

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

**Consolidated Financial Statements for the
Six Months Ended June 30, 2020 and 2019 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as of June 30, 2020, December 31, 2019 and June 30, 2019, the consolidated statements of comprehensive income for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2020 and 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2020, December 31, 2019 and June 30, 2019, its consolidated financial performance for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, and its consolidated cash flows for the six months ended June 30, 2020 and 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.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the six months ended June 30, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the six months ended June 30, 2020 are as follows:

Valuation of Policy Reserve and Liability Adequacy Test

Cathay Life Insurance Co., Ltd. is a subsidiary of Cathay Financial Holding Co., Ltd. Its management adopted the actuarial model and its related multiple significant assumptions for the estimation of the policy reserve and liability adequacy test. Significant assumptions in the measurement of the policy reserve include the mortality rate, discount rate, lapse rate, morbidity rate, etc. These assumptions are made based on legislation and regulations, taking into consideration its actual experience as well as industry-specific experience. The liability adequacy test on insurance contracts is performed in accordance with the requirements issued by the Actuarial Institute of Chinese Taipei, and the discount rates for future years used in the test are based on its best estimate scenario as well as the rate of the portfolio return under current information. Since any changes in the actuarial model and significant assumptions may lead to a material impact on the estimation results of the policy reserve and the liability adequacy test, the valuation of policy reserves and liability adequacy test was identified as a key audit matter. For the related accounting policies, accounting estimates, estimation uncertainty and relevant disclosure information, refer to Notes 4, 5 and 21 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood the internal controls related to management's valuation of policy reserves and liability adequacy test as well as evaluated the operating effectiveness of these internal controls.
2. We obtained the actuarial report issued by the contracted actuary which was used as the basis for the management's valuation of policy reserves and liability adequacy test, and evaluated the contracted actuary's professional competence and capability.
3. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the valuation of the policy reserve. The actuarial specialist:
 - a. Randomly sampled the insurance products to examine whether the calculations of the policy reserve were made in accordance with the requirements.
 - b. Evaluated the actuarial model and significant assumptions used in its valuation of policy reserve based on the sampled insurance policies and verified the recognized amount of the policy reserve.
 - c. Performed profiling tests on long-term insurance policies as of June 30, 2020 to identify any abnormalities on the recognized amounts of policy reserve on each individual insurance policy.
 - d. Assessed the reasonableness of the amount of provision for the policy reserve by considering the amount of policy reserve as of the end of the prior year and the business development for the six months ended June 30, 2020.

4. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the liability adequacy test. The actuarial specialist:
 - a. Tested on a sample basis the correctness of classification of the newly issued insurance products for the six months ended June 30, 2020.
 - b. Sampled the significant assumptions provided by the management for our audits in order to examine whether the assumptions were consistent with the requirements and the important built-in assumptions in the information system.
 - c. Tested and assessed the actuarial model and its significant assumptions used by the management in its liability adequacy test on a sample basis and performed recalculations on the individual insurance policies.
 - d. Assessed the reasonableness of the calculation results of the liability adequacy test as a whole based on a comparative analysis of the previous year's results and taking into consideration the business development for the six months ended June 30, 2020.

Assessment of the Fair values of Investment Properties

The investment properties of Cathay Life Insurance Co., Ltd. are measured at their fair values. To support the management in making reasonable estimates, Cathay Life Insurance Co., Ltd. used the fair values assessed by external independent appraisers. As the appraisal method and parameters used in the assessment of fair values involve significant judgments and estimates, we determined the assessment of the fair values of investment properties as a key audit matter. For the accounting policies, accounting estimates, assumption uncertainty and relevant disclosure information on the assessment of fair values of investment properties, refer to Notes 4, 5 and 14 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We evaluated the professional competence, capability and objectivity of the external independent appraisers, and verified the qualification of the appraisers.
2. We appointed an internal valuation specialist to evaluate the reasonableness of the appraisal reports adopted by its management, including the appraisal methods, main parameters and discount rate of the appraisal reports.

Impairment assessment on Loans

Cathay United Bank Co., Ltd. is a subsidiary of Cathay Financial Holding Co., Ltd. Its domestic loans was considered material to the consolidated financial statements as a whole. As the assessment of impairment of loans involves accounting estimates and management's significant judgment, and as the impairment assessment on loans under the relevant regulations issued by the authorities is substantially larger than that under IFRS 9, hence, we determined the impairment of the loans under the relevant regulations prescribed by the authorities as a key audit matter.

Its management regularly assesses the impairment on its loans. Recognition of impairment loss on loans is based on compliance with regulations issued by the authorities regarding the classification of credit assets and provision of impairment loss. For the accounting policies and relevant information on the impairment assessment of loans, refer to Notes 4, 5 and 11.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood and tested its internal controls of impairment assessment on loans.
2. We tested the classification of the credit assets into their respective categories out of the total five categories to see if it complies with the relevant regulations issued by the authorities.
3. We performed the test on selected samples to ensure the appropriateness of impairment by the length of the overdue period and the value of the collateral of each respective loan.
4. We calculated the provision of impairment loss by classifying the credit assets into their respective category to see if it complies with the relevant regulations issued by the authorities.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee/supervisors, are responsible for overseeing the Group’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control (including the financial reporting process) relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the six months ended June 30, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 20, 2020

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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 449,880,117	4	\$ 413,405,471	4	\$ 327,504,526	3
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	137,765,455	1	110,945,093	1	148,924,269	2
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 28 and 29)	1,696,475,809	16	1,653,983,453	16	1,512,589,693	16
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8 and 29)	1,310,379,571	13	1,182,534,102	12	1,122,648,310	11
FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Notes 4, 5, 9 and 29)	3,104,500,105	30	3,068,838,014	31	2,917,332,569	30
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	669,856	-	548,075	-	258,198	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	66,317,955	1	43,586,931	-	92,401,508	1
RECEIVABLES, NET (Notes 4, 5 and 10)	170,470,715	2	185,049,532	2	188,568,814	2
CURRENT TAX ASSETS	4,672,977	-	4,853,833	-	4,932,641	-
DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28)	2,105,202,259	20	2,066,761,296	21	2,103,752,021	22
REINSURANCE CONTRACT ASSETS, NET	9,025,154	-	8,458,658	-	8,116,282	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28)	32,161,134	-	48,145,672	-	48,812,932	-
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	580,569,220	6	615,117,482	6	605,139,145	6
INVESTMENT PROPERTIES, NET (Notes 4, 5, 14 and 29)	410,703,272	4	408,696,108	4	397,886,101	4
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	101,042,437	1	101,855,371	1	101,736,445	1
RIGHT-OF-USE ASSETS, NET (Notes 4, 16 and 28)	3,960,071	-	3,908,913	-	4,053,697	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	56,008,318	1	51,270,972	1	52,826,197	1
DEFERRED TAX ASSETS (Note 4)	50,353,464	-	40,595,612	-	30,366,411	-
OTHER ASSETS, NET (Notes 28 and 29)	56,711,097	1	56,924,753	1	70,460,877	1
TOTAL	\$ 10,346,868,986	100	\$ 10,065,479,341	100	\$ 9,738,310,636	100
LIABILITIES AND EQUITY						
DUE TO THE CENTRAL BANK AND OTHER BANKS	\$ 73,500,085	1	\$ 84,108,128	1	\$ 100,140,913	1
FUNDS BORROWED FROM THE CENTRAL BANK AND OTHER BANKS	410,000	-	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	124,769,294	1	111,526,387	1	140,826,566	1
FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5)	65,647	-	30,894	-	31,843	-
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4)	21,075,281	-	50,278,533	-	35,343,325	-
COMMERCIAL PAPER PAYABLES, NET (Note 18)	43,139,714	1	54,018,845	-	46,160,506	1
PAYABLES (Note 28)	97,279,092	1	66,934,725	1	88,362,798	1
CURRENT TAX LIABILITIES (Note 4)	15,828,571	-	3,274,828	-	861,972	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,404,243,391	23	2,303,443,816	23	2,238,002,001	23
BONDS PAYABLE (Note 20)	127,700,000	1	118,900,000	1	120,400,000	1
OTHER BORROWINGS	566,726	-	2,201,364	-	238,942	-
PROVISIONS (Notes 4, 21 and 22)	5,924,697,854	57	5,713,778,385	57	5,523,637,446	57
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	629,262,965	6	676,972,179	7	671,120,046	7
LEASE LIABILITIES (Notes 4, 16 and 28)	12,791,433	-	12,720,337	-	12,874,914	-
DEFERRED TAX LIABILITIES (Note 4)	52,819,639	1	55,144,257	1	45,105,971	1
OTHER LIABILITIES (Note 28)	31,480,680	-	30,119,484	-	16,456,709	-
Total liabilities	9,559,630,372	92	9,283,452,162	92	9,039,563,952	93
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital						
Ordinary shares	131,692,102	2	131,692,102	2	125,632,102	1
Preference shares	15,333,000	-	15,333,000	-	15,333,000	-
Capital surplus	177,254,459	2	177,256,976	2	161,689,208	2
Retained earnings						
Legal reserve	51,967,688	1	46,122,845	-	46,122,845	1
Special reserve	149,894,910	1	221,977,672	2	221,977,672	2
Unappropriated earnings	126,826,108	1	58,181,890	1	30,933,430	-
Other equity	122,832,628	1	121,182,880	1	86,883,888	1
Total equity attributable to owners of the Company	775,800,895	8	771,747,365	8	688,572,145	7
NON-CONTROLLING INTERESTS (Notes 4 and 24)	11,437,719	-	10,279,814	-	10,174,539	-
Total equity	787,238,614	8	782,027,179	8	698,746,684	7
TOTAL	\$ 10,346,868,986	100	\$ 10,065,479,341	100	\$ 9,738,310,636	100

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

(With Deloitte & Touche audit report dated August 20, 2020)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 52,175,597	33	\$ 55,310,595	47	\$ 105,959,714	33	\$ 109,415,297	45
INTEREST EXPENSE (Notes 4 and 28)	<u>(4,550,351)</u>	<u>(3)</u>	<u>(6,051,782)</u>	<u>(5)</u>	<u>(10,054,311)</u>	<u>(3)</u>	<u>(12,013,789)</u>	<u>(5)</u>
NET INTEREST INCOME	<u>47,625,246</u>	<u>30</u>	<u>49,258,813</u>	<u>42</u>	<u>95,905,403</u>	<u>30</u>	<u>97,401,508</u>	<u>40</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME								
Net gain on service fee and commission fee (Notes 4, 23, 25 and 28)	490,519	-	1,597,953	1	2,799,013	1	1,070,024	-
Net income on insurance operations (Notes 4, 25 and 28)	89,890,987	56	39,259,350	33	169,022,435	53	96,704,342	40
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	141,016,239	89	13,400,307	11	33,180,943	10	100,918,201	41
Gain on investment properties (Notes 4, 14 and 28)	4,570,531	3	3,026,951	3	7,584,001	2	6,310,320	3
Realized gain on financial assets at fair value through other comprehensive income (Note 4)	8,906,227	6	8,514,068	7	18,628,050	6	14,165,519	6
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	9,573,975	6	1,012,951	1	23,387,112	7	1,484,184	1
Foreign exchange (loss) gain (Note 4)	(45,597,335)	(29)	16,893,893	14	(40,126,942)	(12)	25,713,576	11
Gain (loss) on reversal of assets impairment loss	(1,049,387)	(1)	243,768	-	(1,975,191)	(1)	618,084	-
Share of gain (loss) of associates and joint ventures accounted for using the equity method (Notes 4 and 13)	(12,621,800)	(8)	476,167	1	(13,010,397)	(4)	760,301	-
(Loss) gain on reclassification using the overlay approach (Notes 4 and 7)	(91,266,564)	(57)	(11,712,476)	(10)	11,449,821	4	(95,407,219)	(39)
Net other non-interest gain (loss) (Note 28)	<u>7,520,229</u>	<u>5</u>	<u>(4,242,341)</u>	<u>(3)</u>	<u>14,306,371</u>	<u>4</u>	<u>(6,923,355)</u>	<u>(3)</u>
PROFIT FROM OPERATIONS	<u>159,058,867</u>	<u>100</u>	<u>117,729,404</u>	<u>100</u>	<u>321,150,619</u>	<u>100</u>	<u>242,815,485</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25)	<u>(125,654,628)</u>	<u>(79)</u>	<u>(72,695,121)</u>	<u>(62)</u>	<u>(241,909,202)</u>	<u>(75)</u>	<u>(160,048,424)</u>	<u>(66)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>(586,559)</u>	<u>-</u>	<u>203,505</u>	<u>-</u>	<u>(920,134)</u>	<u>-</u>	<u>(233,319)</u>	<u>-</u>
OPERATING EXPENSES (Notes 25 and 28)								
Employee benefit expenses	(14,327,460)	(9)	(13,049,695)	(11)	(26,462,190)	(8)	(27,879,758)	(12)
Depreciation and amortization expenses	(1,792,999)	(1)	(1,726,262)	(2)	(3,548,305)	(1)	(3,493,441)	(1)
Other general and administrative expenses	<u>(5,183,095)</u>	<u>(4)</u>	<u>(6,251,870)</u>	<u>(5)</u>	<u>(10,487,050)</u>	<u>(4)</u>	<u>(11,423,402)</u>	<u>(5)</u>
Total operating expenses	<u>(21,303,554)</u>	<u>(14)</u>	<u>(21,027,827)</u>	<u>(18)</u>	<u>(40,497,545)</u>	<u>(13)</u>	<u>(42,796,601)</u>	<u>(18)</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)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 11,514,126	7	\$ 24,209,961	20	\$ 37,823,738	12	\$ 39,737,141	16
INCOME TAX EXPENSE (Notes 4 and 26)	<u>(2,325,728)</u>	<u>(1)</u>	<u>(3,626,143)</u>	<u>(3)</u>	<u>(5,122,026)</u>	<u>(2)</u>	<u>(5,603,310)</u>	<u>(2)</u>
NET INCOME	<u>9,188,398</u>	<u>6</u>	<u>20,583,818</u>	<u>17</u>	<u>32,701,712</u>	<u>10</u>	<u>34,133,831</u>	<u>14</u>
OTHER COMPREHENSIVE INCOME (Notes 4 and 24)								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans	-	-	-	-	1,126	-	-	-
Property revaluation surplus	-	-	217,619	-	-	-	926,919	1
Gain (loss) on equity instruments at fair value through other comprehensive income	8,784,766	5	3,791,382	3	(2,815,054)	(1)	9,452,007	4
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(587,117)	-	(562,863)	-	1,117,321	1	(1,778,640)	(1)
Share of other comprehensive gain of associates and joint ventures accounted for using equity the method for items that will not be reclassified subsequently to profit or loss	72,972	-	155,874	-	164,632	-	284,180	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	(295,805)	-	(182,302)	-	540,833	-	(450,589)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	(1,641,550)	(1)	(547,264)	-	(3,463,900)	(1)	1,098,105	1
(Loss) gain on hedging instruments	(416,939)	-	6,187	-	151,837	-	96,428	-
Gain on debt instruments at fair value through other comprehensive income	57,625,675	36	31,901,359	27	17,487,731	6	75,944,858	31
Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method for items that may be reclassified subsequently to profit or loss	(90,683)	-	448,029	-	(324,651)	-	827,165	-

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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)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Other comprehensive income (loss) reclassified using the overlay approach	\$ 91,266,564	57	\$ 11,712,476	10	\$ (11,449,821)	(4)	\$ 95,407,219	39
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(17,626,500)</u>	<u>(11)</u>	<u>(8,350,269)</u>	<u>(7)</u>	<u>345,324</u>	<u>-</u>	<u>(24,518,587)</u>	<u>(10)</u>
Total other comprehensive income for the period, net of income tax	<u>137,091,383</u>	<u>86</u>	<u>38,590,228</u>	<u>33</u>	<u>1,755,378</u>	<u>1</u>	<u>157,289,065</u>	<u>65</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 146,279,781</u>	<u>92</u>	<u>\$ 59,174,046</u>	<u>50</u>	<u>\$ 34,457,090</u>	<u>11</u>	<u>\$ 191,422,896</u>	<u>79</u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 8,832,074	6	\$ 20,226,617	17	\$ 32,121,758	10	\$ 33,439,769	14
Non-controlling interests	<u>356,324</u>	<u>-</u>	<u>357,201</u>	<u>-</u>	<u>579,954</u>	<u>-</u>	<u>694,062</u>	<u>-</u>
	<u>\$ 9,188,398</u>	<u>6</u>	<u>\$ 20,583,818</u>	<u>17</u>	<u>\$ 32,701,712</u>	<u>10</u>	<u>\$ 34,133,831</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owner of the Company	\$ 146,085,053	92	\$ 58,875,251	50	\$ 33,785,391	11	\$ 190,344,714	78
Non-controlling interests	<u>194,728</u>	<u>-</u>	<u>298,795</u>	<u>-</u>	<u>671,699</u>	<u>-</u>	<u>1,078,182</u>	<u>1</u>
	<u>\$ 146,279,781</u>	<u>92</u>	<u>\$ 59,174,046</u>	<u>50</u>	<u>\$ 34,457,090</u>	<u>11</u>	<u>\$ 191,422,896</u>	<u>79</u>
EARNINGS PER SHARE (Note 27)								
Basic earnings per share	<u>\$ 0.41</u>		<u>\$ 1.40</u>		<u>\$ 2.18</u>		<u>\$ 2.45</u>	

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

(With Deloitte & Touche audit report dated August 20, 2020)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company													Total	Non-controlling Interest	Total Equity
	Share Capital						Retained Earnings			Other Equity						
	Ordinary Shares	Preferred Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on the Translation of Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	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			
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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 preferred 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	-	-	8,807	-	-	-	-	-	-	-	-	-	-	8,807	-	8,807
Net income for the six months ended June 30, 2019	-	-	-	-	-	33,439,769	-	-	-	-	-	-	-	33,439,769	694,062	34,133,831
Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	-	1,610,240	69,996,794	70,798	(1,422,911)	6,804	872,403	85,770,817	156,904,945	384,120	157,289,065
Total comprehensive income (loss) for six months ended June 30, 2019	-	-	-	-	-	33,439,769	1,610,240	69,996,794	70,798	(1,422,911)	6,804	872,403	85,770,817	190,344,714	1,078,182	191,422,896
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(2,537,695)	-	2,537,695	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(461,308)	(461,308)
BALANCE, AT JUNE 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,208	\$ 46,122,845	\$ 221,977,672	\$ 30,933,430	\$ (10,539,631)	\$ 54,947,543	\$ 244,087	\$ (648,827)	\$ (1,314,334)	\$ 11,240,314	\$ 32,954,736	\$ 688,572,145	\$ 10,174,539	\$ 698,746,684
BALANCE, AT JANUARY 1, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,256,976	\$ 46,122,845	\$ 221,977,672	\$ 58,181,890	\$ (13,319,620)	\$ 68,319,953	\$ 331,930	\$ (1,850,508)	\$ (1,507,864)	\$ 11,240,314	\$ 57,968,675	\$ 771,747,365	\$ 10,279,814	\$ 782,027,179
Appropriation of earnings for the year 2019	-	-	-	5,844,843	-	(5,844,843)	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(71,928,090)	71,928,090	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(26,338,420)	-	-	-	-	-	-	-	(26,338,420)	-	(26,338,420)
Cash dividends on preferred shares	-	-	-	-	-	(3,390,924)	-	-	-	-	-	-	-	(3,390,924)	-	(3,390,924)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	(2,517)	-	-	-	-	-	-	-	-	-	-	(2,517)	-	(2,517)
Net income for the six months ended June 30, 2020	-	-	-	-	-	32,121,758	-	-	-	-	-	-	-	32,121,758	579,954	32,701,712
Other comprehensive income (loss) for the six months ended June 30, 2020, net of income tax	-	-	-	-	-	-	(3,424,679)	12,989,274	125,640	893,857	(9,361)	-	(8,911,098)	1,663,633	91,745	1,755,378
Total comprehensive income (loss) for six months ended June 30, 2020	-	-	-	-	-	32,121,758	(3,424,679)	12,989,274	125,640	893,857	(9,361)	-	(8,911,098)	33,785,391	671,699	34,457,090
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(129,340)	-	129,340	-	-	-	-	-	-	-	-
Others	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	486,206	486,206
BALANCE, AT JUNE 30, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,254,459	\$ 51,967,688	\$ 149,894,910	\$ 126,826,108	\$ (16,744,299)	\$ 81,438,567	\$ 457,570	\$ (956,651)	\$ (1,517,225)	\$ 11,097,089	\$ 49,057,577	\$ 775,800,895	\$ 11,437,719	\$ 787,238,614

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

(With Deloitte & Touche audit report dated August 20, 2020)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 37,823,738	\$ 39,737,141
Adjustments for:		
Depreciation expenses	1,962,833	1,924,701
Amortization expenses	1,585,472	1,568,740
Bad debt expense	920,134	233,319
Gain on financial assets and liabilities at fair value through profit or loss	(28,333,182)	(93,526,936)
Interest expense	10,054,311	12,013,789
Gain on derecognition of financial assets measured at amortized cost	(23,387,112)	(1,484,184)
Interest income	(105,959,714)	(109,415,297)
Dividend income	(5,256,971)	(8,512,309)
Net change in insurance liabilities	222,474,993	173,648,258
Net changes in other provisions	(11,400,105)	7,806,626
Share of loss (gain) of associates accounted for using the equity method	13,010,397	(760,301)
(Gain) loss on reclassification using the overlay approach	(11,449,821)	95,407,219
Loss on disposal and retirement of property and equipment	1,436	4,178
Loss on disposal of investment properties	505,615	21,395
Gain on disposal of investments accounted for using the equity method	(1,815,267)	-
Gain on disposal of investments	(18,058,121)	(27,315)
Impairment loss (reversed) recognized on financial assets	1,975,191	(618,084)
Gain on changes in fair value of investment properties	(2,362,756)	(519,055)
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(2,349,811)	(1,477,603)
Decrease in financial assets at fair value through profit or loss	72,219,307	103,268,986
(Increase) decrease in financial assets at fair value through other comprehensive income	(94,432,658)	89,759,184
Increase in investments in debt instruments at amortized cost	(14,048,637)	(227,059,852)
Decrease in financial assets for hedging	65,717	86,561
Decrease (increase) in receivables	15,440,516	(17,507,906)
Increase (decrease) in loans	(39,229,175)	72,876,329
Increase in reinsurance assets	(481,834)	(271,913)
(Increase) decrease in other financial assets	(1,758,921)	434,820
Decrease in other assets	3,217,913	570,331
Decrease (increase) in due to the Central Bank and other banks	(10,608,043)	18,708,680
Decrease in financial liabilities at fair value through profit or loss	(62,113,587)	(83,762,876)
Decrease in securities sold under repurchase agreements	(29,203,252)	(23,963,712)
Increase in payables	3,079,759	4,770,449
Increase in deposits and remittances	100,799,575	50,798,915
Decrease in reserve for employee benefits liabilities	(54,985)	(56,579)
(Decrease) increase in provisions	(180,413)	82,754

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2020	2019
Decrease in other financial liabilities	\$ (11,402,128)	\$ (6,529,261)
Decrease in other liabilities	<u>(2,060,108)</u>	<u>(949,609)</u>
Cash generated from operations	9,190,306	97,279,583
Interest received	105,837,133	100,842,917
Dividends received	5,758,030	8,573,236
Interest paid	(12,360,075)	(13,194,338)
Income tax paid	<u>(4,130,668)</u>	<u>(6,316,980)</u>
Net cash generated from operating activities	<u>104,294,726</u>	<u>187,184,418</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(16,496,503)	(26,030,538)
Proceeds from disposal of financial assets at fair value through other comprehensive income	15,497,239	27,082,538
Acquisition of financial assets at fair value through profit or loss	(405,843)	(438,243)
Proceeds from disposal of financial assets at fair value through profit or loss	294,894	139,703
Acquisition of investments accounted for using equity method	(372,185)	(2,588,210)
Proceeds from disposal of investments accounted for using equity method	-	86,149
Net cash outflow from acquisition of subsidiaries (deduct cash and cash equivalent balances acquired)	(664,119)	-
Proceeds from disposal of subsidiaries	-	9,329
Cash returned by capital deduction from investments accounted for using equity method	-	5,166
Acquisition of property and equipment	(1,059,771)	(840,976)
Proceeds from disposal of property and equipment	2,375	17,699
Acquisition of intangible assets	(393,358)	(444,640)
Acquisition of investment properties	(2,572,208)	(3,094,991)
Proceeds from disposal of investment properties	149,708	114,250
(Increase) decrease in other assets	(2,787,508)	4,470,146
Dividends received	<u>-</u>	<u>3,497</u>
Net cash used in investing activities	<u>(8,807,279)</u>	<u>(1,509,121)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(1,648,933)	(102,462)
Decrease in commercial paper payables	(10,880,000)	(16,828,126)
Increase in funds borrowed from the Central Bank and other banks	410,000	-
Proceeds from issuance of bonds payable	8,900,000	30,000,000
Repayment of financial debentures	(100,000)	(200,000)

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2020	2019
Decrease in financial liabilities designated as at fair value through profit or loss	\$ (11,289,165)	\$ -
Repayment of the principal portion of lease liabilities	(874,426)	(912,802)
Increase (decrease) in other liabilities	2,596,009	(124,931)
Changes in non-controlling interests	<u>(816,784)</u>	<u>(461,304)</u>
Net cash (used in) generated from financing activities	<u>(13,703,299)</u>	<u>11,370,375</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,878,784</u>	<u>291,814</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,662,932	197,337,486
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>503,214,148</u>	<u>310,798,346</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 586,877,080</u>	<u>\$ 508,135,832</u>
Reconciliation of cash and cash equivalents:		
	June 30	
	2020	2019
Cash and cash equivalents presented in the consolidated balance sheets	\$ 449,880,117	\$ 327,504,526
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	70,679,008	88,229,798
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>66,317,955</u>	<u>92,401,508</u>
Cash and cash equivalents at the end of the periods	<u>\$ 586,877,080</u>	<u>\$ 508,135,832</u>

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

(With Deloitte & Touche audit report dated August 20, 2020)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 August 20, 2020.

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 Insurance Enterprises 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 the Financial Supervisory Commission (“FSC”)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises 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 (collectively, the “Group”):

- 1) Amendments to IFRS 3 “Definition of a Business”

The Group applies the amendments to IFRS 3 to transactions that occur on or after January 1, 2020. The amendments require that for an entity to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To judge whether the acquired process is substantive, there will be different judgement requirements depending on whether there is output on the acquisition date. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

- 2) Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”

Upon retrospective application of the amendments, the Group complied with the hedge accounting requirements under the assumption that the interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

- 3) Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group adopted the amendments starting from January 1, 2020. The threshold for materiality influencing users has been changed to “could reasonably be expected to influence” and, therefore, the disclosures in the consolidated financial report have been adjusted and immaterial information that may obscure material information has been deleted.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable 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, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

- IFRS 17 “Insurance Contracts and its amendments”

IFRS 17 sets out the accounting standards for insurance contracts that will supersede IFRS 4. The main standards and amendments 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, and a group of contracts which are decided to be issued should be applied to recognition and measurement of IFRS 17.

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 on 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 financial risk, 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) All cash flows arising from the contracts in the group at that date; and
- 3) The derecognition at the initial recognition date of the following:
 - i. The acquisition of all insurance cash flows; and
 - ii. The group of contracts remaining cash flow of all asset or liability previously recognized

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, and liabilities for incurred claims include fulfilment cash flows related to past services. 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 allocated to insurance contracts, any previously recognized acquisition cash flows and all 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 any 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, 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 is:

- 1) The initial recognition of the premiums;
- 2) Minus all insurance acquisition cash flows; and
- 3) Plus or minus the derecognition at the initial recognition date of the following:
 - i. The acquisition of all insurance cash flows; and
 - ii. The group of contracts remaining cash flow of all asset or liability previously recognized.

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 service provided in that period, and minus all 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 only need to use information available without undue cost or effort. The Group shall apply 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 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.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value.

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.

Except for its own land, 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. Investment properties include right-of-use assets and properties under construction if the definition of investment properties is met. Investment properties also include land held for a currently undetermined future use.

Freehold investment properties are measured initially at cost, including transaction costs. 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 measurable 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, Cathay Life and Cathay Century classify their credit assets as normal ("First Category"), special mention ("Second Category"), substandard ("Third Category"), doubtful ("Fourth Category") and losses ("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. The minimum amounts of allowance for bad debts are 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 FVTPL 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 FVTPL.

For a financial liability designated as at FVTPL, 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 a discretionary participation features 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. For investment contracts with discretionary participation features, the guaranteed elements are not separately recognized from the discretionary participation features, and the whole contract is classified as a liability. The provision of reserve for short-term group insurance is based upon the greater of premium received or calculated according to Jin Guan Bao Tsai No.10704504821. Provision of reserve for the other insurance liabilities is as follows:

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 for 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 liabilities 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.

2) Loss reserve

Loss reserve is provided for claims filed but not yet paid and claims 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 claims 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 automobile liability 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, fluctuation of risk and 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

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

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 FVTPL, 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 their fair values. 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.

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

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 not discounted.

d. Cathay Securities and its subsidiaries

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

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.

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 other equity 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 costs for an interim period are calculated on a year-to-date basis by using the actuarially determined pension cost rate as determined 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 deposits

Cathay United Bank offers its employees preferential interest deposits, including preferential interest deposits to current employees and those to retired employees and current employees after retirement in limited amounts. The difference between the interest rate of preferential interest deposits and the market rate is considered as employee benefits.

In accordance with Article 30 of the Regulations Governing the Preparation of Financial Reports by Public Banks, the excess of the interests incurred from post-employment preferential interest deposits over those inputted by the market rate should be applicable to the requirements for defined benefit plans in IAS 19 Employee Benefits since the employee's retirement and accrued by actuarial method.

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 per-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 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 consolidated 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 loans

The estimated impairment of loans is made with reference to the collateral status of the credit assets, the amount of the accumulated principal and interest due, and the length of the overdue period. The loans are classified after considering the changes in the credit of individual credit assets and the collection status. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment assessment, based on the Group's historical experience, existing market conditions as well as forward looking estimates (i.e. probability of default and expected credit loss rates) as of the end of each reporting period. Refer to Note 36 for the key assumptions and inputs used.

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, discount 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

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand	\$ 18,967,070	\$ 24,024,132	\$ 17,249,280
Cash in banks	204,124,294	154,204,645	123,032,908
Time deposits	175,245,528	174,190,896	119,380,036
Checks for clearing	2,954,129	2,930,797	6,074,975
Cash equivalents	12,751,809	31,733,983	15,039,560
Due from banks	35,846,513	26,325,206	46,745,792
Less: Loss allowance	<u>(9,226)</u>	<u>(4,188)</u>	<u>(18,025)</u>
	<u>\$ 449,880,117</u>	<u>\$ 413,405,471</u>	<u>\$ 327,504,526</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 499,784,742	\$ 495,159,801	\$ 602,909,992
Funds and beneficiary certificates	641,892,404	579,735,647	422,082,743
Government bonds	34,787,829	41,962,807	39,467,355
Corporate bonds	8,572,372	7,871,304	5,871,314
Financial debentures	19,429,159	23,968,427	27,176,975
Overseas bonds	212,083,243	231,492,155	220,844,501
Short-term notes	165,587,799	189,983,788	127,927,935
Futures trading margin	610,406	1,115,968	1,005,852
Structured time deposits	19,106,748	4,011,973	-
Derivative instruments	<u>94,621,107</u>	<u>78,681,583</u>	<u>65,303,026</u>
	<u>\$ 1,696,475,809</u>	<u>\$ 1,653,983,453</u>	<u>\$ 1,512,589,693</u>
<u>Financial liabilities at FVTPL</u>			
Designated as at FVTPL			
Bonds	\$ 46,232,246	\$ 57,604,294	\$ 58,349,871
Held for trading			
Derivative instruments	74,214,813	51,411,974	80,746,580
Security lending payable (non-hedging)	4,181,643	2,327,231	1,579,569
Security lending payable (hedging)	<u>140,592</u>	<u>182,888</u>	<u>150,546</u>
	<u>\$ 124,769,294</u>	<u>\$ 111,526,387</u>	<u>\$ 140,826,566</u>

As of June 30, 2020 and December 31, 2019, no financial instruments at FVTPL of Cathay United Bank and its subsidiaries were sold under repurchase agreements.

As of June 30, 2019, certain financial assets at FVTPL of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amount of \$1,180,736 thousand. The proceeds amounting to \$1,142,058 thousand were recorded as notes and bonds payable sold under repurchase agreements, which had been repurchased for \$1,144,121 thousand before the end of July 2019.

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

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 489,778,973	\$ 482,377,169	\$ 589,936,724
Funds and beneficiary certificates	604,083,633	543,218,427	383,019,456
Financial debentures	13,194,549	15,243,512	16,805,682
Overseas bonds	211,339,064	229,427,152	219,967,392
Structured time deposits	<u>19,106,748</u>	<u>4,011,973</u>	<u>-</u>
	<u>\$ 1,337,502,967</u>	<u>\$ 1,274,278,233</u>	<u>\$ 1,209,729,254</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the three months and six months ended June 30, 2020 and 2019 are as below:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Gain due to application of IFRS 9 to profit or loss	\$ 120,000,580	\$ 34,317,508	\$ 40,952,875	\$ 137,252,081
Gain if applying IAS 39 to profit or loss	<u>(28,734,016)</u>	<u>(22,605,032)</u>	<u>(52,402,696)</u>	<u>(41,844,862)</u>
Loss (gain) reclassified due to application of overlay approach	<u>\$ 91,266,564</u>	<u>\$ 11,712,476</u>	<u>\$ (11,449,821)</u>	<u>\$ 95,407,219</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 ended June 30, 2020 and 2019 decreased from gain of \$141,016,239 thousand to gain of \$49,749,675 thousand, and decreased from gain of \$13,400,307 thousand to gain of \$1,687,831 thousand, respectively; for the six months ended June 30, 2020 and 2019 increased from gain of \$33,180,943 thousand to gain of \$44,630,764 thousand, and decreased from gain of \$100,918,201 thousand to gain of \$5,510,982 thousand, respectively.

b. 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 US\$660 million (perpetual) and US\$330 million (fifteen years) with a fixed interest rate of 5.10% and 4.00%, respectively, and the interest is payable annually. Cathay United Bank is authorized by the authorities to redeem the US\$660 million of bonds at 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%. The redemption of the bonds were all exercised on March 30, 2020.

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%. The redemption of the bonds were all exercised on April 13, 2020.

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 six months ended June 30, 2020 and 2019, such interest rate swaps were valued to have a net gain of \$3,811,110 thousand and net gain of \$4,544,039 thousand, respectively.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2020	December 31, 2019	June 30, 2019
Equity instruments			
Stocks	\$ 96,924,646	\$ 62,877,916	\$ 63,126,533
Debt instruments			
Government bonds	104,350,392	115,618,878	127,319,975
Corporate bonds	72,159,318	47,939,633	55,743,844
Financial debentures	75,155,983	80,267,723	75,607,970
Asset-backed securities	26,832,487	27,942,654	19,484,368
Negotiable certificates of deposits	88,448,217	70,253,313	-
Overseas bonds	847,654,598	778,747,472	782,476,615
Less: Litigation deposits	(46,278)	(45,748)	(44,995)
Less: Deposits to the Central Bank	(1,099,792)	(1,067,739)	(1,061,217)
Less: Derivative instrument collaterals	-	-	(4,783)
	<u>1,213,454,925</u>	<u>1,119,656,186</u>	<u>1,059,521,777</u>
	<u>\$ 1,310,379,571</u>	<u>\$ 1,182,534,102</u>	<u>\$ 1,122,648,310</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 ended June 30, 2020 and 2019 were \$523,534 thousand and \$761,631 thousand, respectively; for the six months ended June 30, 2020 and 2019 were \$583,975 thousand and \$765,233 thousand, respectively. Those related to investment derecognized for the three months ended June 30, 2020 and 2019 were \$18,852 thousand and \$110,538 thousand, respectively; for the six months ended June 30, 2020 and 2019 were \$18,856 thousand and \$110,538 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instrument investments at FVTOCI at fair value of \$19,709,759 thousand and \$21,171,522 thousand at the time of sale, and transferred unrealized loss of \$129,340 thousand and \$2,537,695 thousand from other equity to retained earnings for the six months ended June 30, 2020 and 2019, respectively.
- d. As of June 30, 2020, December 31, 2019 and June 30, 2019, certain financial assets at FVTOCI of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$18,225,352 thousand, \$35,649,054 thousand and \$31,176,219 thousand, respectively. The proceeds amounting to \$17,471,502 thousand, \$35,456,986 thousand and \$30,230,138 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$17,487,356 thousand, \$35,556,515 thousand and \$30,443,127 thousand before the end of December 2020, June 2020 and December 2019, respectively.
- e. As of June 30, 2020, December 31, 2019 and June 30, 2019, Cathay Securities and its subsidiaries sold certain debt instruments investments at FVTOCI under repurchase agreements with notional amounts of \$2,950,000 thousand, \$2,050,000 thousand and \$2,325,000 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 debt instruments at FVTOCI.

9. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	June 30, 2020	December 31, 2019	June 30, 2019
Time deposits	\$ 2,625,616	\$ 1,776,929	\$ 1,344,498
Financial debentures	65,689,044	68,190,012	70,543,186
Corporate bonds	40,785,517	27,508,670	30,391,414
Government bonds	46,284,014	42,403,554	40,022,012
Overseas bonds	2,581,908,464	2,515,522,370	2,407,220,801
Financial asset beneficiary certificates	802,808	1,189,350	1,143,253
Structured bonds	-	3,436,962	3,107,200
Asset-backed securities	40,090,219	38,850,385	49,130,077
Short-term notes	339,053,167	380,904,061	330,723,614
Less: Litigation deposits	(1,343,077)	(1,343,931)	(1,344,792)
Less: Deposits in the Central Bank	(8,551,866)	(8,371,801)	(8,377,524)
Less: Derivative instrument collateral	-	-	(4,838,997)
Less: Loss allowance (Note)	<u>(2,843,801)</u>	<u>(1,228,547)</u>	<u>(1,732,173)</u>
	<u>\$ 3,104,500,105</u>	<u>\$ 3,068,838,014</u>	<u>\$ 2,917,332,569</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of June 30, 2020, December 31, 2019 and June 30, 2019, the amounts were \$1,563 thousand, \$891 thousand and \$1,068 thousand, respectively.

- a. For the three months and six months ended June 30, 2020 and 2019, the Group disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$1,477,432 thousand, \$802,150 thousand, \$1,288,488 thousand and \$1,901,861 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 \$10,753,570 thousand, \$1,822,263 thousand, \$24,437,470 thousand and \$3,100,830 thousand, respectively; bond disposal due to other situations such as repayments at maturities resulted in gain on disposal of \$297,837 thousand, loss on disposal of \$7,162 thousand, gain on disposal of \$238,130 thousand and \$285,215 thousand, respectively.
- b. As of June 30, 2020, December 31, 2019 and June 30, 2019, certain financial assets measured at amortized cost of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$1,101,647 thousand, \$16,010,521 thousand and \$2,105,554 thousand, respectively. The proceeds amounting to \$1,050,789 thousand, \$12,723,466 thousand and \$1,644,192 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$1,051,004 thousand, \$12,731,800 thousand and \$1,660,804 thousand before the end of July 2020, March 2020 and August 2019, 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

	June 30, 2020	December 31, 2019	June 30, 2019
Notes receivable	\$ 504,515	\$ 472,015	\$ 504,694
Accounts receivable	82,501,015	108,126,390	88,508,645
Interest receivables	53,750,632	53,456,596	63,971,038
Acceptances	737,175	896,898	981,209
Factoring receivables	4,785,241	3,137,119	2,634,690
Others	<u>30,759,312</u>	<u>21,496,994</u>	<u>34,221,450</u>
	173,037,890	187,586,012	190,821,726
Less: Loss allowance	<u>(2,567,175)</u>	<u>(2,536,480)</u>	<u>(2,252,912)</u>
	<u>\$ 170,470,715</u>	<u>\$ 185,049,532</u>	<u>\$ 188,568,814</u>

- a. The Group provided appropriate loss allowance for receivables and the moves in loss allowance for receivables were as follows:

For the six months ended June 30, 2020

	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 at the beginning of the period	\$ 509,882	\$ 154,306	\$ 1,660,104	\$ 2,324,292	\$ 52,976	\$ 2,377,268
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(3,886)	95,045	(5,089)	86,070	-	86,070
Transferred to credit-impaired financial assets	(641)	(3,237)	110,006	106,128	-	106,128
Transferred to 12-month ECLs	3,191	(60,109)	(3,703)	(60,621)	-	(60,621)
Derecognition of financial assets in current period	(94,928)	(58,519)	(18,510)	(171,957)	-	(171,957)
New financial assets purchased or originated	109,371	38,683	159,097	307,151	-	307,151
Difference from impairment charged in accordance with applicable laws and regulations	-	-	-	-	(114)	(114)
Written off as bad debt expense	-	-	(289,603)	(289,603)	-	(289,603)
Effects of exchange rate changes and others	<u>13,910</u>	<u>(26,174)</u>	<u>72,866</u>	<u>60,602</u>	<u>175</u>	<u>60,777</u>
Balance at the end of the period	<u>\$ 536,899</u>	<u>\$ 139,995</u>	<u>\$ 1,685,168</u>	<u>\$ 2,362,062</u>	<u>\$ 53,037</u>	<u>\$ 2,415,099</u>

For the six months ended June 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 at the 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	(3,098)	100,580	(5,006)	92,476	-	92,476
Transferred to credit-impaired financial assets	(574)	(2,741)	92,420	89,105	-	89,105
Transferred to 12-month ECLs	2,600	(42,897)	(2,313)	(42,610)	-	(42,610)
Derecognition of financial assets in current period	(80,356)	(43,757)	(80,927)	(205,040)	-	(205,040)
New financial assets purchased or originated	81,918	41,641	149,283	272,842	-	272,842
Difference from impairment charged in accordance with applicable laws and regulations	-	-	-	-	(9,014)	(9,014)
Written off as bad debt expense	-	-	(225,819)	(225,819)	-	(225,819)
Effects of exchange rate changes and others	13,522	(22,247)	12,295	3,570	(55)	3,515
Balance at the end of the period	<u>\$ 140,034</u>	<u>\$ 147,544</u>	<u>\$ 1,708,425</u>	<u>\$ 1,996,003</u>	<u>\$ 41,401</u>	<u>\$ 2,037,404</u>

- b. Loss allowance for other receivable are provided by simplified approach and the reconciliation for the six months ended June 30, 2020 and 2019 were as follows:

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 159,212	\$ 282,516
(Reversal) provision for the year	1,435	(26,767)
Amounts written off	(8,574)	(40,241)
Exchange differences	<u>3</u>	<u>-</u>
Ending balance	<u>\$ 152,076</u>	<u>\$ 215,508</u>

11. DISCOUNTS AND LOANS, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Export negotiations	\$ 1,091,080	\$ 1,349,222	\$ 1,814,650
Loans	2,130,684,335	2,092,428,586	2,128,864,168
Overdrafts	1,567,252	1,695,073	1,840,238
Overdue loans	<u>4,527,465</u>	<u>3,528,482</u>	<u>3,665,096</u>
	2,137,870,132	2,099,001,363	2,136,184,152
Less: Loss allowance	<u>(32,667,873)</u>	<u>(32,240,067)</u>	<u>(32,432,131)</u>
	<u>\$ 2,105,202,259</u>	<u>\$ 2,066,761,296</u>	<u>\$ 2,103,752,021</u>

As of June 30, 2020, the gross amount of domestic discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,452,115,673 thousand and \$25,568,578 thousand, respectively.

Refer to Note 36 for information relating to the credit risk management and impairment of discounts and loans.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
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	
CHL	Global Evolution Holding ApS	Asset management services	53.00	45.00	45.00	Note 1
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")	Asset management services	84.00	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	Note 2
Octagon	Octagon Funding II, LLC	Fund management services	-	-	100.00	Note 2
Octagon	Octagon Funding III, LLC	Fund management services	-	-	100.00	Note 2
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	

(Continued)

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
Cathay Securities	Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)")	Securities services	100.00	100.00	100.00	
Cathay Securities (Hong Kong)	Cathay Capital (Asia) Limited ("Cathay Capital (Asia)")	Investment service	100.00	-	-	Note 3
Cathay Venture	Cathay Investment Inc. ("Cathay Investment")	Venture capital	100.00	100.00	-	Note 4
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. ("Cathay Private Equity")	Venture capital services	100.00	100.00	100.00	

(Concluded)

Note 1: CHL originally held 45% equity shares in Global Evolution Holding ApS, which were recorded as investments accounted for using the equity method. On June 25, 2020, CHL acquired a further 8% equity shares, and increased the ownership interest from 45% to 53%, and CHL obtained the control of Global Evolution Holding ApS. Refer to Note 44 for information relating to the business combination.

Note 2: As of December 31, 2019, Octagon Funding I, LLC, Octagon Funding II, LLC and Octagon Funding III, LLC were dissolved.

Note 3: It was established by Cathay Securities (Hong Kong) on February 24, 2020.

Note 4: It was established by Cathay Venture on November 5, 2019.

b. Subsidiaries excluded from the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Security investment consulting services	100.00	100.00	100.00	

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

	June 30, 2020	December 31, 2019	June 30, 2019
Investments in unconsolidated subsidiaries	\$ 518,986	\$ 333,089	\$ 242,610
Investments in associates	<u>31,642,148</u>	<u>47,812,583</u>	<u>48,570,322</u>
	<u>\$ 32,161,134</u>	<u>\$ 48,145,672</u>	<u>\$ 48,812,932</u>

a. Investments in unconsolidated subsidiaries

	June 30, 2020	December 31, 2019	June 30, 2019
Cathay Securities Investment Consulting	<u>\$ 518,986</u>	<u>\$ 333,089</u>	<u>\$ 242,610</u>

b. Investments in associates

	June 30, 2020	December 31, 2019	June 30, 2019
Rizal Commercial Banking Corporation	\$ 16,119,308	\$ 15,893,473	\$ 16,197,264
Cathay Insurance Company Limited (China)	4,325,487	4,462,182	4,550,669
Dasheng Venture Capital Co., Ltd.	2,004,143	1,679,260	1,847,642
Taiwan Finance Corp.	1,734,935	1,675,881	1,684,988
PSS Co., Ltd.	895,227	833,568	817,930
Dasheng IV Venture Capital Co., Ltd.	870,729	782,762	787,989
Ding Teng Co., Ltd.	804,420	791,192	784,324
Cathay Sunrise Corporation	701,742	689,074	685,529
Neo Cathay Power Corp.	690,881	684,724	683,729
CMG International One Corp.	674,277	675,965	675,940
CMG International Two Corp.	671,622	674,106	674,657
Greenhealth Water Resources Co., Ltd.	466,995	469,726	387,816
Symphox Information Co., Ltd.	434,390	402,615	408,726
CDBS Cathay Asset Management Co., Ltd.	395,694	421,059	435,301
CM Energy Co., Ltd.	286,347	281,396	277,304
Tien-Tai Optronics Corporation	145,745	136,988	130,232
Taiwan Real-estate Management Corp.	99,551	100,958	100,376
TaiYang Solar Power Co., Ltd.	70,309	-	-
WK Technology Fund VI Co., Ltd.	60,681	69,162	52,257
RI-Zhao Energy Corp.	50,032	46,460	43,996
Dun-Yang Energy Corp.	46,922	43,810	42,082
Yong-Chang Energy Corp.	44,713	42,522	41,531
Lin Yuan Property Management Co., Ltd.	40,985	-	-
Tien-Tai Management Consulting Co., Ltd.	7,013	4,985	3,335
PT Bank Mayapada Internasional Tbk	-	14,176,087	14,472,621
Global Evolution Holding ApS	-	<u>2,774,628</u>	<u>2,784,084</u>
	<u>\$ 31,642,148</u>	<u>\$ 47,812,583</u>	<u>\$ 48,570,322</u>

Aggregate information of associates that are not individually material

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
The Group's share of:				
Net income	\$ (12,665,514)	\$ 440,368	\$ (13,107,635)	\$ 693,190
Other comprehensive loss	<u>(17,747)</u>	<u>458,142</u>	<u>(160,219)</u>	<u>941,175</u>
Total comprehensive income (loss) for the period	<u>\$ (12,683,261)</u>	<u>\$ 898,510</u>	<u>\$ (13,267,854)</u>	<u>\$ 1,634,365</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 loss of associates were based on non-audited financial statements.

CHL originally held 45% equity shares in Global Evolution Holding ApS, which were recorded as investments accounted for using the equity method. On June 25, 2020, CHL acquired a further 8% equity shares, the ownership interest increasing from 45% to 53%; CHL obtained the control of Global Evolution Holding ApS and Global Evolution Holding ApS was included the consolidated financial statements thereafter.

PT Bank Mayapada Internasional Tbk, Cathay Life's associate, has encountered operating pressure and was required to increase capital by the local authority in Indonesia because one of its credit clients was involved in a fraudulent case and has been prosecuted at the beginning of 2020, as well as because of the negative impact of COVID-19 to the economy of Indonesia and the deficiencies found in financial inspections. After doing a prudent assessment, Cathay Life recognized a loss on investment in associates accounted for using the equity method of \$13,980,277 thousand for the six months ended June 30, 2020.

The investments in associates were not pledged.

14. INVESTMENT PROPERTY

	Land	Buildings	Investment Property Under Construction	Prepayments for Buildings and Land - Investments	Total
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	-	-	1,833,490	1,261,501	3,094,991
Disposals	(88,965)	(46,680)	-	-	(135,645)
Other reclassification	53,324,495	13,672,920	(1,942,320)	(278,863)	64,776,232
Gain (loss) on changes in fair value of investment property	885,323	(366,268)	-	-	519,055
Changes in revaluation surplus	(1,096,163)	2,023,082	-	-	926,919
Foreign exchange	158,549	309,411	-	-	467,960
June 30, 2019	<u>\$ 288,332,338</u>	<u>\$ 105,167,126</u>	<u>\$ 2,681,313</u>	<u>\$ 1,705,324</u>	<u>\$ 397,886,101</u>
January 1, 2020	\$ 298,205,802	\$ 104,791,226	\$ 4,546,717	\$ 1,152,363	\$ 408,696,108
Additions	-	-	1,680,237	891,971	2,572,208
Disposals	(129,794)	(525,529)	-	-	(655,323)
Other reclassification	1,797,506	4,565,698	(4,531,179)	(1,348,888)	483,137
Gain (loss) on changes in fair value of investment property	(1,205,477)	3,568,233	-	-	2,362,756
Foreign exchange	(997,025)	(1,758,589)	-	-	(2,755,614)
June 30, 2020	<u>\$ 297,671,012</u>	<u>\$ 110,641,039</u>	<u>\$ 1,695,775</u>	<u>\$ 695,446</u>	<u>\$ 410,703,272</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Rental income from investment property	\$ 2,739,671	\$ 2,517,867	\$ 5,738,885	\$ 5,761,716
Less: Direct operating expense from investment properties that generate rental income	(221,427)	(227,263)	(371,713)	(340,466)
Less: Direct operating expense from investment properties that do not generate rental income	<u>(43,359)</u>	<u>(50,901)</u>	<u>(68,308)</u>	<u>(79,760)</u>
	<u>\$ 2,474,885</u>	<u>\$ 2,239,703</u>	<u>\$ 5,298,864</u>	<u>\$ 5,341,490</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 June 30, 2020, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$372,356,871 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 the joint appraisal firms meeting R.O.C.'s qualification requirements for real estate appraiser, with valuation dates at June 30, 2020, December 31, 2019 and June 30, 2019:

<u>Names of Appraisers Offices</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
DTZ Real Estate Appraiser Firm	Chang-d, Yang; Gen-yuan, Li; Chia-ho, Tsai; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang; Chia-hsien, Liao	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 KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu; Wei-ju, Li	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Yu-hsiang, Tsai
V-LAND Real Estate Appraiser Firm	You-qi, Liang; Yu-chih, Kao; Chun-han, Lin	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; 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; Yi-hui, Lo	Yu-lin, Chen	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi; Chih-wei, Li	Fu-xue, Shi; Chih-wei, Li	Fu-xue, Shi

On May 11, 2020, the Insurance Bureau of the FSC issued Jin Guan Bao Tsai No. 10904917641 to amend some of the provisions of the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises", which should be applied in the preparation of the financial report beginning for the first quarter of 2020. However, Cathay Life's investment properties were mainly recognized at fair value subsequent to initial recognition before the amendment issued on May 11, 2020, and, according to the amendment, the previously-adopted appraisal approaches are applied for such assets to maintain the consistency and comparability of the financial reports for the years before and after the amendment.

