

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

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2020 and 2019 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. and its subsidiaries (collectively, the “Group”) as of September 30, 2020 and 2019, the related consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 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.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 12, 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 review such consolidated financial statements are those generally applied in the Republic of China.

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 494,736,913	5	\$ 413,405,471	4	\$ 343,245,590	3
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	160,635,656	1	110,945,093	1	110,869,396	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 28 and 29)	1,684,851,058	16	1,653,983,453	16	1,586,459,556	16
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8 and 29)	1,428,047,111	13	1,182,534,102	12	1,202,571,937	12
FINANCIAL ASSETS MEASURED AT AMORTIZED COST (Notes 4, 5, 9 and 29)	3,125,566,149	30	3,068,838,014	31	3,014,160,425	30
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	386,927	-	548,075	-	702,253	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	63,619,193	1	43,586,931	-	63,391,762	1
RECEIVABLES, NET (Notes 4, 5 and 10)	167,753,341	2	185,049,532	2	210,297,923	2
CURRENT TAX ASSETS	4,728,086	-	4,853,833	-	5,415,587	-
DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28)	2,086,797,598	20	2,066,761,296	21	2,080,288,090	21
REINSURANCE CONTRACT ASSETS, NET	8,814,621	-	8,458,658	-	7,545,132	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28)	32,836,012	-	48,145,672	-	47,991,783	1
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	608,132,840	6	615,117,482	6	599,343,292	6
INVESTMENT PROPERTIES, NET (Notes 4, 5, 14 and 29)	412,290,064	4	408,696,108	4	405,987,422	4
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	100,978,291	1	101,855,371	1	101,691,763	1
RIGHT-OF-USE ASSETS, NET (Notes 4, 16 and 28)	3,847,703	-	3,908,913	-	3,860,275	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	55,079,730	-	51,270,972	1	52,165,863	1
DEFERRED TAX ASSETS (Note 4)	58,436,774	-	40,595,612	-	29,047,629	-
OTHER ASSETS, NET (Notes 28 and 29)	<u>64,481,923</u>	<u>1</u>	<u>56,924,753</u>	<u>1</u>	<u>74,694,179</u>	<u>1</u>
TOTAL	\$ 10,562,019,990	100	\$ 10,065,479,341	100	\$ 9,939,729,857	100
LIABILITIES AND EQUITY						
DUE TO THE CENTRAL BANK AND OTHER BANKS	\$ 67,455,803	1	\$ 84,108,128	1	\$ 112,585,730	1
FUNDS BORROWED FROM THE CENTRAL BANK AND OTHER BANKS	1,000,000	-	-	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	121,107,668	1	111,526,387	1	138,241,318	1
FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5)	57,171	-	30,894	-	38,240	-
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4)	20,121,182	-	50,278,533	-	27,419,737	-
COMMERCIAL PAPER PAYABLE, NET (Note 18)	38,879,972	-	54,018,845	-	55,609,250	1
PAYABLES (Note 28)	69,580,012	1	66,934,725	1	124,011,839	1
CURRENT TAX LIABILITIES (Note 4)	21,536,825	-	3,274,828	-	1,279,571	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,485,831,901	24	2,303,443,816	23	2,273,980,926	23
BONDS PAYABLE (Note 20)	148,800,000	1	118,900,000	1	118,900,000	1
OTHER BORROWINGS	372,779	-	2,201,364	-	217,276	-
PROVISIONS (Notes 4, 21 and 22)	6,007,555,764	57	5,713,778,385	57	5,613,109,948	57
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	649,688,701	6	676,972,179	7	662,125,752	7
LEASE LIABILITIES (Notes 4, 16 and 28)	12,772,008	-	12,720,337	-	12,777,040	-
DEFERRED TAX LIABILITIES (Note 4)	57,085,577	1	55,144,257	1	49,607,097	1
OTHER LIABILITIES (Note 28)	<u>35,544,620</u>	<u>-</u>	<u>30,119,484</u>	<u>-</u>	<u>17,525,501</u>	<u>-</u>
Total liabilities	<u>9,737,389,983</u>	<u>92</u>	<u>9,283,452,162</u>	<u>92</u>	<u>9,207,429,225</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)						
Share capital						
Ordinary shares	131,692,102	1	131,692,102	2	125,632,102	1
Preference shares	15,333,000	-	15,333,000	-	15,333,000	-
Capital surplus	177,255,256	2	177,256,976	2	161,689,272	2
Retained earnings						
Legal reserve	51,967,688	1	46,122,845	-	46,122,845	-
Special reserve	149,894,910	1	221,977,672	2	221,977,672	2
Unappropriated earnings	158,329,889	2	58,181,890	1	46,512,387	1
Other equity	<u>128,782,575</u>	<u>1</u>	<u>121,182,880</u>	<u>1</u>	<u>105,027,128</u>	<u>1</u>
Total equity attributable to owners of the Company	<u>813,255,420</u>	<u>8</u>	<u>771,747,365</u>	<u>8</u>	<u>722,294,406</u>	<u>7</u>
NON-CONTROLLING INTERESTS (Notes 4 and 24)	<u>11,374,587</u>	<u>-</u>	<u>10,279,814</u>	<u>-</u>	<u>10,006,226</u>	<u>-</u>
Total equity	<u>824,630,007</u>	<u>8</u>	<u>782,027,179</u>	<u>8</u>	<u>732,300,632</u>	<u>7</u>
TOTAL	\$ 10,562,019,990	100	\$ 10,065,479,341	100	\$ 9,939,729,857	100

