from operations.

Note 4: Disclosure of the important intercompany transactions above is decided by the Company based on the materiality principle.

(Concluded)