The fair value is supported by observable evidence in the market. The main appraisal approaches applied include the 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 the 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 the 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 the sales comparison approach and cost approach. Wholesale stores located in industrial districts are valued by the 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. Land under construction with building permit is mainly valued by comparison approach and land development analysis. Urban renewal land under construction with building permit is valued based by comparison approach and income approach based on the allocated real estates (office buildings, hotels, etc.) under the urban renewal program. The real estate rights may include but are not limited to the rights for buildings and hotels held for the long term.

The main inputs used are as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Direct capitalization rates (net)	0.84%-6.48%	0.62%-6.30%	0.62%-6.42%
Discount rates	3.18%-4.38%	3.14%-4.23%	3.14%-4.23%

External appraisers use the 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 the direct capitalization method increases. On the contrary, the fair value of investment property will increase if any of the main input decreases.

- 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, 2020, December 31, 2019 and June 30, 2019, respectively:

Name of Appraiser Office	June 30, 2020	December 31, 2019	June 30, 2019
REPro Knight Frank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu; Wei-ju, Li	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Yu-hsiang, Tsai

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 neighboring areas, 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 determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates in the House Tax Act and the actual payment data.

Land value tax is based on the changes in the announced land values 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 cost 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, 2020	December 31, 2019	June 30, 2019
Direct capitalization rates	1.95%-5.77%	1.98%-5.76%	1.96%-5.74%
Overall capital interest rate	0.67%-2.51%	0.76%-2.89%	0.76%-2.89%

- 2) For reserved areas in hillside land, scenic land site and areas for agriculture, animal husbandry and forestry, there are few market transactions due to laws and regulations limit their purpose and related development effectiveness is low as well as there is no significant change that would affect related property market recently, their fair values are determined by the method of land development analysis and comparison approach.

	June 30, 2020	December 31, 2019	June 30, 2019
Rate of return	-	-	15%
Overall capital interest rate	-	-	2.10%

- f. Valuation on the investment property of Cathay Securities and its subsidiaries has been performed by the appraiser from Elite Real Estate Appraiser Firm (Yu-lin Chen), meeting R.O.C.'s qualification requirements for real estate appraiser, respectively, with valuation dates at June 30, 2020, December 31, 2019 and June 30, 2019.

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, 2020	December 31, 2019	June 30, 2019
Estimated future cash inflows	\$ 444,233	\$ 435,307	\$ 436,480
Estimated future cash outflows	<u>(14,711)</u>	<u>(16,601)</u>	<u>(17,212)</u>
Estimated net cash inflows	<u>\$ 429,522</u>	<u>\$ 418,706</u>	<u>\$ 419,268</u>
Discount rate	2.295%	2.045%	2.045%
Direct capitalization rate	2.56%	2.56%	2.56%

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

The investment property were entirely leased under operating leases, generating rental income of \$3,580 thousand and \$3,581 thousand, respectively, for the six months ended June 30, 2020 and 2019.

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 at June 30, 2020, December 31, 2019 and June 30, 2019 are determined based on the interest rate on a 2-year time deposit of petty cash plus 3, 5 and 3 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium, respectively.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Beginning balance	\$ 390,874,044	\$ 310,083,727
Adjustment on initial application of IFRS 16	-	9,014,035
Amount recognized in profit or loss		
Gain from investment property	2,362,756	519,055
Amount recognized in other comprehensive income		
Property revaluation surplus	-	926,919
Exchange differences resulting from translating the financial statements of foreign operations	(2,755,614)	467,960
Disposals	(646,500)	(107,191)
Transfers to property and equipment	(60,111)	-
Transfers from property and equipment	-	64,776,232
Transfers from investment property under construction	4,531,179	1,941,592
Transfers from prepayment for buildings and land	<u>803,611</u>	<u>989</u>
Ending balance	<u>\$ 395,109,365</u>	<u>\$ 387,623,318</u>

The above amount excludes the part measured by costs.

h. Refer to Table 4 for the acquisition of individual real estate at prices of at least NT\$100 million or 20% of the paid-in capital of the Group.

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, 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	-	-	272,811	-	16,505	2,789	171,676	377,195	840,976
Disposals	(5,451)	(7,684)	(417,000)	-	(1,443)	(5,119)	(133,996)	(30,407)	(601,100)
Reclassification	450,256	1,010	460,261	(276,135)	113,700	-	(324,098)	(213,200)	211,794
Transfers to investment property	(53,045,893)	(12,389,524)	-	-	-	-	-	-	(65,435,417)
Exchange differences	3,224	25,317	15,519	-	5,325	1,232	(11,963)	1,390	40,044
Balance at June 30, 2019	<u>71,718,462</u>	<u>46,250,182</u>	<u>8,101,186</u>	<u>-</u>	<u>1,003,411</u>	<u>120,431</u>	<u>12,324,792</u>	<u>1,085,452</u>	<u>140,603,916</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	-	529,664	357,924	-	52,636	2,037	331,605	-	1,273,866
Disposals	-	(6,822)	(416,079)	-	(1,357)	(2,912)	(152,053)	-	(579,223)
Reclassification	-	(35)	330,773	(275,960)	88,550	-	(419,321)	-	(275,993)
Transfers to investment property	-	(659,185)	-	-	-	-	-	-	(659,185)
Exchange differences	-	3,057	13	-	11,315	896	3,433	-	18,714
Balance at June 30, 2019	<u>103,134</u>	<u>22,502,927</u>	<u>5,616,126</u>	<u>-</u>	<u>645,695</u>	<u>90,643</u>	<u>9,908,946</u>	<u>-</u>	<u>38,867,471</u>
Carrying amount at June 30, 2019	<u>\$ 71,615,328</u>	<u>\$ 23,747,255</u>	<u>\$ 2,485,060</u>	<u>\$ -</u>	<u>\$ 357,716</u>	<u>\$ 29,788</u>	<u>\$ 2,415,846</u>	<u>\$ 1,085,452</u>	<u>\$ 101,736,445</u>
Cost									
Balance at January 1, 2020	\$ 71,692,186	\$ 46,606,608	\$ 8,673,295	\$ -	\$ 1,098,481	\$ 127,383	\$ 12,503,689	\$ 791,729	\$ 141,493,371
Additions	-	-	438,509	-	9,924	4,209	213,348	393,781	1,059,771
Disposals	-	-	(148,091)	-	(166)	(3,705)	(91,295)	-	(243,257)
Reclassification	(451,389)	(263,178)	85,697	-	7,764	2,672	106,933	(262,089)	(773,590)
Others	(1,200)	-	-	-	-	-	-	-	(1,200)
Exchange differences	(8,439)	(63,080)	(31,969)	-	(19,068)	(1,854)	(5,619)	(2,582)	(132,611)
Balance at June 30, 2020	<u>71,231,158</u>	<u>46,280,350</u>	<u>9,017,441</u>	<u>-</u>	<u>1,096,935</u>	<u>128,705</u>	<u>12,727,056</u>	<u>920,839</u>	<u>141,402,484</u>
Depreciation and impairment									
Balance at January 1, 2020	103,134	22,932,481	5,883,294	-	685,957	86,835	9,946,299	-	39,638,000
Depreciation	-	461,459	399,875	-	46,707	5,693	324,604	-	1,238,338
Disposals	-	-	(146,570)	-	(166)	(3,705)	(90,205)	-	(240,646)
Reclassification	-	(231,430)	-	-	-	-	991	-	(230,439)
Exchange differences	-	(9,697)	(26,312)	-	(3,377)	(1,229)	(4,591)	-	(45,206)
Balance at June 30, 2020	<u>103,134</u>	<u>23,152,813</u>	<u>6,110,287</u>	<u>-</u>	<u>729,121</u>	<u>87,594</u>	<u>10,177,098</u>	<u>-</u>	<u>40,360,047</u>
Carrying amount at December 31, 2019 and January 1, 2020	<u>\$ 71,589,052</u>	<u>\$ 23,674,127</u>	<u>\$ 2,790,001</u>	<u>\$ -</u>	<u>\$ 412,524</u>	<u>\$ 40,548</u>	<u>\$ 2,557,390</u>	<u>\$ 791,729</u>	<u>\$ 101,855,371</u>
Carrying amount at June 30, 2020	<u>\$ 71,128,024</u>	<u>\$ 23,127,537</u>	<u>\$ 2,907,154</u>	<u>\$ -</u>	<u>\$ 367,814</u>	<u>\$ 41,111</u>	<u>\$ 2,549,958</u>	<u>\$ 920,839</u>	<u>\$ 101,042,437</u>

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

Buildings and construction	1-70 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	2-22 years

Property and equipment were not pledged.

16. LEASE AGREEMENTS

a. Right-of-use assets

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Carrying amounts</u>			
Buildings	\$ 3,873,753	\$ 3,807,403	\$ 3,965,566
Office equipment	13,563	14,247	17,209
Machine equipment	2,312	3,082	3,373
Transportation equipment	<u>70,443</u>	<u>84,181</u>	<u>67,549</u>
	<u>\$ 3,960,071</u>	<u>\$ 3,908,913</u>	<u>\$ 4,053,697</u>
The right-of-use assets presented as investment properties	<u>\$ 8,665,126</u>	<u>\$ 8,781,429</u>	<u>\$ 8,897,732</u>

	<u>For the Three Months Ended June 30</u>		<u>For the Six Months Ended June 30</u>	
	2020	2019	2020	2019
Additions to right-of-use assets	<u>\$ 470,720</u>	<u>\$ 455,440</u>	<u>\$ 816,537</u>	<u>\$ 547,159</u>
Depreciation expense for right-of-use assets				
Buildings	\$ 357,693	\$ 324,075	\$ 693,843	\$ 627,375
Office equipment	1,220	1,270	2,448	2,501
Machine equipment	372	292	747	501
Transportation equipment	<u>15,013</u>	<u>10,547</u>	<u>27,457</u>	<u>20,458</u>
	<u>\$ 374,298</u>	<u>\$ 336,184</u>	<u>\$ 724,495</u>	<u>\$ 650,835</u>

b. Lease liabilities

	June 30, 2020	December 31, 2019	June 30, 2019
Carrying amounts	<u>\$ 12,791,433</u>	<u>\$ 12,720,337</u>	<u>\$ 12,874,914</u>

Range of discount rates for lease liabilities was as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Buildings	0.33%-8.57%	0.35%-8.57%	0.35%-8.57%
Office equipment	0.71%-4.76%	0.71%-4.76%	0.71%-4.76%
Machine equipment	0.70%-4.15%	0.70%-4.15%	0.70%-2.99%
Transportation equipment	0.67%-5.38%	0.70%-5.38%	0.70%-5.38%
Investment property-superficies right	2.82%-3.71%	2.82%-3.71%	2.82%-3.71%

17. INTANGIBLE ASSETS

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	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	444,640	-	-	-	-	-	444,640
Disposal	(120,060)	-	-	-	-	-	(120,060)
Reclassification	(4,870)	-	-	-	-	-	(4,870)
Exchange differences	(63,218)	-	4,448	39,955	87,191	2,448	70,824
Balance at June 30, 2019	<u>\$ 5,452,071</u>	<u>\$ 37,659,600</u>	<u>\$ 407,634</u>	<u>\$ 3,662,269</u>	<u>\$ 19,182,033</u>	<u>\$ 240,862</u>	<u>\$ 66,604,469</u>
Amortization and impairment							
Balance at January 1, 2019	\$ 3,730,271	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 12,387,468
Amortization	318,458	1,039,692	-	200,789	-	9,801	1,568,740
Disposal	(120,060)	-	-	-	-	-	(120,060)
Exchange differences	(73,907)	-	-	14,211	-	1,820	(57,876)
Balance at June 30, 2019	<u>\$ 3,854,762</u>	<u>\$ 8,317,533</u>	<u>\$ -</u>	<u>\$ 1,432,871</u>	<u>\$ -</u>	<u>\$ 173,106</u>	<u>\$ 13,778,272</u>
Carrying amount at June 30, 2019	<u>\$ 1,597,309</u>	<u>\$ 29,342,067</u>	<u>\$ 407,634</u>	<u>\$ 2,229,398</u>	<u>\$ 19,182,033</u>	<u>\$ 67,756</u>	<u>\$ 52,826,197</u>
Cost							
Balance at January 1, 2020	\$ 5,796,439	\$ 37,659,600	\$ 394,961	\$ 3,548,412	\$ 18,924,948	\$ 211,890	\$ 66,536,250
Acquisition from merger (Note 38)	-	-	-	2,467,576	3,587,422	-	6,054,998
Addition - acquired separately	393,358	-	-	-	-	-	393,358
Disposal	(251,328)	-	-	-	-	-	(251,328)
Reclassification	28,283	-	-	-	-	-	28,283
Exchange differences	(19,398)	-	(5,851)	(52,567)	(114,712)	(3,107)	(195,635)
Balance at June 30, 2020	<u>\$ 5,947,354</u>	<u>\$ 37,659,600</u>	<u>\$ 389,110</u>	<u>\$ 5,963,421</u>	<u>\$ 22,397,658</u>	<u>\$ 208,783</u>	<u>\$ 72,565,926</u>
Amortization and impairment							
Balance at January 1, 2020	\$ 4,147,171	\$ 9,357,224	\$ -	\$ 1,583,626	\$ -	\$ 177,257	\$ 15,265,278
Amortization	341,393	1,039,692	-	194,874	-	9,513	1,585,472
Disposal	(251,328)	-	-	-	-	-	(251,328)
Exchange differences	(13,141)	-	-	(25,927)	-	(2,746)	(41,814)
Balance at June 30, 2020	<u>\$ 4,224,095</u>	<u>\$ 10,396,916</u>	<u>\$ -</u>	<u>\$ 1,752,573</u>	<u>\$ -</u>	<u>\$ 184,024</u>	<u>\$ 16,557,608</u>
Carrying amount at December 31, 2019 and January 1, 2020	<u>\$ 1,649,268</u>	<u>\$ 28,302,376</u>	<u>\$ 394,961</u>	<u>\$ 1,964,786</u>	<u>\$ 18,924,948</u>	<u>\$ 34,633</u>	<u>\$ 51,270,972</u>
Carrying amount at June 30, 2020	<u>\$ 1,723,259</u>	<u>\$ 27,262,684</u>	<u>\$ 389,110</u>	<u>\$ 4,210,848</u>	<u>\$ 22,397,658</u>	<u>\$ 24,759</u>	<u>\$ 56,008,318</u>

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

Computer software	1-10 years
Franchises	6.5 or 20 years
Customer relationships	5-15 years
Other intangible assets	3-6 years

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

1) Cathay Life and its subsidiaries

As of June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of goodwill were \$13,820,869 thousand, \$10,343,445 thousand and \$10,581,690 thousand, respectively. The goodwill arose from the acquisition of which the Company assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. except for their reserved assets and liabilities on 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 the Company, on February 1, 2016 and the transaction in which Conning Holdings Limited acquired 8% equity shares in Global Evolution Holding ApS and the ownership interest increased to 53% on June 25, 2020.

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 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.

18. COMMERCIAL PAPER PAYABLE, NET

	June 30, 2020	December 31, 2019	June 30, 2019
Nominal amount	\$ 43,140,000	\$ 54,020,000	\$ 46,162,000
Less: Discount on short-term bills payable	<u>(286)</u>	<u>(1,155)</u>	<u>(1,494)</u>
	<u>\$ 43,139,714</u>	<u>\$ 54,018,845</u>	<u>\$ 46,160,506</u>
Interest rate range	0.28%-0.48%	0.51%-0.69%	0.43%-0.80%

19. DEPOSITS AND REMITTANCES

	June 30, 2020	December 31, 2019	June 30, 2019
Checking deposits	\$ 12,301,075	\$ 14,533,346	\$ 13,437,613
Demand deposits	578,825,617	505,115,127	491,202,044
Demand savings deposits	994,148,797	931,589,893	895,873,601
Time deposits	438,947,920	465,200,743	453,324,590
Time savings deposits	369,213,571	382,673,168	378,581,621
Negotiable certificates of deposit	7,013,221	2,931,000	3,255,200
Outward remittances and remittances payable	<u>3,793,190</u>	<u>1,400,539</u>	<u>2,327,332</u>
	<u>\$ 2,404,243,391</u>	<u>\$ 2,303,443,816</u>	<u>\$ 2,238,002,001</u>

20. BONDS PAYABLE

	June 30, 2020	December 31, 2019	June 30, 2019
Subordinated financial debentures	\$ 53,800,000	\$ 53,900,000	\$ 55,400,000
Cumulative perpetual subordinated corporate bonds	45,000,000	45,000,000	45,000,000
Unsecured corporate bonds	<u>28,900,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
	<u>\$ 127,700,000</u>	<u>\$ 118,900,000</u>	<u>\$ 120,400,000</u>

a. Subordinated financial debentures

	June 30, 2020	December 31, 2019	June 30, 2019
First issue of subordinated financial debentures in 2009; fixed rate at 2.6%; maturity: July 2019	\$ -	\$ -	\$ 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 1.65%; 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
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

(Continued)

	June 30, 2020	December 31, 2019	June 30, 2019
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>\$ 53,800,000</u>	<u>\$ 53,900,000</u>	<u>\$ 55,400,000</u> (Concluded)

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 Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathay 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 Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Cathay 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
- 1) 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:
 - a) 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.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - d) Coupon rate: Fixed rate of 0.83% for A Note, 0.93% for B Note and 1.04% for C Note.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Form of bonds: Book-entry securities.
 - 2) Pursuant to Order No. Securities-TPEX-Bond-10900064782 of the Taipei Exchange, Cathay Financial Holdings issued its first unsecured corporate bonds on June 23, 2020 through public offering. Key terms and conditions are as follows:
 - a) Issue amount: \$8,900,000 thousand, which is divided into A Note of \$1,900,000 thousand, B Note of \$6,500,000 thousand and C Note of \$500,000 thousand by issue periods.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - d) Coupon rate: Fixed rate of 0.59% for A Note, 0.64% for B Note and 0.67% for C Note.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Form of bonds: Book-entry securities.

21. PROVISIONS

	June 30, 2020	December 31, 2019	June 30, 2019
Insurance liability			
Unearned premium reserve	\$ 30,825,992	\$ 30,569,073	\$ 29,232,206
Loss reserve	20,931,191	20,400,362	19,146,190
Policy reserve	5,815,629,779	5,592,979,146	5,397,742,273
Special reserve	13,845,850	13,982,681	14,155,258
Premium deficiency reserve	17,426,235	19,681,482	21,122,235
Reserve for insurance contracts with the nature of financial products	12,457,360	10,932,008	10,464,265
Reserve for foreign exchange valuation	6,600,772	18,000,877	24,881,915
Other reserve	<u>1,861,141</u>	<u>1,873,141</u>	<u>1,883,542</u>
	5,919,578,320	5,708,418,770	5,518,627,884
Provisions for employee benefits	3,887,832	3,947,500	3,640,754
Other reserves	<u>1,231,702</u>	<u>1,412,115</u>	<u>1,368,808</u>
	<u>\$ 5,924,697,854</u>	<u>\$ 5,713,778,385</u>	<u>\$ 5,523,637,446</u>

As of June 30, 2020, policy reserve belonging to Cathay Life amounted to \$5,785,143,715 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>June 30, 2020</u>		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 79,184	\$ -	\$ 79,184
Individual injury insurance	6,680,721	-	6,680,721
Individual health insurance	9,290,155	-	9,290,155
Group insurance	1,595,449	-	1,595,449
Investment-linked insurance	<u>116,802</u>	-	<u>116,802</u>
	<u>17,762,311</u>	<u>-</u>	<u>17,762,311</u>
Less ceded unearned premium reserve			
Individual life insurance	694,062	-	694,062
Individual injury insurance	21,512	-	21,512
Individual health insurance	242,709	-	242,709
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>958,283</u>	<u>-</u>	<u>958,283</u>
	<u>\$ 16,804,028</u>	<u>\$ -</u>	<u>\$ 16,804,028</u>

December 31, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 81,756	\$ -	\$ 81,756
Individual injury insurance	6,872,182	-	6,872,182
Individual health insurance	9,403,665	-	9,403,665
Group insurance	1,360,369	-	1,360,369
Investment-linked insurance	<u>114,231</u>	<u>-</u>	<u>114,231</u>
	<u>17,832,203</u>	<u>-</u>	<u>17,832,203</u>
Less ceded unearned premium reserve			
Individual life insurance	713,629	-	713,629
Individual injury insurance	17,678	-	17,678
Individual health insurance	163,571	-	163,571
Group insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>894,878</u>	<u>-</u>	<u>894,878</u>
	<u>\$ 16,937,325</u>	<u>\$ -</u>	<u>\$ 16,937,325</u>
June 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 49,362	\$ -	\$ 49,362
Individual injury insurance	6,444,223	-	6,444,223
Individual health insurance	8,659,531	-	8,659,531
Group insurance	1,546,541	-	1,546,541
Investment-linked insurance	<u>112,531</u>	<u>-</u>	<u>112,531</u>
	<u>16,812,188</u>	<u>-</u>	<u>16,812,188</u>
Less ceded unearned premium reserve			
Individual life insurance	547,529	-	547,529
Individual injury insurance	38,636	-	38,636
Individual health insurance	200,062	-	200,062
Group insurance	<u>4,328</u>	<u>-</u>	<u>4,328</u>
	<u>790,555</u>	<u>-</u>	<u>790,555</u>
	<u>\$ 16,021,633</u>	<u>\$ -</u>	<u>\$ 16,021,633</u>

The changes in unearned premium reserve are summarized below:

	For the Six Months Ended June 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 17,832,203	\$ -	\$ 17,832,203
Provision	17,605,628	-	17,605,628
Recovery	(17,692,263)	-	(17,692,263)
Reclassification	25,778	-	25,778
Foreign exchange	(9,035)	-	(9,035)
Ending balance	<u>17,762,311</u>	<u>-</u>	<u>17,762,311</u>
Less ceded unearned premium reserve			
Beginning balance	894,878	-	894,878
Increase	<u>63,405</u>	<u>-</u>	<u>63,405</u>
Ending balance	<u>958,283</u>	<u>-</u>	<u>958,283</u>
Net ending balance	<u>\$ 16,804,028</u>	<u>\$ -</u>	<u>\$ 16,804,028</u>
	For the Six Months Ended June 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	16,669,957	-	16,669,957
Recovery	(16,613,258)	-	(16,613,258)
Foreign exchange	<u>3,172</u>	<u>-</u>	<u>3,172</u>
Ending balance	<u>16,812,188</u>	<u>-</u>	<u>16,812,188</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	<u>166,218</u>	<u>-</u>	<u>166,218</u>
Ending balance	<u>790,555</u>	<u>-</u>	<u>790,555</u>
Net ending balance	<u>\$ 16,021,633</u>	<u>\$ -</u>	<u>\$ 16,021,633</u>

2) Loss reserve

	June 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance			
Filed but not paid	\$ 2,515,329	\$ 16,875	\$ 2,532,204
Not yet filed	40,061	-	40,061
Individual injury insurance			
Filed but not paid	26,776	-	26,776
Not yet filed	1,925,757	-	1,925,757
Individual health insurance			
Filed but not paid	1,439,860	-	1,439,860
Not yet filed	3,300,416	-	3,300,416
Group insurance			
Filed but not paid	73,681	-	73,681
Not yet filed	1,943,610	-	1,943,610
Investment-linked insurance			
Filed but not paid	197,218	-	197,218
Not yet filed	666	-	666
	<u>11,463,374</u>	<u>16,875</u>	<u>11,480,249</u>
Less ceded loss reserve			
Individual life insurance	40,281	-	40,281
Individual injury insurance	37	-	37
Individual health insurance	7,207	-	7,207
Group insurance	3,077	-	3,077
	<u>50,602</u>	<u>-</u>	<u>50,602</u>
	<u>\$ 11,412,772</u>	<u>\$ 16,875</u>	<u>\$ 11,429,647</u>

December 31, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance			
Filed but not paid	\$ 2,440,972	\$ 31,200	\$ 2,472,172
Not yet filed	42,394	-	42,394
Individual injury insurance			
Filed but not paid	40,780	-	40,780
Not yet filed	1,860,397	-	1,860,397
Individual health insurance			
Filed but not paid	1,292,145	-	1,292,145
Not yet filed	3,110,262	-	3,110,262
Group insurance			
Filed but not paid	68,608	-	68,608
Not yet filed	1,972,976	-	1,972,976
Investment-linked insurance			
Filed but not paid	182,401	-	182,401
Not yet filed	477	-	477
	<u>11,011,412</u>	<u>31,200</u>	<u>11,042,612</u>
Less ceded loss reserve			
Individual life insurance	3,737	-	3,737
Individual injury insurance	1,063	-	1,063
Individual health insurance	19,157	-	19,157
Group insurance	57	-	57
	<u>24,014</u>	<u>-</u>	<u>24,014</u>
	<u>\$ 10,987,398</u>	<u>\$ 31,200</u>	<u>\$ 11,018,598</u>

	June 30, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts		Total
Individual life insurance			
Filed but not paid	\$ 2,184,196	\$ 17,224	\$ 2,201,420
Not yet filed	60,789	-	60,789
Individual injury insurance			
Filed but not paid	38,265	-	38,265
Not yet filed	1,902,850	-	1,902,850
Individual health insurance			
Filed but not paid	992,825	-	992,825
Not yet filed	3,119,868	-	3,119,868
Group insurance			
Filed but not paid	45,329	-	45,329
Not yet filed	1,743,261	-	1,743,261
Investment-linked insurance			
Filed but not paid	187,630	-	187,630
Not yet filed	712	-	712
	<u>10,275,725</u>	<u>17,224</u>	<u>10,292,949</u>
Less ceded loss reserve			
Individual life insurance	1,593	-	1,593
Individual injury insurance	68	-	68
Individual health insurance	12,750	-	12,750
Group insurance	12	-	12
	<u>14,423</u>	<u>-</u>	<u>14,423</u>
	<u>\$ 10,261,302</u>	<u>\$ 17,224</u>	<u>\$ 10,278,526</u>

The changes in loss reserve are summarized below:

For the Six Months Ended June 30, 2020			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 11,011,412	\$ 31,200	\$ 11,042,612
Provision	11,245,704	16,875	11,262,579
Recovery	(10,776,314)	(31,200)	(10,807,514)
Foreign exchange	<u>(17,428)</u>	<u>-</u>	<u>(17,428)</u>
Ending balance	<u>11,463,374</u>	<u>16,875</u>	<u>11,480,249</u>
Less ceded loss reserve:			
Beginning balance	24,014	-	24,014
Increase	69,236	-	69,236
Decrease	(42,240)	-	(42,240)
Foreign exchange differences	<u>(408)</u>	<u>-</u>	<u>(408)</u>
Ending balance	<u>50,602</u>	<u>-</u>	<u>50,602</u>
Net ending balance	<u>\$ 11,412,772</u>	<u>\$ 16,875</u>	<u>\$ 11,429,647</u>

For the Six Months Ended June 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 8,894,186	\$ 9,145	\$ 8,903,331
Provision	10,162,034	17,224	10,179,258
Recovery	(8,786,552)	(9,145)	(8,795,697)
Foreign exchange	<u>6,057</u>	<u>-</u>	<u>6,057</u>
Ending balance	<u>10,275,725</u>	<u>17,224</u>	<u>10,292,949</u>
Less ceded loss reserve:			
Beginning balance, net	22,509	-	22,509
Increase	27,153	-	27,153
Decrease	(35,397)	-	(35,397)
Foreign exchange differences	<u>158</u>	<u>-</u>	<u>158</u>
Ending balance	<u>14,423</u>	<u>-</u>	<u>14,423</u>
Net ending balance	<u>\$ 10,261,302</u>	<u>\$ 17,224</u>	<u>\$ 10,278,526</u>

3) Policy reserve

	June 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance (Note 1)	\$ 5,028,107,759	\$ 3,690	\$ 5,028,111,449
Injury insurance	7,141,969	-	7,141,969
Health insurance	760,729,207	-	760,729,207
Annuity insurance	1,385,663	17,015,854	18,401,517
Investment-limited insurance	<u>783,118</u>	<u>-</u>	<u>783,118</u>
Total (Note 2)	<u>5,798,147,716</u>	<u>17,019,544</u>	<u>5,815,167,260</u>
Less ceded policy reserve			
Life insurance	400,425	-	400,425
Health insurance	<u>15,709</u>	<u>-</u>	<u>15,709</u>
	<u>416,134</u>	<u>-</u>	<u>416,134</u>
	<u>\$ 5,797,731,582</u>	<u>\$ 17,019,544</u>	<u>\$ 5,814,751,126</u>
	December 31, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance (Note 1)	\$ 4,835,786,827	\$ 3,747	\$ 4,835,790,574
Injury insurance	7,268,700	-	7,268,700
Health insurance	726,959,954	-	726,959,954
Annuity insurance	1,388,012	20,476,035	21,864,047
Investment-limited insurance	<u>622,699</u>	<u>-</u>	<u>622,699</u>
Total (Note 2)	<u>5,572,026,192</u>	<u>20,479,782</u>	<u>5,592,505,974</u>
Less ceded policy reserve			
Life insurance	421,465	-	421,465
Health insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>421,465</u>	<u>-</u>	<u>421,465</u>
	<u>\$ 5,571,604,727</u>	<u>\$ 20,479,782</u>	<u>\$ 5,592,084,509</u>

	June 30, 2019		
	Financial Instruments with Discretionary Participation		
	Insurance Contracts	Features	Total
Life insurance (Note 1)	\$ 4,677,515,113	\$ 5,676	\$ 4,677,520,789
Injury insurance	7,360,500	-	7,360,500
Health insurance	686,848,952	-	686,848,952
Annuity insurance	1,398,743	23,603,053	25,001,796
Investment-limited insurance	<u>538,592</u>	<u>-</u>	<u>538,592</u>
Total (Note 2)	<u>5,373,661,900</u>	<u>23,608,729</u>	<u>5,397,270,629</u>
Less ceded policy reserve			
Life insurance	427,937	-	427,937
Health insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>427,937</u>	<u>-</u>	<u>427,937</u>
	<u>\$ 5,373,233,963</u>	<u>\$ 23,608,729</u>	<u>\$ 5,396,842,692</u>

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

Note 2: Total policy reserve after including policy reserve-payables to the insured amounted to \$5,815,629,652 thousand, \$5,592,979,067 thousand and \$5,397,742,222 thousand as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively.

The changes in policy reserve are summarized below:

	For the Six Months Ended June 30, 2020		
	Financial Instruments with Discretionary Participation		
	Insurance Contracts	Features	Total
Beginning balance	\$ 5,572,026,192	\$ 20,479,782	\$ 5,592,505,974
Provision	342,344,582	100,319	342,444,901
Recovery	(95,284,887)	(3,560,501)	(98,845,388)
Reclassification	163,599	-	163,599
Foreign exchange	<u>(21,101,770)</u>	<u>(56)</u>	<u>(21,101,826)</u>
Ending balance	<u>5,798,147,716</u>	<u>17,019,544</u>	<u>5,815,167,260</u>
Less ceded policy reserve			
Beginning balance	421,465	-	421,465
Increase	49,985	-	49,985
Decrease	(42,616)	-	(42,616)
Foreign exchange	<u>(12,700)</u>	<u>-</u>	<u>(12,700)</u>
Ending balance	<u>416,134</u>	<u>-</u>	<u>416,134</u>
Net ending balance	<u>\$ 5,797,731,582</u>	<u>\$ 17,019,544</u>	<u>\$ 5,814,751,126</u>

For the Six Months Ended June 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	334,148,890	904,221	335,053,111
Recovery	(172,186,169)	(3,143,226)	(175,329,395)
Reclassification	-	-	-
Foreign exchange	<u>12,417,574</u>	<u>44</u>	<u>12,417,618</u>
Ending balance	<u>5,373,661,900</u>	<u>23,608,729</u>	<u>5,397,270,629</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	59,155	-	59,155
Decrease	-	-	-
Foreign exchange	<u>3,373</u>	<u>-</u>	<u>3,373</u>
Ending balance	<u>427,937</u>	<u>-</u>	<u>427,937</u>
Net ending balance	<u>\$ 5,373,233,963</u>	<u>\$ 23,608,729</u>	<u>\$ 5,396,842,692</u>

4) Special reserve

June 30, 2020

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies dividends reserve	\$ (63,893)	\$ -	\$ -	\$ (63,893)
Dividend risk reserve	65,094	-	-	65,094
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,201</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,525</u>

December 31, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies dividends reserve	\$ (56,900)	\$ -	\$ -	\$ (56,900)
Dividend risk reserve	58,200	-	-	58,200
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>

	June 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies dividends reserve	\$ (66,490)	\$ -	\$ -	\$ (66,490)
Dividend risk reserve	67,526	-	-	67,526
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,036</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,360</u>

The changes of special reserve are summarized below:

	For the Six Months Ended June 30, 2020			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Beginning balance	\$ 1,300	\$ -	\$ 11,083,324	\$ 11,084,624
Provision for participating policies dividends reserve	4,277	-	-	4,277
Provision for participating policies dividends recovery	(11,270)	-	-	(11,270)
Provision for dividend risk reserve	<u>6,894</u>	<u>-</u>	<u>-</u>	<u>6,894</u>
Ending balance	<u>\$ 1,201</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,525</u>

	For the Six Months Ended June 30, 2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Provision for participating policies dividends reserve	7,510	-	-	7,510
Provision for participating policies dividends recovery	(11,746)	-	-	(11,746)
Provision for dividend risk reserve	<u>4,342</u>	<u>-</u>	<u>-</u>	<u>4,342</u>
Ending balance	<u>\$ 1,036</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,360</u>

5) Premium deficiency reserve

	June 30, 2020		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Features	Total
Individual life insurance	\$ 16,026,918	\$ -	\$ 16,026,918
Individual injury insurance	987	-	987
Individual health insurance	1,271,337	-	1,271,337
Group insurance	<u>126,073</u>	<u>-</u>	<u>126,073</u>
	<u>\$ 17,425,315</u>	<u>\$ -</u>	<u>\$ 17,425,315</u>
	December 31, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Features	Total
Individual life insurance	\$ 18,282,478	\$ -	\$ 18,282,478
Individual injury insurance	1,078	-	1,078
Individual health insurance	1,347,284	-	1,347,284
Group insurance	<u>48,617</u>	<u>-</u>	<u>48,617</u>
	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>
	June 30, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Features	Total
Individual life insurance	\$ 19,533,431	\$ -	\$ 19,533,431
Individual injury insurance	1,139	-	1,139
Individual health insurance	1,462,161	-	1,462,161
Group insurance	<u>118,172</u>	<u>-</u>	<u>118,172</u>
	<u>\$ 21,114,903</u>	<u>\$ -</u>	<u>\$ 21,114,903</u>

The changes in premium deficiency reserve are summarized below:

	For the Six Months Ended June 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 19,679,457	\$ -	\$ 19,679,457
Provision	126,364	-	126,364
Recovery	(2,280,421)	-	(2,280,421)
Foreign exchange	<u>(100,085)</u>	<u>-</u>	<u>(100,085)</u>
Ending balance	<u>\$ 17,425,315</u>	<u>\$ -</u>	<u>\$ 17,425,315</u>

	For the Six Months Ended June 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	185,316	-	185,316
Recovery	(1,686,122)	-	(1,686,122)
Foreign exchange	<u>67,405</u>	<u>-</u>	<u>67,405</u>
Ending balance	<u>\$ 21,114,903</u>	<u>\$ -</u>	<u>\$ 21,114,903</u>

6) Other reserve

	June 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,861,141</u>	<u>\$ -</u>	<u>\$ 1,861,141</u>

	December 31, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>

	June 30, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Participation Features	Total
Others	<u>\$ 1,883,542</u>	<u>\$ -</u>	<u>\$ 1,883,542</u>

The changes in other reserve are summarized below:

	For the Six Months Ended June 30, 2020		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Participation Features	Total
Beginning balance	\$ 1,873,141	\$ -	\$ 1,873,141
Recovery	<u>(12,000)</u>	<u>-</u>	<u>(12,000)</u>
Ending balance	<u>\$ 1,861,141</u>	<u>\$ -</u>	<u>\$ 1,861,141</u>

	For the Six Months Ended June 30, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts	Participation Features	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	<u>(11,028)</u>	<u>-</u>	<u>(11,028)</u>
Ending balance	<u>\$ 1,883,542</u>	<u>\$ -</u>	<u>\$ 1,883,542</u>

7) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	June 30, 2020	December 31, 2019	June 30, 2019
Unearned premium reserve	\$ 17,762,311	\$ 17,832,203	\$ 16,812,188
Policy reserve	5,815,629,652	5,592,979,067	5,397,742,222
Premium deficiency reserve	17,425,315	19,679,457	21,114,903
Other reserve	<u>1,861,141</u>	<u>1,873,141</u>	<u>1,883,542</u>
Book value of insurance liabilities	<u>\$ 5,852,678,419</u>	<u>\$ 5,632,363,868</u>	<u>\$ 5,437,552,855</u>
Estimated present value of cash flows	<u>\$ 5,080,411,971</u>	<u>\$ 4,535,490,841</u>	<u>\$ 4,236,118,222</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:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
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. Policy information	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.
b. Discount rate	Under the asset allocation situation on March 31, 2020, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2019; with neutral assumptions for the discount rate after 30 years.	Under the asset allocation situation on September 30, 2019, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2018; with neutral assumptions for the discount rate after 30 years.	Under the asset allocation situation on March 31, 2019, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2018; with neutral assumptions for the discount rate after 30 years.

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
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. Policy information	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.	Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date.
b. Discount rate	The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2019; with neutral assumptions for the discount rate after 30 years.	The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2018; with neutral assumptions for the discount rate after 30 years.	The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2018; with neutral assumptions for the discount rate after 30 years.

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
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 Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years.	Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years.	Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 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 a reserve for insurance contracts with the nature of financial products. As of June 30, 2020, December 31, 2019 and June 30, 2019, the details of the balance and reconciliation changes in the reserve for insurance contracts with the nature of financial products are summarized below:

	June 30, 2020	December 31, 2019	June 30, 2019
Life insurance	\$ 11,475,150	\$ 10,005,021	\$ 9,509,295
Investment-linked insurance	<u>982,210</u>	<u>926,987</u>	<u>954,970</u>
	<u>\$ 12,457,360</u>	<u>\$ 10,932,008</u>	<u>\$ 10,464,265</u>
		For the Six Months Ended June 30	
		2020	2019
Beginning balance		\$ 10,932,008	\$ 9,318,713
Premiums received		2,959,139	2,090,033
Claims and payments		(1,470,166)	(1,368,825)
Net provision (recovery) of statutory reserve		368,263	341,189
Foreign exchange		<u>(331,884)</u>	<u>83,155</u>
Ending balance		<u>\$ 12,457,360</u>	<u>\$ 10,464,265</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 Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 18,000,877	\$ 17,075,289
Provision:		
Compulsory reserve	4,213,412	4,272,698
Additional reserve	<u>2,000,000</u>	<u>10,648,135</u>
	6,213,412	14,920,833
Recovery	<u>(17,613,517)</u>	<u>(7,114,207)</u>
Ending balance	<u>\$ 6,600,772</u>	<u>\$ 24,881,915</u>

In April and June 2020, Cathay Life applied to the FSC for approval to make provision for reserve for foreign exchange valuation of \$1,000,000 thousand and \$1,000,000 thousand, respectively, which were approved through Jin Guan Bao Shou No. 1090418613 issued on May 7, 2020 and Jin Guan Bao Shou No. 1090423624 issued on July 7, 2020, respectively.

c) Effects due to reserve for foreign exchange valuation

Item	For the Six Months Ended June 30, 2020		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 23,581,628	\$ 32,701,712	\$ 9,120,084
Earnings per share	1.49	2.18	0.69
Reserve for foreign exchange valuation	-	6,600,772	6,600,772
Equity	788,916,334	787,238,614	(1,677,720)

Item	For the Six Months Ended June 30, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 40,379,132	\$ 34,133,831	\$ (6,245,301)
Earnings per share	2.95	2.45	(0.5)
Reserve for foreign exchange valuation	-	24,881,915	24,881,915
Equity	715,049,319	698,746,684	(16,302,635)

b. Cathay Century Insurance and its subsidiaries

1) Unearned insurance premium reserve

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

Insurance by Type	June 30, 2020			
	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ 2,072,765	\$ 242,657	\$ 1,240,692	\$ 1,074,730
Marine insurance	163,862	18,716	132,669	49,909
Land and air insurance	5,307,179	16,283	206,316	5,117,146
Liability insurance	716,541	1,899	187,463	530,977
Financial guarantee insurance	57,037	5,310	39,986	22,361
Other property insurance	1,155,688	52,012	866,538	341,162
Accident insurance	1,484,275	7,627	113,839	1,378,063
Health insurance	57,377	3,743	4	61,116
Compulsory auto liability insurance	<u>1,233,720</u>	<u>466,990</u>	<u>740,232</u>	<u>960,478</u>
	<u>\$ 12,248,444</u>	<u>\$ 815,237</u>	<u>\$ 3,527,739</u>	<u>\$ 9,535,942</u>

December 31, 2019

Insurance by Type	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ 1,810,023	\$ 140,335	
Marine insurance	159,082	12,788	108,487	63,383
Land and air insurance	5,316,571	7,769	185,167	5,139,173
Liability insurance	799,822	684	257,398	543,108
Financial guarantee insurance	42,170	2,579	25,346	19,403
Other property insurance	1,074,161	47,203	795,157	326,207
Accident insurance	1,519,503	7,657	79,478	1,447,682
Health insurance	72,356	1,345	-	73,701
Compulsory auto liability insurance	<u>1,253,418</u>	<u>469,404</u>	<u>752,051</u>	<u>970,771</u>
	<u>\$ 12,047,106</u>	<u>\$ 689,764</u>	<u>\$ 3,199,204</u>	<u>\$ 9,537,666</u>

June 30, 2019

Insurance by Type	Unearned Premium Reserve		Ceded Unearned Premium Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ 2,094,317	\$ 142,175	
Marine insurance	162,724	10,280	112,229	60,775
Land and air insurance	5,082,110	(87)	173,742	4,908,281
Liability insurance	724,751	1,129	245,838	480,042
Financial guarantee insurance	66,245	637	45,870	21,012
Other property insurance	752,383	65,039	467,505	349,917
Accident insurance	1,514,836	5,147	111,910	1,408,073
Health insurance	71,111	2,341	-	73,452
Compulsory auto liability insurance	<u>1,254,496</u>	<u>470,384</u>	<u>752,698</u>	<u>972,182</u>
	<u>\$ 11,722,973</u>	<u>\$ 697,045</u>	<u>\$ 3,196,826</u>	<u>\$ 9,223,192</u>

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

	For the Six Months Ended June 30			
	2020		2019	
	Unearned Premium Reserves	Ceded Unearned Premium Reserve	Unearned Premium Reserves	Ceded Unearned Premium Reserve
Beginning balance	\$ 12,736,870	\$ 3,199,204	\$ 12,027,482	\$ 2,965,729
Provision	13,065,541	3,528,541	12,415,081	3,196,750
Recovery	(12,753,711)	(3,203,041)	(12,028,452)	(2,966,272)
Foreign exchange	<u>14,981</u>	<u>3,035</u>	<u>5,907</u>	<u>619</u>
Ending balance	<u>\$ 13,063,681</u>	<u>\$ 3,527,739</u>	<u>\$ 12,420,018</u>	<u>\$ 3,196,826</u>

2) Loss reserve

a) Loss reserve and ceded loss reserve

Items	June 30, 2020			
	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	\$ 4,234,002	\$ 658,180	\$ 1,511,244	\$ 3,380,938
Not yet filed	<u>4,077,607</u>	<u>481,153</u>	<u>1,207,526</u>	<u>3,351,234</u>
	<u>\$ 8,311,609</u>	<u>\$ 1,139,333</u>	<u>\$ 2,718,770</u>	<u>\$ 6,732,172</u>

Items	December 31, 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	\$ 4,097,036	\$ 680,547	\$ 1,241,241	\$ 3,536,342
Not yet filed	<u>4,122,117</u>	<u>458,050</u>	<u>1,208,831</u>	<u>3,371,336</u>
	<u>\$ 8,219,153</u>	<u>\$ 1,138,597</u>	<u>\$ 2,450,072</u>	<u>\$ 6,907,678</u>

Items	June 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	\$ 3,918,636	\$ 388,079	\$ 1,219,104	\$ 3,087,611
Not yet filed	<u>4,091,305</u>	<u>455,221</u>	<u>1,136,177</u>	<u>3,410,349</u>
	<u>\$ 8,009,941</u>	<u>\$ 843,300</u>	<u>\$ 2,355,281</u>	<u>\$ 6,497,960</u>

b) Net changes in loss reserve and ceded loss reserve

For the six months ended June 30, 2020

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	\$ 4,253,582	\$ 4,115,365	\$ 658,180	\$ 680,547	\$ 115,850
Not yet filed	<u>4,058,298</u>	<u>4,103,229</u>	<u>481,153</u>	<u>458,050</u>	<u>(21,828)</u>
	<u>\$ 8,311,880</u>	<u>\$ 8,218,594</u>	<u>\$ 1,139,333</u>	<u>\$ 1,138,597</u>	<u>\$ 94,022</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,521,270	\$ 1,250,753	\$ 270,517
Not yet filed	<u>1,197,836</u>	<u>1,199,002</u>	<u>(1,166)</u>
	<u>\$ 2,719,106</u>	<u>\$ 2,449,755</u>	<u>\$ 269,351</u>

For the six months ended June 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	\$ 3,934,420	\$ 3,687,249	\$ 388,079	\$ 330,733	\$ 304,517
Not yet filed	<u>4,075,007</u>	<u>4,011,028</u>	<u>455,221</u>	<u>446,465</u>	<u>72,735</u>
	<u>\$ 8,009,427</u>	<u>\$ 7,698,277</u>	<u>\$ 843,300</u>	<u>\$ 777,198</u>	<u>\$ 377,252</u>

Items	Ceded Reinsurance Business		Net Change in Loss Reserves
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,227,207	\$ 1,241,014	\$ (13,807)
Not yet filed	<u>1,128,004</u>	<u>1,105,134</u>	<u>22,870</u>
	<u>\$ 2,355,211</u>	<u>\$ 2,346,148</u>	<u>\$ 9,063</u>

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

Insurance by Type	June 30, 2020		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,228,356	\$ 20,159	\$ 1,248,515
Marine insurance	376,027	69,669	445,696
Land and air insurance	1,558,209	1,388,766	2,946,975
Liability insurance	534,016	658,737	1,192,753
Financial guarantee insurance	76,109	85,352	161,461
Other property insurance	505,572	125,454	631,026
Accident insurance	112,384	506,537	618,921
Health insurance	2,630	46,720	49,350
Compulsory automobile liability insurance	<u>498,879</u>	<u>1,657,366</u>	<u>2,156,245</u>
	<u>\$ 4,892,182</u>	<u>\$ 4,558,760</u>	<u>\$ 9,450,942</u>
Insurance by Type	December 31, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,154,505	\$ 22,971	\$ 1,177,476
Marine insurance	220,538	36,835	257,373
Land and air insurance	1,657,568	1,362,640	3,020,208
Liability insurance	536,470	702,702	1,239,172
Financial guarantee insurance	69,074	53,566	122,640
Other property insurance	507,124	127,213	634,337
Accident insurance	111,467	537,695	649,162
Health insurance	3,125	60,533	63,658
Compulsory automobile liability insurance	<u>517,712</u>	<u>1,676,012</u>	<u>2,193,724</u>
	<u>\$ 4,777,583</u>	<u>\$ 4,580,167</u>	<u>\$ 9,357,750</u>
Insurance by Type	June 30, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 919,665	\$ 17,415	\$ 937,080
Marine insurance	244,621	23,414	268,035
Land and air insurance	1,542,570	1,358,865	2,901,435
Liability insurance	531,403	768,728	1,300,131
Financial guarantee insurance	60,097	49,033	109,130
Other property insurance	394,236	156,429	550,665
Accident insurance	99,119	576,713	675,832
Health insurance	3,820	49,140	52,960
Compulsory automobile liability insurance	<u>511,184</u>	<u>1,546,789</u>	<u>2,057,973</u>
	<u>\$ 4,306,715</u>	<u>\$ 4,546,526</u>	<u>\$ 8,853,241</u>