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

(With Deloitte & Touche review report dated November 12, 2020)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 50,761,184	33	\$ 55,539,777	39	\$ 156,720,898	33	\$ 164,955,074	43
INTEREST EXPENSE (Notes 4 and 28)	<u>(3,681,745)</u>	<u>(2)</u>	<u>(6,000,559)</u>	<u>(4)</u>	<u>(13,736,056)</u>	<u>(3)</u>	<u>(18,014,348)</u>	<u>(5)</u>
NET INTEREST INCOME	<u>47,079,439</u>	<u>31</u>	<u>49,539,218</u>	<u>35</u>	<u>142,984,842</u>	<u>30</u>	<u>146,940,726</u>	<u>38</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME								
Net gain on service fee and commission fee (Notes 4, 23, 25 and 28)	2,535,932	1	1,713,961	1	5,334,945	1	2,783,985	1
Net income on insurance operations (Notes 4, 25 and 28)	59,331,672	39	62,956,382	45	228,354,107	48	159,660,724	42
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	74,528,699	49	21,851,874	16	107,709,642	23	122,770,075	32
Gain on investment properties (Notes 4, 14 and 28)	2,753,715	2	2,931,252	2	10,337,716	2	9,241,572	2
Realized gain on financial assets at fair value through other comprehensive income (Note 4)	9,139,709	6	7,982,604	6	27,767,759	6	22,148,123	6
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	10,266,314	7	2,460,291	2	33,653,426	7	3,944,475	1
Foreign exchange (loss) gain (Note 4)	(41,411,999)	(27)	(7,571,766)	(6)	(81,538,941)	(17)	18,141,810	5
(Impairment loss) reversal of impairment loss on assets (Note 4)	41,171	-	221,709	-	(1,934,020)	-	839,793	-
Share of gain (loss) of associates and joint ventures accounted for using the equity method (Notes 4 and 13)	560,612	-	(116,526)	-	(12,449,785)	(3)	643,775	-
(Loss) gain on reclassification using the overlay approach (Notes 4 and 7)	(8,364,228)	(6)	(4,571,077)	(3)	3,085,593	1	(99,978,296)	(26)
Net other non-interest (loss) gain (Note 28)	<u>(3,460,700)</u>	<u>(2)</u>	<u>2,487,281</u>	<u>2</u>	<u>10,845,671</u>	<u>2</u>	<u>(4,436,074)</u>	<u>(1)</u>
PROFIT FROM OPERATIONS	<u>153,000,336</u>	<u>100</u>	<u>139,885,203</u>	<u>100</u>	<u>474,150,955</u>	<u>100</u>	<u>382,700,688</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25)	<u>(98,439,313)</u>	<u>(64)</u>	<u>(96,787,775)</u>	<u>(69)</u>	<u>(340,348,515)</u>	<u>(72)</u>	<u>(256,836,199)</u>	<u>(67)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>(829,228)</u>	<u>(1)</u>	<u>(387,458)</u>	<u>(1)</u>	<u>(1,749,362)</u>	<u>-</u>	<u>(620,777)</u>	<u>-</u>

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING EXPENSES								
(Notes 25 and 28)								
Employee benefit expenses	\$ (12,522,390)	(8)	\$ (12,787,373)	(9)	\$ (38,984,580)	(8)	\$ (40,667,131)	(11)
Depreciation and amortization expenses	(1,846,192)	(1)	(1,740,455)	(1)	(5,394,497)	(1)	(5,233,896)	(1)
Other general and administrative expenses	<u>(5,898,242)</u>	<u>(4)</u>	<u>(6,589,607)</u>	<u>(5)</u>	<u>(16,385,292)</u>	<u>(4)</u>	<u>(18,013,009)</u>	<u>(5)</u>
Total operating expenses	<u>(20,266,824)</u>	<u>(13)</u>	<u>(21,117,435)</u>	<u>(15)</u>	<u>(60,764,369)</u>	<u>(13)</u>	<u>(63,914,036)</u>	<u>(17)</u>
PROFIT BEFORE INCOME TAX								
TAX	33,464,971	22	21,592,535	15	71,288,709	15	61,329,676	16
INCOME TAX EXPENSE								
(Notes 4 and 26)								
	<u>(1,751,249)</u>	<u>(1)</u>	<u>(3,574,192)</u>	<u>(2)</u>	<u>(6,873,275)</u>	<u>(2)</u>	<u>(9,177,502)</u>	<u>(2)</u>
NET INCOME	<u>31,713,722</u>	<u>21</u>	<u>18,018,343</u>	<u>13</u>	<u>64,415,434</u>	<u>13</u>	<u>52,152,174</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	-	-	3,818	-	1,126	-	3,818	-
Property revaluation surplus	-	-	-	-	-	-	926,919	-
(Loss) gain on equity instruments at fair value through other comprehensive income	(2,999,978)	(2)	(3,124,941)	(2)	(5,815,032)	(1)	6,327,066	2
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(65,396)	-	(1,452,409)	(1)	1,051,925	-	(3,231,049)	(1)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	168,301	-	(107,410)	-	332,933	-	176,770	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	157,702	-	448,785	-	698,535	-	(1,804)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of the financial statements of foreign operations	364,952	-	(1,889,600)	(1)	(3,098,948)	(1)	(791,495)	-
(Loss) gain on hedging instruments	(51,901)	-	(879)	-	99,936	-	95,549	-