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

Insurance by Type	June 30, 2020		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 442,387	\$ 6,881	\$ 449,268
Marine insurance	241,098	41,839	282,937
Land and air insurance	44,854	38,936	83,790
Liability insurance	295,107	253,836	548,943
Financial guarantee insurance	34,463	31,782	66,245
Other property insurance	274,316	56,082	330,398
Accident insurance	6,607	31,396	38,003
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>172,412</u>	<u>746,774</u>	<u>919,186</u>
	<u>\$ 1,511,244</u>	<u>\$ 1,207,526</u>	<u>\$ 2,718,770</u>
Insurance by Type	December 31, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 268,711	\$ 9,362	\$ 278,073
Marine insurance	110,945	19,978	130,923
Land and air insurance	51,712	39,188	90,900
Liability insurance	345,774	271,171	616,945
Financial guarantee insurance	31,591	24,672	56,263
Other property insurance	236,296	51,775	288,071
Accident insurance	7,878	35,908	43,786
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>188,334</u>	<u>756,777</u>	<u>945,111</u>
	<u>\$ 1,241,241</u>	<u>\$ 1,208,831</u>	<u>\$ 2,450,072</u>
Insurance by Type	June 30, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 312,511	\$ 8,830	\$ 321,341
Marine insurance	138,659	15,347	154,006
Land and air insurance	56,540	40,377	96,917
Liability insurance	330,935	279,221	610,156
Financial guarantee insurance	31,074	31,367	62,441
Other property insurance	157,057	49,387	206,444
Accident insurance	6,639	35,163	41,802
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>185,689</u>	<u>676,485</u>	<u>862,174</u>
	<u>\$ 1,219,104</u>	<u>\$ 1,136,177</u>	<u>\$ 2,355,281</u>

e) Reconciliation of loss reserve and ceded loss reserve

	For the Six Months Ended June 30			
	2020		2019	
	Loss Reserve	Ceded Loss Reserve	Loss Reserve	Ceded Loss Reserve
Beginning balance	\$ 9,357,750	\$ 2,450,072	\$ 8,474,319	\$ 2,345,027
Provision	9,451,213	2,719,106	8,852,727	2,355,211
Recovery	(9,357,191)	(2,449,755)	(8,475,475)	(2,346,148)
Foreign exchange	<u>(830)</u>	<u>(653)</u>	<u>1,670</u>	<u>1,191</u>
Ending balance	<u>\$ 9,450,942</u>	<u>\$ 2,718,770</u>	<u>\$ 8,853,241</u>	<u>\$ 2,355,281</u>

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 1,122,321	\$ 1,478,016
Provision	23,418	21,379
Recovery	<u>(160,150)</u>	<u>(222,959)</u>
Ending balance	<u>\$ 985,589</u>	<u>\$ 1,276,436</u>

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

	For the Six Months Ended June 30, 2020		
	Liability		
	Catastrophic Event	Fluctuation of Risk	Total
Beginning balance	\$ 430,719	\$ 1,345,017	\$ 1,775,736
Provision	-	-	-
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 430,719</u>	<u>\$ 1,345,017</u>	<u>\$ 1,775,736</u>

	For the Six Months Ended June 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>

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 enhancing the reserves of residential earthquake insurance pool members and Regulations governing the reserves of nuclear energy insurance were not applied, there is no material impact on Cathay Century and its subsidiaries' net income and earnings per share, special reserve under liabilities at June 30, 2020 would decrease by \$1,467,236 thousand and special reserve under equity would increase by \$441,141 thousand.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

Insurance by Type	June 30, 2020			
	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	12	897	-	909
Land and air insurance	-	11	-	11
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 12</u>	<u>\$ 908</u>	<u>\$ -</u>	<u>\$ 920</u>

December 31, 2019

Insurance by Type	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ -	\$ -	
Marine insurance	12	613	-	625
Land and air insurance	-	1,400	-	1,400
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 12</u>	<u>\$ 2,013</u>	<u>\$ -</u>	<u>\$ 2,025</u>

June 30, 2019

Insurance by Type	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ -	\$ -	
Marine insurance	3,711	311	-	4,022
Land and air insurance	3,203	107	-	3,310
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory auto liability insurance	-	-	-	-
	<u>\$ 6,914</u>	<u>\$ 418</u>	<u>\$ -</u>	<u>\$ 7,332</u>

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

For the Six Months Ended June 30, 2020									
	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	12	12	897	613	284	-	-	-	284
Land and air insurance	-	-	11	1,400	(1,389)	-	-	-	(1,389)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 908</u>	<u>\$ 2,013</u>	<u>\$ (1,105)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,105)</u>

For the Six Months Ended June 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	3,711	2,253	311	714	1,055	-	-	-	1,055
Land and air insurance	3,203	7,512	107	868	(5,070)	-	-	-	(5,070)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 6,914</u>	<u>\$ 9,765</u>	<u>\$ 418</u>	<u>\$ 1,582</u>	<u>\$ (4,015)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,015)</u>

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

	For the Six Months Ended June 30			
	2020		2019	
	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve
Beginning balance	\$ 2,025	\$ -	\$ 11,347	\$ -
Provision	920	-	7,332	-
Recovery	<u>(2,025)</u>	<u>-</u>	<u>(11,347)</u>	<u>-</u>
Ending balance	<u>\$ 920</u>	<u>\$ -</u>	<u>\$ 7,332</u>	<u>\$ -</u>

5) Policy reserve

a) Details of policy reserve and ceded policy reserve

June 30, 2020

Insurance by Type	Policy Reserve		Ceded Policy Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ 127	\$ -	\$ -	\$ 127

December 31, 2019

Insurance by Type	Policy Reserve		Ceded Policy Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ 79	\$ -	\$ -	\$ 79

June 30, 2019

Insurance by Type	Policy Reserve		Ceded Policy Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	\$ 51	\$ -	\$ -	\$ 51

b) Net changes in policy reserve and ceded policy reserve

For the six months ended June 30, 2020

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	\$ 61	\$ 13	\$ -	\$ -	\$ 48

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

For the six months ended June 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	\$ 15	\$ 12	\$ -	\$ -	\$ 3

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

22. RETIREMENT BENEFIT PLANS

Pensions under the defined benefit plans were calculated by actuarial determination of retirement cost ratio on June 30, 2020 and 2019, respectively, which were as follows:

Employee benefit expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Employee benefit expenses	\$ 122,780	\$ 122,792	\$ 244,794	\$ 245,738

23. OTHER FINANCIAL ASSETS AND LIABILITIES

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Other financial assets</u>			
Separate account insurance product assets	\$ 571,235,243	\$ 607,542,434	\$ 596,797,768
Structured time deposits	-	-	2,000,000
Others	9,333,977	7,575,048	6,342,044
Less: Loss allowance	-	-	(667)
	<u>\$ 580,569,220</u>	<u>\$ 615,117,482</u>	<u>\$ 605,139,145</u>
<u>Other financial liabilities</u>			
Separate account insurance product liabilities	\$ 571,235,243	\$ 607,542,434	\$ 596,797,768
Principal received from the sale of structured products	51,028,617	65,671,401	70,621,746
Others	<u>6,999,105</u>	<u>3,758,344</u>	<u>3,700,532</u>
	<u>\$ 629,262,965</u>	<u>\$ 676,972,179</u>	<u>\$ 671,120,046</u>

a. The related accounts of Cathay Life's separate account insurance products were summarized as follow:

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 490,440	\$ 518,576	\$ 753,775
Financial assets at FVTPL	564,816,440	600,237,158	591,352,978
Other receivables	<u>5,807,641</u>	<u>6,668,998</u>	<u>4,570,377</u>
	<u>\$ 571,114,521</u>	<u>\$ 607,424,732</u>	<u>\$ 596,677,130</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 258,682	\$ 467,361	\$ 1,000,097
Reserve for separate accounts - insurance contracts	236,077,731	244,601,804	239,655,246
Reserve for separate accounts - investment contracts	<u>334,778,108</u>	<u>362,355,567</u>	<u>356,021,787</u>
	<u>\$ 571,114,521</u>	<u>\$ 607,424,732</u>	<u>\$ 596,677,130</u>
	For the Three Months Ended June 30	For the Six Months Ended June 30	
	2020	2019	2020
			2019
<u>Separate account insurance product income</u>			
Premium income	\$ 14,593,035	\$ 7,791,694	\$ 26,544,294
Interest income	433	428	1,066
Gains (losses) from financial assets at FVTPL	23,747,449	4,751,511	(12,031,455)
Foreign exchange (losses) gains	<u>(3,201,207)</u>	<u>1,301,328</u>	<u>(3,855,335)</u>
	<u>\$ 35,139,710</u>	<u>\$ 13,844,961</u>	<u>\$ 10,658,570</u>
			<u>\$ 38,657,818</u>
<u>Separate account insurance product expenses</u>			
Claims and payments	\$ 2,590,779	\$ 2,877,836	\$ 4,751,459
Cash surrender value	3,575,783	6,534,307	12,195,566
Payment of life insurance policy dividends	50	1	51
Provision (reversal) of separate account reserve	28,050,067	3,556,866	(8,094,354)
Administrative expenses	960,512	913,470	1,874,649
Non-operating income and expenses	<u>(37,481)</u>	<u>(37,519)</u>	<u>(68,801)</u>
	<u>\$ 35,139,710</u>	<u>\$ 13,844,961</u>	<u>\$ 10,658,570</u>
			<u>\$ 38,657,818</u>

The commission earned from counterparties due to the sale of separate account insurance products which was recorded under service fee income was \$206,142 thousand, \$226,936 thousand, \$429,971 thousand and \$455,367 thousand for the three months and six months ended June 30, 2020 and 2019, respectively.

- b. The related accounts of Cathay Lujiazui Life's separate account insurance products were summarized as follows:

	June 30, 2020	December 31, 2019	June 30, 2019	
<u>Separate account insurance product assets</u>				
Cash in bank	\$ 28,848	\$ 5,231	\$ 19,692	
Financial assets at FVTPL	91,837	112,315	100,897	
Interest receivable	1	1	5	
Others	<u>36</u>	<u>155</u>	<u>44</u>	
	<u>\$ 120,722</u>	<u>\$ 117,702</u>	<u>\$ 120,638</u>	
<u>Separate account insurance product liabilities</u>				
Other payables	\$ 646	\$ (134)	\$ (652)	
Reserve for separate accounts - insurance contracts	<u>120,076</u>	<u>117,836</u>	<u>121,290</u>	
	<u>\$ 120,722</u>	<u>\$ 117,702</u>	<u>\$ 120,638</u>	
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
<u>Separate account insurance product income</u>				
Premium income	\$ 50	\$ 53	\$ 101	\$ 127
Gains (losses) from financial assets and liabilities at FVTPL	16,872	120	13,539	12,333
Interest income	<u>11</u>	<u>60</u>	<u>29</u>	<u>109</u>
	<u>\$ 16,933</u>	<u>\$ 233</u>	<u>\$ 13,669</u>	<u>\$ 12,569</u>
<u>Separate account insurance product expenses</u>				
Cash surrender value	\$ 5,879	\$ 401	\$ 6,265	\$ 4,362
(Reversal) provision of separate account reserve	9,640	(548)	5,871	6,732
Administrative expenses	368	391	742	762
Tax expense	<u>1,046</u>	<u>(11)</u>	<u>791</u>	<u>713</u>
	<u>\$ 16,933</u>	<u>\$ 233</u>	<u>\$ 13,669</u>	<u>\$ 12,569</u>

24. EQUITY

a. Share capital

	June 30, 2020	December 31, 2019	June 30, 2019
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>13,169,210</u>	<u>13,169,210</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>\$ 147,025,102</u>	<u>\$ 147,025,102</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 to dividends.

On August 15, 2019, the board of directors resolved the capital increase through issuance of 606,000 thousand ordinary shares and the issue price was \$35 per share. On September 24, 2019, the above transaction was approved by the FSC Jin Guan Zheng Fa No. 1080331065, and the subscription base date was determined by the board of directors to be November 29, 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 Jin Guan Zheng Fa No. 1050041628 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 Jin Guan Zheng Fa No. 1070313814 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, TAFXIRS 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 receipts

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:

	June 30, 2020	December 31, 2019	June 30, 2019
Additional paid-in capital	\$ 172,905,009	\$ 172,905,009	\$ 157,755,009
Treasury share transactions	2,539,377	2,539,377	2,539,377
Additional paid-in capital - employee stock options	497,629	497,629	209,945
Conversion of convertible bonds	1,144,486	1,144,486	1,144,486
Others	<u>167,958</u>	<u>170,475</u>	<u>40,391</u>
	<u>\$ 177,254,459</u>	<u>\$ 177,256,976</u>	<u>\$ 161,689,208</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 2019 and 2018 which were approved in the shareholders' meeting on June 12, 2020 and June 14, 2019, respectively, were as follows:

	Appropriation of Earnings	
	2019	2018
Legal reserve	\$ 5,844,843	\$ 5,146,724
Special reserve	(71,928,090)	72,631,553
Cash dividends of ordinary shares (Note)	26,338,420	18,844,815
Cash dividends of preference shares	3,390,924	2,667,891

Note: Cash dividends of ordinary shares for 2018 included \$15,075,852 thousand from retained earnings and \$3,768,963 thousand from capital surplus.

d. Special reserves

	June 30, 2020	December 31, 2019	June 30, 2019
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)	108,057,969	107,581,979	107,581,979
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>-</u>	<u>72,558,752</u>	<u>72,558,752</u>
	<u>\$ 149,894,910</u>	<u>\$ 221,977,672</u>	<u>\$ 221,977,672</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 for 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 for 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 Jin-Guan-Zheng-Fa No. 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 for 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 Six Months Ended June 30	
	2020	2019
Beginning balance	<u>\$ (13,319,620)</u>	<u>\$ (12,149,871)</u>
Recognized for the period	(3,265,441)	1,004,229
Share of associates accounted for using the equity method	(307,077)	836,215
Tax effects	<u>147,839</u>	<u>(230,204)</u>
Other comprehensive income (loss) recognized for the period	<u>(3,424,679)</u>	<u>1,610,240</u>
Ending balance	<u>\$ (16,744,299)</u>	<u>\$ (10,539,631)</u>

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

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	<u>\$ 68,319,953</u>	<u>\$ (17,586,946)</u>
Recognized for the period	32,605,628	98,788,640
Share of associates accounted for using the equity method	159,259	266,469
Reclassification adjustments		
Disposal of investments in debt instruments	(18,058,119)	(13,418,888)
Tax effects	<u>(1,717,494)</u>	<u>(15,639,427)</u>
Other comprehensive income recognized for the period	12,989,274	69,996,794
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	<u>129,340</u>	<u>2,537,695</u>
Ending balance	<u>\$ 81,438,567</u>	<u>\$ 54,947,543</u>

- 3) Gain (loss) on hedging instruments

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	<u>\$ 331,930</u>	<u>\$ 173,289</u>
Recognized for the period	186,172	129,165
Reclassification adjustments		
Hedged item that affects profit or loss	(34,335)	(32,737)
Tax effects	<u>(26,197)</u>	<u>(25,630)</u>
Other comprehensive income recognized for the period	<u>125,640</u>	<u>70,798</u>
Ending balance	<u>\$ 457,570</u>	<u>\$ 244,087</u>

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

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ (1,850,508)	\$ 774,084
Recognized for the period	1,117,321	(1,778,640)
Tax effects	<u>(223,464)</u>	<u>355,729</u>
Other comprehensive income (loss) recognized for the period	<u>893,857</u>	<u>(1,422,911)</u>
Ending balance	<u>\$ (956,651)</u>	<u>\$ (648,827)</u>

- 5) Remeasurement of defined benefit plans

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ (1,507,864)	\$ (1,321,138)
Recognized for the period	1,126	-
Share of associate accounted for using the equity method	(12,201)	8,661
Tax effects	<u>1,714</u>	<u>(1,857)</u>
Other comprehensive income (loss) recognized for the period	<u>(9,361)</u>	<u>6,804</u>
Ending balance	<u>\$ (1,517,225)</u>	<u>\$ (1,314,334)</u>

- 6) Property revaluation surplus

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 11,240,314	\$ 10,367,911
Recognized for the period	-	926,919
Tax effects	-	(54,516)
Other comprehensive income recognized for the period	-	<u>872,403</u>
Transferred to retained earnings	<u>(143,225)</u>	-
Ending balance	<u>\$ 11,097,089</u>	<u>\$ 11,240,314</u>

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

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 57,968,675	\$ (52,816,081)
Recognized for the period		
Unrealized gain	24,234,232	120,182,101
Reclassification adjustments		
Disposal of investments in financial instruments	(35,849,089)	(25,038,013)
Tax effects	<u>2,703,759</u>	<u>(9,373,271)</u>
Other comprehensive income (loss) recognized for the period	<u>(8,911,098)</u>	<u>85,770,817</u>
Ending balance	<u>\$ 49,057,577</u>	<u>\$ 32,954,736</u>

f. Non-controlling interests

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 10,279,814	\$ 9,557,665
Net income attributed to non-controlling interest		
Net profit for the period	579,954	694,062
Exchange differences on translating financial statements of foreign operations	(198,459)	93,876
Unrealized gain on financial assets at FVTOCI	125,168	27,113
Other comprehensive income on reclassification using the overlay approach	165,036	263,131
Acquisition of non-controlling interests in subsidiaries (Note 38)	1,302,994	-
Others	<u>(816,788)</u>	<u>(461,308)</u>
Ending balance	<u>\$ 11,437,719</u>	<u>\$ 10,174,539</u>

25. NET PROFIT FOR THE PERIOD

a. Net gain on service fee and commission fee

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Service fee revenue	\$ 6,004,016	\$ 6,560,995	\$ 12,971,792	\$ 12,607,455
Commission fee revenue	<u>1,650,035</u>	<u>1,933,731</u>	<u>3,755,036</u>	<u>3,405,897</u>
	<u>7,654,051</u>	<u>8,494,726</u>	<u>16,726,828</u>	<u>16,013,352</u>
Service fee expense	(1,787,098)	(2,009,094)	(3,818,188)	(4,014,079)
Commission fee expense	<u>(5,376,434)</u>	<u>(4,887,679)</u>	<u>(10,109,627)</u>	<u>(10,929,249)</u>
	<u>(7,163,532)</u>	<u>(6,896,773)</u>	<u>(13,927,815)</u>	<u>(14,943,328)</u>
	<u>\$ 490,519</u>	<u>\$ 1,597,953</u>	<u>\$ 2,799,013</u>	<u>\$ 1,070,024</u>

b. Net income on insurance operations

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Retained premiums earned	\$ 153,920,627	\$ 147,418,159	\$ 303,374,150	\$ 307,487,123
Separate account insurance product income	<u>35,156,643</u>	<u>13,845,194</u>	<u>10,672,239</u>	<u>38,670,387</u>
	<u>189,077,270</u>	<u>161,263,353</u>	<u>314,046,389</u>	<u>346,157,510</u>
Claims and payments	(63,712,236)	(107,900,599)	(133,720,953)	(210,252,522)
Separate account insurance product expenses	(35,156,643)	(13,845,194)	(10,672,239)	(38,670,387)
Others	<u>(317,404)</u>	<u>(258,210)</u>	<u>(630,762)</u>	<u>(530,259)</u>
	<u>(99,186,283)</u>	<u>(122,004,003)</u>	<u>(145,023,954)</u>	<u>(249,453,168)</u>
	<u>\$ 89,890,987</u>	<u>\$ 39,259,350</u>	<u>\$ 169,022,435</u>	<u>\$ 96,704,342</u>

c. Net changes in insurance liability reserves

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Net change in loss reserve	\$ (187,757)	\$ (858,832)	\$ (252,740)	\$ (1,759,994)
Net change in policy reserve	(126,781,582)	(72,731,656)	(243,592,192)	(159,664,564)
Net change in premium deficiency reserve	1,388,967	867,545	2,155,162	1,504,821
Net change in special reserve	100,635	187,992	136,831	201,474
Net change in other reserves	6,000	6,000	12,000	11,028
Net change in reserve for insurance contracts with the nature of financial products	<u>(180,891)</u>	<u>(166,170)</u>	<u>(368,263)</u>	<u>(341,189)</u>
	<u>\$ (125,654,628)</u>	<u>\$ (72,695,121)</u>	<u>\$ (241,909,202)</u>	<u>\$ (160,048,424)</u>

d. Employee benefit expenses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term benefits				
Salaries	\$ 16,066,309	\$ 13,999,877	\$ 28,622,093	\$ 30,860,601
Labor and health insurance expenses	1,044,858	1,132,735	2,328,326	2,359,854
Post-employment benefits	616,970	581,618	1,231,219	1,146,712
Remuneration of directors	36,469	41,590	92,191	99,131
Others	<u>476,669</u>	<u>332,687</u>	<u>853,990</u>	<u>844,013</u>
	<u>\$ 18,241,275</u>	<u>\$ 16,088,507</u>	<u>\$ 33,127,819</u>	<u>\$ 35,310,311</u>
An analysis of employee benefit expenses by function				
Profit from operations	\$ 3,913,815	\$ 3,038,812	\$ 6,665,629	\$ 7,430,553
Operating expenses	<u>14,327,460</u>	<u>13,049,695</u>	<u>26,462,190</u>	<u>27,879,758</u>
	<u>\$ 18,241,275</u>	<u>\$ 16,088,507</u>	<u>\$ 33,127,819</u>	<u>\$ 35,310,311</u>

As of June 30, 2020 and 2019, the total number of employees in the Group was 56,976 and 55,470, respectively.

For the six months ended June 30, 2020 and 2019, the average number of the Group's employees was 56,718 and 54,961, respectively, including 37 and 35 directors not concurrently serving as employees, respectively.

e. Employees' compensation and remuneration of directors

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Employees' compensation	\$ 1,152	\$ 2,022	\$ 3,478	\$ 3,354
Remuneration of directors	675	675	1,350	1,350

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

The employees' compensation and remuneration of directors for 2020 and 2019 which were resolved by the Company's board of directors on March 11, 2020 and March 21, 2019, respectively, are as follows:

	For the Six Months Ended	
	June 30	
	2019	2018
	Cash	Cash
Employees' compensation	\$ 6,270	\$ 5,307
Remuneration of directors	2,700	2,700

There was no significant difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2019 and 2018.

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 June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Right-of-use assets	\$ 374,298	\$ 336,184	\$ 724,495	\$ 650,835
Property and equipment	619,833	609,551	1,238,338	1,273,866
Intangible assets	<u>798,868</u>	<u>780,527</u>	<u>1,585,472</u>	<u>1,568,740</u>
	<u>\$ 1,792,999</u>	<u>\$ 1,726,262</u>	<u>\$ 3,548,305</u>	<u>\$ 3,493,441</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 994,131</u>	<u>\$ 945,735</u>	<u>\$ 1,962,833</u>	<u>\$ 1,924,701</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 798,868</u>	<u>\$ 780,527</u>	<u>\$ 1,585,472</u>	<u>\$ 1,568,740</u>

26. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 9,475,342	\$ 330,371	\$ 16,343,451	\$ 919,723
Adjustments for prior years	91,764	331,345	43,252	263,356
Others	35,184	283,354	214,622	851,046
Deferred tax				
In respect of the current period	(7,276,985)	2,675,616	(11,479,722)	3,563,728
Adjustments for prior years	<u>423</u>	<u>5,457</u>	<u>423</u>	<u>5,457</u>
Income tax expense recognized in profit or loss	<u>\$ 2,325,728</u>	<u>\$ 3,626,143</u>	<u>\$ 5,122,026</u>	<u>\$ 5,603,310</u>

b. Income tax recognized directly in equity

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Current tax				
Derecognition of investments in equity instruments at FVTOCI	\$ 4,687	\$ 68,106	\$ 13,370	\$ 109,465
Deferred tax				
Derecognition of investments in equity instruments at FVTOCI	<u>(4,687)</u>	<u>(68,106)</u>	<u>(13,370)</u>	<u>(109,465)</u>
Income tax recognized directly in equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

c. Income tax recognized in other comprehensive income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
<u>Deferred tax</u>				
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL	\$ 117,424	\$ 112,573	\$ (223,464)	\$ 355,729
Exchange differences on the translation of financial statements of foreign operations	87,309	(95,753)	147,839	(230,204)
Unrealized (gain) loss on financial assets at FVTOCI	(11,016,800)	(6,490,116)	(1,739,061)	(15,611,132)
Gain on hedging instruments	83,398	(5,205)	(26,197)	(25,630)
Property revaluation surplus	-	(9,470)	-	(54,516)
Remeasurement of defined benefit plans	-	-	(225)	-
Shares of associates accounted for using the equity method	(225)	6,376	23,506	(30,152)
Other comprehensive (income) loss on reclassification using the overlay approach	<u>(7,193,411)</u>	<u>(2,050,976)</u>	<u>2,703,759</u>	<u>(9,373,271)</u>
Income tax (expense) benefit recognized in other comprehensive income	<u>\$ (17,922,305)</u>	<u>\$ (8,532,571)</u>	<u>\$ 886,157</u>	<u>\$ (24,969,176)</u>

d. Income tax assessments

The income tax returns of the Group assessed by the 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 2012.
Cathay United Bank	2014	Cathay United Bank was in the process of administrative remedy for 2012 and 2014.
Cathay Century	2014	-
Cathay Securities	2014	Cathay Securities was in the process of administrative remedy from 2012 to 2014.
Cathay Venture	2014	-
Cathay Securities Investment Trust	2014	-
Cathay Futures	2017	-
Cathay Private Equity	2018	-

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</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Basic earnings per share	<u>\$ 0.41</u>	<u>\$ 1.40</u>	<u>\$ 2.18</u>	<u>\$ 2.45</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</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income for the period attributable to owners of the Company	\$ 8,832,074	\$ 20,226,617	\$ 32,121,758	\$ 33,439,769
Less: Dividends on preference shares	<u>(3,390,924)</u>	<u>(2,667,891)</u>	<u>(3,390,924)</u>	<u>(2,667,891)</u>
Earnings used in the computation of basic earnings per share	<u>\$ 5,441,150</u>	<u>\$ 17,558,726</u>	<u>\$ 28,730,834</u>	<u>\$ 30,771,878</u>

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

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>13,169,210</u>	<u>12,563,210</u>	<u>13,169,210</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 Life (Vietnam)	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 Private Equity	Subsidiary of the Company
Global Evolution Holding ApS	Subsidiary of the Company (associate before June 2020)
Taiwan Real-estate Management Corp.	Associate
Symphox Information Co., Ltd.	Associate
PSS Co., Ltd.	Associate
TaiYang Solar Power Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Neo Cathay Power Corp.	Associate
Lin Yuan Property Management Co., Ltd.	Associate (other related party before May 2020)
Seaward Card Co., Ltd.	Other related party
Vietinbank	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Real Estate Development 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
Funds managed by Cathay Securities Investment Trust	Other related party
Private Equity Funds managed by Cathay Private Equity	Other related party
Funds managed by Global Evolution Holding ApS	Other related party
Funds managed by Octagon Credit Investors, LLC	Other related party
Bonds managed by Octagon Credit Investors, LLC	Other related party

(Continued)

<u>Related Party Name</u>	<u>Related Party Category</u>
San Ching Engineering Co., Ltd.	Other related party
Ally Logistic Property Co., Ltd.	Other related party
ThinkPower Information Co., Ltd.	Other related party
Yua-Yung Marketing (Taiwan) Co., Ltd.	Other related party
Hong-Sui Co., Ltd.	Other related party
Bowl Cut Entertainment Co., Ltd.	Other related party
Cathay Cultural Foundation	Other related party
Cathay United Bank Foundation	Other related party
Cathay United Bank Employees' Welfare Committee	Other related party
Cathay Life Insurance Employees' Welfare Committee	Other related party
Cathay Real Estate Development Employees' Welfare Committee	Other related party
Cathay Securities Investment Trust 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 in the consolidated financial statements.

1) Transactions with banks

Name	June 30, 2020	December 31, 2019	June 30, 2019	
<u>Due from commercial banks</u>				
Other related party Vietinbank	<u>\$ 5,135,457</u>	<u>\$ 5,216,825</u>	<u>\$ 5,380,934</u>	
<u>Due to commercial banks</u>				
Other related party Vietinbank	<u>\$ 5,337,418</u>	<u>\$ 5,265,818</u>	<u>\$ 5,373,474</u>	
	<u>Interest Income (Expense)</u>			
	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30</u>		<u>June 30</u>	
Name	2020	2019	2020	2019
<u>Due from commercial banks</u>				
Other related party Vietinbank	<u>\$ 920</u>	<u>\$ 1,383</u>	<u>\$ 2,225</u>	<u>\$ 2,713</u>
<u>Due to commercial banks</u>				
Other related party Vietinbank	<u>\$ (1,310)</u>	<u>\$ (1,339)</u>	<u>\$ (2,595)</u>	<u>\$ (2,651)</u>

2) Financial assets at FVTPL

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Cathay Healthcare Management Co., Ltd.	<u>\$ 204,765</u>	<u>\$ 229,103</u>	<u>\$ 217,718</u>

3) Receivable

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Funds managed by Cathay Securities Investment Trust	<u>\$ 178,769</u>	<u>\$ 221,014</u>	<u>\$ 185,566</u>

4) Loans

Name	June 30, 2020	December 31, 2019	June 30, 2019
Associate			
Taiwan Real-estate Management Corp.	\$ 33,000	\$ 33,000	\$ 33,000
TaiYang Solar Power Co., Ltd.	67,897	-	-
Other related parties			
Cathay Real Estate Development Co., Ltd.	-	250,000	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	10,000	10,000
Others	<u>2,804,645</u>	<u>2,764,157</u>	<u>2,659,841</u>
	<u>\$ 2,915,542</u>	<u>\$ 3,057,157</u>	<u>\$ 2,702,841</u>

Name	Interest Income			
	For the Three Months Ended		For the Six Months Ended	
	2020	2019	2020	2019
Associate				
Taiwan Real-estate Management Corp.	\$ 125	\$ 147	\$ 272	\$ 290
TaiYang Solar Power Co., Ltd.	352	-	754	-
Other related parties				
Cathay Real Estate Development Co., Ltd.	-	-	60	470
Yua-Yung Marketing (Taiwan) Co., Ltd.	37	20	81	20
Others	<u>8,627</u>	<u>10,287</u>	<u>19,849</u>	<u>20,981</u>
	<u>\$ 9,141</u>	<u>\$ 10,454</u>	<u>\$ 21,016</u>	<u>\$ 21,761</u>

5) Deposits

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	\$ 387,099	\$ 204,526	\$ 132,226
Associates			
Symphox Information Co., Ltd.	292,983	154,446	148,141
Neo Cathay Power Corp.	11	11	42,638
Other related parties			
Cathay Real Estate Development Co., Ltd.	202,634	257,587	241,710
Cathay Hospitality Management Co., Ltd.	10,815	6,203	19,579
Funds managed by Cathay Securities			
Investment Trust	226,508	84,784	179,780
Cathay United Bank Foundation	519,586	532,486	533,582
Cathay United Bank Employees' Welfare Committee	801,536	757,991	795,069
Cathay Life Insurance Employees' Welfare Committee	2,280,214	2,142,876	2,129,597
Cathay Real Estate Development Employees' Welfare Committee	391,939	397,367	377,381
Cathay Securities Investment Trust Employees' Welfare Committee	3,225	3,277	4,258
Others	<u>9,031,504</u>	<u>7,614,526</u>	<u>8,712,055</u>
	<u>\$ 14,148,054</u>	<u>\$ 12,156,080</u>	<u>\$ 13,316,016</u>

Name	Interest Expense			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 121	\$ 165	\$ 283	\$ 328
Associates				
Symphox Information Co., Ltd.	134	197	318	374
Neo Cathay Power Corp.	-	10	-	24
Other related parties				
Cathay Real Estate Development Co., Ltd.	3	20	7	33
Cathay Hospitality Management Co., Ltd.	-	1	1	2
Cathay United Bank Foundation	1,109	1,402	2,413	2,796
Cathay United Bank Employees' Welfare Committee	7,801	7,961	15,339	13,880

(Continued)

Name	Interest Expense			
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Cathay Life Insurance Employees' Welfare Committee	\$ 4,232	\$ 5,552	\$ 9,325	\$ 11,041
Cathay Real Estate Development Employees' Welfare Committee	836	1,028	1,826	2,056
Cathay Securities Investment Trust Employees' Welfare Committee	1	1	2	2
Others	<u>15,460</u>	<u>20,856</u>	<u>33,857</u>	<u>40,973</u>
	<u>\$ 29,697</u>	<u>\$ 37,193</u>	<u>\$ 63,371</u>	<u>\$ 71,509</u> (Concluded)

6) Property transactions

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

Name	For the Six Months Ended June 30			
	2020		2019	
	Items	Amount	Items	Amount
Subsidiary of associate Lin Yuan Property Management Co., Ltd.	Cathay Life Head Office Building, etc.	\$ 4,180	-	\$ -
Other related parties Lin Yuan Property Management Co., Ltd.	-	-	Cathay Land Mark, etc.	4,657
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	314,653	Yangmei Logistics Park, etc.	255,935
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	156,462	THSR Taoyuan Commercial Park, etc.	1,039,339
Cathay Real Estate Development Co., Ltd.	-	-	Minsheng Jingguo Building, etc.	<u>296,515</u>
		<u>\$ 475,295</u>		<u>\$ 1,596,446</u>

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$2,419,048 thousand, \$1,130,238 thousand and \$3,618,783 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$144,528 thousand, \$4,196,448 thousand and \$1,838,045 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$0 thousand, \$0 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		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 2,414	\$ 2,290	\$ 4,828	\$ 4,581
Associates				
Symphox Information Co., Ltd.	11,260	12,390	24,121	23,212
Lin Yuan Property Management Co., Ltd.	4,929	-	8,106	-
	<u>16,189</u>	<u>12,390</u>	<u>32,227</u>	<u>23,212</u>
Other related parties				
Cathay Medical Care Corp.	50,346	48,205	95,628	93,248
Cathay Real Estate Development Co., Ltd.	5,285	4,265	9,799	8,529
Cathay Healthcare Management Co., Ltd.	17,468	17,271	34,935	34,060
Cathay Hospitality Management Co., Ltd.	41,775	48,500	90,695	96,936
Cathay Hospitality Consulting Co., Ltd.	20,177	23,359	45,180	51,848
Ally Logistic Property Co., Ltd.	189,669	139,516	374,968	282,448
Hong-Sui Co., Ltd.	12,977	-	12,977	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	8,750	-	8,750	-
Lin Yuan Property Management Co., Ltd.	-	1,411	-	1,909
	<u>346,447</u>	<u>282,527</u>	<u>672,932</u>	<u>568,978</u>
	<u>\$ 365,050</u>	<u>\$ 297,207</u>	<u>\$ 709,987</u>	<u>\$ 596,771</u>

Name	Guarantee Deposits Received		
	June 30, 2020	December 31, 2019	June 30, 2019
Associates			
Symphox Information Co., Ltd.	\$ 13,070	\$ 13,070	\$ 12,708
Other related parties			
Cathay Medical Care Corp.	11,435	11,393	11,369
Cathay Real Estate Development Co., Ltd.	4,024	3,959	3,803
Cathay Healthcare Management Co., Ltd.	20,384	16,505	16,029
Cathay Hospitality Management Co., Ltd.	186,031	184,944	184,453
Ally Logistic Property Co., Ltd.	123,125	123,085	110,488
Hong-Sui Co., Ltd.	4,645	-	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	3,471	-	-
Cathay Hospitality Consulting Co., Ltd.	179,392	108,145	107,074
	<u>532,507</u>	<u>448,031</u>	<u>433,216</u>
	<u>\$ 545,577</u>	<u>\$ 461,101</u>	<u>\$ 445,924</u>

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	Acquisition of Right-of-use Assets			
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related party				
Cathay Real Estate Development Co., Ltd.	\$ 20,565	\$ -	\$ 20,565	\$ -

Name	Lease Liabilities		
	June 30, 2020	December 31, 2019	June 30, 2019
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ 19,240	\$ -	\$ -

d) Acquisition of computer equipment of Cathay Life and its subsidiaries

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related party ThinkPower Information Co., Ltd.	\$ <u> -</u>	\$ <u>10,185</u>	\$ <u> -</u>	\$ <u>10,185</u>

e) Lease arrangements of Cathay United Bank and its subsidiaries

Name	Acquisition of Right-of-use Assets For the Six Months Ended June 30	
	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u> -</u>	\$ <u>25,777</u>

Lease periods are usually between 2 to 5 years and rental payments are mainly made on a monthly basis.

Name	Lease Liabilities		
	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u>11,199</u>	\$ <u>20,954</u>	\$ <u>30,667</u>

Name	Rental Expense			
	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u>2,502</u>

Name	Guarantee Deposits Paid		
	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u>4,625</u>	\$ <u>4,625</u>	\$ <u>4,625</u>

7) Guarantee deposits received

Name	June 30, 2020	December 31, 2019	June 30, 2019
Associate			
Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ -	\$ -
Other related parties			
Lin Yuan Property Management Co., Ltd.	-	5,000	5,000
San Ching Engineering Co., Ltd.	461,635	453,225	453,225
Cathay Hospitality Management Co., Ltd.	-	51,000	235,170
Ally Logistic Property	<u>393,275</u>	<u>151,275</u>	<u>213,060</u>
	<u>\$ 859,910</u>	<u>\$ 660,500</u>	<u>\$ 906,455</u>

8) Payables

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	\$ 30,556	\$ 30,164	\$ -
Associate			
Symphox Information Co., Ltd.	117,523	137,782	163,692
Lin Yuan Property Management Co., Ltd.	2,728	-	-
Other related party			
Seaward Card Co., Ltd.	31,273	37,704	29,300
Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>21</u>	<u>3,763</u>
	<u>\$ 182,080</u>	<u>\$ 205,671</u>	<u>\$ 196,755</u>

9) Balance of bonds managed by related parties

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party			
Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,158,642</u>	<u>\$ 5,334,030</u>	<u>\$ 5,682,928</u>

10) Balances of beneficiary certificates purchased from related parties

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related parties			
Funds managed by Cathay Securities Investment Trust	\$ 65,917,771	\$ 62,604,082	\$ 45,104,319
Private Equity Funds managed by Cathay Private Equity	688,224	496,760	250,076
Funds managed by Global Evolution Holding ApS	2,722,672	2,874,903	2,918,004
Funds managed by Octagon Credit Investors, LLC	<u>717,051</u>	<u>670,292</u>	<u>622,922</u>
	<u>\$ 70,045,718</u>	<u>\$ 66,646,037</u>	<u>\$ 48,895,321</u>

11) Investment balances of related parties' discretionary accounts

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related parties			
Cathay Charity Foundation	\$ 90,869	\$ 87,128	\$ 75,172
Cathay Real Estate Development Cultural Foundation	<u>54,172</u>	<u>55,667</u>	<u>50,754</u>
	<u>\$ 145,041</u>	<u>\$ 142,795</u>	<u>\$ 125,926</u>

12) Discretionary account balances managed by related parties

Name	June 30, 2020	December 31, 2019	June 30, 2019
Associate			
Global Evolution Holdings ApS	<u>\$ -</u>	<u>\$ 22,215,022</u>	<u>\$ 7,095,103</u>

13) Service fee income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 4,401	\$ 3,098	\$ 8,018	\$ 7,642
Other related party				
Cathay Real Estate Development Co., Ltd.	<u>1,525</u>	<u>977</u>	<u>3,105</u>	<u>2,261</u>
	<u>\$ 5,926</u>	<u>\$ 4,075</u>	<u>\$ 11,123</u>	<u>\$ 9,903</u>

14) Premium income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Associate				
Symphox Information Co., Ltd.	\$ 17	\$ 978	\$ 2,244	\$ 3,328
Other related parties				
Cathay Medical Care Corp.	12,202	11,225	24,217	18,620
San Ching Engineering Co., Ltd.	3,391	1,553	4,569	2,035
Others	<u>106,822</u>	<u>97,453</u>	<u>210,771</u>	<u>174,908</u>
	<u>\$ 122,432</u>	<u>\$ 111,209</u>	<u>\$ 241,801</u>	<u>\$ 198,891</u>

15) Net other non-interest income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
<u>Net other non-interest income</u>				
Funds managed by Cathay Securities Investment Trust	\$ 549,223	\$ 555,325	\$ 1,157,559	\$ 1,050,910
Private Equity Funds managed by Cathay Private Equity	<u>9,820</u>	<u>3,691</u>	<u>17,181</u>	<u>7,098</u>
	<u>\$ 559,043</u>	<u>\$ 559,016</u>	<u>\$ 1,174,740</u>	<u>\$ 1,058,008</u>
<u>Net other non-interest expense</u>				
Associate Global Evolution Holding ApS	<u>\$ 8,775</u>	<u>\$ 5,218</u>	<u>\$ 14,163</u>	<u>\$ 10,127</u>

16) Operating expenses

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Securities Investment Consulting	\$ 30,841	\$ -	\$ 61,335	\$ -
Associate Symphox Information Co., Ltd.	205,511	221,481	398,752	453,033
Lin Yuan Property Management Co., Ltd.	204,235	-	405,837	-
Global Evolution Holding ApS	5,549	-	5,549	-
Other related parties Seaward Card Co., Ltd.	73,095	74,405	148,203	148,572
ThinkPower Information Co., Ltd.	5,095	4,290	6,848	4,290
Lin Yuan Property Management Co., Ltd.	-	191,932	-	389,522
Cathay Healthcare Management Co., Ltd.	<u>10,175</u>	<u>12,928</u>	<u>15,482</u>	<u>28,889</u>
	<u>\$ 534,501</u>	<u>\$ 505,036</u>	<u>\$ 1,042,006</u>	<u>\$ 1,024,306</u>

17) Acquisition of shares issued by related parties

Name	Items	For the Six Months Ended June 30	
		2020	2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	Ordinary shares	\$ 230,000	\$ -
Associates			
Greenhealth Water Resources Co., Ltd.	Ordinary shares	-	387,816
PSS Co., Ltd.	Ordinary shares	51,386	-
Lin Yuan Property Management Co., Ltd.	Ordinary shares	50,649	-
TaiYang Solar Power Co., Ltd.	Ordinary shares	<u>40,150</u>	<u>-</u>
		<u>\$ 372,185</u>	<u>\$ 387,816</u>

18) Guarantees on duties and contracts

June 30, 2020

Name	Maximum	Ending Balance	Guarantee Liability Provision Balance	Rate	Collateral Item
Other related party Yua-Yung Marketing (Taiwan) Co., Ltd.	<u>\$ 68,190</u>	<u>\$ 55,190</u>	<u>\$ 15</u>	0.65-0.8%	Securities

December 31, 2019

Name	Maximum	Ending Balance	Guarantee Liability Provision Balance	Rate	Collateral Item
Other related party Yua-Yung Marketing (Taiwan) Co., Ltd.	<u>\$ 54,440</u>	<u>\$ 54,440</u>	<u>\$ 5</u>	0.65-0.8%	Securities

June 30, 2019

Name	Maximum	Ending Balance	Guarantee Liability Provision Balance	Rate	Collateral Item
Other related party Yua-Yung Marketing (Taiwan) Co., Ltd.	<u>\$ 42,277</u>	<u>\$ 41,815</u>	<u>\$ 5</u>	0.65-0.8%	Securities

19) Key management personnel compensation

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 202,970	\$ 189,559	\$ 584,444	\$ 537,670
Post-employment benefits	5,002	6,531	10,727	11,387
Other long-term employee benefits	<u>55</u>	<u>-</u>	<u>55</u>	<u>34</u>
	<u>\$ 208,027</u>	<u>\$ 196,090</u>	<u>\$ 595,226</u>	<u>\$ 549,091</u>

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

c. The Company

1) Cash in banks

Name	Items	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company				
Cathay United Bank	Cash in bank	<u>\$ 365,779</u>	<u>\$ 79,099</u>	<u>\$ 286,787</u>

Interest income from Cathay United Bank for the three months and six months ended June 30, 2020 and 2019 were \$22 thousand, \$384 thousand and \$39 thousand and \$474 thousand, respectively.

2) Receivables

Name	Items	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company				
Cathay Life	Consolidated income tax, interest	\$ 1,914,742	\$ 65,589	\$ 690,411
Cathay Century	Consolidated income tax, dividend	2,025,466	362,812	291,780
Cathay United Bank	Consolidated income tax, dividend	10,362,650	1,703,104	10,368,256
Cathay Securities	Consolidated income tax	96,173	74,712	29,575
Cathay Securities Investment Trust	Consolidated income tax, dividend	713,235	176,613	630,532
Cathay Venture	Consolidated income tax	<u>-</u>	<u>4,345</u>	<u>-</u>
		<u>\$ 15,112,266</u>	<u>\$ 2,387,175</u>	<u>\$ 12,010,554</u>

3) Guarantee deposits paid

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	<u>\$ 29,392</u>	<u>\$ 30,071</u>	<u>\$ 28,168</u>

4) Financial assets at FVTPL

Name	June 30, 2020	December 31, 2019	June 30, 2019
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	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	<u>\$ 21,058</u>	<u>\$ 47,191</u>	<u>\$ 73,843</u>

b) Lease expense

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	<u>\$ 19,454</u>	<u>\$ 15,620</u>	<u>\$ 32,302</u>	<u>\$ 16,674</u>

6) Payables

Name	Items	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	Consolidated income tax, etc.	<u>\$ -</u>	<u>\$ 10,147,500</u>	<u>\$ 10,934,473</u>

7) Interest income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	<u>\$ 313,278</u>	<u>\$ 314,137</u>	<u>\$ 626,557</u>	<u>\$ 624,822</u>

8) Operating expenses

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Life	\$ 2,778	\$ 19,527	\$ 5,241	\$ 21,968
Cathay United Bank	12,269	1,395	12,269	1,445
Cathay Securities	5,000	-	5,000	-
Associates				
Symphox Information Co., Ltd.	1,391	-	4,327	-
Other related parties				
Seaward Card Co., Ltd.	1,208	-	3,243	-
Bowl Cut Entertainment Co., Ltd.	-	-	18,870	-
	<u>\$ 22,646</u>	<u>\$ 20,922</u>	<u>\$ 48,950</u>	<u>\$ 23,413</u>

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

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

1) Cathay Life and its subsidiaries

a) Property transactions

Property transactions between Cathay Life and related parties are mainly contracted projects, trade, lease, and software appliance 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 Six Months Ended June 30			
	2020		2019	
	Items	Amount	Items	Amount
Other related parties				
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	\$ 314,653	Yangmei Logistics Park, etc.	\$ 255,935
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	156,462	THSR Taoyuan Commercial Park, etc.	1,039,339
Cathay Real Estate Development Co., Ltd.	-	-	Minsheng Jingguo Building, etc.	296,515
		<u>\$ 471,115</u>		<u>\$ 1,591,789</u>

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$2,419,048 thousand, \$1,130,238 thousand and \$3,618,783 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$144,528 thousand, \$4,196,448 thousand and \$1,838,045 thousand, respectively.

The total amounts of contracted projects for real estate as of June 30, 2020, December 31, 2019 and June 30, 2019, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$0 thousand, \$0 thousand and \$1,742,250 thousand, respectively.

ii. Real-estate rental income

Name	Rental Income			
	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank	\$ 195,578	\$ 169,181	\$ 345,336	\$ 295,964
Other related parties Ally Logistic Property Co., Ltd.	<u>189,669</u>	<u>139,516</u>	<u>374,968</u>	<u>282,448</u>
	<u>\$ 385,247</u>	<u>\$ 308,697</u>	<u>\$ 720,304</u>	<u>\$ 578,412</u>

Name	Guarantee Deposits Received		
	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay United Bank	\$ 188,914	\$ 188,158	\$ 175,220
Other related parties Ally Logistic Property Co., Ltd. Cathay Hospitality Management Co., Ltd. Cathay Hospitality Management Consulting Co., Ltd.	123,125 186,031 <u>179,392</u>	123,085 184,944 <u>108,145</u>	110,488 184,453 <u>107,074</u>
	<u>\$ 677,462</u>	<u>\$ 604,332</u>	<u>\$ 577,235</u>

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

b) Shares transactions

Acquisition of shares issued by related parties

Name	Items	For the Six Months Ended	
		June 30	
		2020	2019
Subsidiary of the Company			
Cathay Venture Inc.	Ordinary shares	\$ -	\$ 1,567,574
Cathay Securities Investment Consulting	Ordinary shares	<u>230,000</u>	<u>-</u>
		<u>230,000</u>	<u>1,567,574</u>
Associates			
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>-</u>	<u>387,816</u>
		<u>\$ 230,000</u>	<u>\$ 1,955,390</u>

c) Cash in banks

Name	Items	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company				
Cathay United Bank	Time deposits	\$ 1,027,236	\$ 864,340	\$ 266,800
	Demand deposits	30,480,992	23,881,382	17,659,891
	Checking deposits	229,121	240,154	248,497
	Securities deposits	6	6	6
Indovina Bank	Time deposits	717,597	485,177	752,376
	Demand deposits	<u>20,145</u>	<u>12,042</u>	<u>7,845</u>
		<u>\$ 32,475,097</u>	<u>\$ 25,483,101</u>	<u>\$ 18,935,415</u>

d) Loans

Name	For the Six Months Ended June 30, 2020		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 967,480</u>	0.75%-3.17%	<u>\$ 925,804</u>
Name	For the Six Months Ended June 30, 2019		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,004,837</u>	1.03%-3.44%	<u>\$ 979,467</u>

e) Balance of bonds managed by related parties

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party			
Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,158,642</u>	<u>\$ 5,334,030</u>	<u>\$ 5,682,928</u>

f) Balance of beneficiary certificates purchased from related parties

Item	Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party				
Funds managed by Octagon Credit Investors, LLC	Market value	<u>\$ 717,051</u>	<u>\$ 670,292</u>	<u>\$ 622,922</u>
	Cost	<u>\$ 872,690</u>	<u>\$ 679,795</u>	<u>\$ 637,613</u>
Funds managed by Global Evolution Holding ApS	Market value	<u>\$ 2,722,672</u>	<u>\$ 2,874,903</u>	<u>\$ 2,918,004</u>
	Cost	<u>\$ 2,604,786</u>	<u>\$ 2,642,230</u>	<u>\$ 2,745,963</u>
Funds managed by Cathay Securities Investment Trust	Market value	<u>\$ 64,443,120</u>	<u>\$ 61,234,575</u>	<u>\$ 43,779,179</u>
	Cost	<u>\$ 62,226,085</u>	<u>\$ 59,796,572</u>	<u>\$ 41,388,705</u>
Private Equity Funds managed by Cathay Private Equity	Market value	<u>\$ 676,657</u>	<u>\$ 490,168</u>	<u>\$ 246,476</u>
	Cost	<u>\$ 666,719</u>	<u>\$ 494,150</u>	<u>\$ 245,425</u>

g) Discretionary account management balance

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Trust	\$ 254,663,978	\$ 213,072,442	\$ 236,942,981
Associate			
Global Evolution Holding ApS	<u>-</u>	<u>22,215,022</u>	<u>7,095,103</u>
	<u>\$ 254,663,978</u>	<u>\$ 235,287,464</u>	<u>\$ 244,038,084</u>

h) Other receivables

Name	June 30, 2020	December 31, 2019	June 30, 2019
The Company			
Cathay Financial Holdings (Note)	<u>\$ -</u>	<u>\$ 10,147,500</u>	<u>\$ 10,934,473</u>

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

i) Guarantee deposits paid

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Futures Co., Ltd.	<u>\$ 2,528,705</u>	<u>\$ 3,078,757</u>	<u>\$ 2,301,049</u>

j) Guarantee deposits received

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related parties			
Ally Logistic Property Co., Ltd.	\$ 393,275	\$ 151,275	\$ 213,060
San Ching Engineering Co., Ltd.	461,635	453,225	453,225
Cathay Hospitality Management Co., Ltd.	<u> -</u>	<u> 51,000</u>	<u> 235,170</u>
	<u>\$ 854,910</u>	<u>\$ 655,500</u>	<u>\$ 901,455</u>

k) Other payables

Name	June 30, 2020	December 31, 2019	June 30, 2019
The Company			
Cathay Financial Holdings (Note)	\$ 1,914,742	\$ 65,589	\$ 690,411
Subsidiary of the Company			
Cathay United Bank	<u> 649,267</u>	<u> 43,208</u>	<u> 427,597</u>
	<u>\$ 2,564,009</u>	<u>\$ 108,797</u>	<u>\$ 1,118,008</u>

Note: Payables mainly comprise the accrued interests of bonds payable and income tax payable under the integrated tax system.

l) Bonds payable

Name	June 30, 2020	December 31, 2019	June 30, 2019
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 June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Other related party				
Others	<u>\$ 106,822</u>	<u>\$ 97,453</u>	<u>\$ 210,771</u>	<u>\$ 174,908</u>

n) Premium expense	For the Three Months Ended June 30		For the Six Months Ended June 30	
Name	2020	2019	2020	2019
Subsidiary of the Company Cathay Century	<u>\$ 4,607</u>	<u>\$ 5,103</u>	<u>\$ 105,143</u>	<u>\$ 93,807</u>

o) Other operating costs	For the Three Months Ended June 30		For the Six Months Ended June 30	
Name	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank Cathay Securities Investment Trust	\$ 298,456	\$ 319,636	\$ 575,707	\$ 609,078
	<u>69,592</u>	<u>46,853</u>	<u>135,224</u>	<u>91,787</u>
	<u>\$ 368,048</u>	<u>\$ 366,489</u>	<u>\$ 710,931</u>	<u>\$ 700,865</u>

p) Finance costs	For the Three Months Ended June 30		For the Six Months Ended June 30	
Name	2020	2019	2020	2019
The Company Cathay Financial Holdings	<u>\$ 313,278</u>	<u>\$ 314,137</u>	<u>\$ 626,557</u>	<u>\$ 624,822</u>

Finance costs consist of interest expenses accrued from bond payable.

q) Operating expenses	For the Three Months Ended June 30		For the Six Months Ended June 30	
Name	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank Associate Symphox Information Co., Ltd.	\$ 1,438,364	\$ 1,413,263	\$ 2,949,641	\$ 3,519,722
Lin Yuan Property Management Co., Ltd.	201,963	-	400,255	-
Other related party Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>189,517</u>	<u>-</u>	<u>384,610</u>
	<u>\$ 1,696,880</u>	<u>\$ 1,663,048</u>	<u>\$ 3,460,104</u>	<u>\$ 4,030,969</u>

r) Non-operating income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Century	<u>\$ 163,596</u>	<u>\$ 176,645</u>	<u>\$ 327,617</u>	<u>\$ 321,365</u>

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

s) Other

As of June 30, 2020, December 31, 2019 and June 30, 2019, the nominal amounts (in thousands) of the financial instrument transactions between Cathay Life and Cathay United Bank are summarized below:

Name	June 30, 2020	December 31, 2019	June 30, 2019
SWAP	<u>US\$ 2,965,000</u>	<u>US\$ 2,615,000</u>	<u>US\$ 3,595,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans

June 30, 2020

Type	Account Volume or Name of Related Part	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				
Consumer loans	30	\$ 143,268	\$ 19,231	V	\$ -	None	None	\$ 119	\$ 320
Self-used housing mortgage loans	262	1,981,127	1,828,244	V	-	Real estate and securities	None	(87)	22,648
Others	Cathay Real Estate Development Co., Ltd.	250,000	-	V	-	Real estate	None	(2,500)	-

December 31, 2019

Type	Account Volume or Name of Related Part	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				
Consumer loans	27	\$ 66,064	\$ 9,862	V	\$ -	None	None	\$ 27	\$ 175
Self-used housing mortgage loans	252	1,959,428	1,765,551	V	-	Real estate and securities	None	3,062	22,640
Others	Cathay Real Estate Development Co., Ltd.	2,040,000	250,000	V	-	Real estate	None	(1,500)	2,500

June 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 01.01-12.31	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	21	\$ 54,562	\$ 6,981	V	\$ -	None	None	\$ 11	\$ 158
Self-used housing mortgage loans	236	1,798,138	1,649,576	V	-	Real estate	None	846	20,801
Others	Cathay Real Estate Development Co., Ltd.	870,000	-	V	-	Real estate	None	(4,000)	-

Deposits

Name	June 30, 2020	December 31, 2019	June 30, 2019
The Company			
Cathay Financial Holdings	\$ 365,779	\$ 79,099	\$ 286,787
Subsidiary of the Company			
Cathay Life	30,588,494	23,917,315	17,828,099
Cathay Century	2,274,712	2,474,304	2,030,218
Cathay Securities	2,266,536	2,034,207	3,012,799
Cathay Futures	1,313,755	1,429,607	1,117,526
Cathay Venture	41,709	25,405	181,157
Cathay Securities Investment Trust	107,829	143,714	182,371
Cathay Securities Investment			
Consulting	387,099	204,526	132,226
Cathay Life (Vietnam)	747,834	497,313	1,028,446
Cathay Insurance (Vietnam)	196,501	168,057	225,736
Lin Yuan	1,071,938	990,004	751,718
Associates			
Symphox Information Co., Ltd.	292,983	154,446	148,141
Other related parties			
Cathay Real Estate Development			
Co., Ltd.	202,634	257,587	241,710
Fund managed by Cathay Securities			
Investment Trust	226,508	84,784	179,780
Cathay United Bank Foundation	519,586	532,486	533,582
Cathay United Bank Employees'			
Welfare Committee	801,536	757,991	795,069
Cathay Life Insurance Employees'			
Welfare Committee	2,280,214	2,142,876	2,129,597
Cathay Real Estate Employees'			
Welfare Committees	391,939	397,367	377,381
Others	<u>9,031,504</u>	<u>7,614,526</u>	<u>8,712,055</u>
	<u>\$ 53,109,090</u>	<u>\$ 43,905,614</u>	<u>\$ 39,894,398</u>

Due from commercial banks

Other related party			
Vietinbank	\$ 5,135,457	\$ 5,216,825	\$ 5,380,934

Due to commercial banks

Other related party			
Vietinbank	5,337,418	5,265,818	5,373,474

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

June 30, 2020

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance	SWAP - exchange between customers (USD)	2019.11.04-2021.03.16	\$ 87,941,900	\$ 370,829	Valuation adjustment for financial assets at FVTPL	\$ 4,943
					Valuation adjustment for financial liabilities at FVTPL	(729,705)
Cathay Century Insurance	SWAP - exchange between customers (USD)	2019.10.07-2021.05.12	2,823,632	7,323	Valuation adjustment for financial assets at FVTPL	112
					Valuation adjustment for financial liabilities at FVTPL	(26,197)
	SWAP - exchange between customers (EUR)	2020.02.20-2021.02.24	24,964	286	Valuation adjustment for financial assets at FVTPL	388
					Valuation adjustment for financial liabilities at FVTPL	-

December 31, 2019

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance	SWAP - exchange between customers (USD)	2019.01.30-2020.11.06	\$ 78,727,190	\$ 2,074,629	Valuation adjustment for financial assets at FVTPL	\$ 25,148
					Valuation adjustment for FVTPL financial liabilities	(1,172,591)
Cathay Century Insurance	SWAP - exchange between customers (USD)	2019.02.12-2020.11.16	2,790,826	24,314	Valuation adjustment for financial assets at FVTPL	367
					Valuation adjustment for FVTPL financial liabilities	(32,862)
	SWAP - exchange between customers (EUR)	2019.08.20-2020.02.24	25,312	(974)	Valuation adjustment for financial assets at FVTPL	-
					Valuation adjustment for FVTPL financial liabilities	(859)

June 30, 2019

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance	SWAP - exchange between customers (USD)	2018.07.18-2020.05.12	\$ 111,703,840	\$ 3,533,344	Valuation adjustment for financial assets at FVTPL	\$ 2,389,065
					Valuation adjustment for FVTPL financial liabilities	(219,363)
Cathay Century Insurance	SWAP - exchange between customers (USD)	2019.01.24-2020.05.11	2,631,798	75,866	Valuation adjustment for financial assets at FVTPL	40,599
					Valuation adjustment for FVTPL financial liabilities	(1,590)
	SWAP - exchange between customers (EUR)	2019.02.20-2019.08.22	26,536	219	Valuation adjustment for financial assets at FVTPL	262
					Valuation adjustment for FVTPL financial liabilities	-

c) Lease agreements

**Acquisition of Right-of-use Assets
For the Six Months Ended
June 30**

2020 2019

Subsidiary of the Company
Cathay Life

\$ 544,263 \$ -

Lease Liabilities

**June 30, December 31, June 30,
2020 2019 2019**

Subsidiary of the Company
Cathay Life

\$ 2,175,785 \$ 1,956,803 \$ 2,051,854

	For the Three Months Ended June 30		For the Six Months Ended June 30		Payment Term
	2020	2019	2020	2019	
<u>Rental expense</u>					
Subsidiary of the Company Cathay Life	\$ <u>2,345</u>	\$ <u>46,269</u>	\$ <u>13,708</u>	\$ <u>103,491</u>	Monthly

	Refundable Deposits Paid		
	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	\$ <u>189,914</u>	\$ <u>188,158</u>	\$ <u>175,220</u>

d) Others

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
<u>Commission and handling fee income</u>				
Subsidiary of the Company Cathay Life	\$ <u>1,728,238</u>	\$ <u>1,721,291</u>	\$ <u>3,501,076</u>	\$ <u>4,117,101</u>
<u>General expenses</u>				
Associate Symphox Information Co., Ltd.	\$ 128,894	\$ 133,465	\$ 236,273	\$ 275,525
Other related party Seaward Card Co., Ltd.	<u>55,138</u>	<u>55,199</u>	<u>114,888</u>	<u>115,013</u>
	\$ <u>184,032</u>	\$ <u>188,664</u>	\$ <u>351,161</u>	\$ <u>390,538</u>

Item	June 30, 2020	December 31, 2019	June 30, 2019
<u>Commissions receivable</u>			
Subsidiary			
Cathay Life	<u>\$ 649,267</u>	<u>\$ 43,208</u>	<u>\$ 427,597</u>
<u>Guarantee deposits paid</u>			
Subsidiary			
Cathay Futures	<u>\$ 201,911</u>	<u>\$ 508,694</u>	<u>\$ 85,837</u>
<u>Accounts payable</u>			
Associate			
Symphox Information Co., Ltd.	<u>\$ 72,820</u>	<u>\$ 123,346</u>	<u>\$ 117,997</u>
<u>Related party payables from linked tax system</u>			
The Company			
Cathay Financial Holdings	<u>\$ 362,250</u>	<u>\$ 1,703,104</u>	<u>\$ 386,256</u>
<u>Dividends payable</u>			
The Company			
Cathay Financial Holdings	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>

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

Item	Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
		2020	2019	2020	2019
Net premium income	Subsidiary of the Company Cathay Life	<u>\$ 4,607</u>	<u>\$ 5,103</u>	<u>\$ 105,143</u>	<u>\$ 93,807</u>
Operating costs					
Marketing costs	Subsidiary of the Company Cathay Life	<u>\$ 156,588</u>	<u>\$ 173,275</u>	<u>\$ 319,171</u>	<u>\$ 316,468</u>

b) Payables to related parties

Items	Name	June 30, 2020	December 31, 2019	June 30, 2019
Other payables	The Company Cathay Financial Holdings	<u>\$ 2,025,466</u>	<u>\$ 362,812</u>	<u>\$ 291,780</u>

c) Cash in bank

Items	Name	June 30, 2020	December 31, 2019	June 30, 2019
Checking deposits and demand deposits	Subsidiary of the Company Cathay United Bank	\$ 1,784,112	\$ 1,906,704	\$ 1,412,018
Time deposits	Subsidiary of the Company Cathay United Bank Indovina Bank	490,600 <u>177,353</u>	567,600 <u>150,726</u>	618,200 <u>186,300</u>
		<u>\$ 2,452,065</u>	<u>\$ 2,625,030</u>	<u>\$ 2,216,518</u>

d) Financial assets at FVTPL (beneficiary certificate)

	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Funds managed by Cathay Securities Investment Trust	<u>\$ 973,986</u>	<u>\$ 712,949</u>	<u>\$ 392,697</u>

e) Discretionary account management balance

	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Securities Investment Trust	<u>\$ 1,128,645</u>	<u>\$ 1,081,258</u>	<u>\$ 926,872</u>

f) Lease liabilities

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	<u>\$ 124,184</u>	<u>\$ 176,326</u>	<u>\$ 23,769</u>

h) SWAP

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

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay United Bank	US\$ 95,200	US\$ 92,700	US\$ 84,700
	EUR 750	EUR 750	EUR 750

4) Cathay Securities and its subsidiaries

a) Cash in bank

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>\$ 2,608,053</u>	<u>\$ 2,399,307</u>	<u>\$ 3,373,569</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) Financial asset at fair value through profit or loss

Name	June 30, 2020	December 31, 2019	June 30, 2019
Other related party			
Funds managed by Cathay Securities Investment Trust	<u>\$ 35,778</u>	<u>\$ 54,941</u>	<u>\$ 256,608</u>

c) Customer's margin accounts

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>\$ 972,338</u>	<u>\$ 1,064,570</u>	<u>\$ 756,755</u>

d) Futures trader's equity

Name	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company			
Cathay Life	\$ 2,528,705	\$ 3,078,757	\$ 2,301,049
Cathay United Bank	201,911	508,694	77,535
Cathay Securities Investment Trust (Note)	<u>2,102,626</u>	<u>1,218,446</u>	<u>1,437,675</u>
	<u>\$ 4,833,242</u>	<u>\$ 4,805,897</u>	<u>\$ 3,816,259</u>

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

e) Brokerage service fee income

Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	<u>\$ 57,404</u>	<u>\$ 63,380</u>	<u>\$ 83,860</u>	<u>\$ 114,621</u>

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay United Bank	<u>\$ 98,918</u>	<u>\$ 88,704</u>	<u>\$ 129,822</u>

b) Accounts receivable

	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Funds managed by Cathay Securities Investment Trust	<u>\$ 178,769</u>	<u>\$ 221,014</u>	<u>\$ 185,566</u>

c) Accounts payable

	June 30, 2020	December 31, 2019	June 30, 2019
The Company Cathay Financial Holdings (Note)	<u>\$ 713,235</u>	<u>\$ 176,613</u>	<u>\$ 630,532</u>

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

d) Discretionary account management balance

	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay Life	\$ 254,663,978	\$ 213,072,442	\$ 236,942,981
Cathay Century	<u>1,128,645</u>	<u>1,081,258</u>	<u>926,872</u>
	<u>\$ 255,792,623</u>	<u>\$ 214,153,700</u>	<u>\$ 237,869,853</u>

e) Operating income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	\$ 69,592	\$ 46,853	\$ 135,224	\$ 91,787
Other related party Fund managed by Cathay Securities Investment Trust	<u>549,223</u>	<u>555,325</u>	<u>1,157,559</u>	<u>1,050,910</u>
	<u>\$ 618,815</u>	<u>\$ 602,178</u>	<u>\$ 1,292,783</u>	<u>\$ 1,142,697</u>

6) Cathay venture

a) Cash and cash equivalents

Name	Items	June 30, 2020	December 31, 2019	June 30, 2019
Subsidiary of the Company Cathay United Bank	Security deposits	<u>\$ 41,119</u>	<u>\$ 10,021</u>	<u>\$ 177,409</u>

b) Financial assets at FVTPL

	June 30, 2020	December 31, 2019	June 30, 2019
Other related party Funds managed by Cathay Securities Investment Trust	\$ 419,488	\$ 539,043	\$ 600,000
Cathay Healthcare Management Co., Ltd.	<u>204,765</u>	<u>229,103</u>	<u>217,718</u>
	<u>\$ 624,253</u>	<u>\$ 768,146</u>	<u>\$ 817,718</u>

29. PLEDGED ASSETS

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

Items	Description	June 30, 2020	December 31, 2019	June 30, 2019
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 collateral	\$ 14,990,703	\$ 14,879,748	\$ 15,548,282
Due from the Central Bank (deposit reserves - general accounts)	(Note)	6,000,000	-	-
Financial assets at FVTPL	Collateral for securities lending and guarantee for future transactions	1,584,045	1,190,059	908,391
Financial assets at FVTOCI	Provisions for business and collateral	26,006,532	10,006,563	14,287
Financial assets at amortized cost	Provisions for business and collateral	31,525,539	47,521,950	64,490,067
Investment properties	Short-term loans	<u>291,175</u>	<u>293,341</u>	<u>290,341</u>
		<u>\$ 80,397,994</u>	<u>\$ 73,891,661</u>	<u>\$ 81,251,368</u>

Note: Due from the Central Bank of Cathay United Banks had been used as collaterals to apply for financing of project loans to small and medium enterprises affected by the COVID-19.

30. COMMITMENTS AND CONTINGENT LIABILITIES

a. Cathay United Bank

Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA 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 will not have a material adverse effect on the financial position of the Bank.

- b. As of June 30, 2020, December 31, 2019 and June 30, 2019 Cathay United Bank and its subsidiaries had the following entrusted item and guarantees:

	June 30, 2020	December 31, 2019	June 30, 2019
Trust and security held for safekeeping	\$ 749,305,429	\$ 720,298,578	\$ 757,626,207
Travelers checks for sale	214,579	257,286	274,421
Collection and payment on behalf of customers	32,338,791	36,708,754	35,815,320
Book-entry for government bonds and depository for short-term marketable securities under management	421,110,227	429,136,051	415,226,571
Entrusted financial management business	8,394,251	8,205,335	21,129,171
Guarantees on duties and contracts	13,273,076	12,957,304	14,228,978
Unused commercial letters of credit	5,694,991	5,254,667	6,717,154
Irrevocable loan commitments	131,437,459	191,118,192	189,227,352
Unused credit card lines commitments	645,833,761	624,179,881	610,739,981
Underwritten securities	-	1,350,000	1,596,934
Financial guarantee contracts	1,592,630	1,831,942	2,261,179

- c. As of June 30, 2020, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,327,430 thousand, US\$3,234,491 thousand, EUR411,755 thousand and GBP1,557 thousand.

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

Cathay Financial Holding Co., Ltd.

Balance Sheets
(In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2020	December 31, 2019	June 30, 2019	LIABILITIES AND EQUITY	June 30, 2020	December 31, 2019	June 30, 2019
CASH AND CASH EQUIVALENTS	\$ 371,370	\$ 84,693	\$ 292,386	COMMERCIAL PAPER PAYABLE, NET	\$ 40,590,000	\$ 48,480,000	\$ 39,040,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	37,002,000	35,269,500	35,717,500	PAYABLES	30,008,309	10,666,489	32,909,347
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	120,456	106,704	111,124	CURRENT TAX LIABILITIES	14,736,549	2,243,784	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	-	310,000	-	BONDS PAYABLE	28,900,000	20,000,000	20,000,000
RECEIVABLES, NET	15,112,266	2,388,041	12,013,397	PROVISIONS	836,669	832,997	828,415
CURRENT TAX ASSETS	4,672,884	4,853,833	4,928,672	LEASE LIABILITIES	28,372	55,369	81,294
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	833,597,005	810,998,796	728,254,318	DEFERRED TAX LIABILITIES	266,714	266,714	266,714
PROPERTY AND EQUIPMENT, NET	57,479	54,192	40,631	OTHER LIABILITIES	<u>163,921</u>	<u>163,891</u>	<u>164,086</u>
RIGHT-OF-USE ASSETS	27,982	54,891	80,951	Total liabilities	<u>115,530,534</u>	<u>82,709,244</u>	<u>93,289,856</u>
DEFERRED TAX ASSETS	317,772	262,855	367,289	EQUITY			
OTHER ASSETS	<u>52,215</u>	<u>73,104</u>	<u>55,733</u>	Share capital			
				Ordinary shares	131,692,102	131,692,102	125,632,102
				Preference shares	15,333,000	15,333,000	15,333,000
				Capital surplus	177,254,459	177,256,976	161,689,208
				Retained earnings			
				Legal reserve	51,967,688	46,122,845	46,122,845
				Special reserve	149,894,910	221,977,672	221,977,672
				Unappropriated earnings	126,826,108	58,181,890	30,933,430
				Other equity	<u>122,832,628</u>	<u>121,182,880</u>	<u>86,883,888</u>
				Total equity	<u>775,800,895</u>	<u>771,747,365</u>	<u>688,572,145</u>
TOTAL	<u>\$ 891,331,429</u>	<u>\$ 854,456,609</u>	<u>\$ 781,862,001</u>	TOTAL	<u>\$ 891,331,429</u>	<u>\$ 854,456,609</u>	<u>\$ 781,862,001</u>

Cathay Financial Holding Co., Ltd.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2020	2019	2020	2019
REVENUE				
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 11,293,678	\$ 19,927,444	\$ 33,332,170	\$ 33,345,858
Other operating income	<u>690,217</u>	<u>605,634</u>	<u>2,377,292</u>	<u>916,738</u>
Total revenue	<u>11,983,895</u>	<u>20,533,078</u>	<u>35,709,462</u>	<u>34,262,596</u>
EXPENSES AND LOSSES				
Operating expenses	(357,758)	(314,457)	(693,582)	(543,202)
Other expenses and losses	<u>(116,338)</u>	<u>(9,997)</u>	<u>(244,607)</u>	<u>(188,385)</u>
Total expenses and losses	<u>(474,096)</u>	<u>(324,454)</u>	<u>(938,189)</u>	<u>(731,587)</u>
INCOME BEFORE TAX	11,509,799	20,208,624	34,771,273	33,531,009
INCOME TAX (EXPENSE) BENEFIT	<u>(2,677,725)</u>	<u>17,993</u>	<u>(2,649,515)</u>	<u>(91,240)</u>
NET INCOME	<u>8,832,074</u>	<u>20,226,617</u>	<u>32,121,758</u>	<u>33,439,769</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	6,524	9,281	13,752	8,820
Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	7,968,279	3,410,427	(1,004,903)	8,425,047
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using the equity method for items that may be reclassified subsequently to profit or loss	<u>129,278,176</u>	<u>35,228,926</u>	<u>2,654,784</u>	<u>148,471,078</u>
Other comprehensive income for the period, net of income tax	<u>137,252,979</u>	<u>38,648,634</u>	<u>1,663,633</u>	<u>156,904,945</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 146,085,053</u>	<u>\$ 58,875,251</u>	<u>\$ 33,785,391</u>	<u>\$ 190,344,714</u>
EARNINGS PER SHARE				
Basic	<u>\$0.41</u>	<u>\$1.40</u>	<u>\$2.18</u>	<u>\$2.45</u>

Cathay Financial Holding Co., Ltd.

Statements of Changes in Equity
(In Thousands of New Taiwan Dollars)

	Share Capital		Capital Surplus	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	Gain (Loss) on Hedging Instruments	Other Equity			Total Equity	
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings				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
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	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(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 preferred 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 and joint ventures accounted for using the equity method	-	-	8,807	-	-	-	-	-	-	-	-	-	-	8,807
Net income for the six months ended June 30, 2019	-	-	-	-	-	33,439,769	-	-	-	-	-	-	-	33,439,769
Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	-	1,610,240	69,996,794	70,798	(1,422,911)	6,804	872,403	85,770,817	156,904,945
Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	-	-	33,439,769	1,610,240	69,996,794	70,798	(1,422,911)	6,804	872,403	85,770,817	190,344,714
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(2,537,695)	-	2,537,695	-	-	-	-	-	-
BALANCE AT JUNE 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,208	\$ 46,122,845	\$ 221,977,672	\$ 30,933,430	\$ (10,539,631)	\$ 54,947,543	\$ 244,087	\$ (648,827)	\$ (1,314,334)	\$ 11,240,314	\$ 32,954,736	\$ 688,572,145
BALANCE AT JANUARY 1, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,256,976	\$ 46,122,845	\$ 221,977,672	\$ 58,181,890	\$ (13,319,620)	\$ 68,319,953	\$ 331,930	\$ (1,850,508)	\$ (1,507,864)	\$ 11,240,314	\$ 57,968,675	\$ 771,747,365
Appropriation of 2019 earnings	-	-	-	5,844,843	-	(5,844,843)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(5,844,843)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(71,928,090)	71,928,090	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(26,338,420)	-	-	-	-	-	-	-	(26,338,420)
Cash dividends on preferred shares	-	-	-	-	-	(3,390,924)	-	-	-	-	-	-	-	(3,390,924)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	(2,517)	-	-	-	-	-	-	-	-	-	-	(2,517)
Net income for the six months ended June 30, 2020	-	-	-	-	-	32,121,758	-	-	-	-	-	-	-	32,121,758
Other comprehensive income (loss) for the six months ended June 30, 2020, net of income tax	-	-	-	-	-	-	(3,424,679)	12,989,274	125,640	893,857	(9,361)	-	(8,911,098)	1,663,633
Total comprehensive income (loss) for the six months ended June 30, 2020	-	-	-	-	-	32,121,758	(3,424,679)	12,989,274	125,640	893,857	(9,361)	-	(8,911,098)	33,785,391
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(129,340)	-	129,340	-	-	-	-	-	-
Other	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-
BALANCE AT JUNE 30, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,254,459	\$ 51,967,688	\$ 149,894,910	\$ 126,826,108	\$ (16,744,299)	\$ 81,438,567	\$ 457,570	\$ (956,651)	\$ (1,517,225)	\$ 11,097,089	\$ 49,057,577	\$ 775,800,895

Cathay Financial Holding Co., Ltd.

Statements of Cash Flows
(In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 34,771,273	\$ 33,531,009
Adjustments for:		
Depreciation expenses	33,386	30,199
Amortization expenses	-	1,330
Gain on of financial assets and liabilities at fair value through profit or loss	(1,732,500)	(273,000)
Interest income	(626,647)	(625,401)
Interest expenses	229,342	169,714
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	(33,332,170)	(33,345,858)
Changes in operating assets and liabilities		
Receivables	-	(610)
Other assets	6,124	(30)
Payables	(145,050)	(146,470)
Provisions	3,672	5,847
Other liabilities	30	17
Cash used in operations	(792,540)	(653,253)
Interest received	169	661
Interest paid	(312,161)	(150,363)
Income tax refunded	107,292	944,288
Net cash generated from (used in) operating activities	(997,240)	141,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(8,529)	(30,287)
Decrease (increase) in other assets	678	(15,580)
Net cash flows used in investing activities	(7,851)	(45,867)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	(7,890,000)	(20,220,000)
Issuance of corporate bonds	8,900,000	20,000,000
Repayments of the principal portion of lease liabilities	(28,232)	(28,433)
Net cash flows generated from (used in) financing activities	981,768	(248,433)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,323)	(152,967)
CASH AND CASH EQUIVALENTS AT THE BEGINNINGS OF THE PERIOD	394,693	445,353
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 371,370	\$ 292,386

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	June 30	
	2020	2019
Cash and cash equivalents	\$ 422,909,446	\$ 291,043,716
Receivables	66,140,964	84,957,549
Financial assets at fair value through profit or loss	1,323,354,020	1,207,774,760
Financial assets at fair value through other comprehensive income	970,978,418	869,457,857
Financial assets for hedging	669,856	258,198
Investments accounted for using the equity method	91,389,424	103,064,171
Financial assets measured at amortized cost	2,677,082,686	2,502,128,645
Other financial assets	-	1,999,333
Right-of-use assets	505,872	550,071
Investment property	456,847,746	439,875,621
Loans	500,884,251	554,223,711
Reinsurance assets	1,575,519	1,548,116
Property and equipment	29,129,018	29,706,709
Intangible assets	30,457,673	32,508,836
Deferred tax assets	45,257,208	26,253,533
Other assets	27,521,361	38,640,625
Separate account insurance product assets	<u>571,114,521</u>	<u>596,677,130</u>
Total	<u>\$ 7,215,817,983</u>	<u>\$ 6,780,668,581</u>
Liabilities		
Payables	\$ 22,318,347	\$ 23,169,586
Current tax liabilities	160,145	-
Financial liabilities at fair value through profit or loss	2,692,495	33,266,335
Bonds payable	80,000,000	80,000,000
Insurance liabilities	5,844,043,225	5,435,816,988
Reserve for insurance contracts with the nature of financial products	1,055,555	1,037,294
Reserve for foreign exchange valuation	6,600,772	24,881,915
Provisions	56,245	56,245
Lease liabilities	9,244,241	9,329,463
Deferred tax liabilities	52,048,184	45,165,167
Other liabilities	15,752,253	6,845,727
Separate account insurance product liabilities	<u>571,114,521</u>	<u>596,677,130</u>
Total liabilities	<u>6,605,085,983</u>	<u>6,256,245,850</u>
Equity		
Capital	58,515,274	57,265,274
Capital surplus	60,604,939	51,544,732
Retained earnings	383,661,446	347,837,245
Other equity	<u>107,950,341</u>	<u>67,775,480</u>
Total equity	<u>610,732,000</u>	<u>524,422,731</u>
Total	<u>\$ 7,215,817,983</u>	<u>\$ 6,780,668,581</u>

Cathay Life Insurance Co., Ltd.

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

	For the Six Months Ended June 30	
	2020	2019
Operating revenue	\$ 424,276,223	\$ 454,784,536
Operating costs	(395,649,132)	(422,070,955)
Operating expenses	<u>(10,369,375)</u>	<u>(11,106,152)</u>
Operating income	18,257,716	21,607,429
Non-operating income and expenses	<u>845,643</u>	<u>812,657</u>
Profit before income tax	19,103,359	22,420,086
Income tax (expense) benefit	<u>362,405</u>	<u>(2,992,045)</u>
Net income	19,465,764	19,428,041
Other comprehensive income	<u>2,649,970</u>	<u>148,393,174</u>
Total comprehensive income	<u>\$ 22,115,734</u>	<u>\$ 167,821,215</u>
Basic earnings per share	<u>\$3.33</u>	<u>\$3.39</u>

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 2,187,186	\$ 2,013,765
Receivables	971,520	1,219,619
Financial assets at fair value through profit or loss	42,412,807	33,558,965
Financial assets measured at amortized cost	880,488	271,440
Loans	1,039,826	651,499
Reinsurance assets	73,806	86,147
Property and equipment	99,511	124,588
Right-of-use assets	280,947	343,310
Intangible assets	30,559	35,048
Other assets	2,588,721	3,227,101
Separate account insurance product assets	120,722	120,638
Total	\$ 50,686,093	\$ 41,652,120
Liabilities		
Payables	\$ 1,541,524	\$ 1,375,064
Current tax liabilities	85,545	32,597
Insurance liabilities	25,787,870	19,334,108
Reserve for insurance contracts with the nature of financial instruments	11,401,805	9,426,971
Lease liabilities	290,038	347,101
Deferred tax liabilities	174,111	-
Other liabilities	49,255	47,253
Separate account insurance product liabilities	120,722	120,638
Total liabilities	39,450,870	30,683,732
Equity		
Capital	13,497,155	13,497,155
Retained earnings	(2,364,617)	(2,937,935)
Other equity	102,685	409,168
Total equity	11,235,223	10,968,388
Total	\$ 50,686,093	\$ 41,652,120

Cathay Lujiazui Life Insurance Co., Ltd.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 7,711,341	\$ 7,082,458
Operating costs	(6,397,371)	(5,742,468)
Operating expenses	<u>(812,479)</u>	<u>(930,367)</u>
Operating income	501,491	409,623
Non-operating income and expenses	<u>1,764</u>	<u>45,383</u>
Profit before income tax	503,255	455,006
Income tax benefit	<u>22,536</u>	<u>110,018</u>
Net income	525,791	565,024
Other comprehensive (loss) income	<u>(4,811)</u>	<u>620,667</u>
Total comprehensive income	<u>\$ 520,980</u>	<u>\$ 1,185,691</u>
Basic earnings per share	Note	Note

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

Cathay Life Insurance Company (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 1,374,768	\$ 1,750,969
Receivables	512,955	483,733
Financial assets at fair value through profit or loss	14,642,363	10,799,781
Financial assets measured at amortized cost	550,179	236,118
Loans	78,729	54,139
Property and equipment	22,833	9,516
Right-of-use assets	107,592	108,049
Intangible assets	3,964	4,654
Other assets	84,885	95,302
Total	\$ 17,378,268	\$ 13,542,261
Liabilities		
Payables	\$ 196,590	\$ 112,263
Insurance liabilities	5,412,098	3,779,068
Lease liabilities	105,611	106,055
Other liabilities	15	131
Total liabilities	5,714,314	3,997,517
Equity		
Capital	9,090,730	9,090,730
Retained earnings	(220,225)	189,851
Other equity	2,793,449	264,163
Total equity	11,663,954	9,544,744
Total	\$ 17,378,268	\$ 13,542,261

Cathay Life Insurance Company (Vietnam)

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 1,435,080	\$ 1,042,131
Operating costs	(1,469,785)	(668,553)
Operating expenses	(384,803)	(310,547)
Operating income (loss)	(419,508)	63,031
Non-operating income and expenses	1,741	2,326
Profit (loss) before income tax	(417,767)	65,357
Income tax expense	(825)	-
Net income (loss)	(418,592)	65,357
Other comprehensive income (loss)	1,256,653	(85,863)
 Total comprehensive income (loss)	 \$ 838,061	 \$ (20,506)
 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)

	June 30	
	2020	2019
Assets		
Current assets	\$ 745,059	\$ 1,182,787
Investment property	6,770,611	7,319,832
Property and equipment	2	2
Other non-current assets	<u>616,441</u>	<u>-</u>
Total	<u>\$ 8,132,113</u>	<u>\$ 8,502,621</u>
Liabilities		
Current liabilities	\$ 4,362	\$ 2,594
Deferred tax liabilities	461,366	454,779
Other liabilities	<u>94,854</u>	<u>82,145</u>
Total liabilities	<u>560,582</u>	<u>539,518</u>
Equity		
Capital	7,223,435	7,223,435
Retained earnings	1,232,967	1,034,737
Other equity	<u>(884,871)</u>	<u>(295,069)</u>
Total equity	<u>7,571,531</u>	<u>7,963,103</u>
Total	<u>\$ 8,132,113</u>	<u>\$ 8,502,621</u>

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

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 120,643	\$ 208,316
Operating expenses	<u>(29,476)</u>	<u>(23,185)</u>
Operating income	91,167	185,131
Non-operating income and expenses	<u>-</u>	<u>(11)</u>
Profit before income tax	91,167	185,120
Income tax expense	<u>(22,792)</u>	<u>(40,655)</u>
Net income	68,375	144,465
Other comprehensive (loss) income	<u>(231,932)</u>	<u>81,292</u>
Total comprehensive (loss) income	<u>\$ (163,557)</u>	<u>\$ 225,757</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)

	June 30	
	2020	2019
Assets		
Current assets	\$ 1,894,639	\$ 2,726,021
Financial assets measured at amortized cost	1,184,020	-
Investment property	9,871,157	10,769,444
Total	\$ 12,949,816	\$ 13,495,465
 Liabilities		
Current liabilities	\$ 61,233	\$ 105,095
Total liabilities	61,233	105,095
 Equity		
Capital	16,654,013	16,654,013
Retained earnings	1,280,966	741,376
Other equity	(5,046,396)	(4,005,019)
Total equity	12,888,583	13,390,370
Total	\$ 12,949,816	\$ 13,495,465

Cathay Woolgate Exchange Holding 1 Limited

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 56,703	\$ 333,984
Operating expenses	(739)	(257)
Profit before income tax	55,964	333,727
Income tax expense	(11,209)	(87,755)
Net income	44,755	245,972
Other comprehensive income (loss)	(1,103,496)	159,127
Total comprehensive income (loss)	\$ (1,058,741)	\$ 405,099
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)

	June 30	
	2020	2019
Assets		
Current assets	\$ 19,030	\$ 27,292
Financial assets measured at amortized cost	10,929	-
Investment property	<u>99,709</u>	<u>108,782</u>
Total	<u>\$ 129,668</u>	<u>\$ 136,074</u>
 Liabilities		
Current liabilities	<u>\$ 703</u>	<u>\$ 1,108</u>
Total liabilities	<u>703</u>	<u>1,108</u>
 Equity		
Capital	168,222	168,222
Retained earnings	11,655	7,210
Other equity	<u>(50,912)</u>	<u>(40,466)</u>
Total equity	<u>128,965</u>	<u>134,966</u>
Total	<u>\$ 129,668</u>	<u>\$ 136,074</u>

Cathay Woolgate Exchange Holding 2 Limited

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 558	\$ 3,369
Operating expenses	<u>(740)</u>	<u>(256)</u>
Profit (loss) before income tax	(182)	3,113
Income tax benefit (expense)	<u>67</u>	<u>(897)</u>
Net income (loss)	(115)	2,216
Other comprehensive income (loss)	<u>(11,067)</u>	<u>1,612</u>
Total comprehensive income (loss)	<u>\$ (11,182)</u>	<u>\$ 3,828</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)

	June 30	
Assets	2020	2019
Current assets	\$ 1,180,589	\$ 896,188
Investment property	<u>19,104,564</u>	<u>21,006,159</u>
Total	<u>\$ 20,285,153</u>	<u>\$ 21,902,347</u>
Liabilities		
Current liabilities	\$ 152,476	\$ 131,763
Non-current liabilities	<u>11,940,385</u>	<u>12,909,057</u>
Total liabilities	<u>12,092,861</u>	<u>13,040,820</u>
Equity		
Capital	10,189,090	10,189,090
Retained earnings	483,471	482,446
Other equity	<u>(2,480,269)</u>	<u>(1,810,009)</u>
Total equity	<u>8,192,292</u>	<u>8,861,527</u>
Total	<u>\$ 20,285,153</u>	<u>\$ 21,902,347</u>

Cathay Walbrook Holding 1 Limited

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 80,735	\$ 305,916
Operating costs	(217,294)	(247,882)
Operating expenses	<u>(754)</u>	<u>(256)</u>
Profit (loss) before income tax	(137,313)	57,778
Income tax expense	<u>(450)</u>	<u>(35,172)</u>
Net income (loss)	(137,763)	22,606
Other comprehensive income (loss)	<u>(708,942)</u>	<u>109,500</u>
Total comprehensive income (loss)	<u>\$ (846,705)</u>	<u>\$ 132,106</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)

	June 30	
	2020	2019
Assets		
Current assets	\$ 58,345	\$ 44,185
Investment property	<u>1,005,503</u>	<u>1,105,587</u>
Total	<u>\$ 1,063,848</u>	<u>\$ 1,149,772</u>
 Liabilities		
Current liabilities	\$ 7,895	\$ 6,826
Non-current liabilities	<u>628,441</u>	<u>679,424</u>
Total liabilities	<u>636,336</u>	<u>686,250</u>
 Equity		
Capital	536,268	536,268
Retained earnings	21,266	22,266
Other equity	<u>(130,022)</u>	<u>(95,012)</u>
Total equity	<u>427,512</u>	<u>463,522</u>
Total	<u>\$ 1,063,848</u>	<u>\$ 1,149,772</u>

Cathay Walbrook Holding 2 Limited

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 4,234	\$ 16,082
Operating costs	(11,436)	(13,047)
Operating expenses	<u>(753)</u>	<u>(256)</u>
Profit (loss) before income tax	(7,955)	2,779
Income tax benefit (expense)	<u>42</u>	<u>(1,799)</u>
Net income (loss)	(7,913)	980
Other comprehensive income (loss)	<u>(37,029)</u>	<u>5,734</u>
Total comprehensive income (loss)	<u>\$ (44,942)</u>	<u>\$ 6,714</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)

	June 30	
Assets	2020	2019
Current assets	\$ 5,513,484	\$ 4,584,926
Financial assets at fair value through profit or loss	786,676	1,043,976
Financial assets at fair value through other comprehensive income	5,645	4,550
Investments accounted for using the equity method	-	2,784,084
Property and equipment	775,411	628,935
Right-of-use assets	822,538	880,306
Intangible assets	15,538,624	10,362,262
Deferred tax assets	109,260	61,978
Other non-current assets	297,415	228,425
Total	\$ 23,849,053	\$ 20,579,442
Liabilities		
Current liabilities	\$ 3,198,147	\$ 2,930,103
Provisions	-	161,574
Financial liabilities for hedging	65,647	-
Lease liabilities	894,435	930,658
Deferred tax liabilities	584,616	361,543
Other non-current liabilities	954,618	376,416
Total liabilities	5,697,463	4,760,294
Equity		
Capital	99,343	99,343
Capital surplus	15,624,196	15,624,196
Retained earnings	2,531,643	341,434
Other equity	(1,661,852)	(914,144)
Non-controlling interests	1,558,260	668,319
Total equity	18,151,590	15,819,148
Total	\$ 23,849,053	\$ 20,579,442

Conning Holdings Limited

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 5,644,572	\$ 3,607,269
Operating costs	(439,818)	(408,814)
Operating expenses	<u>(2,977,112)</u>	<u>(2,834,456)</u>
Profit before income tax	2,227,642	363,999
Income tax expense	<u>(83,045)</u>	<u>(90,015)</u>
Net income	2,144,597	273,984
Other comprehensive (loss) income	<u>(273,489)</u>	<u>140,508</u>
Total comprehensive income	<u>\$ 1,871,108</u>	<u>\$ 414,492</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)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 9,451,933	\$ 10,966,000
Receivables	2,733,684	2,532,375
Financial assets at fair value through profit or loss	10,556,571	6,949,853
Financial assets at fair value through other comprehensive income	1,326,822	1,181,078
Financial assets measured at amortized cost	7,436,187	7,866,846
Investments accounted for using the equity method	2,659,055	2,804,418
Loans	216,875	225,344
Reinsurance assets	7,243,714	6,287,457
Property and equipment	183,880	149,531
Right-of-use assets	154,153	57,332
Intangible assets	64,809	59,796
Deferred tax assets	149,392	113,407
Other assets	<u>636,385</u>	<u>644,333</u>
Total	<u>\$ 42,813,460</u>	<u>\$ 39,837,770</u>
Liabilities		
Payables	\$ 4,559,193	\$ 3,020,827
Financial liabilities at fair value through profit or loss	500	77,241
Lease liabilities	154,279	56,969
Insurance liabilities	24,992,624	24,050,720
Provisions	433,255	440,032
Deferred tax liabilities	272,477	290,310
Other liabilities	<u>804,695</u>	<u>530,577</u>
Total liabilities	<u>31,217,023</u>	<u>28,466,676</u>
Equity		
Ordinary shares	3,057,052	3,057,052
Capital surplus	518,326	502,500
Retained earnings	8,634,948	8,163,342
Other equity	<u>(613,889)</u>	<u>(351,800)</u>
Total equity	<u>11,596,437</u>	<u>11,371,094</u>
Total	<u>\$ 42,813,460</u>	<u>\$ 39,837,770</u>

Cathay Century Insurance Co., Ltd.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 9,942,256	\$ 9,686,505
Operating costs	(6,638,777)	(6,590,626)
Operating expenses	<u>(1,930,595)</u>	<u>(1,894,531)</u>
Operating profit	1,372,884	1,201,348
Non-operating income and expenses	<u>(313)</u>	<u>(966)</u>
Profit before income tax	1,372,571	1,200,382
Income tax expense	<u>(242,866)</u>	<u>(204,053)</u>
Net income	1,129,705	996,329
Other comprehensive income (loss)	<u>(421,669)</u>	<u>460,847</u>
Total comprehensive income	<u>\$ 708,036</u>	<u>\$ 1,457,176</u>
Basic earnings per share	<u>\$3.70</u>	<u>\$3.26</u>

Cathay Insurance Co., Ltd. (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 208,728	\$ 228,550
Receivables	79,509	61,114
Financial assets measured at amortized cost	567,822	512,678
Reinsurance assets	132,115	194,562
Property and equipment	10,530	5,935
Right-of-use assets	2,983	9,005
Intangible assets	9,502	3,680
Other assets	54,796	43,035
 Total	 \$ 1,065,985	 \$ 1,058,559
 Liabilities		
Payables	\$ 154,784	\$ 107,311
Insurance liabilities	284,371	300,820
Deferred tax liabilities	126	135
Lease liabilities	2,776	8,869
Other liabilities	13,814	11,866
Total liabilities	455,871	429,001
 Equity		
Capital	845,585	845,585
Retained earnings	(78,752)	(85,828)
Other equity	(156,719)	(130,199)
Total equity	610,114	629,558
 Total	 \$ 1,065,985	 \$ 1,058,559

Cathay Insurance Co., Ltd. (Vietnam)

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

	For the Six Months Ended June 30	
	2020	2019
Operating income	\$ 152,180	\$ 121,533
Operating costs	(39,481)	(39,360)
Operating expenses	<u>(108,526)</u>	<u>(71,522)</u>
Operating income	4,173	10,651
Non-operating income and expenses	<u>908</u>	<u>904</u>
Profit before income tax	5,081	11,555
Income tax expense	<u>(541)</u>	<u>-</u>
Net income	4,540	11,555
Other comprehensive (loss) income	<u>(9,855)</u>	<u>4,179</u>
 Total comprehensive (loss) income	 <u>\$ (5,315)</u>	 <u>\$ 15,734</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)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 54,869,518	\$ 71,499,781
Due from the Central Bank and call loans to other banks	134,089,562	148,327,438
Financial assets at fair value through profit or loss	288,839,022	235,570,025
Financial assets at fair value through other comprehensive income	303,843,511	220,737,839
Financial assets measured at amortized cost	415,718,641	403,942,901
Securities purchased under resale agreements	42,244,501	51,724,265
Receivables	85,825,082	97,502,122
Loans	1,543,012,712	1,500,273,423
Investments accounted for using the equity method	25,246,418	25,784,088
Other financial assets	147	524
Property and equipment	24,429,251	24,413,701
Right-of-use assets	3,971,981	3,983,975
Investment property	839,769	1,657,086
Intangible assets	7,694,038	7,638,920
Deferred tax assets	4,298,150	3,330,917
Other assets	26,403,895	28,443,805
Total	\$ 2,961,326,198	\$ 2,824,830,810
Liabilities		
Deposits from the Central Bank and Banks	\$ 59,017,285	\$ 84,612,021
Due to the Central Bank and Banks	410,000	-
Financial liabilities at fair value through profit or loss	117,770,808	107,421,195
Securities sold under repurchase agreements	18,083,847	33,016,388
Payables	35,660,242	36,787,582
Current tax liabilities	184,042	310,331
Deposits and remittances	2,375,363,387	2,208,041,688
Financial debentures payable	53,800,000	55,400,000
Other financial liabilities	46,715,724	69,698,115
Provisions	3,627,702	3,344,801
Lease liabilities	4,007,323	4,032,560
Deferred tax liabilities	3,287,150	2,996,728
Other liabilities	13,009,575	7,726,703
Total liabilities	2,730,937,085	2,613,388,112
Equity		
Ordinary shares	101,658,353	91,197,623
Reserve for capitalization	5,327,477	5,460,730
Capital surplus	38,687,276	33,610,983
Retained earnings	80,292,090	72,640,258
Other equity	4,423,917	8,533,104
Total equity	230,389,113	211,442,698
Total	\$ 2,961,326,198	\$ 2,824,830,810

Cathay United Bank Co., Ltd.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Interest income	\$ 23,103,186	\$ 25,735,955
Interest expense	<u>(6,965,305)</u>	<u>(9,603,778)</u>
Net interest income	16,137,881	16,132,177
Non-interest income	<u>15,142,398</u>	<u>14,904,432</u>
Profit from operations	31,280,279	31,036,609
Bad debt expense, commitment and guarantee liability provision	(836,752)	(847,913)
Operating expenses	<u>(14,835,768)</u>	<u>(15,867,290)</u>
Profit before income tax	15,607,759	14,321,406
Income tax expense	<u>(2,025,000)</u>	<u>(1,891,000)</u>
Net income	13,582,759	12,430,406
Other comprehensive income (loss)	<u>(679,250)</u>	<u>7,246,746</u>
Total comprehensive income	<u>\$ 12,903,509</u>	<u>\$ 19,677,152</u>
Basic earnings per share	<u>\$1.27</u>	<u>\$1.22</u>

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

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 10,125,638	\$ 6,147,500
Due from the Central Bank and call loans to other banks	3,306,451	4,387,865
Financial assets at fair value through profit or loss	3,547,360	4,326,671
Financial assets at fair value through other comprehensive income	9,614,727	10,152,018
Financial assets measured at amortized cost	628,911	1,065,571
Securities purchased under resale agreements	3,208,353	4,213,171
Receivables	569,976	602,176
Loans	40,261,214	37,336,069
Property and equipment	805,110	813,127
Intangible assets	28,513	25,238
Deferred tax assets	-	24,906
Right-of-use assets	155,344	87,622
Other assets	<u>164,120</u>	<u>60,476</u>
Total	<u>\$ 72,415,717</u>	<u>\$ 69,242,410</u>
Liabilities		
Due to the Central Bank and other banks	\$ 12,968,681	\$ 18,032,711
Payables	1,930,098	1,214,022
Current tax liabilities	185,016	168,916
Deposits and remittances	48,450,720	41,607,107
Provisions	2,972	3,802
Lease liabilities	139,338	62,152
Deferred tax liabilities	122,785	-
Other liabilities	<u>14,178</u>	<u>57,344</u>
Total liabilities	<u>63,813,788</u>	<u>61,146,054</u>
Equity		
Capital	6,094,911	6,094,911
Retained earnings	1,800,398	1,551,688
Other equity	<u>706,620</u>	<u>449,757</u>
Total equity	<u>8,601,929</u>	<u>8,096,356</u>
Total	<u>\$ 72,415,717</u>	<u>\$ 69,242,410</u>

Indovina Bank Limited

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

	For the Six Months Ended June 30	
	2020	2019
Interest income	\$ 2,490,776	\$ 2,165,972
Interest expense	<u>(1,444,376)</u>	<u>(1,207,099)</u>
Net interest income	1,046,400	958,873
Non-interest income	<u>348,459</u>	<u>265,172</u>
Profit from operations	<u>1,394,859</u>	<u>1,224,045</u>
Bad debt expense, commitment and guarantee liability provision	(354,059)	(46,488)
Operating expenses	<u>(398,768)</u>	<u>(357,820)</u>
Profit before income tax	642,032	819,737
Income tax expense	<u>(109,691)</u>	<u>(153,186)</u>
Net income	532,341	666,551
Other comprehensive income	<u>195,039</u>	<u>133,671</u>
 Total comprehensive income	 <u>\$ 727,380</u>	 <u>\$ 800,222</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)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 1,437,685	\$ 1,636,578
Due from the Central Bank and call loans to other banks	2,317,285	3,312,875
Financial assets at fair value through other comprehensive income	759	795
Receivables	59,987	183,284
Loans	7,461,669	7,259,712
Property and equipment	179,109	178,078
Right-of-use assets	102,528	86,933
Intangible assets	48,069	53,305
Deferred tax assets	13,906	-
Other assets	58,369	56,997
Total	\$ 11,679,366	\$ 12,768,557
Liabilities		
Due to the Central Bank and other banks	\$ 442,403	\$ 68,848
Payables	291,256	135,236
Current tax liabilities	5,802	25,247
Deposits and remittances	7,807,413	9,248,170
Provisions	1,850	9,553
Deferred tax liabilities	107,903	11,889
Lease liabilities	7,307	88,167
Other liabilities	9,678	8,199
Total liabilities	8,673,612	9,595,309
Equity		
Ordinary shares	3,020,769	3,020,769
Retained earnings	40,679	76,555
Other equity	(55,694)	75,924
Total equity	3,005,754	3,173,248
Total	\$ 11,679,366	\$ 12,768,557

Cathay United Bank (Cambodia) Corporation Limited

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

	For the Six Months Ended June 30	
	2020	2019
Interest income	\$ 347,616	\$ 331,561
Interest expense	<u>(83,241)</u>	<u>(52,846)</u>
Net interest income	264,375	278,715
Non-interest income	<u>27,068</u>	<u>70,136</u>
Profit from operations	<u>291,443</u>	<u>348,851</u>
Bad debt expense, commitment and guarantee liability provision	(88,355)	(100,217)
Operating expenses	<u>(170,713)</u>	<u>(154,200)</u>
Profit before income tax	32,375	94,434
Income tax benefit (expense)	<u>10,685</u>	<u>(29,382)</u>
Net income	43,060	65,052
Other comprehensive (loss) income	<u>(29,258)</u>	<u>35,137</u>
 Total comprehensive income	 <u>\$ 13,802</u>	 <u>\$ 100,189</u>
 Basic earnings per share	 <u>\$0.43</u>	 <u>\$0.65</u>

Cathay United Bank (China) Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Cash and cash equivalents	\$ 439,908	\$ 829,627
Due from the Central Bank and call loans to other banks	5,250,375	6,443,854
Financial assets at fair value through profit or loss	387,887	275,816
Financial assets at fair value through other comprehensive income	20,765,598	18,200,277
Financial assets measured at amortized cost	440,242	471,430
Receivables	7,897,595	1,514,049
Loans	24,816,320	17,316,594
Property and equipment	159,246	67,416
Right-of-use assets	215,363	64,528
Intangible assets	120,235	112,754
Deferred tax assets	-	53,833
Other assets	<u>41,546</u>	<u>56,490</u>
Total	<u><u>\$ 60,534,315</u></u>	<u><u>\$ 45,406,668</u></u>
Liabilities		
Due to the Central Bank and other banks	\$ 17,708,617	\$ 21,335,380
Financial liabilities at fair value through profit or loss	367,160	214,896
Notes and bonds sold under repurchase agreements	438,444	-
Payables	9,873,246	1,481,263
Current tax liabilities	68,836	93,575
Deposits and remittances	11,772,613	5,104,429
Other financial liabilities	4,299,897	680,734
Provisions	6,345	13,116
Lease liabilities	235,229	65,057
Deferred tax liabilities	5,258	15,196
Other liabilities	<u>49,657</u>	<u>40,786</u>
Total liabilities	<u><u>44,825,302</u></u>	<u><u>29,044,432</u></u>
Equity		
Capital	14,377,562	14,377,562
Capital surplus	2,522,670	2,522,670
Retained earnings	578,659	289,653
Other equity	<u>(1,769,878)</u>	<u>(827,649)</u>
Total equity	<u><u>15,709,013</u></u>	<u><u>16,362,236</u></u>
Total	<u><u>\$ 60,534,315</u></u>	<u><u>\$ 45,406,668</u></u>

Cathay United Bank (China) Co., Ltd.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Interest income	\$ 900,165	\$ 906,572
Interest expense	<u>(404,136)</u>	<u>(370,577)</u>
Net interest income	496,029	535,995
Non-interest income	<u>227,379</u>	<u>(41,923)</u>
Profit from operations	<u>723,408</u>	<u>494,072</u>
Bad debt expense, commitment and guarantee liability provision	7,211	77,132
Operating expenses	<u>(395,647)</u>	<u>(354,484)</u>
Profit before income tax	334,972	216,720
Income tax expense	<u>(115,616)</u>	<u>(62,491)</u>
Net income	219,356	154,229
Other comprehensive (loss) income	<u>(353,876)</u>	<u>212,838</u>
Total comprehensive (loss) income	<u>\$ (134,520)</u>	<u>\$ 367,067</u>
Basic earnings per share	Note	Note

Note: 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)

	June 30	
Assets	2020	2019
Current assets	\$ 25,957,769	\$ 24,211,244
Financial assets at fair value through other comprehensive income - non-current	207	146
Investments accounted for using the equity method	2,103,545	2,021,056
Property and equipment	157,966	114,323
Right-of-use assets	84,393	114,369
Intangible assets	68,219	55,667
Deferred tax assets	44,329	14,681
Other non-current assets	728,691	690,504
Total	\$ 29,145,119	\$ 27,221,990
Liabilities		
Current liabilities	\$ 19,806,349	\$ 18,999,611
Non-current lease liabilities	26,361	61,490
Deferred tax liabilities	-	736
Other non-current liabilities	27,433	28,913
Total liabilities	19,860,143	19,090,750
Equity		
Ordinary shares	6,500,000	5,700,086
Share dividends to be distributed	-	299,914
Capital surplus	498,167	491,766
Retained earnings	1,713,867	1,238,375
Other equity	572,942	401,099
Total equity	9,284,976	8,131,240
Total	\$ 29,145,119	\$ 27,221,990

Cathay Securities Corporation

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

	For the Six Months Ended June 30	
	2020	2019
Revenues	\$ 2,387,638	\$ 1,556,267
Service fee expenses	(78,255)	(53,160)
Employee benefit expenses	(815,153)	(587,905)
Operating expenses	(831,787)	(596,955)
Share of the profit of associates accounted for using the equity method	(31,868)	15,784
Non-operating income and expenses	18,312	12,214
Profit before income tax	648,887	346,245
Income tax expense	(93,884)	(66,664)
Net income	555,003	279,581
Other comprehensive income	113,323	125,670
Total comprehensive income	\$ 668,326	\$ 405,251
Basic earnings per share	\$0.85	\$0.43

Cathay Futures Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Current assets	\$ 11,306,309	\$ 7,483,366
Financial assets at fair value through other comprehensive income - non-current	635,378	448,350
Property and equipment	61,931	66,432
Investment property	291,175	290,341
Right-of-use assets	1,045	7,838
Intangible assets	19,753	24,554
Deferred tax assets	154	-
Other non-current assets	160,587	151,981
Total	\$ 12,476,332	\$ 8,472,862
Liabilities		
Current liabilities	\$ 10,936,772	\$ 7,139,688
Deferred tax liabilities	6,842	6,742
Other non-current liabilities	2,178	2,712
Total liabilities	10,945,792	7,149,142
Equity		
Ordinary shares	667,000	667,000
Capital surplus	680	-
Retained earnings	257,608	239,143
Other equity	605,252	417,577
Total equity	1,530,540	1,323,720
Total	\$ 12,476,332	\$ 8,472,862

Cathay Futures Co., Ltd.