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Gain on debt instruments at fair value through other comprehensive income	\$ 2,139,085	1	\$ 21,237,270	15	\$ 19,626,816	4	\$ 97,182,128	25
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method for items that may be reclassified subsequently to profit or loss	167,830	-	(607,665)	(1)	(156,821)	-	219,500	-
Other comprehensive income (loss) reclassified using the overlay approach	8,364,228	6	4,571,077	3	(3,085,593)	-	99,978,296	26
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(2,328,915)</u>	<u>(1)</u>	<u>(3,375,765)</u>	<u>(2)</u>	<u>(1,983,591)</u>	<u>-</u>	<u>(27,894,352)</u>	<u>(7)</u>
Total other comprehensive income for the period, net of income tax	<u>5,915,908</u>	<u>4</u>	<u>15,702,281</u>	<u>11</u>	<u>7,671,286</u>	<u>2</u>	<u>172,991,346</u>	<u>45</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 37,629,630</u>	<u>25</u>	<u>\$ 33,720,624</u>	<u>24</u>	<u>\$ 72,086,720</u>	<u>15</u>	<u>\$ 225,143,520</u>	<u>59</u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 31,221,618	21	\$ 17,728,149	13	\$ 63,343,376	14	\$ 51,167,918	14
Non-controlling interests	<u>492,104</u>	<u>-</u>	<u>290,194</u>	<u>-</u>	<u>1,072,058</u>	<u>-</u>	<u>984,256</u>	<u>-</u>
	<u>\$ 31,713,722</u>	<u>21</u>	<u>\$ 18,018,343</u>	<u>13</u>	<u>\$ 64,415,434</u>	<u>14</u>	<u>\$ 52,152,174</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$ 37,453,728	25	\$ 33,722,197	24	\$ 71,239,119	15	\$ 224,066,911	59
Non-controlling interests	<u>175,902</u>	<u>-</u>	<u>(1,573)</u>	<u>-</u>	<u>847,601</u>	<u>-</u>	<u>1,076,609</u>	<u>-</u>
	<u>\$ 37,629,630</u>	<u>25</u>	<u>\$ 33,720,624</u>	<u>24</u>	<u>\$ 72,086,720</u>	<u>15</u>	<u>\$ 225,143,520</u>	<u>59</u>
EARNINGS PER SHARE (Note 27)								
Basic earnings per share	<u>\$ 2.37</u>		<u>\$ 1.41</u>		<u>\$ 4.55</u>		<u>\$ 3.86</u>	

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

(With Deloitte & Touche review report dated November 12, 2020)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company											Total	Non-controlling Interest	Total Equity		
	Share Capital		Capital Surplus	Retained 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	Other Equity						
	Ordinary Shares	Preferred Stock		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 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	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	(15,075,852)	-	(15,075,852)
Cash dividends on 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 and joint ventures accounted for using the equity method	-	-	8,871	-	-	-	-	-	-	-	-	-	-	8,871	-	8,871
Net income for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	-	-	-	-	-	-	-	51,167,918	984,256	52,152,174
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(505,463)	83,843,745	68,796	(2,584,839)	(3,823)	872,403	91,208,174	172,898,993	92,353	172,991,346
Total comprehensive income (loss) for nine months ended September 30, 2019	-	-	-	-	-	51,167,918	(505,463)	83,843,745	68,796	(2,584,839)	(3,823)	872,403	91,208,174	224,066,911	1,076,609	225,143,520
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(4,686,887)	-	4,686,887	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(628,048)	(628,048)
BALANCE, AT SEPTEMBER 30, 2019	\$ 125,632,102	\$ 15,333,000	\$ 161,689,272	\$ 46,122,845	\$ 221,977,672	\$ 46,512,387	\$ (12,655,334)	\$ 70,943,686	\$ 242,085	\$ (1,810,755)	\$ (1,324,961)	\$ 11,240,314	\$ 38,392,093	\$ 722,294,406	\$ 10,006,226	\$ 732,300,632
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	-	-	-	5,844,843	-	(5,844,843)	-	-	-	-	-	-	-	-	-	-
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	-	-	(1,720)	-	-	-	-	-	-	-	-	-	-	(1,720)	-	(1,720)
Net income for the nine months ended September 30, 2020	-	-	-	-	-	63,343,376	-	-	-	-	-	-	-	63,343,376	1,072,058	64,415,434
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	-	(2,915,994)	12,268,621	84,315	841,539	(10,294)	-	(2,372,444)	7,895,743	(224,457)	7,671,286
Total comprehensive income (loss) for nine months ended September 30, 2020	-	-	-	-	-	63,343,376	(2,915,994)	12,268,621	84,315	841,539	(10,294)	-	(2,372,444)	71,239,119	847,601	72,086,720
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	152,823	-	(152,823)	-	-	-	-	-	-	-	-
Others	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	247,172	247,172
BALANCE, AT SEPTEMBER 30, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,255,256	\$ 51,967,688	\$ 149,894,910	\$ 158,329,889	\$ (16,235,614)	\$ 80,435,751	\$ 416,245	\$ (1,008,969)	\$ (1,518,158)	\$ 11,097,089	\$ 55,596,231	\$ 813,255,420	\$ 11,374,587	\$ 824,630,007

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

(With Deloitte & Touche review report dated November 12, 2020)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 71,288,709	\$ 61,329,676
Adjustments for:		
Depreciation expense	2,950,470	2,880,765
Amortization expense	2,444,027	2,353,131
Bad debt expense	1,749,362	620,777
Gain on financial assets and liabilities at fair value through profit or loss	(92,802,437)	(100,431,173)
Interest expense	13,736,056	18,014,348
Gain on derecognition of financial assets measured at amortized cost	(33,653,426)	(3,944,475)
Interest income	(156,720,898)	(164,955,074)
Dividend income	(17,894,177)	(25,407,424)
Net changes in insurance liabilities	301,780,437	265,631,445
Net changes in other provisions	(7,788,309)	5,310,480
Share of (profit) loss of associates and joint ventures accounted for using the equity method	12,449,785	(643,775)
(Gain) loss on reclassification using the overlay approach	(3,085,593)	99,978,296
Loss (gain) on disposal and retirement of property and equipment	4,588	(1,522)
Loss on disposal of investment properties	502,015	21,395
Gain on disposal of investment accounted for using the equity method	(1,803,139)	-
Gain on disposal of investments	(23,888,174)	(19,463,092)
Impairment loss (reversal of impairment loss) recognized on financial assets	1,934,020	(839,793)
Gain on changes in fair value of investment properties	(2,345,694)	(518,736)
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and call loans to other banks	(6,911,018)	(2,810,532)
Decrease in financial assets at fair value through profit or loss	168,680,402	83,883,417
(Increase) decrease in financial assets at fair value through other comprehensive income	(207,899,737)	46,772,305
Increase in investments in debt instruments at amortized cost	(24,701,379)	(321,264,357)
Decrease in financial assets for hedging	289,035	-
Decrease (increase) in receivables	17,554,485	(43,429,896)
(Increase) decrease in loans	(21,518,065)	95,954,060
(Increase) decrease in reinsurance assets	(305,680)	290,246
(Increase) decrease in other financial assets	(8,222,227)	2,056,502
Increase in other assets	(6,693,452)	(9,568,270)
(Decrease) increase in due to the Central Bank and other banks	(16,652,325)	31,153,497
Decrease in financial liabilities at fair value through profit or loss	(85,119,239)	(137,039,964)
Decrease in securities sold under repurchase agreements	(30,157,351)	(31,887,300)
Increase in payables	5,102,675	57,243,713
Increase in deposits and remittances	182,388,085	86,777,840