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

	For the Six Months Ended June 30	
	2020	2019
Revenues	\$ 176,364	\$ 144,341
Operating expenses	<u>(186,265)</u>	<u>(161,498)</u>
Operating loss	(9,901)	(17,157)
Non-operating income and expenses	<u>53,012</u>	<u>57,494</u>
Profit before income tax	43,111	40,337
Income tax expense	<u>(6,084)</u>	<u>(4,746)</u>
Net income	37,027	35,591
Other comprehensive income	<u>97,588</u>	<u>121,921</u>
 Total comprehensive income	 <u>\$ 134,615</u>	 <u>\$ 157,512</u>
 Basic earnings per share	 <u>\$0.56</u>	 <u>\$0.53</u>

Cathay Securities (Hong Kong) Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
	2020	2019
Assets		
Current assets	\$ 2,275,262	\$ 1,713,762
Investments accounted for using the equity method	3,637	-
Property and equipment	7,610	14,955
Right-of-use assets	15,488	28,783
Intangible assets	1,905	1,965
Other non-current assets	<u>27,371</u>	<u>41,071</u>
 Total	 <u>\$ 2,331,273</u>	 <u>\$ 1,800,536</u>
 Liabilities		
Current liabilities	\$ 1,757,402	\$ 1,097,840
Non-current liabilities	<u>723</u>	<u>13,864</u>
Total liabilities	<u>1,758,125</u>	<u>1,111,704</u>
 Equity		
Ordinary shares	1,108,244	1,108,244
Retained earnings	(489,280)	(392,958)
Other equity	<u>(45,816)</u>	<u>(26,454)</u>
Total equity	<u>573,148</u>	<u>688,832</u>
 Total	 <u>\$ 2,331,273</u>	 <u>\$ 1,800,536</u>

Cathay Securities (Hong Kong) Limited

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

	For the Six Months Ended June 30	
	2020	2019
Revenues	\$ 3,572	\$ 58,004
Service fee expenses	(1,373)	(1,863)
Employee benefit expenses	(25,989)	(24,987)
Operating expenses	(47,207)	(53,024)
Non-operating income and expenses	<u>2,106</u>	<u>2,804</u>
Loss before income tax	(68,891)	(19,066)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(68,891)	(19,066)
Other comprehensive income	<u>2,106</u>	<u>10,063</u>
Total comprehensive loss	<u>\$ (66,785)</u>	<u>\$ (9,003)</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 Capital (Asia) Limited

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

Assets	June 30, 2020
Current assets	<u>\$ 80,290</u>
Total	<u>\$ 80,290</u>
Liabilities	
Current liabilities	<u>\$ 76,654</u>
Total liabilities	<u>76,654</u>
Equity	
Capital	3,875
Retained earnings	(193)
Other equity	<u>(46)</u>
Total equity	<u>3,636</u>
Total	<u>\$ 80,290</u>

Cathay Capital (Asia) Limited

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

	For the Period from February 24, 2020 to June 30, 2020
Operating revenue	\$ 1
Operating cost	(6)
Operating expenses	(189)
Non-operating income and expenses	<u>1</u>
Loss before income tax	(193)
Income tax expense	<u>-</u>
Net loss	(193)
Other comprehensive income	<u>(46)</u>
Total comprehensive loss	<u>\$ (239)</u>
Basic earnings per share	Note

Note 1: Cathay Capital (Asia) is a limited company, therefore there is no information about earnings per share.

Note 2: Cathay Capital (Asia) has been included in the consolidated financial statements as a subsidiary since February 24, 2020.

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Current assets	\$ 2,853,314	\$ 2,643,532
Financial assets at fair value through other comprehensive income - non-current	9,329	9,272
Investments accounted for using the equity method	478,684	479,948
Property and equipment	32,899	39,134
Right-of-use assets	73,426	24,821
Intangible assets	18,351	12,025
Deferred tax assets	23,900	22,339
Other non-current assets	258,511	253,562
Total	\$ 3,748,414	\$ 3,484,633
Liabilities		
Current liabilities	\$ 1,142,146	\$ 1,019,609
Non-current liabilities	147,289	128,379
Total liabilities	1,289,435	1,147,988
Equity		
Ordinary shares	1,500,000	1,500,000
Capital surplus	16,453	13,908
Retained earnings	1,043,826	888,422
Other equity	(101,300)	(65,685)
Total equity	2,458,979	2,336,645
Total	\$ 3,748,414	\$ 3,484,633

Cathay Securities Investment Trust Co., Ltd.

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

	For the Six Months Ended June 30	
	2020	2019
Operating revenue	\$ 1,390,735	\$ 1,237,143
Operating expenses	<u>(892,603)</u>	<u>(819,801)</u>
Operating profit	498,132	417,342
Non-operating income and expenses	<u>(10,967)</u>	<u>(13,666)</u>
Profit before income tax	487,165	403,676
Income tax expense	<u>(100,640)</u>	<u>(84,413)</u>
Net income	386,525	319,263
Other comprehensive (loss) income	<u>(12,131)</u>	<u>5,103</u>
 Total comprehensive income	 <u>\$ 374,394</u>	 <u>\$ 324,366</u>
 Basic earnings per share	 <u>\$2.58</u>	 <u>\$2.13</u>

Cathay Private Equity Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
	2020	2019
Assets		
Current assets	\$ 74,184	\$ 42,867
Other non-current assets	<u>17,088</u>	<u>5,688</u>
 Total	 <u>\$ 91,272</u>	 <u>\$ 48,555</u>
 Liabilities		
Current liabilities	\$ 8,005	\$ 3,908
Non-current liabilities	<u>277</u>	<u>-</u>
Total liabilities	<u>8,282</u>	<u>3,908</u>
 Equity		
Ordinary shares	100,000	50,000
Capital surplus	63	-
Retained earnings	<u>(17,073)</u>	<u>(5,353)</u>
Total equity	<u>82,990</u>	<u>44,647</u>
 Total	 <u>\$ 91,272</u>	 <u>\$ 48,555</u>

Cathay Private Equity Co., Ltd.

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

	For the Six Months Ended	
	June 30	
	2020	2019
Operating revenue	\$ 3,734	\$ 1,365
Operating expenses	<u>(8,759)</u>	<u>(5,775)</u>
Operating loss	(5,025)	(4,410)
Non-operating income and expenses	<u>(537)</u>	<u>19</u>
Loss before income tax	(5,562)	(4,391)
Income tax benefit	<u>996</u>	<u>878</u>
Net loss	<u>(4,566)</u>	<u>(3,513)</u>
Total comprehensive loss	<u>\$ (4,566)</u>	<u>\$ (3,513)</u>
Basic loss per share	<u>\$(0.46)</u>	<u>\$(0.70)</u>

Cathay Venture Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30	
Assets	2020	2019
Current assets	\$ 1,427,477	\$ 1,655,302
Financial assets at fair value through profit or loss - non-current	4,030,902	3,755,814
Investments accounted for using the equity method	329,213	261,176
Property and equipment	3,162	3,432
Right-of-use assets	13,516	-
Deferred tax assets	56,181	55,122
Other non-current assets	1,267	1,126
Total	\$ 5,861,718	\$ 5,731,972
Liabilities		
Current liabilities	\$ 38,572	\$ 132,055
Non-current liabilities	15,508	6,538
Total liabilities	54,080	138,593
Equity		
Ordinary shares	4,565,147	3,359,087
Capital received in advance	-	1,567,574
Share dividends to be distributed	277,216	86,363
Capital surplus	576,667	128,625
Retained earnings	388,534	451,824
Other equity	74	(94)
Total equity	5,807,638	5,593,379
Total	\$ 5,861,718	\$ 5,731,972

Cathay Venture Inc.

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

	For the Six Months Ended June 30	
	2020	2019
Operating revenue	\$ 218,899	\$ 280,868
Operating costs	(19,380)	(14,766)
Operating expenses	(6,709)	(7,133)
Non-operating income and expenses	(122)	108
Profit before income tax	192,688	259,077
Income tax benefit	3,495	31,197
Net income	196,183	290,274
Other comprehensive income	-	-
Total comprehensive income	\$ 196,183	\$ 290,274
Basic earnings per share	\$0.43	\$0.84

Cathay Investment Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	June 30, 2020
Assets	
Current assets	\$ 64,814
Other non-current assets	923
Total	\$ 65,737
Liabilities	
Current liabilities	\$ 30,441
Non-current liabilities	506
Total liabilities	30,947
Equity	
Share capital - ordinary shares	35,000
Retained earnings	(210)
Total equity	34,790
Total	\$ 65,737

Cathay Investment Inc.

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

**For the Six
Months Ended
June 30, 2020**

Operating revenue	\$ 68
Operating costs	-
Operating expenses	(290)
Non-operating income and expenses	<u>(5)</u>
Loss before income tax	(227)
Income tax benefit	<u>59</u>
Net loss	(168)
Other comprehensive income	<u>-</u>
 Total comprehensive loss	 <u>\$ (168)</u>
 Basic loss per share	 <u>\$(0.05)</u>

Note: Cathay Investment has been included in the consolidated financial statements as a subsidiary since November 5, 2019.

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

For the six months ended June 30, 2020

Unit: %

	Return on Assets		Return on Equity		Net Income
	Before Tax	After Tax	Before Tax	After Tax	Ratio
The Group	0.37	0.32	4.82	4.17	10.18
The Company	3.98	3.68	4.49	4.15	90.57
Cathay Life	0.27	0.27	3.19	3.25	4.59
Cathay Century	3.22	2.65	11.32	9.32	11.36
Cathay United Bank	0.53	0.46	6.82	5.93	43.42
Cathay Securities	2.32	1.98	7.25	6.20	23.24

For the six months ended June 30, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income
	Before Tax	After Tax	Before Tax	After Tax	Ratio
The Group	0.42	0.36	6.47	5.56	14.06
The Company	4.88	4.87	5.55	5.53	98.14
Cathay Life	0.34	0.30	5.09	4.41	4.27
Cathay Century	3.10	2.57	11.22	9.31	10.29
Cathay United Bank	0.51	0.44	6.93	6.02	40.05
Cathay Securities	1.37	1.11	4.37	3.53	17.96

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 632 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 165 branches. Cathay United Bank has been engaged in insurance agency business since April 29, 2016 and promoted life insurance products in its 165 branches.
- 2) Cathay Life is engaged in co-selling activities for banking and property and casualty insurance businesses in its service units (71 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 can not 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 June 30, 2020

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 8,844,214	\$ 38,721,206	\$ 137,595	\$ 40,763	\$ (118,532)	\$ 47,625,246
Net income and gains other than interest income	4,849,689	100,085,511	1,304,230	1,198,708	3,995,483	111,433,621
Profit from operations	13,693,903	138,806,717	1,441,825	1,239,471	3,876,951	159,058,867
Provision for bad debt, commitments and guaranteed liability reserve	(682,669)	96,294	-	(229)	45	(586,559)
Net changes in insurance liability reserve	-	(125,851,038)	196,410	-	-	(125,654,628)
Operating expenses	(7,301,678)	(10,197,510)	(791,384)	(807,086)	(2,205,896)	(21,303,554)
Profit (loss) from continuing operations before taxes	5,709,556	2,854,463	846,851	432,156	1,671,100	11,514,126
Income tax (expense) benefit	(922,586)	1,561,334	(107,134)	(52,888)	(2,804,454)	(2,325,728)
Net income from continuing operations	4,786,970	4,415,797	739,717	379,268	(1,133,354)	9,188,398

For the three months ended June 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 9,095,259	\$ 40,068,340	\$ 132,794	\$ 33,792	\$ (71,372)	\$ 49,258,813
Net income and gains other than interest income	4,329,585	60,298,414	1,406,722	799,280	1,636,590	68,470,591
Profit from operations	13,424,844	100,366,754	1,539,516	833,072	1,565,218	117,729,404
Provision for bad debt, commitments and guaranteed liability reserve	(167,731)	371,068	-	168	-	203,505
Net changes in insurance liability reserve	-	(72,759,830)	64,709	-	-	(72,695,121)
Operating expenses	(7,863,084)	(9,826,059)	(750,762)	(561,076)	(2,026,846)	(21,027,827)
Profit (loss) from continuing operations before taxes	5,394,029	18,151,933	853,463	272,164	(461,628)	24,209,961
Income tax (expense) benefit	(1,065,015)	(2,290,123)	(106,489)	(55,535)	(108,981)	(3,626,143)
Net income from continuing operations	4,329,014	15,861,810	746,974	216,629	(570,609)	20,583,818

For the six months ended June 30, 2020

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 17,975,345	\$ 77,814,371	\$ 277,723	\$ 80,860	\$ (242,896)	\$ 95,905,403
Net income and gains other than interest income	11,124,046	203,140,378	2,659,367	2,121,273	6,200,152	225,245,216
Profit from operations	29,099,391	280,954,749	2,937,090	2,202,133	5,957,256	321,150,619
Provision for bad debt, commitments and guaranteed liability reserve	(1,271,955)	351,719	-	131	(29)	(920,134)
Net changes in insurance liability reserve	-	(242,222,320)	313,118	-	-	(241,909,202)
Operating expenses	(15,251,534)	(17,805,640)	(1,587,563)	(1,483,970)	(4,368,838)	(40,497,545)
Profit (loss) from continuing operations before taxes	12,575,902	21,278,508	1,662,645	718,294	1,588,389	37,823,738
Income tax (expense) benefit	(2,244,355)	324,991	(243,466)	(93,893)	(2,865,303)	(5,122,026)
Net income from continuing operations	10,331,547	21,603,499	1,419,179	624,401	(1,276,914)	32,701,712

For the six months ended June 30, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 17,987,718	\$ 79,265,325	\$ 264,400	\$ 64,569	\$ (180,504)	\$ 97,401,508
Net income and gains other than interest income	6,732,879	129,897,633	2,981,759	1,429,959	4,371,747	145,413,977
Profit from operations	24,720,597	209,162,958	3,246,159	1,494,528	4,191,243	242,815,485
Provision for bad debt, commitments and guaranteed liability reserve	(917,487)	684,108	-	60	-	(233,319)
Net changes in insurance liability reserve	-	(159,885,827)	(162,597)	-	-	(160,048,424)
Operating expenses	(16,263,732)	(19,859,258)	(1,520,042)	(1,096,947)	(4,056,622)	(42,796,601)
Profit (loss) from continuing operations before taxes	7,539,378	30,101,981	1,563,520	397,641	134,621	39,737,141
Income tax (expense) benefit	(2,144,682)	(2,790,390)	(204,068)	(66,726)	(397,444)	(5,603,310)
Net income from continuing operations	5,394,696	27,311,591	1,359,452	330,915	(262,823)	34,133,831

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 overseas 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. Besides a position directly related to risk management and without conflict of interest, the chief risk officer should not hold a position in any profit center of the Company.
- 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 mitigate 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 for the audit of each department's implementation status of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Life.

vii. Subsidiaries

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, asset and liability matching risk, and 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 the event 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 their 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, a 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, the cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. The 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. Capital adequacy

Cathay life regards RBC ratio and equity ratio as a management indicator for capital adequacy. 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. The equity ratio is Cathay life's equity audited (or reviewed) by the auditors divided by the total assets excluding the total assets recorded in separate accounts for investment type insurance policies.

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 for 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 the 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 and equity ratio should be higher than a certain number. In order to enhance Cathay Life's capital management and to maintain a proper RBC ratio and equity 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 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 and equity ratio.
 - iv) Regularly review RBC ratio, equity ratio and related control standards to ensure a solid capital adequacy management.
- ii. Exception management process

When RBC ratio or equity ratio exceeds the internal risk control 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 Six Months Ended June 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,429,086	Decrease (increase)	\$ 1,143,269
Expense	×1.05 (×0.95)	Decrease (increase)	1,527,531	Decrease (increase)	1,222,025
Surrender rate	×1.05 (×0.95)	Increase (decrease)	223,173	Increase (decrease)	178,538
Rate of return	+0.1%	Increase	3,110,821	Increase	2,488,657
Rate of return	-0.1%	Decrease	3,112,361	Decrease	2,489,889

For the Six Months Ended June 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,403,154	Decrease (increase)	\$ 1,122,523
Expense	×1.05 (×0.95)	Decrease (increase)	1,661,697	Decrease (increase)	1,329,358
Surrender rate	×1.05 (×0.95)	Increase (decrease)	295,832	Increase (decrease)	236,665
Rate of return	+0.1%	Increase	2,847,340	Increase	2,277,872
Rate of return	-0.1%	Decrease	2,848,750	Decrease	2,279,000

ii. Cathay Lujiazui Life

For the Six Months Ended June 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 77,036	Decrease (increase)	\$ 57,777
Expense	×1.05 (×0.95)	Decrease (increase)	44,580	Decrease (increase)	33,435
Surrender rate	×1.10 (×0.90)	Increase (decrease)	41,339	Increase (decrease)	31,004
Rate of return	+0.25%	Increase	115,920	Increase	86,940
Rate of return	-0.25%	Decrease	116,206	Decrease	87,155

For the Six Months Ended June 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 79,980	Decrease (increase)	\$ 59,985
Expense	×1.05 (×0.95)	Decrease (increase)	43,904	Decrease (increase)	32,928
Surrender rate	×1.10 (×0.90)	Increase (decrease)	47,608	Increase (decrease)	35,706
Rate of return	+0.25%	Increase	95,739	Increase	71,804
Rate of return	-0.25%	Decrease	95,976	Decrease	71,982

iii. Cathay Life (Vietnam)

For the Six Months Ended June 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 659	Decrease (increase)	\$ 527
Expense	×1.05 (×0.95)	Decrease (increase)	25,441	Decrease (increase)	20,353
Surrender rate	×1.10 (×0.95)	Increase (decrease)	3,123	Increase (decrease)	2,498
Rate of return	+0.1%	Increase	7,808	Increase	6,246
Rate of return	-0.1%	Decrease	7,812	Decrease	6,249

For the Six Months Ended June 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 486	Decrease (increase)	\$ 388
Expense	×1.05 (×0.95)	Decrease (increase)	20,038	Decrease (increase)	16,030
Surrender rate	×1.10 (×0.95)	Increase (decrease)	3,564	Increase (decrease)	2,851
Rate of return	+0.1%	Increase	6,335	Increase	5,068
Rate of return	-0.1%	Decrease	6,338	Decrease	5,070

- i) Changes in income before tax listed above referred to the effects of income before tax for the six months ended June 30, 2020 and 2019. 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 the 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 the 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

ii) Direct business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2013Q3-2014Q2	14,430,297	17,717,754	18,040,951	18,142,401	18,145,908	18,170,461	18,186,367	-	-
2014Q3-2015Q2	14,571,990	18,110,741	18,441,030	18,521,678	18,563,115	18,587,024	18,603,807	16,783	16,816
2015Q3-2016Q2	15,612,219	19,236,420	19,604,451	19,681,903	19,729,832	19,756,431	19,774,207	44,375	44,464
2016Q3-2017Q2	16,041,023	19,907,013	20,260,407	20,348,766	20,394,648	20,422,448	20,441,120	92,354	92,538
2017Q3-2018Q2	18,543,719	22,888,227	23,332,963	23,438,501	23,491,406	23,523,260	23,543,683	210,720	211,141
2018Q3-2019Q2	20,263,104	25,132,218	25,599,146	25,712,064	25,770,031	25,804,940	25,826,920	694,702	696,092
2019Q3-2020Q2	21,103,207	26,101,871	26,591,428	26,706,769	26,766,950	26,803,122	26,825,676	5,722,469	5,733,913
								Expected future payment	\$ 6,794,964
								Add: Assumed reserve for incurred but not reported claim	21,509
								Reserve for unreported claim	6,816,473
								Add: Reported but not paid claim	4,247,661
								Claims reserve balance	<u>\$ 11,064,134</u>

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2013Q3-2014Q2	14,508,785	17,834,585	18,162,290	18,264,353	18,268,596	18,293,585	18,309,566	-	-
2014Q3-2015Q2	14,685,660	18,279,560	18,612,485	18,694,584	18,736,320	18,760,308	18,777,239	16,931	16,965
2015Q3-2016Q2	15,749,673	19,399,201	19,773,769	19,851,792	19,899,854	19,926,690	19,944,554	44,700	44,789
2016Q3-2017Q2	16,100,992	20,016,979	20,373,156	20,461,802	20,507,983	20,535,984	20,554,724	92,922	93,108
2017Q3-2018Q2	18,688,695	23,063,158	23,509,021	23,615,597	23,669,050	23,701,322	23,721,921	212,900	213,326
2018Q3-2019Q2	20,326,834	25,207,686	25,677,527	25,791,367	25,849,886	25,885,380	25,907,630	699,944	701,343
2019Q3-2020Q2	21,131,012	26,139,887	26,630,972	26,746,807	26,807,286	26,843,778	26,866,483	5,735,471	5,746,942
								Expected future payment	\$ 6,816,473
								Add: Reported filed but not paid claim	4,205,862
								Retained loss reserve balance less ceded loss reserve	<u>\$ 11,022,335</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 as claims filed and adjusted for related expenses; reserve for claims filed but not yet paid is provided on a case-by-case basis. The loss reserve is the sum of the above reserve, and due to uncertainty, estimation, and judgment, there is a high degree of complexity in the 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 the 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		
2013Q3-2014Q2	354,310	569,577	605,286	614,620	614,620	614,620	614,620	-	
2014Q3-2015Q2	207,948	389,198	416,522	421,318	421,318	421,318	421,318	-	
2015Q3-2016Q2	246,755	461,477	504,828	539,737	539,737	539,737	539,737	-	
2016Q3-2017Q2	253,863	459,672	502,054	502,054	502,054	502,054	502,054	-	
2017Q3-2018Q2	271,688	309,263	435,582	446,111	446,111	446,111	446,111	10,529	
2018Q3-2019Q2	346,838	491,353	553,095	566,464	566,464	566,464	566,464	75,111	
2019Q3-2020Q2	362,844	578,457	651,144	666,884	666,884	666,884	666,884	304,040	
								Expected future payment	\$ 389,680
								Less: Expected reported but not paid claim	(1,904)
								Reserve for unreported claim	387,776
								Add: Reported but not paid claim	16,178
								Claims reserve balance	<u>\$ 403,954</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
2013Q3-2014Q2	348,969	561,286	596,955	606,286	606,286	606,286	606,286	-	
2014Q3-2015Q2	186,357	367,395	394,506	399,302	399,302	399,302	399,302	-	
2015Q3-2016Q2	244,266	455,366	488,641	523,549	523,549	523,549	523,549	-	
2016Q3-2017Q2	241,138	446,945	484,971	484,971	484,971	484,971	484,971	-	
2017Q3-2018Q2	254,656	283,513	416,931	427,336	427,336	427,336	427,336	10,405	
2018Q3-2019Q2	333,760	472,827	532,642	545,934	545,934	545,934	545,934	73,107	
2019Q3-2020Q2	350,297	563,239	634,492	650,325	650,325	650,325	650,325	300,028	
								Expected future payment	\$ 383,540
								Less: Expected reported but not paid claim	(1,904)
								Add: Reported but not paid claim	13,515
								Retained loss reserve balance less ceded loss reserve	<u>\$ 395,151</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)

i) Direct business development trend

Accident Year	Development Year				
	1	2	3	4	5
2015Q3-2016Q2	1,119	1,273	1,273	1,273	1,273
2016Q3-2017Q2	5,564	7,027	7,027	7,027	7,027
2017Q3-2018Q2	31,850	36,763	36,826	36,834	36,834
2018Q3-2019Q2	103,676	120,312	120,467	120,492	120,492
2019Q3-2020Q2	135,344	157,303	157,505	157,539	157,539

ii) Retained business development trend

Accident Year	Development Year				
	1	2	3	4	5
2015Q3-2016Q2	1,119	1,273	1,273	1,273	1,273
2016Q3-2017Q2	5,564	7,027	7,027	7,027	7,027
2017Q3-2018Q2	31,850	36,763	36,826	36,834	36,834
2018Q3-2019Q2	103,676	120,312	120,467	120,492	120,492
2019Q3-2020Q2	135,344	157,303	157,505	157,539	157,539

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 a specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year.

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 estimated amount of the total insurance payments and expenses of valid insurance contracts in the future deduct total premium on the balance sheet date. The actual future payment amounts may differ due to the difference between the actual and expected experiences.

Unit: In Billions of NTD

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	Within 1 Year	1 to 5 Years	Over 5 Years
June 30, 2020	\$ (1,282)	\$ 3,689	\$ 182,682
December 31, 2019	(1,665)	3,012	179,320
June 30, 2019	(2,071)	2,122	180,410

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.

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 management reports

- 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.

Based on Cathay Century and its subsidiaries' reinsurance risk management policy, the basis for managing the maximum accumulated risk limit of each risk unit requires the risk management and each insurance department to jointly review and discuss the accumulated retained risk limit of a risk unit for each insurance type every year, which is submitted to the general manager for approval before implementation. The following table summarizes the maximum accumulated retained risk limit of a risk unit by insurance type:

Insurance by Type	2020	2019
Fire insurance	\$ 1,200,000	\$ 1,182,000
Marine insurance	1,200,000	1,182,000
Engineering insurance	1,200,000	1,182,000
Miscellaneous insurance/Liability insurance	1,200,000	1,182,000
Healthy and Accident insurance	1,200,000	1,182,000
Automobile insurance	50,000	50,000
Liability insurance	250,000	250,000

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 and inform the Company to review the impact on the Group's CAR.

2) 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		
	June 30, 2020	December 31, 2019	June 30, 2019
Fire insurance	\$ 20,180	\$ 11,803	\$ 19,181
Marine insurance	6,157	14,046	31,064
Land and air insurance	34,888	41,335	41,228
Liability insurance	41,004	48,045	38,695
Financial guarantee insurance	3,599	3,952	281
Other property insurance	38,440	21,993	14,657
Accident insurance	16,670	18,354	12,652
Health insurance	-	-	-
Compulsory auto liability insurance	<u>214,148</u>	<u>178,606</u>	<u>170,305</u>
	375,086	338,134	328,063
Less: Loss allowance	<u>(18,754)</u>	<u>(16,907)</u>	<u>(3,281)</u>
Net amount	<u>\$ 356,332</u>	<u>\$ 321,227</u>	<u>\$ 324,782</u>

3) Receivables and payables of insurance contracts

a) Receivables

Insurance by Type	Premiums Receivable		
	June 30, 2020	December 31, 2019	June 30, 2019
Fire insurance	\$ 1,173,335	\$ 832,679	\$ 1,093,337
Marine insurance	277,639	280,050	268,745
Land and air insurance	203,627	165,238	142,074
Liability insurance	173,494	252,358	186,646
Financial guarantee insurance	45,838	24,869	48,269
Other property insurance	221,410	466,437	245,544
Accident insurance	132,004	130,202	138,748
Health insurance	4,291	9,748	9,407
Compulsory auto liability insurance	<u>25,718</u>	<u>20,950</u>	<u>27,351</u>
	2,257,356	2,182,531	2,160,121
Less: Loss allowance	<u>(32,650)</u>	<u>(33,108)</u>	<u>(50,377)</u>
Net amount	<u>\$ 2,224,706</u>	<u>\$ 2,149,423</u>	<u>\$ 2,109,744</u>

Aging analysis of premiums receivable:

	June 30, 2020	December 31, 2019	June 30, 2019
Up to 90 days	\$ 1,970,485	\$ 1,460,661	\$ 1,933,248
Over 90 days	<u>286,871</u>	<u>721,870</u>	<u>226,873</u>
	<u>\$ 2,257,356</u>	<u>\$ 2,182,531</u>	<u>\$ 2,160,121</u>

The overdue amounts as of June 30, 2020, December 31, 2019 and June 30, 2019 in the above premiums receivable were \$286,871 thousand, \$721,870 thousand and \$226,784 thousand, respectively, and loss allowance of \$13,112 thousand, \$19,019 thousand and \$31,112 thousand were provided, respectively.

b) Payables

Insurance by Type	June 30, 2020		
	Commission Payable	Others	Total
Fire insurance	\$ 34,285	\$ 12,898	\$ 47,183
Marine insurance	10,645	11,444	22,089
Land and air insurance	85,577	89,113	174,690
Liability insurance	15,671	19,023	34,694
Financial guarantee insurance	6,260	515	6,775
Other property insurance	5,795	10,505	16,300
Accident insurance	8,725	26,468	35,193
Health insurance	1,306	600	1,906
Compulsory automobile liability insurance	<u>27,575</u>	<u>-</u>	<u>27,575</u>
	<u>\$ 195,839</u>	<u>\$ 170,566</u>	<u>\$ 366,405</u>

Insurance by Type	December 31, 2019		
	Commission Payable	Others	Total
Fire insurance	\$ 28,685	\$ 13,250	\$ 41,935
Marine insurance	8,300	15,052	23,352
Land and air insurance	73,939	99,854	173,793
Liability insurance	21,674	24,333	46,007
Financial guarantee insurance	2,601	451	3,052
Other property insurance	5,452	13,266	18,718
Accident insurance	10,629	33,141	43,770
Health insurance	2,576	3,471	6,047
Compulsory automobile liability insurance	<u>27,240</u>	<u>-</u>	<u>27,240</u>
	<u>\$ 181,096</u>	<u>\$ 202,818</u>	<u>\$ 383,914</u>

Insurance by Type	June 30, 2019		
	Commission Payable	Others	Total
Fire insurance	\$ 33,185	\$ 12,823	\$ 46,008
Marine insurance	7,081	17,414	24,495
Land and air insurance	55,233	91,233	146,466
Liability insurance	15,614	20,514	36,128
Financial guarantee insurance	6,583	444	7,027
Other property insurance	6,087	9,331	15,418
Accident insurance	10,837	37,608	48,445
Health insurance	2,875	5,232	8,107
Compulsory automobile liability insurance	<u>28,375</u>	<u>-</u>	<u>28,375</u>
	<u>\$ 165,870</u>	<u>\$ 194,599</u>	<u>\$ 360,469</u>

c) Due from (to) reinsurers and ceding companies - reinsurance

Items	June 30, 2020	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C	\$ 349,763	\$ 340,962
AON	84,372	39,834
Willis	61,488	28,108
Marsh	9,580	308,998
Central Re	5,916	131,065
Others (individually below 5%)	<u>306,512</u>	<u>910,261</u>
	817,631	1,759,228
Less: Loss allowance	<u>(44,643)</u>	<u>-</u>
Net amount	<u>\$ 772,988</u>	<u>\$ 1,759,228</u>

Items	December 31, 2019	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C	\$ 329,413	\$ 314,263
AON	72,042	415,823
Willis	49,804	4,216
Central Re	16,758	105,805
Others (individually below 5%)	<u>320,592</u>	<u>932,784</u>
	788,609	1,772,891
Less: Loss allowance	<u>(44,386)</u>	<u>-</u>
Net amount	<u>\$ 744,223</u>	<u>\$ 1,772,891</u>

	June 30, 2019	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 135,817	\$ 336,053
AON	66,063	42,212
Willis	46,691	45,476
Central Re	42,594	135,699
ERIF	34,000	14,218
TMR AG	33,560	45,695
Others (individually below 5%)	<u>286,755</u>	<u>1,226,524</u>
	645,480	1,845,877
Less: Loss allowance	<u>(40,350)</u>	<u>-</u>
Net amount	<u>\$ 605,130</u>	<u>\$ 1,845,877</u>

The overdue amounts as of June 30, 2020, December 31, 2019 and June 30, 2019 in the above due from (to) reinsurers and ceding companies were \$9,253 thousand, \$10,483 thousand and \$14,229 thousand, respectively, and loss allowances of \$9,253 thousand, \$10,483 thousand and \$14,229 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.

4) Acquisition cost of insurance contracts

Insurance by Type	For the Three Months Ended June 30, 2020				
	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 52,864	\$ 6,798	\$ 57,383	\$ 4,794	\$ 121,839
Marine insurance	14,073	684	4,049	349	19,155
Land and air insurance	265,112	347	14,293	105,542	385,294
Liability insurance	35,434	38	288	6,609	42,369
Financial guarantee insurance	5,049	4	1,114	56	6,223
Other property insurance	22,290	1,740	9,539	1,163	34,732
Accident insurance	78,063	485	139	19,372	98,059
Health insurance	7,139	249	998	484	8,870
Compulsory auto liability insurance	<u>-</u>	<u>96,507</u>	<u>-</u>	<u>-</u>	<u>96,507</u>
	<u>\$ 480,024</u>	<u>\$ 106,852</u>	<u>\$ 87,803</u>	<u>\$ 138,369</u>	<u>\$ 813,048</u>

For the Three Months Ended June 30, 2019

Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance		Total
			Commission Expenses	Others	
Fire insurance	\$ 46,958	\$ 4,566	\$ 18,392	\$ 3,889	\$ 73,805
Marine insurance	16,822	164	2,238	355	19,579
Land and air insurance	256,856	-	-	107,961	364,817
Liability insurance	41,173	13	32	5,126	46,344
Financial guarantee insurance	3,709	3	43	-	3,755
Other property insurance	17,572	1,883	13,174	833	33,462
Accident insurance	107,539	23	302	30,742	138,606
Health insurance	18,297	132	147	4,395	22,971
Compulsory auto liability insurance	-	98,150	-	-	98,150
	<u>\$ 508,926</u>	<u>\$ 104,934</u>	<u>\$ 34,328</u>	<u>\$ 153,301</u>	<u>\$ 801,489</u>

For the Six Months Ended June 30, 2020

Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance		Total
			Commission Expenses	Others	
Fire insurance	\$ 95,920	\$ 11,939	\$ 96,117	\$ 9,333	\$ 213,309
Marine insurance	29,142	794	5,465	883	36,284
Land and air insurance	524,529	770	23,923	210,983	760,205
Liability insurance	74,933	66	357	13,853	89,209
Financial guarantee insurance	7,151	199	5,519	129	12,998
Other property insurance	38,106	3,950	21,676	2,506	66,238
Accident insurance	166,677	681	124	43,328	210,810
Health insurance	19,424	428	1,714	2,935	24,501
Compulsory auto liability insurance	-	187,687	-	-	187,687
	<u>\$ 955,882</u>	<u>\$ 206,514</u>	<u>\$ 154,895</u>	<u>\$ 283,950</u>	<u>\$ 1,601,241</u>

For the Six Months Ended June 30, 2019

Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance		Total
			Commission Expenses	Others	
Fire insurance	\$ 89,491	\$ 7,697	\$ 39,583	\$ 7,614	\$ 144,385
Marine insurance	34,322	620	6,553	677	42,172
Land and air insurance	516,225	1	3	199,220	715,449
Liability insurance	81,668	47	64	7,790	89,569
Financial guarantee insurance	8,201	4	58	-	8,263
Other property insurance	38,035	2,915	22,287	1,495	64,732
Accident insurance	202,301	137	445	53,791	256,674
Health insurance	33,930	132	147	7,596	41,805
Compulsory auto liability insurance	-	192,020	-	-	192,020
	<u>\$ 1,004,173</u>	<u>\$ 203,573</u>	<u>\$ 69,140</u>	<u>\$ 278,183</u>	<u>\$ 1,555,069</u>

Acquisition costs of the insurance contracts were not deferred.

5) Profit and loss analysis of the insurance business

Direct underwriting business

For the Three Months Ended June 30, 2020						
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	\$ 1,347,706	\$ 483,967	\$ 64,455	\$ 157,186	\$ (95,444)	\$ 737,542
Marine insurance	183,279	20,517	15,107	43,397	141,428	(37,170)
Land and air insurance	2,438,483	39,453	371,001	1,391,240	(47,112)	683,901
Liability insurance	305,218	(60,076)	42,081	145,419	29,418	148,376
Financial guarantee insurance	43,316	15,698	5,109	(73,396)	20,446	75,459
Other property insurance	239,310	(19,996)	25,192	124,070	(78,267)	188,311
Accident insurance	663,264	(13,262)	97,920	364,711	(27,784)	241,679
Health insurance	30,618	(5,118)	7,873	21,582	(10,700)	16,981
Compulsory auto liability insurance	<u>697,216</u>	<u>(9,621)</u>	<u>96,507</u>	<u>506,863</u>	<u>(3,980)</u>	<u>107,447</u>
	<u>\$ 5,948,410</u>	<u>\$ 451,562</u>	<u>\$ 725,245</u>	<u>\$ 2,681,072</u>	<u>\$ (71,995)</u>	<u>\$ 2,162,526</u>

For the Three Months Ended June 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	\$ 1,228,910	\$ 370,193	\$ 55,414	\$ 151,214	\$ 90,053	\$ 562,036
Marine insurance	172,661	8,798	17,341	75,892	(6,231)	76,861
Land and air insurance	2,331,409	39,872	364,817	1,399,438	3,442	523,840
Liability insurance	342,534	(35,066)	46,311	157,988	73,110	100,191
Financial guarantee insurance	29,993	1,750	3,712	23,118	(42,209)	43,622
Other property insurance	192,882	(50,679)	20,288	39,931	46,796	136,546
Accident insurance	865,382	33,916	138,304	291,872	9,875	391,415
Health insurance	105,081	5,641	22,824	32,445	1,362	42,809
Compulsory auto liability insurance	<u>719,448</u>	<u>(588)</u>	<u>98,150</u>	<u>773,103</u>	<u>(32,754)</u>	<u>(118,463)</u>
	<u>\$ 5,988,300</u>	<u>\$ 373,837</u>	<u>\$ 767,161</u>	<u>\$ 2,945,001</u>	<u>\$ 143,444</u>	<u>\$ 1,758,857</u>

For the Six Months Ended June 30, 2020						
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	\$ 1,971,048	\$ 259,629	\$ 117,192	\$ 253,878	\$ 90,836	\$ 1,249,513
Marine insurance	332,838	4,398	30,820	94,940	189,258	13,422
Land and air insurance	4,765,384	(20,387)	736,281	2,800,890	(87,490)	1,336,090
Liability insurance	652,169	(83,280)	88,852	387,807	(47,747)	306,537
Financial guarantee insurance	66,979	14,867	7,479	(70,096)	22,265	92,464
Other property insurance	601,184	81,591	44,561	200,634	13,762	260,636
Accident insurance	1,420,206	(35,785)	210,686	738,804	(30,249)	536,750
Health insurance	104,656	(14,979)	22,788	49,330	(14,322)	61,839
Compulsory auto liability insurance	<u>1,360,884</u>	<u>(19,699)</u>	<u>187,687</u>	<u>1,094,817</u>	<u>(43,027)</u>	<u>141,106</u>
	<u>\$ 11,275,348</u>	<u>\$ 186,355</u>	<u>\$ 1,446,346</u>	<u>\$ 5,551,004</u>	<u>\$ 93,286</u>	<u>\$ 3,998,357</u>

For the Six Months Ended June 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	\$ 1,919,739	\$ 212,088	\$ 104,803	\$ 325,034	\$ 51,901	\$ 1,225,913
Marine insurance	334,127	875	35,619	140,451	32,710	124,472
Land and air insurance	4,665,306	118,967	715,446	2,676,962	185,465	968,466
Liability insurance	712,541	(17,184)	89,504	315,313	129,281	195,627
Financial guarantee insurance	71,675	14,948	8,205	25,218	(27,428)	50,732
Other property insurance	432,374	76,260	42,445	120,661	(4,193)	197,201
Accident insurance	1,648,790	51,554	256,229	647,978	(13,876)	706,905
Health insurance	196,311	8,802	41,658	45,313	1,849	98,689
Compulsory auto liability insurance	<u>1,407,881</u>	<u>(6,961)</u>	<u>192,020</u>	<u>1,188,882</u>	<u>(44,559)</u>	<u>78,499</u>
	<u>\$ 11,388,744</u>	<u>\$ 459,349</u>	<u>\$ 1,485,929</u>	<u>\$ 5,485,812</u>	<u>\$ 311,150</u>	<u>\$ 3,646,504</u>

Reinsurance inward business

For the Three Months Ended June 30, 2020

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	\$ 291,569	\$ 66,892	\$ 57,382	\$ 134,859	\$ (1,234)	\$ 33,670
Marine insurance	22,835	9,419	4,049	16,829	(150)	(7,312)
Land and air insurance	19,296	6,377	14,293	17,699	11,237	(30,310)
Liability insurance	1,706	783	287	143	1,229	(736)
Financial guarantee insurance	4,202	(483)	1,114	83	(1,521)	5,009
Other property insurance	57,740	3,066	9,541	56,187	(6,572)	(4,482)
Accident insurance	4,093	(1,127)	139	2,414	339	2,328
Health insurance	9,983	3,172	998	539	(184)	5,458
Compulsory auto liability insurance	<u>183,803</u>	<u>5,330</u>	<u>-</u>	<u>263,340</u>	<u>895</u>	<u>(85,762)</u>
	<u>\$ 595,227</u>	<u>\$ 93,429</u>	<u>\$ 87,803</u>	<u>\$ 492,093</u>	<u>\$ 4,039</u>	<u>\$ (82,137)</u>

For the Three Months Ended June 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	\$ 128,793	\$ (28,049)	\$ 18,392	\$ 64,998	\$ 9,900	\$ 63,552
Marine insurance	10,480	(2,458)	2,238	9,450	(10,559)	11,809
Land and air insurance	17	(621)	-	(1,395)	(2,523)	4,556
Liability insurance	1,169	415	32	15	171	536
Financial guarantee insurance	255	(174)	43	49	(2,022)	2,359
Other property insurance	77,469	1,240	13,174	76,838	9,109	(22,892)
Accident insurance	3,372	(176)	302	655	350	2,241
Health insurance	5,270	(2,850)	147	8,939	195	(1,161)
Compulsory auto liability insurance	<u>174,272</u>	<u>(1,238)</u>	<u>-</u>	<u>253,719</u>	<u>(9,916)</u>	<u>(68,293)</u>
	<u>\$ 401,097</u>	<u>\$ (33,911)</u>	<u>\$ 34,328</u>	<u>\$ 413,268</u>	<u>\$ (5,295)</u>	<u>\$ (7,293)</u>

For the Six Months Ended June 30, 2020						
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	\$ 506,464	\$ 102,322	\$ 96,116	\$ 241,015	\$ (19,042)	\$ 86,053
Marine insurance	29,851	5,928	5,465	23,145	(912)	(3,775)
Land and air insurance	40,059	8,514	23,922	19,724	14,209	(26,310)
Liability insurance	2,795	1,215	357	144	1,330	(251)
Financial guarantee insurance	18,958	2,731	5,519	1,788	16,557	(7,637)
Other property insurance	129,842	4,809	21,678	134,793	(16,995)	(14,443)
Accident insurance	7,076	(30)	124	3,062	26	3,894
Health insurance	17,138	2,399	1,714	12,745	14	266
Compulsory auto liability insurance	<u>363,338</u>	<u>(2,413)</u>	<u>-</u>	<u>448,000</u>	<u>5,549</u>	<u>(87,798)</u>
	<u>\$ 1,115,521</u>	<u>\$ 125,475</u>	<u>\$ 154,895</u>	<u>\$ 884,416</u>	<u>\$ 736</u>	<u>\$ (50,001)</u>

For the Six Months Ended June 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	\$ 246,690	\$ (60,108)	\$ 39,583	\$ 132,557	\$ 66,701	\$ 67,957
Marine insurance	25,904	2,387	6,553	20,978	(6,282)	2,268
Land and air insurance	56	(1,204)	3	4	284	969
Liability insurance	1,602	131	64	29	639	739
Financial guarantee insurance	785	(43)	58	601	(899)	1,068
Other property insurance	120,838	(11,252)	22,287	93,817	(15,196)	31,182
Accident insurance	6,915	2	445	1,248	588	4,632
Health insurance	5,270	(7,221)	147	8,939	306	3,099
Compulsory auto liability insurance	<u>367,643</u>	<u>(588)</u>	<u>-</u>	<u>462,090</u>	<u>19,959</u>	<u>(113,818)</u>
	<u>\$ 775,703</u>	<u>\$ (77,896)</u>	<u>\$ 69,140</u>	<u>\$ 720,263</u>	<u>\$ 66,100</u>	<u>\$ (1,904)</u>

Ceded reinsurance business

For the Three Months Ended June 30, 2020						
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	\$ 880,104	\$ 370,090	\$ 41,704	\$ 34,455	\$ (40,239)	\$ 474,094
Marine insurance	143,288	27,009	12,771	29,493	111,265	(37,250)
Land and air insurance	131,512	44,944	24,357	35,624	(1,920)	28,507
Liability insurance	71,762	(46,181)	15,065	41,325	(890)	62,443
Financial guarantee insurance	30,372	16,020	5,640	(74,220)	10,466	72,466
Other property insurance	143,156	(36,282)	26,288	70,998	(47,315)	129,467
Accident insurance	45,747	(2,614)	13,396	18,244	(493)	17,214

(Continued)

For the Three Months Ended June 30, 2020

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)
Health insurance	\$ 4	\$ 4	\$ 1	\$ -	\$ -	\$ (1)
Compulsory auto liability insurance	<u>291,207</u>	<u>(5,772)</u>	<u>-</u>	<u>290,479</u>	<u>(2,361)</u>	<u>8,861</u>
	<u>\$ 1,737,152</u>	<u>\$ 367,218</u>	<u>\$ 139,222</u>	<u>\$ 446,398</u>	<u>\$ 28,513</u>	<u>\$ 755,801</u> (Concluded)

For the Three Months Ended June 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	\$ 826,526	\$ 255,667	\$ 37,107	\$ 106,714	\$ (32,271)	\$ 459,309
Marine insurance	127,504	14,682	17,145	57,393	(5,029)	43,313
Land and air insurance	77,502	(13,176)	21,558	45,121	(13,769)	37,768
Liability insurance	106,813	(20,719)	22,404	55,711	77,216	(27,799)
Financial guarantee insurance	20,626	(336)	4,068	20,399	(16,234)	12,729
Other property insurance	129,325	(27,070)	18,383	13,451	27,557	97,004
Accident insurance	51,370	1,411	15,636	14,708	(4,094)	23,709
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	<u>300,704</u>	<u>(352)</u>	<u>-</u>	<u>435,219</u>	<u>(19,043)</u>	<u>(115,120)</u>
	<u>\$ 1,640,370</u>	<u>\$ 210,107</u>	<u>\$ 136,301</u>	<u>\$ 748,716</u>	<u>\$ 14,333</u>	<u>\$ 530,913</u>

For the Six Months Ended June 30, 2020

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	\$ 1,256,647	\$ 241,782	\$ 78,557	\$ 62,369	\$ 171,746	\$ 702,193
Marine insurance	248,399	23,896	24,977	66,916	152,039	(19,429)
Land and air insurance	197,081	21,149	45,113	73,761	(7,110)	64,168
Liability insurance	172,999	(69,934)	41,904	167,227	(68,001)	101,803
Financial guarantee insurance	44,119	14,640	8,096	(74,316)	9,982	85,717
Other property insurance	429,138	71,421	54,958	118,042	42,404	142,313
Accident insurance	121,293	34,361	29,531	33,819	(5,784)	29,366
Health insurance	4	4	1	-	-	(1)
Compulsory auto liability insurance	<u>566,876</u>	<u>(11,819)</u>	<u>-</u>	<u>637,961</u>	<u>(25,926)</u>	<u>(33,340)</u>
	<u>\$ 3,036,556</u>	<u>\$ 325,500</u>	<u>\$ 283,137</u>	<u>\$ 1,085,779</u>	<u>\$ 269,350</u>	<u>\$ 1,072,790</u>

For the Six Months Ended June 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	\$ 1,266,791	\$ 150,631	\$ 87,168	\$ 191,723	\$ (42,151)	\$ 879,420
Marine insurance	236,341	6,295	33,010	113,903	7,294	75,839
Land and air insurance	149,336	(33,471)	43,055	99,460	(17,180)	57,472
Liability insurance	229,207	(20,768)	48,705	112,615	92,304	(3,649)
Financial guarantee insurance	50,323	9,385	10,179	22,410	(10,756)	19,105
Other property insurance	294,971	79,503	45,082	49,817	3,635	116,934
Accident insurance	119,614	37,903	30,624	36,205	2,071	12,811
Health insurance	-	-	-	-	-	-
Compulsory auto liability insurance	586,358	(4,176)	-	681,374	(26,154)	(64,686)
	<u>\$ 2,932,941</u>	<u>\$ 225,302</u>	<u>\$ 297,823</u>	<u>\$ 1,307,507</u>	<u>\$ 9,063</u>	<u>\$ 1,093,246</u>

6) Sensitivity to insurance risk

a) Cathay Century

For the six months ended June 30, 2020

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	\$ 1,904,656	43.21%	\$ (95,233)	\$ (95,233)
Marine insurance	328,303	35.56%	(16,415)	(7,961)
Land and air insurance	4,659,312	63.23%	(232,966)	(226,087)
Liability insurance	651,370	50.48%	(32,568)	(20,798)
Financial guarantee insurance	66,979	267.03%	(3,349)	(1,967)
Other property insurance	598,578	63.64%	(29,929)	(23,539)
Accident insurance	1,408,979	43.36%	(70,449)	(66,720)
Health insurance	104,656	36.07%	(5,233)	(5,233)
Compulsory automobile liability insurance	1,360,884	Not applicable	Not applicable	Not applicable
	<u>\$ 11,083,717</u>		<u>\$ (486,142)</u>	<u>\$ (447,538)</u>

For the six months ended June 30, 2019

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	\$ 1,802,801	43.05%	\$ (90,140)	\$ (75,759)
Marine insurance	329,748	40.27%	(16,487)	(7,060)
Land and air insurance	4,609,352	64.34%	(230,468)	(222,195)
Liability insurance	711,806	53.26%	(35,590)	(24,387)
Financial guarantee insurance	71,675	186.38%	(3,584)	(2,352)
Other property insurance	431,029	66.43%	(21,551)	(16,236)
Accident insurance	1,634,621	42.73%	(81,731)	(76,759)
Health insurance	196,311	41.38%	(9,816)	(9,802)
Compulsory automobile liability insurance	1,407,881	Not applicable	Not applicable	Not applicable
	<u>\$ 11,195,224</u>		<u>\$ (489,367)</u>	<u>\$ (434,550)</u>

Note: Expected loss rate is calculated base on the average loss rate of the past five years.