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
Decrease in reserve for employee benefits liabilities	\$ (80,486)	\$ (85,775)
(Decrease) increase in provisions	(186,271)	106,402
Decrease in other financial liabilities	(11,776,756)	(11,349,120)
Increase (decrease) in other liabilities	<u>3,670,604</u>	<u>(570,846)</u>
Cash generated from (used in) operations	26,318,922	(13,832,829)
Interest received	157,697,837	163,559,898
Dividends received	18,537,977	25,753,925
Interest paid	(15,951,298)	(17,874,029)
Income tax paid	<u>(6,135,667)</u>	<u>(5,981,812)</u>
Net cash generated from operating activities	<u>180,467,771</u>	<u>151,625,153</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(28,421,493)	(29,633,396)
Proceeds from disposal of financial assets at fair value through other comprehensive income	28,086,975	31,118,468
Acquisition of financial assets at fair value through profit or loss	(698,713)	(580,597)
Proceeds from disposal of financial assets at fair value through profit or loss	405,261	222,405
Acquisition of investments accounted for using the equity method	(450,185)	(387,818)
Proceeds from disposal of investments accounted for using the equity method	-	86,149
Net cash outflow on acquisition of subsidiaries (after deduction of cash and cash equivalent balances acquired)	(152,501)	-
Proceeds from disposal of subsidiaries	-	9,329
Proceeds from capital reduction of investments accounted for using the equity method	162,007	5,166
Payments for property and equipment	(1,624,521)	(1,518,512)
Proceeds from disposal of property and equipment	11,537	47,176
Payments for intangible assets	(565,096)	(532,365)
Payments for investment properties	(3,444,165)	(12,464,858)
Proceeds from disposal of investment properties	258,308	114,250
(Increase) decrease in other assets	(1,223,906)	7,977,891
Dividends received	<u>89,620</u>	<u>66,904</u>
Net cash used in investing activities	<u>(7,566,872)</u>	<u>(5,469,808)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in other borrowings	(1,830,934)	(123,282)
Decrease in commercial paper payable	(15,140,000)	(7,380,000)
Increase in funds borrowed from the Central Bank and other banks	1,000,000	-

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2020	2019
Proceeds from issuance of bonds payable	\$ 30,000,000	\$ 30,000,000
Repayment of financial debentures	(100,000)	(1,700,000)
Decrease in financial liabilities designated as at fair value through profit or loss	(11,289,165)	-
Repayment of the principal portion of lease liabilities	(1,195,535)	(1,231,031)
Increase in other liabilities	921,829	551,359
Dividends paid	(29,729,344)	(21,512,706)
Changes in non-controlling interests	(1,055,822)	(628,048)
Net cash (used in) generated from financing activities	<u>(28,418,971)</u>	<u>(2,023,708)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(231,996)</u>	<u>595,570</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	144,249,932	144,727,207
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>\$ 647,464,080</u>	<u>\$ 455,525,553</u>
Reconciliation of cash and cash equivalents:		
	September 30	
	2020	2019
Cash and cash equivalents presented in the consolidated balance sheets	\$ 494,736,913	\$ 343,245,590
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	89,107,974	48,888,201
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>63,619,193</u>	<u>63,391,762</u>
Cash and cash equivalents at the end of the periods	<u>\$ 647,464,080</u>	<u>\$ 455,525,553</u>

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

(With Deloitte & Touche review report dated November 12, 2020)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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 its 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., in which 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 business of financial holding company.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on November 12, 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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, 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 judgment 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.

- 4) Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Before the application of the amendment, the Group was required to first determine whether the abovementioned rent concessions need to be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
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 will be 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” will be 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 shall apply the recognition and measurement of IFRS 17.

Recognition

The Group shall recognize a group of insurance contracts issued 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 a 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 a 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:
 - a) The acquisition of all insurance cash flows; and
 - b) The remaining cash flow of all asset or liability previously recognized from a group of contracts.

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

Premium Allocation Approach (PAA)

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

- 1) The Group reasonably expects that this will be a reasonable approximation of the general model, or
- 2) The coverage period of each contract in a 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:
 - a) The acquisition of all insurance cash flows; and
 - b) A remaining cash flow of all asset or liability previously recognized from a group of contracts.

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 consolidated 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 value, 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 intragroup 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 investments 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 on the insurance premiums are recognized pursuant to the 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

Revenue 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. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by (a) decreasing the carrying amount of the right-of-use asset of lease modifications that decrease the scope of the lease, and recognizes in profit or loss any gain or loss on the partial or full termination of the lease; (b) making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the consolidated balance sheets.

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

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 Cathay Life and its subsidiaries' historical experience.

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

2) Cathay Century and its subsidiaries

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

6. CASH AND CASH EQUIVALENTS

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	\$ 18,400,543	\$ 24,024,132	\$ 18,177,571
Cash in banks	222,443,195	154,204,645	104,720,675
Time deposits	187,948,837	174,190,896	150,721,293
Checks for clearing	3,440,823	2,930,797	2,917,743
Cash equivalents	19,673,543	31,733,983	20,653,391
Due from banks	42,849,566	26,325,206	46,072,091
Less: Loss allowance	<u>(19,594)</u>	<u>(4,188)</u>	<u>(17,174)</u>
	<u>\$ 494,736,913</u>	<u>\$ 413,405,471</u>	<u>\$ 343,245,590</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 458,465,287	\$ 495,159,801	\$ 565,652,693
Funds and beneficiary certificates	678,789,284	579,735,647	472,728,823
Government bonds	38,391,806	41,962,807	41,601,294
Corporate bonds	6,758,978	7,871,304	9,729,738
Financial debentures	19,924,819	23,968,427	26,516,388
Overseas bonds	176,838,069	231,492,155	227,614,799
Short-term notes	188,800,800	189,983,788	170,561,750
Futures trading margin	776,215	1,115,968	953,838
Structured time deposits	21,101,333	4,011,973	-
Derivative instruments	<u>95,004,467</u>	<u>78,681,583</u>	<u>71,100,233</u>
	<u>\$ 1,684,851,058</u>	<u>\$ 1,653,983,453</u>	<u>\$ 1,586,459,556</u>