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)

For the six months ended June 30, 2020

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	\$ 106,072	30.61%	\$ (5,304)	\$ (5,281)
Marine insurance	4,535	15.16%	(227)	(52)
Fire insurance	66,392	53.38%	(3,320)	(771)
Engineering insurance	2,606	28.25%	(130)	(40)
Accident insurance	11,227	36.75%	(561)	(561)
Liability insurance	<u>799</u>	14.24%	<u>(40)</u>	<u>(13)</u>
	<u>\$ 191,631</u>		<u>\$ (9,582)</u>	<u>\$ (6,718)</u>

For the six months ended June 30, 2019

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	\$ 55,954	35.74%	\$ (2,798)	\$ (857)
Marine insurance	4,379	24.55%	(219)	(44)
Fire insurance	116,938	38.17%	(5,847)	(5,378)
Engineering insurance	1,345	-	(67)	(24)
Accident insurance	14,169	33.12%	(708)	(247)
Liability insurance	<u>735</u>	-	<u>(37)</u>	<u>(1)</u>
	<u>\$ 193,520</u>		<u>\$ (9,676)</u>	<u>\$ (6,551)</u>

Note: Expected loss rate is calculated based on the average loss rate of the past five years.

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.

7) Risk concentration

a) Cathay Century

i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

For the six months ended June 30, 2020, 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

For the six months ended June 30, 2020, both the loss amount and the loss rate of comprehensive travel insurance have increased due to the COVID-19.

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, Cathay Century each unit has appointed a staff for compliance matters to minimize possible legal risk. As of June 30, 2020, 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 keep financial stability. For the six months ended June 30, 2020, measures have been taken to deal with the impact of COVID-19 on operating, insurance and investment business.

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 June 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,304,034	\$ 291,173	\$ 841,760	\$ 753,447	15.93
Marine insurance	180,510	22,835	141,341	62,004	1.31
Land and air insurance	2,371,530	19,296	131,476	2,259,350	47.77
Liability insurance	305,133	1,706	71,712	235,127	4.97
Financial guarantee insurance	43,316	4,201	30,372	17,145	0.36
Other property insurance	237,996	57,741	142,235	153,502	3.25
Accident insurance	659,993	4,093	45,747	618,339	13.08
Health insurance	30,618	9,983	4	40,597	0.86
Compulsory automobile liability insurance	697,216	183,803	291,207	589,812	12.47
Total	\$ 5,830,346	\$ 594,831	\$ 1,695,854	\$ 4,729,323	100.00

Insurance Type	For the Three Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,185,945	\$ 130,073	\$ 789,040	\$ 526,978	11.20
Marine insurance	169,779	10,481	125,415	54,845	1.17
Land and air insurance	2,299,511	(1)	77,488	2,222,022	47.23
Liability insurance	342,485	1,169	106,783	236,871	5.04
Financial guarantee insurance	29,992	255	20,625	9,622	0.20
Other property insurance	192,458	77,470	129,071	140,857	2.98
Accident insurance	857,914	3,372	51,370	809,916	17.22
Health insurance	105,081	5,270	-	110,351	2.35
Compulsory automobile liability insurance	719,448	174,272	300,704	593,016	12.61
Total	\$ 5,902,613	\$ 402,361	\$ 1,600,496	\$ 4,704,478	100.00

Insurance Type	For the Six Months Ended June 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,904,656	\$ 505,442	\$ 1,198,470	\$ 1,211,628	13.13
Marine insurance	328,303	29,851	245,218	112,936	1.22
Land and air insurance	4,659,312	40,059	197,045	4,502,326	48.80
Liability insurance	651,370	2,795	172,497	481,668	5.22
Financial guarantee insurance	66,979	18,957	44,119	41,817	0.46
Other property insurance	598,578	129,843	427,335	301,086	3.26
Accident insurance	1,408,979	7,076	121,293	1,294,762	14.04
Health insurance	104,656	17,138	4	121,790	1.32
Compulsory automobile liability insurance	1,360,884	363,338	566,876	1,157,346	12.55
Total	\$ 11,083,717	\$ 1,114,499	\$ 2,972,857	\$ 9,225,359	100.00

Insurance Type	For the Six Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 1,802,801	\$ 247,463	\$ 1,159,153	\$ 891,111	9.74
Marine insurance	329,748	25,904	233,240	122,412	1.34
Land and air insurance	4,609,352	40	149,298	4,460,094	48.74
Liability insurance	711,806	1,602	228,727	484,681	5.30
Financial guarantee insurance	71,675	785	50,323	22,137	0.24
Other property insurance	431,029	120,839	294,164	257,704	2.81
Accident insurance	1,634,621	6,915	119,614	1,521,922	16.63
Health insurance	196,311	5,270	-	201,581	2.20
Compulsory automobile liability insurance	1,407,881	367,643	586,358	1,189,166	13.00
Total	\$ 11,195,224	\$ 776,461	\$ 2,820,877	\$ 9,150,808	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

For the six months ended June 30, 2020, 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

For the six months ended June 30, 2020, the premiums of comprehensive travel insurance dropped due to the decreased demands for domestic and international tourism in the implication of COVID-19; however, but no effect on business risk was identified so far, Cathay Insurance (Vietnam) will monitor risk exposure continuously.

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 June 30, 2020, 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 maintain financial stability. For the six months ended June 30, 2020, 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 June 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 66,954	\$ -	\$ 36	\$ 66,918	86.68
Flood insurance	2,769	-	1,947	822	1.06
Fire insurance	43,672	396	38,344	5,724	7.42
Engineering insurance	1,315	-	920	395	0.51
Accident insurance	3,315	-	-	3,315	4.29
Liability insurance	84	-	51	33	0.04
Total	\$ 118,109	\$ 396	\$ 41,298	\$ 77,207	100.00

Insurance Type	For the Three Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 31,898	\$ 17	\$ 15	\$ 31,900	71.61
Flood insurance	2,882	-	2,089	793	1.78
Fire insurance	42,964	220	38,987	4,197	9.42
Engineering insurance	424	-	255	169	0.38
Accident insurance	7,468	-	-	7,468	16.77
Liability insurance	50	-	30	20	0.04
Total	\$ 85,686	\$ 237	\$ 41,376	\$ 44,547	100.00

Insurance Type	For the Six Months Ended June 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 106,072	\$ -	\$ 36	\$ 106,036	82.23
Flood insurance	4,535	-	3,181	1,354	1.05
Fire insurance	66,392	1,022	58,177	9,237	7.16
Engineering insurance	2,606	-	1,802	804	0.62
Accident insurance	11,227	-	-	11,227	8.71
Liability insurance	799	-	503	296	0.23
Total	\$ 191,631	\$ 1,022	\$ 63,699	\$ 128,954	100.00

Insurance Type	For the Six Months Ended June 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 55,954	\$ 17	\$ 38	\$ 55,933	69.30
Flood insurance	4,379	-	3,101	1,278	1.58
Fire insurance	116,938	726	109,138	8,526	10.57
Engineering insurance	1,345	-	807	538	0.67
Accident insurance	14,169	-	-	14,169	17.56
Liability insurance	735	-	480	255	0.32
Total	\$ 193,520	\$ 743	\$ 113,564	\$ 80,699	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.

8) Development trends of claims

a) Cathay Century

June 30, 2020

Accident Year	≤ 2013	2014	2015	2016	2017	2018	2019	2020	Total
Accumulated estimated claim payments									
End of the underwriting year	\$ -	\$ 7,066,945	\$ 7,559,012	\$ 12,235,424	\$ 8,134,147	\$ 9,090,990	\$ 10,190,448	\$ 4,615,183	
After the first year	-	7,217,836	7,418,703	11,455,620	8,025,062	8,574,948	10,210,943	-	
After the second year	-	7,156,309	7,548,387	10,970,548	7,965,701	8,504,451	-	-	
After the third year	-	7,135,341	7,495,744	11,133,431	7,985,609	-	-	-	
After the fourth year	-	7,133,873	7,449,663	11,148,782	-	-	-	-	
After the fifth year	-	7,145,756	7,453,256	-	-	-	-	-	
After the sixth year	-	7,172,147	-	-	-	-	-	-	
Final estimated claim payments	-	7,172,147	7,453,256	11,148,782	7,985,609	8,504,451	10,210,943	4,615,183	
Accumulated claims disbursed	-	6,945,591	7,407,735	11,056,506	7,809,371	7,990,848	7,771,278	1,642,019	
Adjustment	102,744	226,556	45,521	92,276	176,238	513,603	2,439,665	2,973,164	\$ 6,569,767
Amount recognized in balance sheet	\$ 102,744	\$ 226,556	\$ 45,521	\$ 92,276	\$ 176,238	\$ 513,603	\$ 2,439,665	\$ 3,114,178	\$ 6,710,781

December 31, 2019

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	\$ 10,190,448	
After the first year	-	6,109,827	7,217,836	7,418,703	11,455,620	8,025,062	8,574,948	-	
After the second year	-	6,169,858	7,156,309	7,548,387	10,970,548	7,965,701	-	-	
After the third year	-	6,103,460	7,135,341	7,495,744	11,133,431	-	-	-	
After the fourth year	-	6,135,016	7,133,873	7,449,663	-	-	-	-	
After the fifth year	-	6,114,404	7,145,756	-	-	-	-	-	
After the sixth year	-	6,042,254	-	-	-	-	-	-	
Final estimated claim payments	-	6,042,254	7,145,756	7,449,663	11,133,431	7,965,701	8,574,948	10,190,448	
Accumulated claims disbursed	-	5,998,507	6,931,391	7,397,712	10,898,450	7,725,188	7,787,018	5,394,920	
Adjustment	56,981	43,747	214,365	51,951	234,981	240,513	787,930	4,795,528	\$ 6,425,996
Amount recognized in balance sheet	\$ 56,981	\$ 43,747	\$ 214,365	\$ 51,951	\$ 234,981	\$ 240,513	\$ 787,930	\$ 4,940,448	\$ 6,570,916

June 30, 2019

Accident Year	2013Q2	2013Q3-2014Q2	2014Q3-2015Q2	2015Q3-2016Q2	2016Q3-2017Q2	2017Q3-2018Q2	2018Q3-2019Q2	Total
Accumulated estimated claim payments								
End of the								
underwriting year	\$ 15,836,410	\$ 6,483,154	\$ 7,170,324	\$ 10,927,997	\$ 8,351,788	\$ 8,563,452	\$ 9,186,812	
After the first year	17,075,656	6,675,204	7,441,579	11,188,856	8,026,850	8,325,438	-	
After the second year	17,297,430	6,617,395	7,353,789	11,209,255	7,945,756	-	-	
After the third year	17,277,491	6,566,833	7,419,731	11,076,759	-	-	-	
After the fourth year	17,327,532	6,567,427	7,301,127	-	-	-	-	
After the fifth year	17,310,317	6,544,686	-	-	-	-	-	
After the sixth year	17,716,702	-	-	-	-	-	-	
Final estimated claim payments	17,716,702	6,544,686	7,301,127	11,076,759	7,945,756	8,325,438	9,186,812	
Accumulated claims disbursed	17,171,867	6,483,936	7,042,947	10,817,133	7,596,595	7,508,119	5,172,954	
	544,835	60,750	258,180	259,626	349,161	817,319	4,013,858	\$ 6,303,729
Adjustment	-	-	-	-	-	-	145,635	145,635
Amount recognized in balance sheet	\$ 544,835	\$ 60,750	\$ 258,180	\$ 259,626	\$ 349,161	\$ 817,319	\$ 4,159,493	\$ 6,449,364

Note 1: 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.

Note 2: The above tables excludes direct loss reserve of compulsory insurance and inward loss reserve of \$1,532,561 thousand and \$1,139,333 thousand as of June 30, 2020, \$1,575,588 thousand and \$1,138,597 thousand as of December 31, 2019, \$1,438,485 thousand and \$843,300 thousand as of June 30, 2019.

Note 3: The statistic measurement has been revised from moving annual to fiscal annual since the third quarter of 2019, so the presentation for June 30, 2019 is different.

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

	June 30, 2020	December 31, 2019	June 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,696,475,809	\$ 1,653,983,453	\$ 1,512,589,693
Financial assets at FVTOCI	1,310,379,571	1,182,534,102	1,122,648,310
Financial assets for hedging	669,856	548,075	258,198
Measured at amortized cost			
Cash and cash equivalents	449,880,117	413,405,471	327,504,526
Due from the Central Bank and other banks	137,765,455	110,945,093	148,924,269
Investments in debt instruments measured at amortized cost	3,104,500,105	3,068,838,014	2,917,332,569

(Continued)

	June 30, 2020	December 31, 2019	June 30, 2019
Notes and bonds purchased under resale agreements	\$ 66,317,955	\$ 43,586,931	\$ 92,401,508
Discounts and loans, net	2,105,202,259	2,066,761,296	2,103,752,021
Receivables, net	170,470,715	185,049,532	188,568,814
Other financial assets	580,569,220	615,117,482	605,139,145
Guarantee deposits paid	40,208,527	38,396,708	52,529,809
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	124,769,294	111,526,387	140,826,566
Financial liabilities for hedging	65,647	30,894	31,843
Financial liabilities at amortized cost			
Deposits from the Central Bank and Banks	73,500,085	84,108,128	100,140,913
Due to the Central Bank and Banks	410,000	-	-
Notes and bonds sold under repurchase agreements	21,075,281	50,278,533	35,343,325
Commercial paper payable, net	43,139,714	54,018,845	46,160,506
Payables	97,279,092	66,934,725	88,362,798
Deposits and remittances	2,404,243,391	2,303,443,816	2,238,002,001
Bonds payable	127,700,000	118,900,000	120,400,000
Other borrowings	566,726	2,201,364	238,942
Other financial liabilities	629,262,965	676,972,179	671,120,046
Lease liabilities	12,791,433	12,720,337	12,874,914
Guarantee deposits received	18,165,921	18,257,447	6,457,941
			(Concluded)

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	June 30, 2020				December 31, 2019				June 30, 2019			
	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	\$ 499,784,742	\$ 457,809,623	\$ 35,526,280	\$ 6,448,839	\$ 495,159,801	\$ 445,750,414	\$ 42,710,567	\$ 6,698,820	\$ 602,909,992	\$ 520,551,904	\$ 76,881,747	\$ 5,476,341
Bonds	274,872,603	5,017,574	267,419,573	2,435,456	305,294,693	8,748,708	294,583,505	1,962,480	293,360,145	10,715,734	280,765,102	1,879,309
Other	826,586,951	522,440,190	204,637,655	99,509,106	773,731,408	474,400,100	205,203,877	94,127,431	550,010,678	319,918,081	143,853,804	86,238,793
Financial assets at FVTOCI												
Stocks	96,924,646	86,902,082	-	10,022,564	62,877,916	52,330,749	-	10,547,167	63,126,533	53,557,458	152,896	9,416,179
Bonds (Note)	1,126,152,778	113,519,388	1,012,633,390	-	1,050,516,360	107,544,852	942,517,660	453,848	1,060,632,772	104,873,774	955,758,998	-
Other	88,448,217	-	88,448,217	-	70,253,313	-	70,253,313	-	-	-	-	-
Liabilities												
Financial liabilities at FVTPL												
Financial liabilities designated as at FVTPL	46,232,246	-	46,232,246	-	57,604,294	-	57,604,294	-	58,349,871	-	58,349,871	-
Held for trading	4,322,235	4,322,235	-	-	2,510,119	2,510,119	-	-	1,730,115	1,730,115	-	-
Derivative instruments												
Assets												
Financial assets at FVTPL	95,231,513	668,396	85,686,728	8,876,389	79,797,551	1,330,214	67,786,158	10,681,179	66,308,878	1,188,766	54,937,359	10,182,753
Financial assets for hedging	669,856	-	669,856	-	548,075	-	548,075	-	258,198	-	258,198	-
Liabilities												
Financial liabilities at FVTPL	74,214,813	389,551	64,948,873	8,876,389	51,411,974	492,986	40,237,809	10,681,179	80,746,580	522,096	70,041,731	10,182,753
Derivative financial liabilities for hedging	65,647	-	65,647	-	30,894	-	30,894	-	31,843	-	31,843	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

For the six months ended June 30, 2020 and 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 Six Months Ended June 30, 2020		
	Financial Assets		Financial Liabilities
	At FVTPL	At FVTOCI	At FVTPL
Beginning balance	\$ 113,469,910	\$ 11,001,015	\$ 10,681,179
Recognized in profit or loss			
Gain (loss) on financial assets and liabilities at FVTPL	(4,839,287)	-	(1,062,180)
Gain on reclassification using the overlay approach	6,230,809	-	-
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	(31,549)	(94)	-
Other comprehensive gain (loss) reclassified using the overlay approach	(6,230,809)	-	-
Gain (loss) on financial assets at FVTOCI	-	(524,021)	-
Acquisitions or issuances	19,670,654	44,432	70,688
Disposals or settlements	(9,999,606)	(35,038)	(813,298)
Transfers out of Level 3	<u>(1,000,332)</u>	<u>(463,730)</u>	<u>-</u>
Ending balance	<u>\$ 117,269,790</u>	<u>\$ 10,022,564</u>	<u>\$ 8,876,389</u>
	For the Six Months Ended June 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			
Gain on financial assets and liabilities at FVTPL	4,057,667	-	(1,256,599)
Gain on reclassification using the overlay approach	(2,305,993)	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	11,818	51	-
Other comprehensive gain (loss) reclassified using the overlay approach	2,305,993	-	-
Gain (loss) on financial assets at FVTOCI	-	970,612	-
Acquisitions or issuances	12,897,111	83,400	23,000
Disposals or settlements	<u>(10,506,431)</u>	<u>(13,465)</u>	<u>(667,865)</u>
Ending balance	<u>\$ 103,777,196</u>	<u>\$ 9,416,179</u>	<u>\$ 10,182,753</u>

Regarding the above amounts recognized in profit or loss for the six months ended June 30, 2020 and 2019, unrealized losses of \$2,189,880 thousand and unrealized losses of \$2,028,184 thousand were related to financial assets held at the end of the year, respectively.

Regarding the above amounts recognized in profit or loss for the six months ended June 30, 2020 and 2019, unrealized losses of \$1,062,180 thousand and unrealized gains of \$1,256,599 thousand were related to financial liabilities held at the end of the year, 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

June 30, 2020				
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	10%-29%	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.	21%-30%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-32%	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, 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	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.	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%)-265%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	0%-140%	The higher the dividend payout ratio, the higher the fair value estimates

June 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	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%-38%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-21%	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

June 30, 2020				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL	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 FVTOCI	Market approach	Discount for lack of marketability	15%-30%	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, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL	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 FVTOCI	Market approach	Discount for lack of marketability	15%-30%	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.

June 30, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL	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 FVTOCI	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

June 30, 2020				
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, 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

June 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

Cathay Securities and its subsidiaries

June 30, 2020					
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 FVTOCI	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, 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 FVTOCI	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%)

June 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 FVTOCI	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

Except for the accounts whose carrying amounts approximate their fair values, including cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resale agreements, receivables, discount and loans, part of financial assets, guarantee deposits paid, due to the Central Bank and other banks, securities sold under repurchase agreements, commercial paper payables, bonds payables, other borrowings, payables, deposits and remittances, lease liabilities and guarantee deposits received, the fair values of the financial instruments which are not measured at fair value are listed in the following table:

June 30, 2020

Financial assets	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost (Note)	\$ 3,114,393,485	\$ 119,004,008	\$ 3,300,414,371	\$ 758,401	\$ 3,420,176,780

December 31, 2019

Financial assets	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost (Note)	\$ 3,078,552,855	\$ 95,315,301	\$ 3,172,189,998	\$ 4,339,864	\$ 3,271,845,163

June 30, 2019

Financial assets	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost (Note)	\$ 2,931,892,814	\$ 93,211,354	\$ 2,962,775,209	\$ 4,900,864	\$ 3,060,887,427
Other financial assets	1,999,333	-	2,000,211	-	2,000,211

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

June 30, 2020					
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	\$ 190,953	\$ -	Financial assets for hedging	\$ 40,086
Interest rate swaps	1,223,475	-	65,647	Financial liabilities for hedging	(35,661)
December 31, 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	\$ 185,206	\$ -	Financial assets for hedging	\$ 34,498
Interest rate swaps	1,317,138	-	30,894	Financial liabilities for hedging	(31,677)
June 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	\$ 218,706	\$ -	Financial assets for hedging	\$ 34,833
Interest rate swaps	1,359,400	-	31,843	Financial liabilities for hedging	(31,720)

b) Maturities of the nominal amount of hedging instruments and average price or rate

Maturity						
3 Months -						
	1 Month	1-3 Months	1 Year	1-5 Years	Over 5 Years	
<u>June 30, 2020</u>						
Interest rate swaps						
Nominal principal	\$ -	\$ 600,000	\$ 2,339,031	\$ 5,084,444	\$ -	-
Average fixed rate	-	1.7%	1.5%-2.5%	1.7%-2.5%	-	-

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>December 31, 2019</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 2,922,306	\$ 5,194,832	\$ -
Average fixed rate	-	-	1.6%-2.5%	1.7%-2.5%	-

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>June 30, 2019</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 38,840	\$ 8,120,560	\$ -
Average fixed rate	-	-	2.5%	1.6-2.5%	-

c) Hedged items

	For the Six Months Ended June 30, 2020							
	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 Comprehensive 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	\$ (40,086)	\$ 190,953	N/A	\$ 40,086	\$ -	\$ -	\$ (34,340)	Net other non-interest gain
Payables	35,661	(65,647)	N/A	(35,661)	-	-	-	Net other non-interest gain
Discontinued hedge - floating-rate bonds	N/A	N/A	(266)	N/A	N/A	N/A	5	Net other non-interest gain

	For the Six Months Ended June 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 Comprehensive 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	\$ (34,833)	\$ 218,706	N/A	\$ 34,833	\$ -	\$ -	\$ (32,737)	Net other non-interest gain
Discontinued hedge - floating-rate bonds	31,720	(31,843)	N/A	(31,720)	-	-	-	Net other non-interest gain
Discontinued hedge - floating-rate bonds	N/A	N/A	-	N/A	N/A	N/A	-	Net other non-interest gain

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 116,269	\$ 173,288
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	4,429	3,113
Amount reclassified from the cash flow hedge reserve to profit or loss	(34,335)	(32,737)
Income tax	<u>10,152</u>	<u>(420)</u>
Ending balance	<u>\$ 96,515</u>	<u>\$ 143,244</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

June 30, 2020					
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		
Cross currency swaps	\$ 5,020,697	\$ 478,903	\$ -	Financial assets for hedging	\$ (65,709)

December 31, 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		
Cross currency swaps	\$ 9,742,013	\$ 362,869	\$ -	Financial assets for hedging	\$ 93,293

June 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		
Cross currency swaps	\$ 11,447,869	\$ 39,492	\$ -	Financial assets for hedging	\$ (86,560)

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>June 30, 2020</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 5,020,697
Interest rate	-	-	-	-	2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>December 31, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 9,742,013
Interest rate	-	-	-	-	2.20%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285-1.1353

	Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>June 30, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 11,447,869
Interest rate	-	-	-	-	1.59%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1210-1.1353

c) Hedged items

For the Six Months Ended June 30, 2020								
	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		Ineffectiveness for Current Period	Recognized in Profit or loss	Ineffectiveness
Overseas bonds	\$ 5,020,697	\$ -	\$ 65,709	\$ -	Financial assets at amortized cost	\$ 65,709	\$ -	\$ -

For the Six Months Ended June 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		Ineffectiveness for Current Period	Recognized in Profit or loss	Ineffectiveness
Overseas bonds	\$ 11,447,869	\$ -	\$ 86,560	\$ -	Financial assets at amortized cost	\$ 86,560	\$ -	\$ -

- d) Reconciliation for equity component applying hedge accounting and related other comprehensive income were summarized below:

	For the Six Months Ended June 30	
	2020	2019
<u>Foreign currency basis-related period</u>		
Beginning balance	\$ 215,661	\$ -
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	181,743	126,052
Income tax	<u>(36,349)</u>	<u>(25,210)</u>
Ending balance	<u>\$ 361,055</u>	<u>\$ 100,842</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:

June 30, 2020

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial	Cash Collateral	
				Instruments	Received	
Derivative financial instruments	\$ 17,479,724	\$ -	\$ 17,479,724	\$ 2,568,883	\$ 9,339,559	\$ 5,571,282

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial	Cash Collateral	
				Instruments	Received	
Derivative financial instruments	\$ 2,692,495	\$ -	\$ 2,692,495	\$ 2,568,883	\$ 54,335	\$ 69,277

December 31, 2019

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 28,758,412	\$ -	\$ 28,758,412	\$ 2,952,747	\$ 13,341,124	\$ 12,464,541

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 2,956,318	\$ -	\$ 2,956,318	\$ 2,952,747	\$ -	\$ 3,571

June 30, 2019

Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 10,206,701	\$ -	\$ 10,206,701	\$ 9,311,480	\$ 887,759	\$ 7,462

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)	Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 33,155,289	\$ -	\$ 33,155,289	\$ 9,311,480	\$ 11,940,116	\$ 11,903,693

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:

June 30, 2020

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	\$ 78,316,163	\$ -	\$ 78,316,163	\$ 71,905,722	\$ 6,410,441	\$ -

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

June 30, 2020

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	\$ 71,905,722	\$ -	\$ 71,905,722	\$ 71,905,722	\$ -	\$ -

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

December 31, 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	\$ 51,387,906	\$ -	\$ 51,387,906	\$ 49,166,645	\$ 2,221,261	\$ -

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

December 31, 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	\$ 49,166,645	\$ -	\$ 49,166,645	\$ 49,166,645	\$ -	\$ -

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

June 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	\$ 57,364,999	\$ -	\$ 57,364,999	\$ 49,284,816	\$ 2,246,062	\$ 5,834,121

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

June 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	\$ 49,284,816	\$ -	\$ 49,284,816	\$ 49,284,816	\$ -	\$ -

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

Cathay Securities and its subsidiaries

Cathay Securities 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:

June 30, 2020

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	\$ 2,552,990	\$ -	\$ 2,552,990	\$ 3,078,719	\$ -	\$ (525,729)

December 31, 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	\$ 2,098,081	\$ -	\$ 2,098,081	\$ 2,065,100	\$ -	\$ 32,981

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

June 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	\$ 2,326,937	\$ -	\$ 2,326,937	\$ 2,345,004	\$ -	\$ (18,067)

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:

June 30, 2020					
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 FVTOCI Repurchase agreements	\$ 18,644,244	\$ 17,471,502	\$ 18,644,244	\$ 17,471,502	\$ 1,172,742
Financial assets at amortized cost Repurchase agreements	1,100,778	1,050,789	1,114,112	1,050,789	63,323

December 31, 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 FVTOCI Repurchase agreements	\$ 37,202,442	\$ 35,456,986	\$ 37,202,442	\$ 35,456,986	\$ 1,745,456
Financial assets at amortized cost Repurchase agreements	15,538,318	12,723,466	15,346,975	12,723,466	2,623,509

June 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 FVTPL Repurchase agreements	\$ 1,206,421	\$ 1,142,058	\$ 1,206,421	\$ 1,142,058	\$ 64,363
Financial assets at FVTOCI Repurchase agreements	31,994,030	30,230,138	31,994,030	30,230,138	1,763,892
Financial assets at amortized cost Repurchase agreements	1,931,521	1,644,192	1,881,941	1,644,192	237,749

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:

June 30, 2020

Categories 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
<u>Financial assets at FVTOCI</u>					
Repurchase bonds	\$ 3,078,719	\$ 2,552,990	\$ 3,078,719	\$ 2,552,990	\$ 525,729

December 31, 2019

Categories 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
<u>Financial assets at FVTOCI</u>					
Repurchase bonds	\$ 2,065,100	\$ 2,098,081	\$ 2,065,100	\$ 2,098,081	\$ (32,981)

June 30, 2019

Categories 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
<u>Financial assets at FVTOCI</u>					
Repurchase bonds	\$ 2,345,004	\$ 2,326,937	\$ 2,345,004	\$ 2,326,937	\$ 18,067

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) Market risk analysis

a) Sources of market risk

Market risk is the risk that changes in market risk factors, such as the 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 continuously utilize market risk management instruments such as Value at Risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

i. Value at Risk

VaR is the maximum loss on the investment portfolio due to changes in market risk factors over a given period and at a specified confidence level. Currently, Cathay Life and its subsidiaries respectively adopt the one-week VaR at 95% and 99% confidence levels to measure market risk.

ii. Stress testing

In addition to the VaR model, Cathay Life and its subsidiaries carry out regular stress testing to measure the potential risk in the case of extreme and abnormal events.

Cathay Life and its subsidiaries perform stress testing on positions regularly by applying the simple sensitivity test and scenario analysis. Such tests cover the losses on positions which resulted from changes in specific risk factors in various kinds of historical scenarios.

i) Simple sensitivity test

The simple sensitivity test is to measure the changes in the value of the investment portfolio caused by changes in specific risk factors.

ii) Scenario analysis

The scenario analysis is to measure the changes in the total value of the investment positions caused by hypothetical stress events, including the following scenarios:

- Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Life and its subsidiaries evaluate the losses that would be incurred for the current investment portfolio at the time of the event.

- Hypothetical scenario

The Group 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.

The Risk management department regularly performs the stress testing with historical and hypothetical scenarios regularly. The Group' risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

Risk Factor	Variable (+/-)	For the Six Months Ended June 30	
		2020	2019
Equity risk (stock price index)	-10%	\$ (51,731,656)	\$ (58,504,844)
Interest rate risk (yield curve)	+100bps	(116,330,517)	(106,012,649)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(10,257,249)	(12,561,108)

Note 1: Impact of credit spread changes was not considered.

Note 2: Effects of hedging were considered.

Note 3: Data of subsidiaries was not disclosed as Cathay Life assessed that there would be no material impact should the disclosures for the subsidiaries be included.

iii. Sensitivity analysis

Summary of Sensitivity Analysis

For the Six Months Ended June 30, 2020			
Risk Factor	Variable (+/-)	Change in Profit or Loss	Change in Equity
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 5,504,725	\$ 4,855,096
	Appreciation of CNY/USD by 1%	236,143	273,253
	Appreciation of HKD/USD by 1%	3,674	275,598
	Appreciation of EUR/USD by 1%	(58,396)	175,901
	Appreciation of GBP/USD by 1%	797	272,922
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	(1)	(968,024)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(8,482)
	Upward parallel shift of the yield curve (EUR) by 1bp	-	(9,333)
	Upward parallel shift of the yield curve (GBP) by 1bp	-	(4,076)
	Upward parallel shift of the yield curve (NTD) by 1bp	-	(284,826)
	Equity price risk	Increase in equity price by 1%	(15,040)

For the Six Months Ended June 30, 2019

Risk Factor	Variable (+/-)	Change in Profit or Loss	Change in Equity
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 7,992,107	\$ 4,543,104
	Appreciation of CNY/USD by 1%	316,606	480,346
	Appreciation of HKD/USD by 1%	719	489,784
	Appreciation of EUR/USD by 1%	316,323	135,327
	Appreciation of GBP/USD by 1%	176,177	283,826
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	2,040	(886,613)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(16,361)
	Upward parallel shift of the yield curve (AUD) by 1bp	-	(6,520)
	Upward parallel shift of the yield curve (EUR) by 1bp	-	(7,293)
	Upward parallel shift of the yield curve (NTD) by 1bp	286	(90,897)
	Equity price risk	Increase in equity price by 1%	(64,204)

Note 1: Impact of credit spread changes was not considered.

Note 2: Effects of hedging were considered.

Note 3: Change in equity was not included in the impact on the change in profit or loss.

Note 4: Provision or reversal of reserve for foreign exchange fluctuations was not considered in the change in profit or loss due to foreign currency risk.

Note 5: Data of subsidiaries was not disclosed as Cathay Life assessed that there would be no material impact should the disclosures for the subsidiaries be included.

2) 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:

June 30, 2020

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 288,952,301	\$ 21,639,935	\$ 123,425	\$ 95,789,466	\$ 16,100,003	\$ 422,605,130
Financial assets at FVTPL	53,606,504	24,286,661	97,038,092	44,806,629	43,978,292	263,716,178
Financial assets at FVTOCI	47,410,170	38,642,166	152,940,363	387,863,973	268,208,096	895,064,768
Financial assets for hedging	93,403	-	478,903	97,550	-	669,856
Financial assets measured at amortized cost	<u>153,196,803</u>	<u>171,692,421</u>	<u>443,011,157</u>	<u>1,222,827,666</u>	<u>686,354,639</u>	<u>2,677,082,686</u>
	<u>\$ 543,259,181</u>	<u>\$ 256,261,183</u>	<u>\$ 693,591,940</u>	<u>\$ 1,751,385,284</u>	<u>\$ 1,014,641,030</u>	<u>\$ 4,259,138,618</u>
Proportion	12.8%	6.0%	16.3%	41.1%	23.8%	100%

December 31, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 261,553,382	\$ 27,832,083	\$ 185,653	\$ 86,397,047	\$ 16,115,903	\$ 392,084,068
Financial assets at FVTPL	43,409,974	31,448,394	113,252,004	46,690,879	56,395,527	291,196,778
Financial assets at FVTOCI	39,964,295	37,498,812	166,000,546	353,996,509	221,251,605	818,711,767
Financial assets for hedging	87,793	-	362,869	97,413	-	548,075
Financial assets measured at amortized cost	<u>175,262,332</u>	<u>173,472,898</u>	<u>434,046,724</u>	<u>1,167,292,440</u>	<u>663,869,507</u>	<u>2,613,943,901</u>
	<u>\$ 520,277,776</u>	<u>\$ 270,252,187</u>	<u>\$ 713,847,796</u>	<u>\$ 1,654,474,288</u>	<u>\$ 957,632,542</u>	<u>\$ 4,116,484,589</u>
Proportion	12.6%	6.6%	17.3%	40.2%	23.3%	100%

June 30, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 195,533,442	\$ 7,331,966	\$ 113,516	\$ 81,168,881	\$ 6,620,186	\$ 290,767,991
Financial assets at FVTPL	33,644,548	31,573,274	101,246,825	42,922,734	88,946,941	298,334,322
Financial assets at FVTOCI	47,358,130	31,402,115	173,181,278	341,051,661	236,841,561	829,834,745
Financial assets for hedging	100,520	-	39,492	118,186	-	258,198
Financial assets measured at amortized cost	184,004,890	158,459,379	431,426,457	1,101,713,065	626,524,854	2,502,128,645
Other financial assets	-	-	1,999,333	-	-	1,999,333
	<u>\$ 460,641,530</u>	<u>\$ 228,766,734</u>	<u>\$ 708,006,901</u>	<u>\$ 1,566,974,527</u>	<u>\$ 958,933,542</u>	<u>\$ 3,923,323,234</u>
Proportion	11.7%	5.8%	18.1%	39.9%	24.5%	100%

ii. Regional distribution of maximum risk exposure for Cathay Life's secured loans:

June 30, 2020

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 218,350,165	\$ 40,553,204	\$ 60,644,049	\$ 4,734,328	\$ 324,281,746
Non-accrual receivables	<u>843,017</u>	<u>45,272</u>	<u>69,900</u>	<u>-</u>	<u>958,189</u>
	<u>\$ 219,193,182</u>	<u>\$ 40,598,476</u>	<u>\$ 60,713,949</u>	<u>\$ 4,734,328</u>	<u>\$ 325,239,935</u>
Proportion	67.4%	12.5%	18.7%	1.4%	100%

December 31, 2019

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 234,560,225	\$ 40,573,607	\$ 63,399,966	\$ 6,598,385	\$ 345,132,183
Non-accrual receivables	<u>453,880</u>	<u>78,936</u>	<u>124,981</u>	<u>-</u>	<u>657,797</u>
	<u>\$ 235,014,105</u>	<u>\$ 40,652,543</u>	<u>\$ 63,524,947</u>	<u>\$ 6,598,385</u>	<u>\$ 345,789,980</u>
Proportion	68%	11.8%	18.4%	1.8%	100%

June 30, 2019

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 256,204,669	\$ 43,902,906	\$ 68,758,809	\$ 7,501,329	\$ 376,367,713
Non-accrual receivables	<u>345,098</u>	<u>60,018</u>	<u>95,027</u>	<u>-</u>	<u>500,143</u>
	<u>\$ 256,549,767</u>	<u>\$ 43,962,924</u>	<u>\$ 68,853,836</u>	<u>\$ 7,501,329</u>	<u>\$ 376,867,856</u>
Proportion	68.1%	11.6%	18.3%	2.0%	100%

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 obligations 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 financial 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 or borrowers 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 that 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 Crop. 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

	June 30, 2020					
	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	\$ 889,317,152	\$ -	\$ -	\$ -	\$ -	\$ 889,317,152
Financial assets measured at amortized cost	2,655,285,862	-	-	-	(1,561,674)	2,653,724,188
Other financial assets						
Non-investment grade						
Debt instruments at FVTOCI	4,957,183	790,433	-	-	-	5,747,616
Financial assets measured at amortized cost	16,780,348	7,788,475	-	-	(1,210,325)	23,358,498
	December 31, 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	\$ 806,786,368	\$ -	\$ -	\$ -	\$ -	\$ 806,786,368
Financial assets measured at amortized cost	2,586,272,855	-	-	-	(988,749)	2,585,284,106
Other financial assets						
Non-investment grade						
Debt instruments at FVTOCI	11,734,687	190,712	-	-	-	11,925,399
Financial assets measured at amortized cost	25,743,796	3,124,271	-	-	(208,272)	28,659,795
	June 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	\$ 814,202,195	\$ -	\$ -	\$ -	\$ -	\$ 814,202,195
Financial assets measured at amortized cost	2,468,968,397	-	-	-	(1,003,660)	2,467,964,737
Other financial assets	2,000,000	-	-	-	(667)	1,999,333
Non-investment grade						
Debt instruments at FVTOCI	15,439,175	193,375	-	-	-	15,632,550
Financial assets measured at amortized cost	26,447,134	7,000,491	1,402,847	-	(686,564)	34,163,908

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

	June 30, 2020					
	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
Secured loans and non-accrual loans	\$ 316,498,062	\$ 76,332	\$ 8,665,541	\$ -	\$ (2,192,495)	\$ (2,355,369)
						Gross Carrying Amount
						\$ 320,692,071
	June 30, 2020					
	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
Secured loans and non-accrual loans	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)
						Gross Carrying Amount
						\$ 340,964,004

June 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			
Secured loans and non-accrual loans	\$ 369,686,477	\$ 83,312	\$ 7,098,067	\$ -	\$ (1,126,075)	\$ (4,129,037)	\$ 371,612,744

h) 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, 2020	\$ 337,078	\$ 9,666	\$ -	\$ -	\$ 346,744
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(1,691)	1,691	-	-	-
New financial assets originated or purchased	139,398	-	-	-	139,398
Financial assets that have been derecognized during the period	(129,793)	(114,795)	-	-	(244,588)
Changes in models/risk parameters	171,460	267,825	-	-	439,285
Foreign exchange and other movements	(7,308)	(3,868)	-	-	(11,176)
June 30, 2020	<u>\$ 509,144</u>	<u>\$ 160,519</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 669,663</u>
	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	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(99)	99	-	-	-
New financial assets originated or purchased	66,728	-	7	-	66,735
Financial assets that have been derecognized during the period	(160,277)	(17,387)	(12,462)	-	(190,126)
Changes in models/risk parameters	15,566	3,661	-	-	19,227
Foreign exchange and other movements	5,169	115	116	-	5,400
June 30, 2019	<u>\$ 395,367</u>	<u>\$ 3,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,904</u>

ii. Financial assets measured at amortized cost

	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, 2020	\$ 1,043,037	\$ 153,984	\$ -	\$ -	\$ 1,197,021
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(7,977)	7,977	-	-	-
New financial assets originated or purchased	219,671	-	-	-	219,671
Financial assets that have been derecognized during the period	(186,284)	(444,876)	-	-	(631,160)
Changes in models/risk parameters	569,480	1,459,786	-	-	2,029,266
Foreign exchange and other movements	(20,236)	(22,563)	-	-	(42,799)
June 30, 2020	<u>\$ 1,617,691</u>	<u>\$ 1,154,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,771,999</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, 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	146,677	-	-	-	146,677
Financial assets that have been derecognized during the period	(77,045)	(180,095)	(545,978)	-	(803,118)
Changes in models/risk parameters	78,587	(18,161)	(23,535)	-	36,891
Foreign exchange and other movements	9,639	7,997	(28,358)	-	(10,722)
June 30, 2019	<u>\$ 1,061,746</u>	<u>\$ 515,905</u>	<u>\$ 112,573</u>	<u>\$ -</u>	<u>\$ 1,690,224</u>

iii. Other financial assets

	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	\$ 594	\$ -	\$ -	\$ -	\$ 594
Foreign exchange and other movements	73	-	-	-	73
June 30, 2019	<u>\$ 667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 667</u>

iv. Secured loans and non-accrual receivable

	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 Guidelines for Handling Assessment of Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2020	\$ 84,809	\$ 299	\$ 1,146,939	\$ -	\$ 1,232,047	\$ 3,593,929	\$ 4,825,976
Changes due to financial instruments recognized as at January 1							
Transferred to lifetime expected credit losses	(16)	16	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,397)	(74)	1,471	-	-	-	-
Transferred to 12-month expected credit losses	432	(101)	(331)	-	-	-	-
New financial assets originated or purchased	17,514	-	18,403	-	35,917	-	35,917
Financial assets that have been derecognized during the period	(34,141)	(107)	(78,813)	-	(113,061)	-	(113,061)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(1,238,560)	(1,238,560)
Changes in models/risk parameters	290,186	1,005	746,401	-	1,037,592	-	1,037,592
June 30, 2020	<u>\$ 357,387</u>	<u>\$ 1,038</u>	<u>\$ 1,834,070</u>	<u>\$ -</u>	<u>\$ 2,192,495</u>	<u>\$ 2,355,369</u>	<u>\$ 4,547,864</u>

	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 Guidelines for Handling Assessment of Assets	Total
		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	(11)	11	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,281)	(74)	1,355	-	-	-	-
Transferred to 12-month expected credit losses	2,021	(85)	(1,936)	-	-	-	-
New financial assets originated or purchased	39	-	-	-	39	-	39
Financial assets that have been derecognized during the period	(7,862)	(26)	(46,301)	-	(54,189)	-	(54,189)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(997,315)	(997,315)
Changes in models/risk parameters	6,223	123	491,625	-	497,971	-	497,971
June 30, 2019	<u>\$ 89,696</u>	<u>\$ 150</u>	<u>\$ 1,036,229</u>	<u>\$ -</u>	<u>\$ 1,126,075</u>	<u>\$ 4,129,037</u>	<u>\$ 5,255,112</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 the 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>June 30, 2020</u>					
Gross carrying amount (Note)	\$ 20,816,749	\$ 60,442	\$ 36,524	\$ -	\$ 20,913,715
Loss rate	0%	2%	10%	50%	-
Lifetime expected credit losses	-	1,209	3,652	-	4,861

Note: Cathay Life's receivables included notes receivable in the amount of \$94,792 thousand and other receivables in the amount of \$20,818,923 thousand.

	Recognition				
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
<u>December 31, 2019</u>					
Gross carrying amount (Note)	\$ 14,553,629	\$ 74,573	\$ 495	\$ -	\$ 14,628,697
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,491	50	-	1,541

Note: Cathay Life's receivables included notes receivable in the amount of \$80,968 thousand and other receivables in the amount of \$14,547,729 thousand.

	Recognition				
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
<u>June 30, 2019</u>					
Gross carrying amount (Note)	\$ 28,264,701	\$ 99,355	\$ 7,638	\$ -	\$ 28,371,694
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,987	764	-	2,751

Note: Cathay Life's receivables included notes receivable in the amount of \$90,054 thousand and other receivables in the amount of \$28,281,640 thousand.

The movements of loss allowance were as follows:

	For the Six Months Ended June 30	
	2020	2019
Beginning balance	\$ 1,541	\$ 2,346
Provision for the current period	<u>3,320</u>	<u>405</u>
Ending balance	<u>\$ 4,861</u>	<u>\$ 2,751</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 it 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.

	June 30, 2020				
	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	\$ 23,503,492	\$ 496,362	\$ 419,367	\$ 1,061,899	\$ 56,148
Bonds payable (Note 2)	569,589	1,293,120	2,715,000	8,145,000	86,030,000
Lease liabilities (Note 3)	400,661	270,420	634,453	1,390,089	18,229,940
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	3,376,667	372,800	-	-	-
Foreign currency swaps	1,318,971	52,050	-	-	-
December 31, 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	\$ 29,055,173	\$ 281,015	\$ 385,835	\$ 1,195,135	\$ 47,444
Bonds payable (Note 2)	561,650	1,194,411	2,715,000	8,145,000	87,485,000
Lease liabilities (Note 3)	297,218	358,116	568,511	1,375,285	18,287,241
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	1,834,039	298,058	-	-	-
Foreign currency swaps	1,231,198	-	-	-	-
Interest rate swaps	1,481	1,517	3,410	1,259	-
Options	18,016	-	-	-	-
June 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	\$ 25,295,338	\$ 449,205	\$ 320,417	\$ 1,294,005	\$ 34,743
Bonds payable (Note 2)	569,589	1,293,120	2,715,000	8,145,000	88,745,000
Lease liabilities (Note 3)	485,253	277,429	504,322	1,399,277	18,610,802
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	27,127,830	9,895,786	-	-	-
Foreign currency swaps	3,259,246	281,111	-	-	-
Interest rate swaps	4,743	1,148	4,151	2,160	-
Options	111,046	-	-	-	-

Note 1: Income tax payable for consolidated income tax is excluded.

Note 2: For the bonds payable without maturity dates, the contract cash flows were determined for 10 years as remaining periods.

Note 3: For the lease liabilities, the contract cash flows were determined for 1 to 43 years as remaining periods.