Financial liabilities at FVTPL

Designated as at FVTPL			
Bonds	\$ 44,924,947	\$ 57,604,294	\$ 60,075,661
Held for trading			
Bonds	-	-	148,580
Derivative instruments	69,037,363	51,411,974	76,371,991
Security lending payable (non-hedging)	7,070,450	2,327,231	1,537,538
Security lending payable (hedging)	<u>74,908</u>	<u>182,888</u>	<u>107,548</u>
	<u>\$ 121,107,668</u>	<u>\$ 111,526,387</u>	<u>\$ 138,241,318</u>

- 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:

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Stocks	\$ 450,220,752	\$ 482,377,169	\$ 554,592,286
Funds and beneficiary certificates	637,148,473	543,218,427	450,464,474
Financial debentures	9,705,020	15,243,512	16,297,246
Overseas bonds	175,770,032	229,427,152	226,672,641
Structured time deposits	<u>21,101,333</u>	<u>4,011,973</u>	<u>-</u>
	<u>\$ 1,293,945,610</u>	<u>\$ 1,274,278,233</u>	<u>\$ 1,248,026,647</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Gain due to application of IFRS 9 to profit or loss	\$ 47,416,985	\$ 30,016,951	\$ 88,369,860	\$ 167,269,032
Gain if applying IAS 39 to profit or loss	(39,052,757)	(25,445,874)	(91,455,453)	(67,290,736)
Loss (gain) reclassified due to application of overlay approach	\$ 8,364,228	\$ 4,571,077	\$ (3,085,593)	\$ 99,978,296

Due to application of overlay approach, the amounts of gain on financial assets and liabilities at FVTPL for the three months ended September 30, 2020 and 2019 decreased from \$74,528,699 thousand to \$66,164,471 thousand, and decreased from \$21,851,874 thousand to \$17,280,797 thousand, respectively; for the nine months ended September 30, 2020 and 2019, the amounts of gain on financial assets and liabilities at FVTPL increased from \$107,709,642 thousand to \$110,795,235 thousand, and decreased from \$122,770,075 thousand to \$22,791,779 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 amounted to 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 bonds at US\$660 million of 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 bonds were redeemed 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 bonds were all redeemed 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 nine months ended September 30, 2020 and 2019, such interest rate swaps were valued at a net gain of \$3,924,671 thousand and \$6,252,545 thousand, respectively.

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2020	December 31, 2019	September 30, 2019
Equity instruments			
Stocks	\$ 96,141,199	\$ 62,877,916	\$ 51,216,778
Debt instruments			
Government bonds	108,012,226	115,618,878	162,219,857
Corporate bonds	77,558,138	47,939,633	54,945,597
Financial debentures	74,673,868	80,267,723	84,843,415
Asset-backed securities	16,313,861	27,942,654	25,396,788
Negotiable certificates of deposits	88,490,022	70,253,313	-
Overseas bonds	968,014,968	778,747,472	825,056,808
Less: Litigation deposits	(46,624)	(45,748)	(44,960)
Less: Deposits to the Central Bank	<u>(1,110,547)</u>	<u>(1,067,739)</u>	<u>(1,062,346)</u>
	<u>1,331,905,912</u>	<u>1,119,656,186</u>	<u>1,151,355,159</u>
	<u>\$ 1,428,047,111</u>	<u>\$ 1,182,534,102</u>	<u>\$ 1,202,571,937</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 September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019 were \$3,315,167 thousand, \$1,938,400 thousand, \$3,899,142 thousand and \$2,703,633 thousand, respectively. Those related to the amounts of investment derecognized for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019 were \$349,549 thousand, \$840,646 thousand, \$368,405 thousand and \$951,184 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instrument investments at FVTOCI which had fair value of \$37,514,667 thousand and \$41,768,287 thousand at the time of sale, and transferred unrealized gain of \$152,823 thousand and unrealized loss of \$4,686,887 thousand from other equity to retained earnings for the nine months ended September 30, 2020 and 2019, respectively.
- d. As of September 30, 2020, December 31, 2019 and September 30, 2019, certain financial assets at FVTOCI of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$17,254,909 thousand, \$35,649,054 thousand and \$25,804,732 thousand, respectively. The proceeds amounting to \$16,837,053 thousand, \$35,456,986 thousand and \$25,236,750 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$16,850,937 thousand, \$35,556,515 thousand and \$25,764,203 thousand before the end of February 2021, June 2020 and March 2020, respectively.
- e. As of September 30, 2020, December 31, 2019 and September 30, 2019, Cathay Securities and its subsidiaries sold certain debt instrument investments at FVTOCI under repurchase agreements with notional amounts of \$2,350,000 thousand, \$2,050,000 thousand and \$1,900,000 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

	September 30, 2020	December 31, 2019	September 30, 2019
Time deposits	\$ 4,099,321	\$ 1,776,929	\$ 1,373,128
Financial debentures	55,858,812	68,190,012	71,666,695
Corporate bonds	42,144,828	27,508,670	28,350,956
Government bonds	46,094,860	42,403,554	39,808,247
Overseas bonds	2,590,109,221	2,515,522,370	2,499,606,521
Financial asset beneficiary certificates	445,000	1,189,350	1,030,048
Structured bonds	-	3,436,962	3,509,239
Asset-backed securities	36,531,913	38,850,385	37,968,769
Short-term notes	362,923,920	380,904,061	343,824,498
Less: Litigation deposits	(1,352,699)	(1,343,931)	(1,344,363)
Less: Deposits in the Central Bank	(8,548,995)	(8,371,801)	(8,374,665)
Less: Derivative instrument collateral	-	-	(1,719,781)
Less: Loss allowance (Note)	<u>(2,740,032)</u>	<u>(1,228,547)</u>	<u>(1,538,867)</u>
	<u>\$ 3,125,566,149</u>	<u>\$ 3,068,838,014</u>	<u>\$ 3,014,160,425</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of September 30, 2020, December 31, 2019 and September 30, 2019, the amounts were \$1,371 thousand, \$891 thousand and \$948 thousand, respectively.

- a. For the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, the Group disposed of bonds before maturity due to increase in credit risk, which resulted in a gain on disposal of \$661,134 thousand and losses on disposal of \$1,064,356 thousand, \$627,354 thousand and \$2,966,217 thousand, respectively; disposal of bonds before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$9,335,391 thousand, \$3,413,708 thousand, \$33,772,861 thousand and \$6,514,538 thousand, respectively; disposal of bonds due to other situations such as repayments at maturities resulted in gains on disposal of \$635,804 thousand, \$110,939 thousand, \$873,934 thousand and \$396,154 thousand, respectively.
- b. As of September 30, 2020, December 31, 2019 and September 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 \$1,009,901 thousand, \$16,010,521 thousand and \$352,637 thousand, respectively. The proceeds amounting to \$885,772 thousand, \$12,723,466 thousand and \$280,781 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$885,888 thousand, \$12,731,800 thousand and \$282,253 thousand before the end of October 2020, March 2020 and October 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

	September 30, 2020	December 31, 2019	September 30, 2019
Notes receivable	\$ 407,155	\$ 472,015	\$ 399,972
Accounts receivable	82,403,925	108,126,390	121,939,739
Interest receivables	53,447,523	53,456,596	56,871,333
Acceptances	955,011	896,898	963,768
Factoring receivables	6,496,990	3,137,119	2,723,799
Others	<u>26,580,150</u>	<u>21,496,994</u>	<u>29,913,663</u>
	170,290,754	187,586,012	212,812,274
Less: Loss allowance	<u>(2,537,413)</u>	<u>(2,536,480)</u>	<u>(2,514,351)</u>
	<u>\$ 167,753,341</u>	<u>\$ 185,049,532</u>	<u>\$ 210,297,923</u>

- a. The Group set aside an appropriate loss allowance for receivables and the movements in loss allowance for receivables were as follows:

For the nine months ended September 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	(3,469)	88,102	(3,656)	80,977	-	80,977
Transferred to credit-impaired financial assets	(479)	(2,227)	96,906	94,200	-	94,200
Transferred to 12-month ECLs	2,869	(61,973)	(3,790)	(62,894)	-	(62,894)
Derecognition of financial assets in current period	(198,140)	(67,598)	(58,599)	(324,337)	-	(324,337)
New financial assets purchased or originated	100,286	66,141	254,287	420,714	-	420,714
Difference from impairment charged in accordance with applicable laws and regulations	-	-	-	-	10,142	10,142
Written off as bad debt expense	-	-	(402,361)	(402,361)	-	(402,361)
Effects of exchange rate changes and others	<u>29,765</u>	<u>23,820</u>	<u>142,139</u>	<u>195,724</u>	<u>175</u>	<u>195,899</u>
Balance at the end of the period	<u>\$ 440,714</u>	<u>\$ 200,571</u>	<u>\$ 1,685,030</u>	<u>\$ 2,326,315</u>	<u>\$ 63,293</u>	<u>\$ 2,389,608</u>

For the nine months ended September 30, 2019

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

- b. Loss allowance for other receivables is provided by simplified approach and the reconciliation was as follows:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 159,212	\$ 282,516
(Reversal) provision for the year	(2,422)	(52,325)
Amounts written off	(8,997)	(44,734)
Foreign exchange difference	12	-
Ending balance	<u>\$ 147,805</u>	<u>\$ 185,457</u>

11. DISCOUNTS AND LOANS, NET

	September 30, 2020	December 31, 2019	September 30, 2019
Export negotiations	\$ 1,303,967	\$ 1,349,222	\$ 1,725,253
Loans	2,110,952,284	2,092,428,586	2,103,844,303
Overdrafts	1,644,839	1,695,073	2,319,444
Overdue loans	<u>5,507,943</u>	<u>3,528,482</u>	<u>4,441,546</u>
	2,119,409,033	2,099,001,363	2,112,330,546
Less: Loss allowance	<u>(32,611,435)</u>	<u>(32,240,067)</u>	<u>(32,042,456)</u>
	<u>\$ 2,086,797,598</u>	<u>\$ 2,066,761,296</u>	<u>\$ 2,080,288,090</u>

- As of September 30, 2020, the gross amount of domestic discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,444,884,469 thousand and \$25,333,577 thousand, respectively.
- For the nine months ended September 30, 2020, Cathay United Bank sold credit assets and recognized a loss of \$366,015 thousand on derecognition of credit assets at amortized cost.
- Refer to Note 36 for information relating to the credit risk management and impairment of discounts and loans.