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

The approval unit of Cathay United Bank, Indovina Bank and CUBCN Bank's credit risk strategies and significant risk policies is the board of directors. Cathay United Bank's Risk Management Division and its subdivisions assist in reviewing and monitoring risk tolerance ability and risk control procedures; and establish credit approval processes, credit limit management, credit rating information, collateral information, periodic reviews and remedial management systems. The subdivisions include the Market Risk Management Division, Credit and Operational Management Division, Consumer Finance Credit Management Division, Corporate Finance Credit Management Division, and International Credit Management Division. Indovina Bank established the credit risk management department to perform risk management. The credit risk departments for loans, investments, and financial instruments or contracts implement credit risk controls. 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 30 days to 89 days as at the reporting date, 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 based on the following indicators:

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 assesses whether the credit risk of financial assets at each reporting date has increased significantly since the initial recognition based on the following indicators:

i) Past due information

Contract payment is more than 30 days past due for long-term loans or 15 days past due for short-term loans would indicate 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 credit impairment:

i) Notch downgrade

An obligor 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 credit impairment:

i) Past due information

The contract payment is more than 90 days past due for long-term loans or 30 days past due for short-term loans would be classified as a credit-impaired loan.

ii) Loan classification from National Bank of Cambodia

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date 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.

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.

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.

Cathay United Bank and CUBCN Bank perform impairment assessment on debt instruments measured at FVTOCI and those measured at amortized cost in accordance with related requirements:

- i) The EAD is measured at the amortized cost of a financial asset plus its interest receivable.
- ii) The PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated on the basis of the adjusted historical data according to the currently observable data and the looking-forward macroeconomic information (e.g., gross domestic product and economic growth rate, etc.).
- iii) The LGD is selected according to the type of debt instrument based on the information regularly published by Moody's.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change on June 30, 2020.

ii. Indovina Bank

Indovina Bank has grouped their exposures on the basis of shared credit risk characteristic, including product category, counterparty type and enterprise size as follows.

Category	Description
Loan portfolio	Grouped by counterparty type and enterprise size
Bond portfolio	Grouped by product category, external credit rating and payment ranks

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, if 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, if 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 has grouped their exposures on the basis of shared credit risk characteristic including product category and counterparty type as follows:

Category	Description
Loan	Grouped by product characteristics, industry and counterparty type
Credit Card	Grouped 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 recovery 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, if 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 forward-looking adjustments. 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 June 30, 2020 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 the Indovina Bank for the forward-looking adjustments in June 30, 2020 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 June 30, 2020 are as follows.

Segment	Selected Factors
Loans	Change in inflation (%) Change in volume of imports (%) Proportion of investments in GDP (%)
Credit card	Change in volume of exports (%) Proportion of savings in GDP (%) Proportion of current account balance in in GDP (%)

g) Credit risk management policy

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 develops the rating model of business credit after employing statistical methods or the professional judgment from the experts as well as through considering the clients’ relevant information. The model shall be reviewed periodically to verify if the calculated results conform to reality and every parameter shall be revised 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	June 30, 2020	December 31, 2019	June 30, 2019
Irrevocable loan commitments	\$ 129,980,562	\$ 189,579,513	\$ 188,404,566
Credit card commitments	723,895,676	710,712,032	688,834,673
Unused commercial letters of credit	4,751,037	4,496,860	5,556,329
Guarantees on duties and contracts	13,273,076	12,957,304	14,228,978

ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2020	December 31, 2019	June 30, 2019
Financial guarantee contracts	\$ 1,225,345	\$ 1,380,304	\$ 1,738,228
Unused commercial letters of credit	680,992	662,214	1,009,781
Irrevocable loan commitments		-	667

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2020	December 31, 2019	June 30, 2019
Financial guarantee contracts	\$ 20,633	\$ 23,652	\$ 66,582
Credit card commitments	293,663	280,881	318,994
Irrevocable loan commitments	381,103	488,140	-

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	June 30, 2020	December 31, 2019	June 30, 2019
Financial guarantee contracts	\$ 346,652	\$ 427,986	\$ 456,369
Unused commercial letters of credit	262,962	95,593	151,044
Irrevocable loan commitments	1,075,794	1,050,539	822,119

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:

	June 30, 2020			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	\$ 1,577,312,457	\$ 54,015,381	\$ 12,341,397	\$ -	\$ 1,643,669,235
Less: Allowance impairment	(4,169,840)	(2,285,559)	(5,792,161)	-	(12,247,560)
Difference from impairment charged in accordance with regulations	-	-	-	(15,869,760)	(15,869,760)
	<u>\$ 1,573,142,617</u>	<u>\$ 51,729,822</u>	<u>\$ 6,549,236</u>	<u>\$ (15,869,760)</u>	<u>\$ 1,615,551,915</u>

Cathay United Bank and its subsidiaries' receivables:

	June 30, 2020			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	\$ 84,525,983	\$ 1,780,347	\$ 2,210,456	\$ -	\$ 88,516,786
Less: Allowance impairment	(536,899)	(139,995)	(1,685,168)	-	(2,362,062)
Difference from impairment charged in accordance with regulations	-	-	-	(53,037)	(53,037)
	<u>\$ 83,989,084</u>	<u>\$ 1,640,352</u>	<u>\$ 525,288</u>	<u>\$ (53,037)</u>	<u>\$ 86,101,687</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	December 31, 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	\$ 1,500,192,488	\$ 68,503,519	\$ 11,866,187	\$ -	\$ 1,580,562,194
Less: Allowance impairment	(2,753,556)	(1,746,741)	(5,386,493)	-	(9,886,790)
Difference from impairment charged in accordance with regulations	-	-	-	(17,524,498)	(17,524,498)
	<u>\$ 1,497,438,932</u>	<u>\$ 66,756,778</u>	<u>\$ 6,479,694</u>	<u>\$ (17,524,498)</u>	<u>\$ 1,553,150,906</u>

Cathay United Bank and its subsidiaries' receivables:

	December 31, 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	\$ 99,439,051	\$ 1,560,450	\$ 2,265,790	\$ -	\$ 103,265,291
Less: Allowance impairment	(509,882)	(154,306)	(1,660,104)	-	(2,324,292)
Difference from impairment charged in accordance with regulations	-	-	-	(52,976)	(52,976)
	<u>\$ 98,929,169</u>	<u>\$ 1,406,144</u>	<u>\$ 605,686</u>	<u>\$ (52,976)</u>	<u>\$ 100,888,023</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	June 30, 2019			Difference from Impairment Charged in Accordance with "Guidelines for Handling Assessment of Assets"	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,522,690,950	\$ 53,642,589	\$ 13,026,556	\$ -	\$ 1,589,360,095
Less: Allowance impairment	(2,640,108)	(1,300,645)	(5,890,001)	-	(9,830,754)
Difference from impairment charged in accordance with regulations	-	-	-	(17,343,543)	(17,343,543)
	<u>\$ 1,520,050,842</u>	<u>\$ 52,341,944</u>	<u>\$ 7,136,555</u>	<u>\$ (17,343,543)</u>	<u>\$ 1,562,185,798</u>

Cathay United Bank and its subsidiaries' receivables:

	June 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	\$ 97,766,356	\$ 1,436,530	\$ 2,357,661	\$ -	\$ 101,560,547
Less: Allowance impairment	(140,034)	(147,544)	(1,708,425)	-	(1,996,003)
Difference from impairment charged in accordance with regulations	-	-	-	(41,401)	(41,401)
	<u>\$ 97,626,322</u>	<u>\$ 1,288,986</u>	<u>\$ 649,236</u>	<u>\$ (41,401)</u>	<u>\$ 99,523,143</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 Item	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 126,365,511	7.61	\$ 116,211,750	7.28	\$ 105,599,076	6.58
Financial institutions and insurance	79,714,670	4.80	79,217,724	4.96	68,218,050	4.25
Leasing and real estate	143,391,863	8.64	144,353,511	9.04	131,822,481	8.21
Individuals	919,038,313	55.38	904,288,042	56.65	888,965,223	55.39
Others	<u>390,971,143</u>	<u>23.57</u>	<u>352,249,142</u>	<u>22.07</u>	<u>410,330,345</u>	<u>25.57</u>
	<u>\$ 1,659,481,500</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>	<u>\$ 1,604,935,175</u>	<u>100.00</u>

Geographic Region Item	June 30, 2020		December 31, 2019		June 30, 2019	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,360,651,802	81.99	\$ 1,308,219,217	81.95	\$ 1,321,328,812	82.33
Asia	224,404,033	13.52	211,659,637	13.26	202,801,679	12.63
America	51,106,498	3.08	53,564,188	3.36	45,682,393	2.85
Others	<u>23,319,167</u>	<u>1.41</u>	<u>22,877,127</u>	<u>1.43</u>	<u>35,122,291</u>	<u>2.19</u>
	<u>\$ 1,659,481,500</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>	<u>\$ 1,604,935,175</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. The Asset and Liability Management Committee is responsible for the planning of liquidity risk management strategy and the Financial Trading Department is responsible for the implementation, including liquidity risk measurement, interest rate sensitivity analysis, stress testing and continuous contingency planning with quantitative management requirements and systems. Cathay United Bank adjusts its liquidity gap according to its daily funds and market changes to ensure appropriate liquidity. When the liquidity has or expects significant changes, the Cathay United Bank immediately reports to the board of directors.

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 FVTPL, financial assets at FVTOCI, investments in debt instruments at amortised cost, 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.

	June 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 23,361,680	\$ 20,724,462	\$ 15,047,003	\$ 19,105	\$ 59,152,250
Due to the Central Bank and Banks	-	-	-	410,000	410,000
Non-derivative financial liabilities at FVTPL	995,583	288,794	-	38,261,400	39,545,777
Securities sold under repurchase agreements	12,835,997	1,323,836	-	3,940,178	18,100,011
Payables	26,749,985	1,770,080	4,231,709	326,965	33,078,739
Deposits and remittances	358,358,031	1,000,159,846	886,285,419	132,604,192	2,377,407,488
Financial debentures payable	-	84,190	7,123,195	46,800,000	54,007,385
Lease liabilities	121,094	581,063	615,506	2,736,423	4,054,086
Other capital outflow at maturity	13,025,383	24,839,326	8,017,969	1,011,934	46,894,612

	December 31, 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	\$ 22,576,316	\$ 25,750,616	\$ 22,544,961	\$ 25,038	\$ 70,896,931
Non-derivative financial liabilities at FVTPL	-	506,683	91,623	51,704,655	52,302,961
Securities sold under repurchase agreements	24,470,192	15,794,728	-	3,545,494	43,810,414
Payables	16,791,015	2,827,107	42,427	423,028	20,083,577
Deposits and remittances	356,619,761	916,163,370	881,024,339	125,375,198	2,279,182,668
Financial debentures payable	-	618,152	37,111	53,800,000	54,455,263
Lease liabilities	98,283	463,089	555,164	2,675,758	3,792,294
Other capital outflow at maturity	17,889,711	35,241,114	6,346,258	1,096,744	60,573,827

	June 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	\$ 43,144,005	\$ 21,115,272	\$ 20,388,489	\$ 200,259	\$ 84,848,025
Non-derivative financial liabilities at FVTPL	1,045,883	299,638	-	53,000,351	54,345,872
Securities sold under repurchase agreements	16,722,207	3,329,915	-	13,195,368	33,247,490
Payables	25,964,574	2,245,495	4,508,438	387,641	33,106,148
Deposits and remittances	319,837,043	888,605,103	878,880,028	123,255,589	2,210,577,763
Financial debentures payable	1,500,000	-	231,897	53,889,589	55,621,486
Lease liabilities	98,519	498,113	535,316	2,959,540	4,091,488
Other capital outflow at maturity	23,246,636	37,996,265	7,439,586	1,015,628	69,698,115

Additional information about the maturity analysis for lease liabilities:

	June 30, 2020	December 31, 2019	June 30, 2019
Less than 1 year	\$ 1,317,663	\$ 1,116,536	\$ 1,131,948
1-5 years	2,515,040	2,470,871	2,799,757
5-10 years	221,383	204,253	159,783
Over 10 years	-	634	-
	<u>\$ 4,054,086</u>	<u>\$ 3,792,294</u>	<u>\$ 4,091,488</u>

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:

	June 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments	\$ 3,389	\$ 599,450	\$ 13,423	\$ 842	\$ 617,104
Interest rate derivative instruments	<u>466,488</u>	<u>473,143</u>	<u>1,291,179</u>	<u>37,769,550</u>	<u>40,000,360</u>
	<u>\$ 469,877</u>	<u>\$ 1,072,593</u>	<u>\$ 1,304,602</u>	<u>\$ 37,770,392</u>	<u>\$ 40,617,464</u>
	June 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments	\$ 131,322	\$ 95,306	\$ 7,545	\$ 92	\$ 234,265
Interest rate derivative instruments	<u>53,997</u>	<u>195,095</u>	<u>501,056</u>	<u>20,153,630</u>	<u>20,903,778</u>
	<u>\$ 185,319</u>	<u>\$ 290,401</u>	<u>\$ 508,601</u>	<u>\$ 20,153,722</u>	<u>\$ 21,138,043</u>
	June 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments	\$ 65,606	\$ 342,073	\$ 7,124	\$ 235	\$ 415,038
Interest rate derivative instruments	<u>149,267</u>	<u>408,225</u>	<u>343,931</u>	<u>21,539,628</u>	<u>22,441,051</u>
	<u>\$ 214,873</u>	<u>\$ 750,298</u>	<u>\$ 351,055</u>	<u>\$ 21,539,863</u>	<u>\$ 22,856,089</u>

Gross settled derivative financial instruments engaged by Cathay United Bank include:

- i) Foreign exchange derivative instruments: Currency 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:

	June 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments					
Cash outflow	\$ (2,245,896)	\$ (4,638,089)	\$ (1,366,440)	\$ (250,035)	\$ (8,500,460)
Cash inflow	1,156	9,425	-	-	10,581
Interest rate derivative instruments					
Cash outflow	-	(43,987)	(115,250)	(130,095)	(289,332)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	<u>(2,245,896)</u>	<u>(4,682,076)</u>	<u>(1,481,690)</u>	<u>(380,130)</u>	<u>(8,789,792)</u>
Cash inflow subtotal	<u>1,156</u>	<u>9,425</u>	<u>-</u>	<u>-</u>	<u>10,581</u>
Net cash flow	<u>\$ (2,244,740)</u>	<u>\$ (4,672,651)</u>	<u>\$ (1,481,690)</u>	<u>\$ (380,130)</u>	<u>\$ (8,779,211)</u>

	December 31, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments					
Cash outflow	\$ (3,014,684)	\$ (7,300,980)	\$ (1,041,437)	\$ (110,918)	\$ (11,468,019)
Cash inflow	15,580	6,979	638	-	23,197
Interest rate derivative instruments					
Cash outflow	(40,869)	(156)	(6,949)	(337,556)	(385,530)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,055,553)	(7,301,136)	(1,048,386)	(448,474)	(11,853,549)
Cash inflow subtotal	15,580	6,979	638	-	23,197
Net cash flow	<u>\$ (3,039,973)</u>	<u>\$ (7,294,157)</u>	<u>\$ (1,047,748)</u>	<u>\$ (448,474)</u>	<u>\$ (11,830,352)</u>
	June 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments					
Cash outflow	\$ (1,893,030)	\$ (4,033,363)	\$ (862,517)	\$ (99,692)	\$ (6,888,602)
Cash inflow	40,764	34,355	4,998	-	80,117
Interest rate derivative instruments					
Cash outflow	(55,667)	(153,647)	(17,470)	(596,550)	(823,334)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(1,948,697)	(4,187,010)	(879,987)	(696,242)	(7,711,936)
Cash inflow subtotal	40,764	34,355	4,998	-	80,117
Net cash flow	<u>\$ (1,907,933)</u>	<u>\$ (4,152,655)</u>	<u>\$ (874,989)</u>	<u>\$ (696,242)</u>	<u>\$ (7,631,819)</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 line in a financing guarantee agreement

Maturity analysis of off-balance sheet items are shown as follows:

June 30, 2020

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 93,606,499	\$ 30,621,737	\$ 5,752,326	\$ 129,980,562
Credit card commitments	23,639,720	233,315,860	466,940,096	723,895,676
Financial guarantee contracts	13,499,073	4,494,904	30,136	18,024,113

December 31, 2019

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 138,846,179	\$ 41,654,205	\$ 9,079,129	\$ 189,579,513
Credit card commitments	53,161,705	238,534,313	419,016,014	710,712,032
Financial guarantee contracts	11,989,747	5,406,180	58,237	17,454,164

June 30, 2019

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 136,173,125	\$ 40,595,596	\$ 11,635,845	\$ 188,404,566
Credit card commitments	25,421,014	238,879,325	424,534,334	688,834,673
Financial guarantee contracts	14,475,381	4,967,346	342,580	19,785,307

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 for the purpose of earning profit from the 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 to 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.

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 the 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.

June 30, 2020				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 113,765	\$ 194,699	\$ 67,718	\$ 114,060
Foreign exchange	168,445	371,160	35,686	371,160
Equity securities price	301,361	791,984	103,986	435,087

December 31, 2019				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 92,619	\$ 212,043	\$ 40,550	\$ 119,090
Foreign exchange	110,161	198,936	35,686	121,699
Equity securities price	256,121	393,133	159,476	248,133

June 30, 2019				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 100,245	\$ 254,960	\$ 40,550	\$ 75,396
Foreign exchange	145,203	202,948	97,511	97,511
Equity securities price	300,224	413,402	219,244	332,335

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 the results will be reported to the executive management.

Stress Test				
Market/Product	Scenario	June 30, 2020	December 31, 2019	June 30, 2019
Stock market	Major stock exchanges +15%	\$ 1,472,693	\$ 2,275,627	\$ 2,305,991
	Major stock exchanges -15%	(1,472,693)	(2,275,627)	(2,305,991)
Interest rate/bond market	Major interest rate +100bp	(639,880)	(2,123,313)	(1,167,973)
	Major interest rate -100bp	72,440	1,761,718	1,777,109
Foreign exchange market	Major currencies +3%	361,687	232,248	123,303
	Major currencies -3 %	(342,281)	(219,225)	(113,652)
Composite	Major Stock Exchanges -15%	(1,750,886)	(4,166,692)	(3,350,661)
	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, forward rate agreements and interest rate collar.

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 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.

		June 30, 2020	
Risk Factors	Changes (+/-)	Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 90,129	\$ -
	HKD+1%	(8,621)	-
	JPY+1%	676	-
	AUD+1%	(875)	-
	CNY+1%	6,261	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	2,891	-
	Yield curves (HKD) parallel shift+1bp	90	-
	Yield curves (AUD) parallel shift+1bp	(25)	-
	Yield curves (CNY) parallel shift+1bp	(889)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	(4,657)	102,837

		December 31, 2019	
Risk Factors	Changes (+/-)	Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 78,082	\$ -
	HKD+1%	(26,787)	-
	JPY+1%	(1,077)	-
	AUD+1%	(926)	-
	CNY+1%	4,109	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(8,600)	-
	Yield curves (HKD) parallel shift+1bp	70	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(385)	-
	Yield curves (CNY) parallel shift+1bp	(1,097)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	2,761	148,947

		June 30, 2019	
Risk Factors	Changes (+/-)	Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 24,088	\$ -
	HKD+1%	(159)	-
	JPY+1%	(2,652)	-
	AUD+1%	(457)	-
	CNY+1%	6,400	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(2,850)	-
	Yield curves (HKD) parallel shift+1bp	22	-
	Yield curves (JPY) parallel shift+1bp	(1)	-
	Yield curves (AUD) parallel shift+1bp	(36)	-
	Yield curves (CNY) parallel shift+1bp	(1,066)	-
	Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	1,060

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, which 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.

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

To evaluate the loss 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, put related changes in related risk factors to the current investment portfolio and consider 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 (+/-)	June 30, 2020	December 31, 2019	June 30, 2019
Equity risk (stock index)	-10%	\$ (590,870)	\$ (504,117)	\$ (411,370)
Interest rate risk (yield curve)	+20bps	(141,223)	(150,339)	(158,815)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(112,412)	(115,390)	(85,204)

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.

- 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 39.

- 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.

- 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

For the Six Months Ended June 30, 2020			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1%	\$ 21,987	\$ 4,630
	CNY appreciates 1%	2,479	-
	HKD appreciates 1%	669	3,683
	EUR appreciates 1%	113	272
	VND appreciates 1%	-	6,101
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,230)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(59)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,093)	(754)
Equity securities price sensitivity	Increases 1% in equity price	-	59,087

For the Year Ended December 31, 2019

Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1%	\$ 24,084	\$ 2,756
	CNY appreciates 1%	2,506	-
	HKD appreciates 1%	587	4,146
	EUR appreciates 1%	114	318
	VND appreciates 1%	-	6,154
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,513)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(81)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,189)	(811)
Equity securities price sensitivity	Increases 1% in equity price	-	50,412

For the Six Months Ended June 30, 2019

Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 21,137	\$ 946
	CNY appreciates 1% against the NTD	2,561	-
	HKD appreciates 1% against the NTD	2,298	4,066
	EUR appreciates 1% against the NTD	92	273
	VND appreciates 1% against the NTD	-	6,296
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,463)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(83)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,516)	(952)
Equity securities price sensitivity	1% increase in equity security price	-	41,137

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: 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 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 and its subsidiaries' financial assets:

June 30, 2020

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 9,434,906	\$ -	\$ -	\$ -	\$ 208,728	\$ 9,643,634
Financial assets at FVTPL	661,950	-	-	-	-	661,950
Financial assets at FVTOCI	761,622	-	-	-	-	761,622
Financial assets at amortized cost	1,908,386	341,935	1,421,442	3,104,875	1,737,215	8,513,853
Total	\$ 12,766,864	\$ 341,935	\$ 1,421,442	\$ 3,104,875	\$ 1,945,943	\$ 19,581,059
Proportion of each region to total	65.19%	1.75%	7.26%	15.86%	9.94%	100%

December 31, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,482,899	\$ -	\$ -	\$ -	\$ 184,376	\$ 10,667,275
Financial assets at FVTPL	873,756	-	-	-	-	873,756
Financial assets at FVTOCI	754,014	-	-	-	-	754,014
Financial assets at amortized cost	1,911,928	347,998	1,461,335	3,171,747	1,802,081	8,695,089
Total	\$ 14,022,597	\$ 347,998	\$ 1,461,335	\$ 3,171,747	\$ 1,986,457	\$ 20,990,134
Proportion	66.81%	1.66%	6.96%	15.11%	9.46%	100.00%

June 30, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,944,858	\$ -	\$ -	\$ -	\$ 228,550	\$ 11,173,408
Financial assets at FVTPL	781,810	-	-	-	-	781,810
Financial assets at FVTOCI	758,078	-	-	-	-	758,078
Financial assets at amortized cost	1,914,874	359,954	1,508,706	3,293,061	1,818,836	8,895,431
Total	\$ 14,399,620	\$ 359,954	\$ 1,508,706	\$ 3,293,061	\$ 2,047,386	\$ 21,608,727
Proportion of each region to total	66.64%	1.67%	6.98%	15.24%	9.47%	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 collaterals 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.

To measure expected credit losses, Cathay Century multiplies 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 Century also considers the effect of time value of money to calculate the 12-month expected credit losses and the 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 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 Century and its subsidiaries take forward-looking information into consideration when measuring expected credit losses of the financial assets. For example, the default rate used in the bond measurement is based on the default rate regularly published by the International Credit Rating Agency (Moody's) and adjusted according to general economic information.

f) Gross carrying amount of maximum credit risk exposure and category of credit quality

i. Financial assets of Cathay Century and its subsidiaries

	June 30, 2020					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 761,622	\$ -	\$ -	\$ -	\$ -	\$ 761,622
Financial assets measured at amortized cost	8,243,816	-	-	-	(5,656)	8,238,160
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	-	293,391	-	-	(17,698)	275,693
	December 31, 2019					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 754,014	\$ -	\$ -	\$ -	\$ -	\$ 754,014
Financial assets measured at amortized cost	8,698,998	-	-	-	(3,909)	8,695,089
	June 30, 2019					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 758,078	\$ -	\$ -	\$ -	\$ -	\$ 758,078
Financial assets measured at amortized cost	8,899,544	-	-	-	(4,113)	8,895,431

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 of Cathay Century and its subsidiaries

	June 30, 2020					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3			Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	
Secured loans	\$ 219,564	\$ -	\$ -	\$ -	\$ (2,689)	\$ 216,875

	December 31, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3			Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	
Secured loans	\$ 232,652	\$ -	\$ -	\$ -	\$ (2,803)	\$ 229,849

	June 30, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3			Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	
Secured loans	\$ 228,066	\$ -	\$ -	\$ -	\$ (2,722)	\$ 225,344

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, 2020	\$ 66	\$ -	\$ -	\$ -	\$ 66
Changes in models/risk parameters	47	-	-	-	47
June 30, 2020	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113</u>
January 1, 2019	\$ 148	\$ -	\$ -	\$ -	\$ 148
Changes in models/risk parameters	(78)	-	-	-	(78)
June 30, 2019	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</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, 2020	\$ 3,909	\$ -	\$ -	\$ -	\$ 3,909
Changes due to financial instruments recognized as at January 1	(523)	-	523	-	-
Changes in models/risk parameters	2,270	-	17,175	-	19,445
June 30, 2020	<u>\$ 5,656</u>	<u>\$ -</u>	<u>\$ 17,698</u>	<u>\$ -</u>	<u>\$ 23,354</u>
January 1, 2019	\$ 3,587	\$ -	\$ -	\$ -	\$ 3,587
Changes in models/risk parameters	526	-	-	-	526
June 30, 2019	<u>\$ 4,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,113</u>

iii. Secured loans

	Lifetime Expected Credit Losses					Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of 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, 2020	\$ 66	\$ -	\$ -	\$ -	\$ 66	\$ 2,737	\$ 2,803
Changes in models/risk parameters	240	-	-	-	240	-	240
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(354)	(354)
June 30, 2020	<u>\$ 306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306</u>	<u>\$ 2,383</u>	<u>\$ 2,689</u>
January 1, 2019	\$ 53	\$ -	\$ -	\$ -	\$ 53	\$ 2,832	\$ 2,885
Changes in models/risk parameters	3	-	-	-	3	-	3
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(166)	(166)
June 30, 2019	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 2,666</u>	<u>\$ 2,722</u>

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:

June 30, 2020

	Not Overdue	Overdue	Total
Carrying amount	\$ 2,155,079	\$ 288,588	\$ 2,443,667
Expected credit loss rate	0.99%	5.14%	
Lifetime expected credit losses	\$ 21,384	\$ 14,829	\$ 36,213

December 31, 2019

	Not Overdue	Overdue	Total
Carrying amount	\$ 1,654,354	\$ 724,959	\$ 2,379,313
Expected credit loss rate	0.97%	3.05%	
Lifetime expected credit losses	\$ 16,026	\$ 22,108	\$ 38,134

June 30, 2019

	Not Overdue	Overdue	Total
Carrying amount	\$ 2,139,244	\$ 231,602	\$ 2,370,846
Expected credit loss rate	1.00%	15.48%	
Lifetime expected credit losses	\$ 21,326	\$ 35,840	\$ 57,166

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 and its subsidiaries established a completed capital liquidity management by assessing the business features and short-term cash flow. Considering the trading volume and holding position, Cathay Century and its subsidiaries carefully manage 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.

June 30, 2020

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 4,683,426	\$ 12,543	\$ 8,983	\$ 9,025	\$ -
Lease liabilities	67,451	61,823	27,445	1,183	-
<u>Derivative financial liabilities</u>					
Swap	500	-	-	-	-

December 31, 2019

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,377,416	\$ 12,401	\$ 6,359	\$ 7,635	\$ -
Lease liabilities	66,810	63,716	81,377	538	-
<u>Derivative financial liabilities</u>					
Swap	367	-	-	-	-

June 30, 2019

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,072,475	\$ 45,130	\$ 3,483	\$ 7,050	\$ -
Lease liabilities	33,970	15,918	12,176	4,726	-
<u>Derivative financial liabilities</u>					
Swap	77,241	-	-	-	-

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 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 and its subsidiaries compile the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet dates and liquidity of overall foreign currency. Capital allocation planning is based on the compiled structure analysis as of the balance sheet dates. In addition, conducting capital liquidity simulation operations regularly ensures that there are corresponding contingency measures in the extreme situations which can cover the funding gap. 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. According to the indicators and regulations of market liquidity management, the investment business unit should assume the control of market liquidity risk when entering into a buy-in agreement.

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 the 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 lacks proper responses to the competitors or industrial variations.

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 semi-annually, 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 by written notice 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 volatility 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 Six Months Ended June 30, 2020			
	Average	Highest	Lowest	End of Period
VaR	\$ 24,154	\$ 40,366	\$ 11,733	\$ 26,721

	For the Six Months Ended June 30, 2019			
	Average	Highest	Lowest	End of Period
VaR	\$ 15,071	\$ 20,355	\$ 9,609	\$ 19,044

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. Customized or extreme scenarios which take rapid changes in foreign and domestic financial environments into consideration are also performed aperiodically 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 Six Months Ended June 30, 2020
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (145,837)
Interest rate risk (yield curve)	+100bps	(163,653)
Exchange rate risk (exchange rate)	3%	26,476
Product risk (price)	-10%	21

**For the Six Months Ended June 30, 2019
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (103,652)
Interest rate risk (yield curve)	+100bps	(91,890)
Exchange rate risk (exchange rate)	3%	(4,905)
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.

Probability of default 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) with 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:

	Debt Instrument Investments	Receivables	Other Receivables	Overdue Receivables	Securities Financing Receivables	Security Lending Receivables	Futures Trading Margins Receivable	Total
Balance at January 1, 2020	\$ 852	\$ 96	\$ 17	\$ 94,993	\$ 166	\$ 16	\$ -	\$ 96,140
Increase (decrease)	<u>1,039</u>	<u>21</u>	<u>(8)</u>	<u>(231)</u>	<u>88</u>	<u>(1)</u>	<u>29</u>	<u>937</u>
Balance at June 30, 2020	<u>\$ 1,891</u>	<u>\$ 117</u>	<u>\$ 9</u>	<u>\$ 94,762</u>	<u>\$ 254</u>	<u>\$ 15</u>	<u>\$ 29</u>	<u>\$ 97,077</u>
Balance at January 1, 2019	\$ 1,020	\$ 88	\$ 12	\$ 95,047	\$ 132	\$ 7	\$ -	\$ 96,306
Increase (decrease)	<u>(55)</u>	<u>9</u>	<u>(1)</u>	<u>(75)</u>	<u>1</u>	<u>6</u>	<u>-</u>	<u>(115)</u>
Balance at June 30, 2019	<u>\$ 965</u>	<u>\$ 97</u>	<u>\$ 11</u>	<u>\$ 94,972</u>	<u>\$ 133</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 96,191</u>

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of June 30, 2020, December 31, 2019 and June 30, 2019, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$7,214,059 thousand, \$7,100,772 thousand and \$7,349,536 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, 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.

June 30, 2020					
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	\$ 566,726	\$ -	\$ -	\$ -	\$ 566,726
Commercial paper payable	2,549,714	-	-	-	2,549,714
Financial liabilities at FVTPL	4,688,791	-	-	-	4,688,791
Liabilities for bonds with repurchase agreements	2,552,990	-	-	-	2,552,990
Short sale margins and payables for short sale collateral received	33,487	66,974	100,461	401,837	602,759
Securities lending margin - deposit received	641	1,282	1,923	7,693	11,539
Futures trader's equity	9,709,712	-	-	-	9,709,712
Equity for each customer in the account	41,849	-	-	-	41,849
Accounts payable	10,090,137	-	232,913	178,397	10,501,447
Other financial liabilities	12,996	-	-	-	12,996
Lease liabilities	7,090	13,860	18,644	62,362	101,956
Others	59,190	-	-	-	59,190
Total	<u>\$ 30,313,323</u>	<u>\$ 82,116</u>	<u>\$ 353,941</u>	<u>\$ 650,289</u>	<u>\$ 31,399,669</u>
% to the total	96.54%	0.26%	1.13%	2.07%	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.

June 30, 2020					
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	\$ 3,548,916	\$ -	\$ -	\$ -	\$ 3,548,916
Financial assets at FVTPL					
Lent securities	3,563	-	-	-	3,563
Operation securities	6,607,950	-	-	-	6,607,950
Open-end funds and beneficiary certificates	30,009	-	-	-	30,009
Call option-futures	33,985	-	-	-	33,985
Futures trading margin	610,406	-	-	-	610,406
Structured products	99,990	-	-	-	99,990
Financial assets at FVTOCI - current	3,078,719	-	-	-	3,078,719
Securities financing receivables	176,031	347,638	521,457	2,085,826	3,130,952
Refinancing margin and refinancing deposits receivable	2,231	4,462	6,693	26,771	40,157
Security lending receivable	25,698	51,396	77,093	-	154,187
Customer's margin accounts	9,718,029	-	-	-	9,718,029
Security lending deposits price and security lending margin deposits paid	32,674	65,348	98,022	392,096	588,140
Receivables	8,387,411	-	-	21,976	8,409,387
Others	1,406,061	1,600	2,400	900,000	2,310,061
	<u>33,761,673</u>	<u>470,444</u>	<u>705,665</u>	<u>3,426,669</u>	<u>38,364,451</u>
Residual cash	<u>\$ 3,448,350</u>	<u>\$ 388,328</u>	<u>\$ 351,724</u>	<u>\$ 2,776,380</u>	<u>\$ 6,964,782</u>

December 31, 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	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 2,201,364	\$ -	\$ -	\$ -	\$ 2,201,364
Commercial paper payable	5,538,845	-	-	-	5,538,845
Financial liabilities at FVTPL	2,961,544	-	-	-	2,961,544
Liabilities for bonds with repurchase agreements	2,098,081	-	-	-	2,098,081
Short sale margins and payables for short sale collateral received	55,597	111,194	166,791	667,165	1,000,747
Futures trader's equity	7,358,470	-	-	-	7,358,470
Equity for each customer in the account	9,161	-	-	-	9,161
Accounts payable	5,821,287	-	192,171	136,016	6,149,474
Other financial liabilities	67,179	-	-	-	67,179
Lease liabilities - current	6,921	13,849	20,271	36,141	77,182
Others	36,008	-	-	-	36,008
Total	<u>\$ 26,154,457</u>	<u>\$ 125,043</u>	<u>\$ 379,233</u>	<u>\$ 839,322</u>	<u>\$ 27,498,055</u>
% to the total	<u>95.11%</u>	<u>0.45%</u>	<u>1.38%</u>	<u>3.06%</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.

December 31, 2019

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	\$ 2,598,923	\$ -	\$ -	\$ -	\$ 2,598,923
Financial assets at FVTPL					
Lent securities	353,945	-	-	-	353,945
Operation securities	8,739,503	-	-	-	8,739,503
Open-end funds and beneficiary certificates	14,918	-	-	-	14,918
Call option-futures	35,370	-	-	-	35,370
Futures trading margin	1,115,968	-	-	-	1,115,968
Structured products	67,448	-	-	-	67,448
Financial assets at FVTOCI - current	2,065,100	-	-	-	2,065,100
Securities financing receivables	185,432	366,560	549,840	2,199,355	3,301,187
Refinancing margin and refinancing deposits receivable	2,383	4,766	7,149	28,591	42,889
Security lending receivable	28,112	55,760	83,637	-	167,509
Customer's margin accounts	7,366,953	-	-	-	7,366,953
Security lending deposits price and security lending margin deposits paid	70,653	141,306	211,959	847,838	1,271,756
Receivables	5,582,125	-	-	12,742	5,594,867
Others	365,863	-	-	900,000	1,265,863
	<u>28,592,696</u>	<u>568,392</u>	<u>852,585</u>	<u>3,988,526</u>	<u>34,002,199</u>
Residual cash	<u>\$ 2,438,239</u>	<u>\$ 443,349</u>	<u>\$ 473,352</u>	<u>\$ 3,149,204</u>	<u>\$ 6,504,144</u>

June 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	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 165,942	\$ -	\$ -	\$ -	\$ 165,942
Commercial paper payable	7,088,506	-	-	-	7,088,506
Financial liabilities at FVTPL	2,055,872	-	-	-	2,055,872
Liabilities for bonds with repurchase agreements	2,326,937	-	-	-	2,326,937
Short sale margins and payables for short sale collateral received	32,493	64,986	97,479	389,915	584,873
Securities lending margin - deposit received	2,313	4,626	6,939	27,758	41,636
Futures trader's equity	6,094,733	-	-	-	6,094,733
Equity for each customer in the account	6,214	-	-	-	6,214
Payables	7,032,437	-	-	394,491	7,426,928
Other financial liabilities	242,897	-	-	-	242,897
Lease liabilities - current	6,306	12,883	18,827	37,131	75,147
Others	107,652	-	-	-	107,652
Total	<u>\$ 25,162,302</u>	<u>\$ 82,495</u>	<u>\$ 123,245</u>	<u>\$ 849,295</u>	<u>\$ 26,217,337</u>
% to the total	<u>95.98%</u>	<u>0.31%</u>	<u>0.47%</u>	<u>3.24%</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.

June 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	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 2,832,066	\$ -	\$ -	\$ -	\$ 2,832,066
Financial assets at FVTPL					
Operation securities	8,143,860	-	-	-	8,143,860
Call option-futures	51,503	-	-	-	51,503
Futures trading margin	1,005,851	-	-	-	1,005,851
Structured products	62,354	-	-	-	62,354
Financial assets at FVTOCI - current	2,345,004	-	-	-	2,345,004
Securities financing receivables	152,006	299,342	449,013	1,796,054	2,696,415
Refinancing margin and refinancing deposits receivable	442	884	1,326	5,312	7,964
Security lending receivable	121,773	-	-	-	121,773
Customer's margin accounts	6,101,389	-	-	-	6,101,389
Security lending deposits price and security lending margin deposits paid	55,383	110,766	166,149	664,588	996,886
Receivables	6,064,752	-	-	11,742	6,076,494
Others	1,010,546	-	-	900,000	1,910,546
	<u>27,946,929</u>	<u>410,992</u>	<u>616,488</u>	<u>3,377,696</u>	<u>32,352,105</u>
Residual cash	<u>\$ 2,784,627</u>	<u>\$ 328,497</u>	<u>\$ 493,243</u>	<u>\$ 2,528,401</u>	<u>\$ 6,134,768</u>

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. Fund raising: (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 June 30, 2020, December 31, 2019 and June 30, 2019, the Group provided loans amounting to GBP 345,000 thousand as financial support to the entities for operation and investment needs.

2) Unconsolidated structured entities

a) Cathay Life and its subsidiaries hold interests in structured entities which are not consolidated in Cathay Life and its subsidiaries' consolidated financial statements and the Group 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 June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<u>June 30, 2020</u>	
	<u>Private Equity Funds</u>	<u>Asset-backed Securities</u>
Financial assets at FVTPL	\$ 99,497,539	\$ 36,180,034
Financial assets at FVTOCI	-	51,957,648
Financial assets measured at amortized cost	-	<u>133,722,037</u>
	<u>\$ 99,497,539</u>	<u>\$ 221,859,719</u>
	<u>December 31, 2019</u>	
	<u>Private Equity Funds</u>	<u>Asset-backed Securities</u>
Financial assets at FVTPL	\$ 94,120,839	\$ 33,447,848
Financial assets at FVTOCI	-	47,465,038
Financial assets measured at amortized cost	-	<u>191,072,559</u>
	<u>\$ 94,120,839</u>	<u>\$ 271,985,445</u>

	June 30, 2019	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 86,235,193	\$ 32,004,612
Financial assets at FVTOCI	-	33,249,074
Financial assets measured at amortized cost	<u>-</u>	<u>181,855,837</u>
	<u>\$ 86,235,193</u>	<u>\$ 247,109,523</u>

- c) 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

As of June 30, 2020, December 31, 2019 and June 30, 2019, 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:

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets at FVTOCI	\$ 26,832,487	\$ 27,942,654	\$ 19,484,368
Investments in debt instruments measured at amortized cost	<u>40,086,918</u>	<u>38,848,276</u>	<u>49,127,198</u>
	<u>\$ 66,919,405</u>	<u>\$ 66,790,930</u>	<u>\$ 68,611,566</u>

- d) 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

As of June 30, 2020, December 31, 2019 and June 30, 2019, the carrying amounts of assets recognized by Cathay Century relating to its interests in unconsolidated structured entities are disclosed as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets at FVTPL	\$ 29,189	\$ 79,951	\$ 70,097
Investments assets measured at amortized cost	<u>564,659</u>	<u>591,412</u>	<u>628,838</u>
	<u>\$ 593,848</u>	<u>\$ 671,363</u>	<u>\$ 698,935</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.

a. Capital adequacy ratio of the Group

Item	June 30, 2020		
	Shareholding Proportion of the Company	Eligible Capital	Statutory Capital Requirements
The Company	100.00%	\$ 775,483,123	\$ 885,969,403
Cathay United Bank	100.00%	269,328,744	184,774,599
Cathay Securities	100.00%	6,614,144	2,965,910
Cathay Life	100.00%	556,457,792	320,943,717
Cathay Century	100.00%	10,481,157	6,821,154
Cathay Venture	75.00%	4,355,729	2,197,421
Cathay Securities Investment Trust	100.00%	2,458,979	1,874,006
Less: Deduction items		<u>(914,875,622)</u>	<u>(870,599,005)</u>
		<u>\$ 710,304,046</u>	<u>\$ 534,947,205</u>
Capital adequacy ratio of the Group			132.78%

Item	June 30, 2019		
	Shareholding Proportion of the Company	Eligible Capital	Statutory Capital Requirements
The Company	100.00%	\$ 688,204,856	\$ 776,273,654
Cathay United Bank	100.00%	248,548,081	182,215,407
Cathay Securities	100.00%	5,580,766	1,982,452
Cathay Life	100.00%	534,981,842	321,630,431
Cathay Century	100.00%	10,889,230	5,926,867
Cathay Venture	100.00%	5,593,379	2,865,021
Cathay Securities Investment Trust	100.00%	2,336,644	1,700,800
Less: Deduction items		<u>(811,842,900)</u>	<u>(763,971,818)</u>
		<u>\$ 684,291,898</u>	<u>\$ 528,622,814</u>

Capital adequacy ratio of the Group 129.45%

b. Eligible capital

Item	June 30, 2020 Amount
Ordinary shares	\$ 131,692,102
Non-cumulative perpetual preferred stock and non-cumulative subordinated debt without maturity dates - qualifying as bank-level Tier I Capital	15,333,000
Other preferred stock and subordinated financial debentures	-
Capital received in advance	-
Capital surplus	177,254,459
Legal reserve	51,967,688
Special reserve	149,894,910
Retained earnings	126,826,108
Equity adjustments	122,832,628
Less: Goodwill	-
Less: Deferred assets	(317,772)
Less: Treasury stock	-
Total eligible capital	<u>\$ 775,483,123</u>

Items	<u>June 30, 2019</u> Amount
Ordinary shares	\$ 125,632,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates - qualifying as bank-level Tier I Capital	15,333,000
Other preferred stock and subordinated financial debentures	-
Capital received in advance	-
Capital surplus	161,689,209
Legal reserve	46,122,845
Special reserve	221,977,672
Retained earnings	30,933,430
Equity adjustments	86,883,887
Less: Goodwill	-
Less: Deferred assets	(367,289)
Less: Treasury stock	<u>-</u>
Total eligible capital	<u>\$ 688,204,856</u>

38. BUSINESS COMBINATIONS-SUBSIDIARIES ACQUIRED

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Global Evolution Holding ApS	Asset Management Services	June 25, 2020	53	<u>\$781,317</u>

On June 25, 2020, CHL acquired a further 8% ownership interest in Global Evolution Holding ApS, the ownership interest increasing from 45% to 53%, and CHL obtained the control.

b. Assets acquired and liabilities assumed at the date of acquisition

	Global Evolution Holding ApS
Current assets	
Cash and cash equivalents	\$ 117,198
Other	1,031,302
Intangible assets - customer relationships	2,467,576
Non-current assets	108,021
Current liabilities	(596,864)
Non-current liabilities	<u>(233,440)</u>
	<u>\$ 2,893,793</u>

c. Non-controlling interests

The non-controlling interest (47% ownership interest in Global Evolution Holding ApS) recognized at the acquisition date was measured by reference to the proportionate share of the identifiable net assets.

d. Goodwill recognized on acquisitions

	Global Evolution Holding ApS
Consideration transferred for 8% shares	\$ 781,317
Plus: Non-controlling interests (47% ownership interest in Global Evolution Holding ApS)	1,302,994
Plus: Fair value of 45% shares owned before acquisition	<u>4,396,904</u>
	6,481,215
Less: Fair value of identifiable net assets acquired	<u>(2,893,793)</u>
Goodwill recognized on acquisitions	<u>\$ 3,587,422</u>

e. Net cash outflow on the acquisition of subsidiaries

	Global Evolution Holding ApS
Consideration paid in cash	\$ 781,317
Less: Cash and cash equivalent balances acquired	<u>(117,198)</u>
	<u>\$ 664,119</u>

39. OTHERS

a. Impact of COVID-19

The Company has evaluated the economic impact caused by the COVID-19, and as of the date of approval of the financial report, there were no significant impact on the Company. The Company will continue to observe the relevant epidemic situation and evaluate its impact.

b. 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:

	June 30, 2020		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 132,785,346	29.6600	\$ 3,938,413,362
CNY	13,114,656	4.1956	55,023,851
Non-monetary items			
USD	11,712,883	29.6600	347,404,110
<u>Financial liabilities</u>			
Monetary items			
USD	14,952,456	29.6600	443,489,845

	December 31, 2019		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 127,186,166	30.1060	\$ 3,829,066,714
CNY	20,750,782	4.3231	89,707,706
Non-monetary items			
USD	9,432,882	30.1060	283,986,345
<u>Financial liabilities</u>			
Monetary items			
USD	14,101,676	30.1060	424,545,058
	June 30, 2019		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 122,623,951	31.0720	\$ 3,810,171,405
CNY	22,951,534	4.5232	103,814,379
AUD	3,245,236	21.7986	70,741,601
HKD	5,545,774	3.9794	22,068,853
Non-monetary items			
USD	8,724,168	31.0720	271,077,348
HKD	15,011,776	3.9794	59,737,861
<u>Financial liabilities</u>			
Monetary items			
USD	13,099,051	31.0720	407,013,713
CNY	8,092,043	4.5232	36,601,929
AUD	1,659,452	21.7986	36,173,730

It is not possible to disclose foreign exchange gains (losses) of monetary financial instruments by each significant foreign currency due to the variety of the foreign currencies of the Group. The foreign currency exchange (losses) gains for the six months ended June 30, 2020 and 2019 were \$(40,126,942) thousand and \$25,713,576 thousand, respectively.

c. Information for discretionary investment

1) Cathay life and its subsidiaries

- a) As of June 30, 2020, December 31, 2019 and June 30, 2019, Cathay life contracts with securities investment trust companies for discretionary investment services and the related investments are as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Domestic shares	\$ 132,434,149	\$ 110,798,703	\$ 130,231,044
Overseas shares	63,195,526	51,029,574	49,371,682
Securities purchased under resale agreements	12,824,000	14,812,000	13,935,000
Cash in banks	45,870,765	35,979,663	42,811,331
Beneficiary certificates	122,790	17,180	112,793
Futures and options	<u>216,748</u>	<u>435,322</u>	<u>481,131</u>
	<u>\$ 254,663,978</u>	<u>\$ 213,072,442</u>	<u>\$ 236,942,981</u>

The carrying amounts of the financial assets operated discretionarily by securities investment trust enterprises are equal to their fair values.

- b) As of June 30, 2020, December 31, 2019 and June 30, 2019, the discretionary investments limits were as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
NTD	\$ 84,358,163	\$ 64,358,163	\$ 102,872,589
USD	1,252,200	952,200	1,238,500
HKD	544,084	544,084	1,351,384

2) Cathay Century and its subsidiaries

Cathay Century and its subsidiaries contract with securities investment trust companies or consulting companies for discretionary investment management. The investment details are disclosed as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Domestic shares	\$ 1,212,483	\$ 1,249,637	\$ 793,698
Short-term notes	200,204	370,220	500,000
Cash in banks	399,682	216,196	346,837
Future margins	<u>2,011</u>	<u>2,010</u>	<u>2,010</u>
	<u>\$ 1,814,380</u>	<u>\$ 1,838,063</u>	<u>\$ 1,642,545</u>

The fair values of Cathay Century and its subsidiaries financial assets of discretionary account management contracts are as same as their carrying amounts.

As of June 30, 2020, December 31, 2019 and June 30, 2019, Cathay Century and its subsidiaries entered into discretionary management contracts with investment limits amounted to \$1,200,000 thousand.

d. 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		June 30, 2020					June 30, 2019				
Item		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible 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	\$ 151,437	\$ 245,914,110	0.06%	\$ 3,575,255	2,360.89%	\$ 573,867	\$ 222,983,336	0.26%	\$ 3,164,256	551.39%
	Unsecured	260,252	382,972,768	0.07%	8,145,971	3,130.03%	444,060	352,609,924	0.13%	7,448,348	1,677.33%
Consumer banking	Residential mortgage (Note 4)	427,474	357,113,998	0.12%	5,728,885	1,340.17%	746,135	348,341,509	0.21%	5,576,481	747.38%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	235,439	93,828,134	0.25%	3,107,923	1,320.06%	178,086	75,995,891	0.23%	2,532,675	1,422.16%
	Other (Note 6)	Secured	887,384	470,717,662	0.19%	5,748,185	647.77%	1,083,104	500,767,362	0.22%	6,383,171
Unsecured		36,029	19,220,111	0.19%	276,417	767.21%	129,265	24,966,847	0.52%	445,102	344.33%
Total loan		1,998,015	1,569,766,783	0.13%	26,582,636	1,330.45%	3,154,517	1,525,664,869	0.21%	25,550,033	809.95%
		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		\$ 120,300	\$ 71,580,619	0.17%	\$ 1,895,295	1,575.47%	\$ 107,757	\$ 80,431,523	0.13%	\$ 1,476,612	1,370.32%
Accounts receivable factored without recourse (Note 7)		-	4,785,241	-	69,788	-	-	2,634,690	-	58,676	-

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 residential 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 minor children of the borrowers.

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	June 30, 2020		June 30, 2019	
		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)	\$ 1,692	\$ 60,921	\$ 2,361	\$ 86,404
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	66,104	1,193,260	45,633	1,182,801
	Total	\$ 67,796	\$ 1,254,181	\$ 47,994	\$ 1,269,205

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, %)

June 30, 2020			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate activities for sale and rental with own or leased property	\$ 29,074,017	12.62
2	Group B - packaging and testing of semi-conductors	11,884,602	5.16
3	Group C - ocean transportation	8,776,208	3.81
4	Group D - other financial intermediation	7,490,945	3.25
5	Group E - wired telecommunications activities	7,156,470	3.11
6	Group F - real estate development activities	6,200,000	2.69
7	Group G - wired telecommunications activities	4,970,945	2.16
8	Group H - other financial intermediation	4,931,200	2.14
9	Group I - other financial intermediation	4,568,921	1.98
10	Group J - manufacture of petroleum and coal products	4,460,228	1.94

June 30, 2019			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate activities for sale and rental with own or leased property	\$ 27,343,449	12.93
2	Group B - packaging and testing of semi-conductors	18,509,488	8.75
3	Group C - ocean transportation	9,501,427	4.49
4	Group D - other financial intermediation	9,461,699	4.47
5	Group E - wired telecommunications activities	8,959,094	4.24
6	Group F - wired telecommunications activities	6,506,323	3.08
7	Group G - real estate development activities	6,400,000	3.03
8	Group H - other financial intermediation	5,110,397	2.42
9	Group I - other financial intermediation	4,902,003	2.32
10	Group J - activities of head offices	4,238,041	2.00

3) Information on interest rate sensitivity

Interest Rate Sensitivity
June 30, 2020

(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	\$ 1,886,957,630	\$ 62,339,944	\$ 76,589,549	\$ 127,084,554	\$ 2,152,971,677
Interest rate-sensitive liabilities	200,603,382	1,399,552,453	244,626,803	85,946,702	1,930,729,340
Interest rate-sensitive gap	1,686,354,248	(1,337,212,509)	(168,037,254)	41,137,852	222,242,337
Net worth					230,389,113
Ratio of interest rate-sensitive assets to liabilities					111.51%
Ratio of interest rate sensitivity gap to net worth					96.46%

June 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	\$ 1,828,123,845	\$ 17,762,150	\$ 22,331,206	\$ 103,152,298	\$ 1,971,369,499
Interest rate-sensitive liabilities	192,685,888	1,263,535,468	255,965,396	99,909,442	1,812,096,194
Interest rate-sensitive gap	1,635,437,957	(1,245,773,318)	(233,634,190)	3,242,856	159,273,305
Net worth					211,442,698
Ratio of interest rate-sensitive assets to liabilities					108.79%
Ratio of interest rate sensitivity gap to net worth					75.33%

Note 1: The above amounts included only New Taiwan dollar amounts held by Cathay United Bank (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 (U.S. Dollars)
June 30, 2020

(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	\$ 9,386,220	\$ 820,035	\$ 475,617	\$ 7,102,374	\$ 17,784,246
Interest rate-sensitive liabilities	10,892,636	3,153,407	3,265,021	4,314,717	21,625,781
Interest rate-sensitive gap	(1,506,416)	(2,333,372)	(2,789,404)	2,787,657	(3,841,535)
Net worth					7,767,671
Ratio of interest rate-sensitive assets to liabilities					82.24%
Ratio of interest rate sensitivity gap to net worth					(49.46%)

June 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	\$ 9,278,695	\$ 755,362	\$ 476,972	\$ 7,897,222	\$ 18,408,251
Interest rate-sensitive liabilities	9,836,120	2,370,731	3,257,584	3,899,290	19,363,725
Interest rate-sensitive gap	(557,425)	(1,615,369)	(2,780,612)	3,997,932	(955,474)
Net worth					6,804,927
Ratio of interest rate-sensitive assets to liabilities					95.07%
Ratio of interest rate sensitivity gap to net worth					(14.04%)

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
June 30, 2020**

(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	\$ 2,853,123,212	\$ 510,037,067	\$ 379,570,591	\$ 316,527,560	\$ 296,240,816	\$ 303,147,896	\$ 1,047,599,282
Main capital outflow on maturity	3,331,210,677	176,581,906	208,057,021	497,739,010	544,777,468	636,244,958	1,267,810,314
Gap	(478,087,465)	333,455,161	171,513,570	(181,211,450)	(248,536,652)	(333,097,062)	(220,211,032)

June 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	\$ 2,688,636,528	\$ 578,213,249	\$ 300,213,907	\$ 375,869,749	\$ 217,164,993	\$ 214,368,580	\$ 1,002,806,050
Main capital outflow on maturity	3,219,147,150	156,475,238	251,389,665	544,954,560	576,191,999	509,976,499	1,180,159,189
Gap	(530,510,622)	421,738,011	48,824,242	(169,084,811)	(359,027,006)	(295,607,919)	(177,353,139)

Note: The above amounts included only New Taiwan dollar amounts held by the Bank (excluding foreign currency).

**Maturity Analysis of Assets and Liabilities
June 30, 2020**

(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	\$ 66,616,587	\$ 19,306,014	\$ 17,154,087	\$ 9,648,136	\$ 9,986,728	\$ 10,521,622
Main capital outflow on maturity	71,288,886	22,595,992	17,756,470	9,535,613	13,248,604	8,152,207
Gap	(4,672,299)	(3,289,978)	(602,383)	112,523	(3,261,876)	2,369,415

June 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	\$ 64,223,441	\$ 19,100,356	\$ 15,287,587	\$ 8,954,058	\$ 9,727,335	\$ 11,154,105
Main capital outflow on maturity	70,389,737	19,720,283	18,571,100	9,502,700	13,918,047	8,677,607
Gap	(6,166,296)	(619,927)	(3,283,513)	(548,642)	(4,190,712)	2,476,498

Note: The above amounts included only U.S. dollar amounts held by the Bank and excluded contingent assets and contingent liabilities.

e. Disclosures according to Article 46 of the Financial Holding Company Act

Ending balances of the transaction mentioned in Paragraph 2 of Article 46 of the Financial Holding Company Act, between all subsidiaries of a financial holding company and the same counterparties mentioned in Paragraph 1 at the same article.

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
1) Same person		
Conning & Company	\$ 1,154,274,014	148.78
Central Bank of the Republic of China (Taiwan)	427,017,330	55.04
Treasury Bond/Treasury Bills	167,308,498	21.57
FANNIE MAE	93,760,802	12.09
FREDDIE MAC	75,902,766	9.78
Fubon Asset Management Co., Ltd.	69,695,036	8.98
Macquarie Investment Management Advisers	65,813,113	8.48
CTBC Securities Investment Co., Ltd.	65,124,951	8.39
Yuanta Securities Investment Trust Co., Ltd.	55,394,636	7.14
Fidelity Worldwide Investment	52,576,209	6.78
National Treasury Administration, Ministry of Finance	46,500,000	5.99
Israel Government International Bond	45,940,255	5.92
Taiwan Semiconductor Manufacturing Company Limited	45,815,306	5.91
Indonesia Government International Bond	45,327,854	5.84
AT&T Inc.	44,727,504	5.77
Qatar Government International Bond	44,409,489	5.72
United States Treasury Note/Bond	44,356,684	5.72
LONDON CLEARING HOUSE	39,318,192	5.07
China Development Bank Corp.	36,375,612	4.69
Mexico Government International Bond	35,972,326	4.64
Barclays PLC	35,125,667	4.53
KGI Securities Investment Trust Co., Ltd.	33,660,319	4.34
Goldman Sachs Group Inc.	30,006,928	3.87
Central Taiwan Science Park Bureau	30,000,000	3.87
Russian Foreign Bond - Eurobond	29,531,452	3.81
BNP Paribas	29,062,040	3.75
Wells Fargo & Co.	28,298,307	3.65
Chunghwa Telecom Co., Ltd.	28,294,079	3.65
Bank of China Ltd.	25,718,440	3.32
JPMorgan Chase & Co.	25,201,504	3.25
Colombia Government International Bond	24,621,171	3.17
Industrial & Commercial Bank of China	24,442,010	3.15
Taiwan Mobile Co., Ltd.	24,233,510	3.12
Bank Of America N.A.	24,142,114	3.11
Panama Government International Bond	24,071,408	3.10
Global Evolution Holding ApS	21,788,880	2.81
Government National Mortgage Association	20,910,755	2.70

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Verizon Communications Inc.	\$ 20,807,893	2.68
Ginnie Mae II pool	20,435,956	2.63
State of California	20,192,355	2.60
Sinopec Group Overseas Development Ltd.	19,754,990	2.55
Citigroup Inc.	19,501,596	2.51
CNOOC Ltd.	19,208,186	2.48
Capital Investment Trust Corporation	18,812,620	2.42
UBS AG	18,271,031	2.36
ROYAL BANK OF SCOTLAND PLC	18,240,052	2.35
Dragon Steel Corporation	18,042,809	2.33
CNOOC PETROLEUM NA ULC	18,031,992	2.32
China Construction Bank Corp.	17,609,672	2.27
China Bills Finance Corporation	17,461,586	2.25
Saudi Government International Bond	17,426,559	2.25
Alibaba Group Holding Ltd.	17,298,736	2.23
Fubon Financial Holding Co., Ltd.	16,895,148	2.18
Far EasTone Telecommunications Co., Ltd.	16,783,658	2.16
E.Sun Commercial Bank, Ltd.	16,404,089	2.11
Commonwealth Bank of Australia	15,931,660	2.05
European Investment Bank	15,861,472	2.04
Comcast Corp.	15,844,759	2.04
America Movil SAB de CV	15,827,895	2.04
PERTAMINA PT	15,740,296	2.03
Anthem Inc.	15,570,867	2.01
Standard Chartered PLC	14,942,336	1.93
China Steel Corporation	14,823,285	1.91
Credit Agricole SA	14,607,247	1.88
UnitedHealth Group Inc.	14,411,102	1.86
CVS Health Corp.	14,276,215	1.84
Societe Generale	14,258,537	1.84
Vietnam Government Bond	14,082,805	1.82
Amazon.com Inc.	14,008,040	1.81
BlackRock Inc.	13,852,093	1.79
CIGNA CORP.	13,621,112	1.76
Agricultural Development Bank of China	13,599,890	1.75
Oracle Corp.	13,301,392	1.71
Export-Import Bank of China	13,091,409	1.69
Fuh Hwa Securities Investment Trust Co., Ltd.	12,948,097	1.67
Shin Kong Investment Trust Co., Ltd.	12,662,126	1.63
MDC-GMTN B.V.	12,556,914	1.62
Australia and New Zealand Banking Group Limited	12,548,093	1.62
CITIC LIMITED	12,503,857	1.61
Taiwan Cooperative Bank Co., Ltd.	12,166,731	1.57
BPCE SA	12,151,208	1.57

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Tencent Holdings Ltd.	\$ 12,086,800	1.56
China Cinda Asset Management Co., Ltd.	11,960,876	1.54
Abu Dhabi Government International Bond	11,936,159	1.54
Microsoft Corp	11,796,586	1.52
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	11,558,971	1.49
Southern Taiwan Science Park Administration	11,495,000	1.48
Global Investors Series plc	11,443,192	1.48
Morgan Stanley	11,292,925	1.46
Peruvian Government International Bond	11,292,143	1.46
Bristol-Myers Squibb Co	11,080,710	1.43
Enel Finance International NV	11,060,043	1.43
CTBC Bank Co., Ltd.	11,011,408	1.42
Postal Savings Bank of China Co., Ltd.	10,945,363	1.41
Anheuser-Busch InBev Worldwide Inc.	10,777,326	1.39
CTBC Financial Holding Co., Ltd.	10,632,876	1.37
REPUBLICA ORIENT URUGUAY	10,620,360	1.37
Fomento Economico Mexicano SAB de CV	10,570,217	1.36
Telefonica Emisiones SAU	10,560,879	1.36
Perusahaan Listrik Negara PT	10,494,638	1.35
Southern Copper Corp.	10,476,631	1.35
United Technologies Corp.	10,412,838	1.34
BlackRock Fund Advisors	10,230,155	1.32
American International Group Inc.	10,197,011	1.31
Lloyds Bank PLC	10,189,900	1.31
Nationwide Building Society	10,155,736	1.31
Sinopec Group Overseas Development 2018 Ltd.	10,053,606	1.30
Shinhan Bank	10,048,562	1.30
Credit Suisse Group AG	9,978,222	1.29
Westpac Banking Corp.	9,907,645	1.28
Amgen Inc.	9,890,645	1.27
Uni-President Enterprises Corporation	9,858,649	1.27
Abbott Laboratories	9,793,793	1.26
SG Issuer	9,636,302	1.24
Shell International Finance BV	9,552,690	1.23
Vodafone Group PLC	9,420,314	1.21
Bank of Communications Co., Ltd.	9,388,041	1.21
Mega Bills Finance Co., Ltd.	9,314,304	1.20
TransCanada PipeLines Ltd.	9,245,214	1.19
Formosa Plastics Corporation	9,231,916	1.19
AIA Group Ltd.	9,221,911	1.19
Petronas Capital Ltd.	9,197,068	1.19
Land Bank of Taiwan Co., Ltd.	9,162,150	1.18
NATWEST MARKETS PLC	9,061,480	1.17

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
PIMCO Funds: Global Investors Series plc	\$ 8,911,931	1.15
State Grid Overseas Investment Ltd.	8,903,428	1.15
Apple Inc.	8,867,833	1.14
BlackRock Global Funds	8,843,128	1.14
Nan Ya Plastics Corporation	8,789,630	1.13
Corp Nacional del Cobre de Chile	8,675,787	1.12
Daiwa SB Investment Limited	8,542,914	1.10
Citigroup Global Markets Holdings Inc.	8,508,192	1.10
Capital Futures Corp.	8,505,581	1.10
HSBC BANK PLC	8,409,154	1.08
Robeco Capital Growth Funds	8,365,405	1.08
Pfizer Inc.	8,363,978	1.08
HSBC Holdings PLC	8,265,014	1.07
Far East Horizon Limited	8,219,360	1.06
Walt Disney Co/The	8,167,381	1.05
MetLife Inc.	8,150,590	1.05
Mega Financial Holding Co., Ltd.	8,127,608	1.05
O-Bank	7,998,342	1.03
Baillie Gifford Overseas Limited	7,856,944	1.01
Intel Corp.	7,838,507	1.01
Hamilton Lane Advisors, L.L.C	7,787,269	1.00
OVPH LTD.	7,724,702	1.00
Yuanta Securities Co., Ltd.	7,707,498	0.99
Taikang Asset Management Co Lt	7,692,517	0.99
AstraZeneca PLC	7,643,274	0.99
BBVA Bancomer SA	7,639,346	0.98
Prudential Financial Inc.	7,632,329	0.98
Yuanta Commercial Bank Co., Ltd.	7,608,321	0.98
Exxon Mobil Corp	7,586,713	0.98
IBM CORP	7,528,470	0.97
Taiwan Business Bank Co., Ltd.	7,493,632	0.97
BANK OF MONTREAL	7,414,145	0.96
Taiwan Railways Administration	7,393,777	0.95
Yuanta Futures Co., Ltd.	7,390,009	0.95
Formosa Chemicals & Fibre Corporation	7,321,440	0.94
HSBC Bank (Taiwan) Limited	7,280,693	0.94
PepsiCo Inc.	7,029,535	0.91
UniCredit SpA	7,020,927	0.90
NATIONAL BANK OF CANADA	6,985,592	0.90
Comision Federal de Electricidad	6,866,722	0.89
Altria Group Inc.	6,816,375	0.88
ING Groep NV	6,787,501	0.87
Thaioil Treasury Center Co., Ltd.	6,656,632	0.86
STANDARD LIFE INVESTMENTS	6,628,274	0.85

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
CSX CORP.	\$ 6,559,338	0.85
Berkshire Hathaway Energy Co	6,557,156	0.85
Value Partners Greater China High Yield Income Fund	6,495,506	0.84
Allianz Global Investors GMBH	6,486,250	0.84
Quanta Computer Inc.	6,419,922	0.83
Grupo Televisa SA	6,414,521	0.83
Spain Government International Bond	6,398,559	0.82
KAZMUNAYGAS NATIONAL	6,396,173	0.82
Gilead Sciences Inc.	6,280,182	0.81
First Commercial Bank Co., Ltd.	6,273,446	0.81
Yuanta Financial Holding Co., Ltd.	6,224,159	0.80
Srisawad Corp PCL	6,223,737	0.80
Enterprise Products Operating LLC	6,182,468	0.80
Landesbank Baden-Wuerttemberg	6,180,077	0.80
BAT CAPITAL CORP.	6,174,823	0.80
Mega International Commercial Bank Co., Ltd.	6,138,538	0.79
UBAM	6,135,728	0.79
China Overseas Land & Investment Ltd.	6,079,663	0.78
Phillips 66	6,078,305	0.78
Hon Hai Precision Industry Co., Ltd.	6,072,819	0.78
Fubon Life Insurance Co., Ltd.	5,997,450	0.77
Taishin Financial Holding Co., Ltd.	5,970,180	0.77
AXA Funds Management SA	5,966,965	0.77
HSBC France SA	5,899,453	0.76
Banco de Credito del Peru	5,830,138	0.75
Woori Bank	5,823,431	0.75
Philippine Government International Bond	5,664,278	0.73
CTBC Securities Co., Ltd.	5,639,738	0.73
China Development Financial Holding Corp.	5,637,827	0.73
Evergreen Marine Corporation	5,637,227	0.73
Chang Hwa Commercial Bank Co., Ltd.	5,631,290	0.73
Reliance Industries Ltd.	5,546,693	0.71
Hua Nan Commercial Bank Co., Ltd.	5,516,972	0.71
AbbVie Inc.	5,445,545	0.70
Hungary Government International Bond	5,438,374	0.70
Neuberger Berman Investment Funds plc.	5,414,141	0.70
Cornell Capital LLC	5,391,168	0.69
IBF Securities Investment Consulting Co., Ltd.	5,386,345	0.69
IPIC GMTN Ltd.	5,371,251	0.69
ASE Technology Holding Co., Ltd.	5,351,180	0.69
Union Pacific Corp.	5,318,719	0.69
Takeda Pharmaceutical Co Ltd	5,295,315	0.68
Rogers Communications Inc.	5,259,346	0.68
Hon Han Investment Co., Ltd.	5,259,205	0.68

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Saudi Arabian Oil Co	\$ 5,236,851	0.68
ELECTRICITE DE FRANCE	5,227,060	0.67
FIRST ABU DHABI BANK PJSC	5,198,433	0.67
Hua Nan Financial Holdings Co., Ltd.	5,145,890	0.66
Total Capital International SA	5,115,350	0.66
Newmont Mining Corp.	5,091,854	0.66
DUKE ENERGY CORP.	5,066,818	0.65
SHERWIN-WILLIAMS CO	5,059,279	0.65
Delta Electronics, Inc.	5,023,931	0.65
Banco Santander SA	5,016,902	0.65
China Network Systems Co., Ltd.	4,944,112	0.64
Ecopetrol SA	4,941,520	0.64
Taiwan High Speed Rail Corporation	4,939,969	0.64
Humana Inc.	4,895,874	0.63
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santand	4,886,838	0.63
Bank of Nova Scotia	4,844,211	0.62
International Bills Finance Corporation	4,807,397	0.62
Halliburton Co	4,799,311	0.62
Dow Chemical Co	4,785,868	0.62
China Government Bond	4,774,516	0.62
Barrick North America Finance LLC	4,761,521	0.61
National Australia Bank Ltd.	4,752,977	0.61
MYRIAD INTL HOLDINGS BV	4,722,476	0.61
Bayer US Finance LLC	4,714,068	0.61
Abu Dhabi National Energy Co	4,665,024	0.60
Vanguard Fixed Income Securities Funds	4,660,754	0.60
Grand Bills Finance Corporation	4,652,197	0.60
Indonesia Treasury Bond	4,627,471	0.60
Merck & Co Inc.	4,625,987	0.60
Deutsche Telekom AG	4,583,874	0.59
Canadian Natural Resources Ltd.	4,575,384	0.59
BECTON DICKINSON AND CO	4,542,712	0.59
Advanced Semiconductor Engineering, Inc.	4,531,710	0.58
Kinder Morgan Inc/DE	4,519,805	0.58
DBS Bank Limited	4,479,297	0.58
AllianceBernstein (Luxembourg) Sarl	4,474,864	0.58
GRAND CENTRAL LIMIT	4,449,000	0.57
CYBER COMPANY INC.	4,449,000	0.57
Taiwan Cooperative Financial Holding Co., Ltd.	4,430,692	0.57
Deutsche Telekom International Finance BV	4,430,409	0.57
SOUTHERN CO	4,418,462	0.57
Applied Materials Inc	4,416,240	0.57
Taiwan Cement Corp.	4,413,917	0.57

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
ICICI Bank Ltd.	\$ 4,405,492	0.57
Dr Pepper Snapple Group Inc.	4,368,268	0.56
Enbridge Inc.	4,349,767	0.56
PTTEP Canada International Finance Ltd.	4,323,645	0.56
Fidelity Funds/Luxembourg	4,315,289	0.56
Burlington Northern Santa Fe LLC	4,287,105	0.55
Macquarie Group Ltd.	4,232,763	0.55
Hong Long Co., Ltd.	4,185,000	0.54
BHP Billiton Finance USA Ltd.	4,149,957	0.53
Blackstone Real Estate Advisors L.P.	4,144,303	0.53
Kroger Co	4,106,231	0.53
Occidental Petroleum Corp.	4,051,650	0.52
Freeway Bureau, Ministry of Transportation and Communications	4,000,000	0.52
Bank of Taiwan	3,999,507	0.52
Formosa Petrochemical Corporation	3,988,315	0.51
Allstate Corp.	3,969,315	0.51
Banco de Credito e Inversiones	3,934,568	0.51
Anheuser-Busch InBev Finance Inc.	3,930,056	0.51
PTTEP TREASURY CENTER CO	3,924,620	0.51
First Financial Holding Co., Ltd.	3,921,856	0.51
Goldman Sachs Finance Corp International Ltd	3,920,839	0.51
Formosa Ha Tinh (Cayman) Limited	3,909,188	0.50
ABN AMRO Bank	3,870,275	0.50
NORFOLK SOUTHERN CORP	3,850,927	0.50
Grupo Bimbo SAB de CV	3,828,370	0.49
Bangkok Bank PCL	3,790,221	0.49
Consolidated Edison Co of New York Inc.	3,786,965	0.49
Mitsubishi UFJ Financial Group Inc.	3,718,664	0.48
CNPC HK Overseas Capital Ltd.	3,710,277	0.48
Bell Canada	3,652,411	0.47
ENI SpA	3,644,084	0.47
PT PERUSAHAAN LISTRIK NEGARA(PERSERO)	3,618,520	0.47
ChunYee Co., Ltd.	3,600,759	0.46
MediaTek Inc.	3,586,944	0.46
Marathon Petroleum Corp.	3,572,999	0.46
Minera Mexico SA de CV	3,546,223	0.46
Deutsche Bank AG	3,545,288	0.46
Regents of the University of California Medical Center Pooled Revenue	3,528,311	0.45
Taishin Securities Investment Trust Co., Ltd.	3,523,674	0.45
Shamrock Group Limited	3,523,608	0.45
GAM STAR FUND	3,504,980	0.45
Intesa Sanpaolo SpA	3,499,283	0.45

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
CITIGROUP GLOBAL MARKETS LIMITED	\$ 3,497,458	0.45
FirstEnergy Corp	3,491,305	0.45
KGI Futures Co., Ltd.	3,480,911	0.45
Malayan Banking Bhd	3,473,549	0.45
JPMorgan Investment Funds	3,463,013	0.45
Shen Shawn Co., Ltd.	3,450,000	0.44
Qtel International Finance Ltd.	3,448,192	0.44
DowDuPont Inc.	3,433,121	0.44
Indian Railway Finance Corp Ltd	3,416,264	0.44
Joint Stock Commercial Bank for Investment and Dev	3,396,070	0.44
Taiwan Star Telecom Co., Ltd.	3,391,200	0.44
United Overseas Bank Ltd.	3,354,241	0.43
Vale Overseas Ltd	3,330,277	0.43
Realty Income Corp.	3,326,524	0.43
Wealth Media Co., Ltd.	3,325,687	0.43
PROGRESSIVE CORP	3,322,825	0.43
President Chain Store Corporation	3,307,650	0.43
EVA Airways Corporation	3,302,580	0.43
Investec Asset Management Limited	3,292,415	0.42
Hartford Financial Services Group Inc.	3,287,570	0.42
China Life Insurance Co., Ltd.	3,282,634	0.42
Carrier Global Corp	3,271,907	0.42
National Retail Properties Inc	3,256,790	0.42
Alexandria Real Estate Equities Inc.	3,255,969	0.42
Invesco Funds	3,229,189	0.42
BNP PARIBUS PARIS	3,214,735	0.41
Home Depot Inc.	3,199,233	0.41
Kookmin Bank	3,120,345	0.40
Corp Andina de Fomento	3,081,772	0.40
YAGEO Corp.	3,063,578	0.39
ConocoPhillips	3,055,299	0.39
Standard Chartered Bank Taiwan	3,049,771	0.39
Banco de Chile	3,049,278	0.39
QNB Finance Ltd.	3,046,493	0.39
Berkshire Hathaway Finance Corp.	3,041,749	0.39
Chile Government International Bond	3,036,864	0.39
Lowe's Cos Inc.	3,030,876	0.39
Far Eastern Electronic Toll Collection Co., Ltd.	3,021,761	0.39
Bank SinoPac Co., Ltd.	3,020,483	0.39

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
2) Same natural person and his/her spouse and relatives by blood within the second degree of kinship, as well as enterprises in which the principal or his/her spouse is the responsible person.		
Enterprises where Ko and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	\$ 15,186,343	1.96
Enterprises where Dong and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	9,902,466	1.28
Enterprises where Cheng and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	5,929,983	0.76
Enterprises where Lee and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,979,030	0.64
Enterprises where Lee and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,978,301	0.64
Enterprises where Yang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,854,761	0.63
Enterprises where Jiang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,616,475	0.47
Enterprises where Chen and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,600,582	0.46
Enterprises where Chen and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,437,813	0.44
Enterprises where Huang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,247,135	0.42
3) Affiliates with same juridical person		
Government of the Republic of China and its supervisory agency	693,714,605	89.42
Government of the USA and its supervisory agency	255,366,963	32.92
Fubon Group	130,111,369	16.77
Group of CTBC Financial Holdings	93,184,340	12.01
Group of Yuanta Financial Holdings	86,297,384	11.12
Fidelity and its related parties	57,139,036	7.37
China Development Group	49,749,057	6.41

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Government of Indonesia and its supervisory agency	\$ 47,961,782	6.18
State of Qatar and its related parties	47,857,681	6.17
TSMC Group	46,146,519	5.95
Barclays Bank PLC and its related parties	35,597,539	4.59
China Steel Group	35,061,343	4.52
BNP Paribas and its related parties	32,546,749	4.20
Government of Russia and its supervisory agency	31,983,402	4.12
Goldman Sachs Group Inc and its related parties	30,702,584	3.96
Capital Financial Group	29,315,731	3.78
JPMorgan and its related parties	29,138,423	3.76
Hon Tai Group	29,079,564	3.75
CHT Group	28,803,682	3.71
Bank of China and its related parties	27,774,302	3.58
Group of Mega Financial Holdings	26,858,745	3.46
The Far Eastern Group	26,841,210	3.46
Bank of America Corporation and its related parties	26,115,409	3.37
O-Bank Group	25,459,928	3.28
Government of China and its supervisory agency	25,321,348	3.26
Citigroup Inc and its related parties	24,999,646	3.22
Uni-President Group	24,347,232	3.14
BlackRock Inc and its related parties	23,466,573	3.02
UBS AG and its related parties	21,571,656	2.78
TACB Group	19,748,747	2.55
HSBC Bank PLC and its related parties	18,694,898	2.41
Standard Chartered Bank and its related parties	18,656,288	2.40
Group of Taishin Financial Holdings	18,400,509	2.37
Group of E.Sun Financial Holdings	16,793,282	2.16
Group of ASE Technology Holding	16,590,774	2.14
Group of Shin Kong Financial Holdings	16,526,267	2.13
Foxconn Technology Group	16,032,522	2.07
Group of First Financial Holdings	15,611,409	2.01
Morgan Stanley and its related parties	14,447,915	1.86
Group of Hua Nan Financial Holdings	14,164,197	1.83
Yuen Foong Yu Group	13,564,426	1.75
Evergreen Group	12,489,595	1.61
Anheuser-Busch InBev NV and its related parties	11,127,647	1.43
Group of Land Bank of Taiwan	11,056,650	1.43
IBF Group	10,920,868	1.41
Westpac Banking Corp and its related parties	9,922,727	1.28
Nan Ya Plastics Group	9,893,614	1.28
ING Group and its related parties	9,429,499	1.22
Group of Formosa Plastics	9,248,190	1.19
Formosa Petrochemical Group	8,919,515	1.15
Pfizer Inc and its related parties	8,721,155	1.12

(Continued)

June 30, 2020		
Expressed in Thousands of New Taiwan Dollars; %		
Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Daiwa and its related parties	\$ 8,543,403	1.10
Taiwan Chemical Fiber Group	7,723,405	1.00
DBS and its related parties	7,578,032	0.98
China Network Group	7,156,470	0.92
Quanta Computer Group	6,686,957	0.86
Deutsche Bank AG and its related parties	6,366,936	0.82
Barrick Gold Corp and its related parties	6,325,308	0.82
Triumph Transcend Group	6,200,000	0.80
He Shin Group	5,539,280	0.71
National Australia Bank Ltd and its related parties	5,295,863	0.68
CT&D Group	4,568,921	0.59
San Miguel Group	4,460,228	0.57
Sumitomo Corp and its related parties	4,436,223	0.57
WPG Holdings Group	4,361,794	0.56
YAGEO Group	4,128,364	0.53
Chow Tai Fook Group	4,033,913	0.52
BIDV Group	3,972,321	0.51
Charoen Pokphand Group	3,957,128	0.51
Government of the UK and its supervisory agency	3,887,114	0.50
Mitsubishi Chemical Holdings Corp and its related parties	3,812,230	0.49
HueTeng Group	3,777,000	0.49
JihSun Group	3,718,884	0.48
Credit Agricole SA and its related parties	3,592,024	0.46
Walsin Lihwa Group	3,527,519	0.45
ShinKong Group	3,464,582	0.45
Wistron Group	3,454,909	0.45
Dominion Resources Inc/VA and its related parties	3,395,031	0.44
TBC Group	3,314,395	0.43

(Concluded)

40. 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	Table 3
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	Table 4
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 June 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 is not required for subsidiaries belonging to the financial services, insurance and securities industries, and whose principal business activities include financing provided to others, endorsements/guarantees provided, and trading of marketable securities.

- c. Investments in mainland China: 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 are disclosed in Table 5.
- d. The significant intercompany transactions among the Group are disclosed in Table 6 and Note 28 to consolidated financial statements.
- e. Information on major shareholders: Name, number of shares, and percentage of ownership of shareholders holding more than 5% of the shares are disclosed in Table

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL

JUNE 30, 2020

(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	\$ 1,222,596	Note 1	\$ -	-	\$ -	\$ -
	Cathay Life Insurance Co., Ltd.	Subsidiary	692,146	Note 2	-	-	-	-
	Cathay United Bank Co., Ltd.	Subsidiary	362,650	Note 1	-	-	-	-
	Cathay United Bank Co., Ltd.	Subsidiary	10,000,000	Note 3	-	-	-	-
	Cathay Century Insurance Co., Ltd.	Subsidiary	1,768,056	Note 3	-	-	-	-
	Cathay Securities Investment Consulting Co., Ltd.	Subsidiary	613,269	Note 3	-	-	-	-
Cathay United Bank Co., Ltd.	Cathay Life Insurance Co., Ltd.	Fellow subsidiary	649,247	-	-	-	-	-
	Cathay United Bank (China) Co., Ltd.	Subsidiary	558,063	Note 4	-	-	-	-

Note 1: The ending balance is consisted of receivables arising from consolidated income tax return, which is not applicable for the calculation of the turnover rate.

Note 2: The ending balance is consisted of interest receivables arising from subsidiary debt, which is not applicable for the calculation of the turnover rate.

Note 3: The ending balance is consisted of dividend receivables, which is not applicable for the calculation of the turnover rate.

Note 4: The ending balance is consisted of interest receivables, which is not applicable for the calculation of the turnover rate.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

JUNE 30, 2020

(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	June 30, 2020				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	"	-	86,276	-	86,276	
	A2G CB	N/A	"	-	1,734	-	1,734	
	PT Cemerlang Multimedia CB	N/A	"	-	73,936	-	73,936	
	Huang Chieh Mental Composite Material Tech. Co., Ltd. CB	N/A	"	-	71,502	-	71,502	
	<u>Beneficiary certificates</u> Mega Diamond Money Market Fund	N/A	"	31,861	402,230	-	402,230	
	Taishin 1699 Money Market Fund	N/A	"	29,531	402,188	-	402,188	
	Cathay Taiwan Money Market Fund	N/A	"	33,672	421,372	-	421,372	
	<u>Shares</u> Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	141	7,013	28.20	7,013	
	Dun-Yang Energy Corp.	Investee accounted for using the equity method	Investments accounted for using the equity method	3,897	46,922	32.20	46,922	
	Yong-Chang Energy Corp.	Investee accounted for using the equity method	Investments accounted for using the equity method	3,975	44,713	32.32	44,713	
	RI-Zhao Energy Corp.	Investee accounted for using the equity method	Investments accounted for using the equity method	4,040	50,032	32.32	50,032	
	Tien-Tai Optronics Corporation	Investee accounted for using the equity method	Investments accounted for using the equity method	10,646	145,745	33.64	145,745	
	F-Rotam Global AgroSciences Limited (Cayman)	N/A	Financial assets at fair value through profit or loss	743	11,337	-	11,337	
	F-Fulgent Sun International (Holding) Co., Ltd.	N/A	"	615	64,268	-	64,268	
	F-Hiroca Holdings Ltd.	N/A	"	439	24,414	-	24,414	
	Min Aik Precision Industrial Co., Ltd.	N/A	"	171	5,275	-	5,275	
	Man Zai Industrial Co., Ltd.	N/A	"	349	5,218	-	5,218	
	Taisun - KY	N/A	"	120	15,655	-	15,655	
	Senhwa Biosciences, Inc.	N/A	"	1,200	167,400	1.61	167,400	
	Tanvex BioPharma, Inc. (F-Tanvex)	N/A	"	1,250	59,875	-	59,875	
	Kayee International Group Co., Ltd.	N/A	"	395	53,128	-	53,128	
	Global Tek Fabrication Co., Ltd.	N/A	"	812	31,952	1.21	31,952	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Cryomax Cooling System Corp.	N/A	Financial assets at fair value through profit or loss	1,233	\$ 20,276	1.86	\$ 20,276	
	Shane Global Holdings Inc.	N/A	"	3,943	421,869	3.55	421,869	
	Ta Chen Stainless Pipe Co., Ltd.	N/A	"	5,573	149,635	-	149,635	
	Nan Pao Resins Chemical Co., Ltd.	N/A	"	323	43,000	-	43,000	
	Compal Broadband Networks, Inc.	N/A	"	78	2,020	-	2,020	
	Ching Chan Optical Technology Co., Ltd.	N/A	"	744	23,696	2.02	23,696	
	Fusheng Precision Co., Ltd.	N/A	"	800	130,400	-	130,400	
	Tot Biopharm Co., Ltd.	N/A	"	6,909	124,149	1.21	124,149	
	WW Holding Inc. - KY	N/A	"	1,413	57,368	1.08	57,368	
	Airmate (Cayman) International Co Limited - KY	N/A	"	639	17,892	-	17,892	
	World Known MFG (Cayman) Limited	N/A	"	1,499	61,084	5.00	61,084	
	Yonggu Group Inc. (Cayman)	N/A	"	1,130	73,909	-	73,909	
	REMOTEK Corp.	N/A	"	480	6,319	2.20	6,319	
	Smartdisplayer Technology Co., Ltd.	N/A	"	1,000	12,870	4.01	12,870	
	Sincere Group	N/A	"	635	23,749	3.18	23,749	
	BioGend Therapeutics Co., Ltd.	N/A	"	2,000	42,000	2.44	42,000	
	Winway Technology Co., Ltd.	N/A	"	730	222,211	2.56	222,211	
	Tigerair Taiwan Co., Ltd.	N/A	"	1,829	64,545	-	64,545	
	Wendell Industrial Co., Ltd.	N/A	"	900	37,980	4.43	37,980	
	Evergreen Steel Corp.	N/A	"	1,500	62,235	-	62,235	
	Weblink International Inc.	N/A	"	2,184	41,496	2.96	41,496	
	Senhwa Biosciences, Inc.	N/A	"	19	585	1.88	585	
	Proconn Technology Co., Ltd.	N/A	"	2,055	719	3.30	719	
	EasyCard Investment Holdings Co., Ltd.	N/A	"	1,430	23,656	1.37	23,656	
	Lian-an Service Co., Ltd.	N/A	"	125	1,056	5.00	1,056	
	Koatech Technology Corp.	N/A	"	101	1,110	-	1,110	
	Mega Union Technology Incorporated.	N/A	"	3,022	59,807	10.68	59,807	
	Cathay Healthcare Management Co., Ltd.	N/A	"	8,250	204,765	15.00	204,765	
	FashionGuide Digital Technology Co., Ltd.	N/A	"	714	10,961	4.26	10,961	
	Sunmile Group Holding Co., Limited	N/A	"	528	-	1.85	-	
	NARUKO Beauty Essentials Limited	N/A	"	43,252	89,098	4.01	89,098	
	SMS Holdings One I	N/A	"	1	-	5.00	-	
	Shengzhuang Holdings	N/A	"	122	-	1.09	-	
	Bioengine Capital Inc.	N/A	"	10,800	121,716	3.16	121,716	
	Bravo Ideas Digital Co., Ltd.	N/A	"	3,386	28,118	6.03	28,118	
	Episonica Holding	N/A	"	2,255	46,199	12.45	46,199	
	Andros Pharmaceuticals Co., Ltd.	N/A	"	1,050	14,343	4.19	14,343	
	Transound Electronics Co., Ltd.	N/A	"	1,200	8,196	3.30	8,196	
	Hyper Crystal Inc.	N/A	"	2,000	25,720	13.80	25,720	
	Amaryllo International B.V.	N/A	"	1,000	3,600	6.84	3,600	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Noratech Pharmaceuticals, Inc.	N/A	Financial assets at fair value through profit or loss	1,000	\$ 13,880	-	\$ 13,880	
	Kuang Ming Shipping Corp.	N/A	"	157	424	-	424	
	Grandsys, Inc.	N/A	"	1,860	29,462	7.77	29,462	
	SinoGreenery	N/A	"	-	1	10.00	1	
	DTCO (Samoa)	N/A	"	325	2,871	2.94	2,871	
	Tennrich International Corp.	N/A	"	1,938	601	3.19	601	
	Allianz Pharmascience Limited	N/A	"	2,000	37,920	6.85	37,920	
	KKDAY	N/A	"	5,668	283	1.20	283	
	SmartGames	N/A	"	164	1,816	1.91	1,816	
	SSC Holdco Limited	N/A	"	100	73,060	-	73,060	
	PSS Co., Ltd.	N/A	"	330	17,530	-	17,530	
	Altek Semiconductor (Cayman) Co., Ltd.	N/A	"	800	27,288	1.80	27,288	
	Anywhere2Go	N/A	"	2	10,584	8.99	10,584	
	Yikon Genomics	N/A	"	1,340	52,501	3.55	52,501	
	Rani Therapeutics, LLC	N/A	"	119	1,727	-	1,727	
	Mimetas B.V.	N/A	"	8	18,268	2.81	18,268	
	Xiongchuang (Samoa)	N/A	"	19	13,511	4.49	13,511	
	91APP	N/A	"	8,333	27,667	-	27,667	
	Acepodia Inc.	N/A	"	1,848	41,582	5.81	41,582	
	Greenway Environmental Technology Co., Ltd.	N/A	"	4,375	34,913	11.22	34,913	
	Emotibot Technologies Limited	N/A	"	2,302	103,140	1.57	103,140	
	Pacific 8 Venture	N/A	"	-	59,128	15.00	59,128	
	Monk's hill Venture Fund	N/A	"	-	18,778	2.50	18,778	
	One Degree	N/A	"	350,926	48,984	-	48,984	
	Validus	N/A	"	145	40,980	2.90	40,980	
	VIZIONFOCUS INC.	N/A	"	1,700	51,408	3.49	51,408	
	Finaxar	N/A	"	87	12,758	4.72	12,758	
	aetherAI CO., LTD.	N/A	"	582	12,224	12.78	12,224	
	Intudo Venture II, LP	N/A	"	-	34,191	3.76	34,191	
	King Point Enterprise Co., Ltd.	N/A	"	1,000	20,930	2.53	20,930	
	Cowearth Medical Holding Co., Ltd.	N/A	"	3,750	62,865	1.49	62,865	
	INNOPACK VIETNAM CO., LTD	N/A	"	1,350	29,950	11.70	29,950	
	Pharmosa Biopharm Inc.	N/A	"	2,000	30,000	4.00	30,000	
	Transcene Corp.	N/A	"	2,400	24,000	14.63	24,000	
	Cirocomm Technology Corp.	N/A	"	2,000	20,000	6.85	20,000	
	Dingxin Metal Chemical	N/A	"	-	59,990	2.41	59,990	
	Taiwan Aerospace Corp.	N/A	"	1	14	-	14	
	Hua Zhi Venture Capital Co., Ltd.	N/A	"	-	2	-	2	
	HWA VI Venture Capital Corp.	N/A	"	-	2	-	2	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	CDIB BioScience Ventures I, Inc.	N/A	Financial assets at fair value through profit or loss	-	\$ 1	-	\$ 1	
	WK Technology Fund	N/A	"	-	2	-	2	
	WK Technology Fund IV	N/A	"	-	2	-	2	
	WK 5 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	WK 8 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	WK 6 Venture Capital Co., Ltd.	N/A	"	-	2	-	2	
	WK 7 Venture Capital Co., Ltd.	N/A	"	-	1	-	1	
	<u>Preference shares</u> Winking Entertainment Co., Ltd.	N/A	"	1,418	45,331	3.39	45,331	
	<u>Beneficiary certificate</u> JKO Pion Money Market Fund	N/A	"	2,582	30,009	-	30,009	
Cathay Futures Co., Ltd.	<u>Shares</u> Taiwan Futures Exchange	N/A	Financial assets at fair value through other comprehensive income	5,401	635,378	1.52	635,378	

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES AND COMBINED SHAREHOLDING PERCENTAGE

JUNE 30, 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Shareholding Percentage at the End of the Period	Book Value of Investment	Investment Profits or Losses Recognized in the Current Period	Combined Shareholding of the Company and its Affiliates (Note 1)				Note
							Number of Existing Shares	Number of Phantom Shares (Note 2)	Total		
									Number of Shares (In Thousands)	Shareholding Percentage	
Cathay Financial Holding Co., Ltd	Cathay Life	R.O.C.	Life insurance	100.00%	\$ 574,912,465	\$ 17,501,145	5,851,527	-	5,851,527	100.00%	Note 3
	Cathay United Bank	R.O.C.	Commercial banking operations	100.00%	229,029,936	13,601,691	10,165,835	-	10,165,835	100.00%	Note 3
	Cathay Century	R.O.C.	Property and casualty insurance	100.00%	11,606,242	1,129,943	305,705	-	305,705	100.00%	Note 3
	Cathay Securities	R.O.C.	Securities	100.00%	9,285,438	555,010	650,000	-	650,000	100.00%	Note 3
	Cathay Venture	R.O.C.	Venture capital investment	75.00%	4,109,252	147,172	456,515	-	456,515	100.00%	Note 3
	Cathay Securities Investment Trust	R.O.C.	Securities investment trust	100.00%	4,049,334	386,688	150,000	-	150,000	100.00%	Note 3
	Conning Asia Pacific Ltd.	Hong Kong	Wealth management	17.15%	39,261	10,521	272,950	-	272,950	100.00%	Note 4

Note 1: The existing shares and phantom shares of the investees held by the Company, directors, supervisors, general managers, vice general managers, and affiliates meeting the requirements of the Company Act are included.

Note 2: a. "Phantom shares" refer to the shares acquired due to conversion under the assumption that the Company converts the marketable securities with equity characteristics or derivative instrument contracts (that have not been converted to shares) based on the transaction terms and the equity that the Company has the intention of linking to the reinvestment business, and meeting the reinvestment objectives as provided in Paragraph 2, Article 36 and Article 37 of Financial Holding Company Act.

b. The above-mentioned "marketable securities with equity characteristics" refer to the securities stated in Paragraph 1, Article 11 of the Securities and Exchange Act Enforcement Rules, such as convertible corporate bonds and call warrants.

c. The above-mentioned "derivative instrument contracts" refer to those that meet the definition related to derivative instruments under IFRS 9, such as stock options.

Note 3: The investment profit or loss is recognized based on the respective company's audited financial statements for the same period.

Note 4: The investment profit or loss is recognized based on the respective company's unaudited financial statements for the same period.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	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	2020.1.20	\$ 474,182	Installment payments according to contracts	King Kong Zen Temple	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act	None
	Land located at Shangshibei Section, Taichung City	2020.5.14	427,978	Installment payments according to contracts	Natural person surnamed You	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, escrow fees 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, date of boards of directors' resolutions, or other dates that can confirm the counterparty and monetary amount of the transaction can be confirmed, whichever date is earlier.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE SIX MONTHS ENDED JUNE 30, 2020
(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, 2020	Remittance of Funds		Accumulated Outward Remittance for Investments from Taiwan as of June 30, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of June 30, 2020	Accumulated Repatriation of Investment Income as of June 30, 2020
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 525,791	50.0	\$ 262,896 (Note 2,b,2))	\$ 5,617,611	\$ -
Cathay Century (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	13,430	49.0	6,580 (Note 2,b,3))	4,325,487	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	68,375	100.0	36,287 (Note 2,b,2))	7,233,527	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	219,357	100.0	219,357 (Note 2,b,2))	15,709,013	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(39,168)	33.3	(13,043) (Note 2,b,3))	395,694	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	18,826	33.3	6,269 (Note 2,b,3))	202,503	-

Accumulated Outward Remittance for Investments in Mainland China as of June 30, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$ 34,824,675	\$ 34,824,675	\$ 515,686,495

Note 1: The 3 methods of investment are as follows:

- Direct investment in China.
- Reinvestment in China through companies located in a third region
- Others.

Note 2: The column of investment profit or loss for the period:

- It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
 - The financial statement is audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 - The financial statement is audited and certified by the parent company's auditors in Taiwan.
 - Other basis.

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 CNY100 million in Mainland China.

(Continued)

Note 5: 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 June 30, 2020, 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 June 30, 2020, 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 June 30, 2020, Cathay Life’s remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY1,500,000 thousand.
- d. On June 30, 2006, 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 June 30, 2020, 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 June 30, 2020, 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 SIX MONTHS ENDED JUNE 30, 2020

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note b)	Transactions Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets (Note 3)
0	Cathay Financial Holding	Cathay Life	a	Financial assets at fair value through profit or loss	\$ 35,000,000	Not significantly different with that of third parties	0.34
		Cathay Life	a	Income tax receivable for consolidated income tax	1,222,596	"	0.01
		Cathay Life	a	Interest revenues	626,557	"	0.20
		Cathay Life	a	Interest receivable	692,146	"	-
		Cathay United Bank	a	Income tax receivable for consolidated income tax	362,650	"	-
		Cathay United Bank	a	Dividends receivable	10,000,000	"	0.10
		Cathay United Bank	a	Cash and cash equivalents	365,779	"	-
		Cathay Century	a	Income tax receivable for consolidated income tax	257,410	"	-
		Cathay Century	a	Dividends receivable	1,768,056	"	0.02
		Cathay Securities Investment Trust	a	Dividends receivable	613,269	"	-
1	Cathay Life	Cathay United Bank	c	Payables	649,267	"	-
		Cathay United Bank	c	Guarantee deposits received	188,914	"	-
		Cathay United Bank	c	Cash and cash equivalents	30,588,494	"	0.30
		Cathay United Bank	c	Gain on investment property	345,336	"	0.11
		Cathay United Bank	c	Other operating expense	2,844,094	"	0.89
		Cathay United Bank	c	Service fee and commission fee	692,321	"	0.22
		Cathay United Bank	c	Gain on financial assets and liabilities at fair value through profit or loss	370,829	"	0.12
		Cathay United Bank	c	Financial assets at fair value through profit or loss	724,762	"	-
		Cathay Century	c	Net other non-interest gain	327,617	"	0.10
		Cathay Century	c	Other operating expense	105,143	"	0.03
		Cathay Futures	c	Guarantee deposits paid	2,528,705	"	0.02
		Cathay Securities Investment Trust	c	Service fee and commission fee	135,224	"	0.04
		Cathay Walbrook Holding 1 Limited	c	Loans	11,940,870	"	0.12
		Cathay Walbrook Holding 1 Limited	c	Interest revenues	216,040	"	0.07
		Cathay Walbrook Holding 2 Limited	c	Loans	628,467	"	-
		Conning holding limited	c	Payables	315,318	"	-
		Conning holding limited	c	Service fee and commission fee	630,694	"	0.20

(Continued)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note b)	Transactions Details				
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets (Note 3)	
2	Cathay United Bank	Cathay Century	c	Deposits	\$ 2,274,712	Not significantly different with that of third parties	0.02	
		Cathay Securities	c	Deposits	2,266,536		"	0.02
		Cathay Securities Investment Trust	c	Deposits	107,829		"	-
		Cathay Futures	c	Deposits	1,313,755		"	0.01
		Cathay Futures	c	Guarantee deposits paid	201,911		"	-
		Lin Yuan	c	Deposits	1,071,214		"	0.01
		Indovina Bank	c	Dividends receivable	174,837		"	-
		Indovina Bank	c	Call loans to banks	2,639,740		"	0.03
		CUBCN Bank	c	Call loans to banks	4,558,478		"	0.04
		CUBCN Bank	c	Due to commercial banks	9,234,289		"	0.09
		CUBCN Bank	c	Interest receivable	558,063		"	-
3	Indovina Bank	Cathay Insurance (Vietnam)	c	Deposits	196,501	"	-	
		Cathay Life (Vietnam)	c	Deposits	737,742	"	-	
4	Cathay Securities	Cathay Futures	c	Financial assets at fair value through profit or loss	1,147,040	"	0.01	

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)

TABLE 7**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****INFORMATION ON MAJOR SHAREHOLDERS****JUNE 30, 2020**

Names of Major Shareholders	Shares	
	Number of Shares held	Shareholding Percentage (%)
Wan Pao Development Co., Ltd.	2,309,617,689	15.70
Lin Yuan Investment Co., Ltd.	2,016,949,426	13.71

Note 1: Information on major shareholders in this table is regarding the shareholders who hold more than 5% of the Company's dematerialized ordinary shares and preference shares (including treasury shares) that have been registered and delivered, as calculated by the Taiwan Depository & Clearing Corporation on the last business day at the end of the quarter. The capital recorded in the Company's consolidated financial statements and the actual number of dematerialized shares that have been registered and delivered may differ due to the difference between the basis of preparation and calculation.

Note 2: If a shareholder holds its shares by trust, the information is individually presented in the above disclosures by the trustee who opened the trust account. As for the handling of insider shareholding declaration for shareholders holding more than 10% of the Company's shares in accordance with the Securities and Exchange Act, the number of shares held includes those held by trust in which the shareholder has the power to decide the allocation of trust assets. For more information regarding insider shareholding declaration, please refer to the Market Observation Post System website.