12. SUBSIDIARIES

- Subsidiaries included in the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			September 30, 2020	December 31, 2019	September 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	Holding company	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	85.00	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

(Continued)

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
Global Evolution Holding ApS	Global Evolution Financial ApS	Asset management services	99.72	-	-	
Global Evolution Financial ApS	Global Evolution Fondsmæglerelskab A/S	Asset management services	100.00	-	-	
Global Evolution Financial ApS	Mogambo2 Holding ApS	Asset management services	100.00	-	-	
Global Evolution Financial ApS	Global Evolution Manco S.A.	Asset management services	90.00	-	-	
Global Evolution Fondsmæglerelskab A/S	Global Evolution USA, LLC	Asset management services	100.00	-	-	
Global Evolution Fondsmæglerelskab A/S	Global Evolution Fund Management Singapore Pte. Ltd.	Asset management services	100.00	-	-	
Mogambo2 Holding ApS	Global Evolution USA GP, LLC	Asset management services	100.00	-	-	
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Insurance (Vietnam)")	Property insurance services	100.00	100.00	100.00	
Cathay United Bank	Indovina Bank Limited ("Indovina Bank")	Banking	50.00	50.00	50.00	
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank")	Banking	100.00	100.00	100.00	
Cathay United Bank	Cathay United Bank (China) Co., Ltd. ("CUBCN Bank")	Banking	100.00	100.00	100.00	
Cathay Securities	Cathay Futures Co., Ltd. ("Cathay Futures")	Futures services	99.99	99.99	99.99	
Cathay Securities	Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)")	Securities services	100.00	100.00	100.00	
Cathay Securities (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")	Private equity	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 its ownership interest from 45% to 53%, and CHL obtained the control of Global Evolution Holding ApS. Refer to Note 38 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
			September 30, 2020	December 31, 2019	September 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 subsidiary because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Group.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2020	December 31, 2019	September 30, 2019
Investments in unconsolidated subsidiaries	\$ 571,124	\$ 333,089	\$ 285,416
Investments in associates	<u>32,264,888</u>	<u>47,812,583</u>	<u>47,706,367</u>
	<u>\$ 32,836,012</u>	<u>\$ 48,145,672</u>	<u>\$ 47,991,783</u>

a. Investments in unconsolidated subsidiaries

	September 30, 2020	December 31, 2019	September 30, 2019
Cathay Securities Investment Consulting	<u>\$ 571,124</u>	<u>\$ 333,089</u>	<u>\$ 285,416</u>

b. Investments in associates

	September 30, 2020	December 31, 2019	September 30, 2019
Rizal Commercial Banking Corporation	\$ 16,313,241	\$ 15,893,473	\$ 16,177,111
Cathay Insurance Company Limited (China)	4,457,271	4,462,182	4,438,270
Dasheng Venture Capital Co., Ltd.	2,252,133	1,679,260	1,696,925
Taiwan Finance Corp.	1,703,897	1,675,881	1,648,093
PSS Co., Ltd.	902,259	833,568	819,464
Dasheng IV Venture Capital Co., Ltd.	833,454	782,762	792,011
Ding Teng Co., Ltd.	821,905	791,192	765,354
Cathay Sunrise Corporation	722,691	689,074	697,243
Neo Cathay Power Corp.	703,651	684,724	691,873
CMG International One Corp.	675,225	675,965	675,559
CMG International Two Corp.	672,687	674,106	673,973
Greenhealth Water Resources Co., Ltd.	459,342	469,726	385,819
Symphox Information Co., Ltd.	427,005	402,615	400,237
CDBS Cathay Asset Management Co., Ltd.	402,412	421,059	418,768
CM Energy Co., Ltd.	282,934	281,396	276,443
TaiYang Solar Power Co., Ltd.	148,263	-	-
Tien-Tai Optronics Corporation	139,453	136,988	134,533
Taiwan Real-estate Management Corp.	98,495	100,958	101,190
WK Technology Fund VI Co., Ltd.	60,676	69,162	54,054
Lin Yuan Property Management Co., Ltd.	48,191	-	-
RI-Zhao Energy Corp.	48,129	46,460	45,556
Dun-Yang Energy Corp.	46,133	43,810	43,226
Yong-Chang Energy Corp.	39,708	42,522	42,327
Tien-Tai Management Consulting Co., Ltd.	5,733	4,985	5,078
PT Bank Mayapada Internasional Tbk	-	14,176,087	13,893,364
Global Evolution Holding ApS	-	2,774,628	2,829,896
	<u>\$ 32,264,888</u>	<u>\$ 47,812,583</u>	<u>\$ 47,706,367</u>

Aggregate information of associates that are not individually material

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
The Group's share of:				
Net income (loss)	\$ 508,722	\$ (158,712)	\$ (12,598,913)	\$ 534,478
Other comprehensive income (loss)	<u>335,883</u>	<u>(545,513)</u>	<u>175,664</u>	<u>395,662</u>
Total comprehensive income (loss) for the period	<u>\$ 844,605</u>	<u>\$ (704,225)</u>	<u>\$ (12,423,249)</u>	<u>\$ 930,140</u>

As the individual associates are not significant, the related financial information is disclosed aggregately. The amounts 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 and increased its ownership interest from 45% to 53%; CHL obtained the control of Global Evolution Holding ApS and Global Evolution Holding ApS is included in 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 during 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 nine months ended September 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	-	-	2,934,580	9,530,278	12,464,858
Disposals	(88,965)	(46,680)	-	-	(135,645)
Other reclassification	63,123,604	13,823,202	(1,963,182)	(10,226,347)	64,757,277
Gain (loss) on changes in fair value of investment property	886,118	(367,382)	-	-	518,736
Changes in revaluation surplus	(1,096,163)	2,023,082	-	-	926,919
Foreign exchange difference	(248,034)	(533,278)	-	-	(781,312)
September 30, 2019	<u>\$ 297,725,659</u>	<u>\$ 104,473,605</u>	<u>\$ 3,761,541</u>	<u>\$ 26,617</u>	<u>\$ 405,987,422</u>
January 1, 2020	\$ 298,205,802	\$ 104,791,226	\$ 4,546,717	\$ 1,152,363	\$ 408,696,108
Additions	-	-	2,242,088	1,202,077	3,444,165
Disposals	(207,363)	(552,960)	-	-	(760,323)
Other reclassification	2,477,108	4,580,546	(4,546,803)	(2,028,491)	482,360
Gain (loss) on changes in fair value of investment property	(1,206,017)	3,551,711	-	-	2,345,694
Foreign exchange difference	(713,135)	(1,204,805)	-	-	(1,917,940)
September 30, 2020	<u>\$ 298,556,395</u>	<u>\$ 111,165,718</u>	<u>\$ 2,242,002</u>	<u>\$ 325,949</u>	<u>\$ 412,290,064</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Rental income from investment property	\$ 2,778,677	\$ 2,870,946	\$ 8,517,562	\$ 8,632,662
Less: Direct operating expense from investment properties that generate rental income	(129,520)	(119,514)	(501,233)	(459,980)
Less: Direct operating expense from investment properties that do not generate rental income	<u>(32,611)</u>	<u>(27,620)</u>	<u>(100,919)</u>	<u>(107,380)</u>
	<u>\$ 2,616,546</u>	<u>\$ 2,723,812</u>	<u>\$ 7,915,410</u>	<u>\$ 8,065,302</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 could not be sold separately, it would be classified as investment property only when owner occupation is lower than 5% of the property.
- b. As of September 30, 2020, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$373,035,697 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 is not subject to restrictions other than the restriction associated with being furnished as security for other debts; the ownership of its trust property is not subject to restrictions. Besides, the Group is 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 on June 30, 2020, December 31, 2019 and June 30, 2019. The appraisers had reviewed the effectiveness of the original valuation reports and clarified that the fair values at June 30, 2020, December 31, 2019 and June 30, 2019 were still in effect on September 30, 2020 and 2019, respectively.

Name of Appraiser Office	June 30, 2020	December 31,	
		2019	June 30, 2019
DTZ Real Estate Appraiser Firm	Chang-da, Yang; Gen-yuan, Li; Chia-ho, Tsai; Chun-chun, Hu	Chang-da, Yang; Gen-yuan, Li	Chang-da, 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	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang

(Continued)

Name of Appraiser Office	June 30, 2020	December 31, 2019	June 30, 2019
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

(Concluded)

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 in 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. The appraisers had reviewed the original valuation reports issued on the aforementioned valuation dates and clarified that the valuation reports were in effect on September 30, 2020 and 2019, respectively.

<u>Name of Appraiser Office</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
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 rentals 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 costs is calculated based on 10% of construction costs and amortized over its estimated useful life of 20 years.

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 regulatory restrictions, and low development efficiency, resulting in no significant change that would affect the related property market in the near future. 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), who met the R.O.C.'s qualification requirements for real estate appraiser, with valuation dates on June 30, 2020, December 31, 2019 and June 30, 2019.

The appraiser reviewed the original valuation reports issued on June 30, 2020, December 31, 2019 and June 30, 2019 and clarified that the valuation reports were still in effect on September 30, 2020 and 2019, respectively.

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 properties were entirely leased under operating leases, and generated rental income of \$1,679 thousand, \$1,790 thousand, \$5,259 thousand and \$5,371 thousand for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, respectively.

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 value tax, house 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 was determined based on the interest rate on a 2-year time deposit of petty cash plus five, three and three quarters of a percentage point 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 Nine Months Ended September 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	2,345,694	518,736
Amount recognized in other comprehensive income		
Property revaluation surplus	-	926,919
Exchange differences resulting from translation of the financial statements of foreign operations	(1,917,940)	(781,312)
Disposals	(751,500)	(107,191)
Transfers to property and equipment	(60,111)	-
Transfers from property and equipment	-	64,771,887
Transfers from investment property under construction	4,546,803	1,947,844
Transfers from prepayment for buildings and land	<u>803,611</u>	<u>9,761,932</u>
Ending balance	<u>\$ 395,840,601</u>	<u>\$ 396,136,577</u>

The above amount excludes those measured at cost.

h. Refer to Table 3 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
<u>Cost</u>									
Balance at January 1, 2019	\$ 124,316,326	\$ 58,621,063	\$ 7,769,595	\$ 276,135	\$ 869,324	\$ 121,529	\$ 12,623,173	\$ 950,474	\$ 205,547,619
Additions	-	-	561,774	-	22,476	3,878	265,280	665,104	1,518,512
Disposals	(12,249)	(20,329)	(495,508)	-	(1,446)	(11,397)	(398,529)	-	(939,458)
Reclassification	450,666	1,263	485,632	(276,135)	112,736	10,417	(244,998)	(366,283)	173,298
Transfers to investment property	(53,045,893)	(12,385,179)	-	-	-	-	-	-	(65,431,072)
Exchange differences	<u>1,647</u>	<u>(48,992)</u>	<u>3,043</u>	<u>-</u>	<u>(8,208)</u>	<u>996</u>	<u>5,911</u>	<u>(1,377)</u>	<u>(46,980)</u>
Balance at September 30, 2019	<u>\$ 71,710,497</u>	<u>\$ 46,167,826</u>	<u>\$ 8,324,536</u>	<u>\$ -</u>	<u>\$ 994,882</u>	<u>\$ 125,423</u>	<u>\$ 12,250,837</u>	<u>\$ 1,247,918</u>	<u>\$ 140,821,919</u>

(Continued)

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold Improvements	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
<u>Depreciation and impairment</u>									
Balance at January 1, 2019	\$ 103,134	\$ 22,636,248	\$ 5,343,495	\$ 275,960	\$ 494,551	\$ 90,622	\$ 10,145,282	\$ -	\$ 39,089,292
Depreciation	-	748,282	547,404	-	77,684	11,775	496,652	-	1,881,797
Disposals	-	(12,906)	(486,863)	-	(1,360)	(11,043)	(381,632)	-	(893,804)
Reclassification	-	(35)	333,386	(275,960)	87,770	1,249	(421,155)	-	(274,745)
Transfers to investment property	-	(659,185)	-	-	-	-	-	-	(659,185)
Exchange differences	-	(5,695)	(13,731)	-	4,706	728	793	-	(13,199)
Balance at September 30, 2019	<u>\$ 103,134</u>	<u>\$ 22,706,709</u>	<u>\$ 5,723,691</u>	<u>\$ -</u>	<u>\$ 663,351</u>	<u>\$ 93,331</u>	<u>\$ 9,839,940</u>	<u>\$ -</u>	<u>\$ 39,130,156</u>
Carrying amount at September 30, 2019	<u>\$ 71,607,363</u>	<u>\$ 23,461,117</u>	<u>\$ 2,600,845</u>	<u>\$ -</u>	<u>\$ 331,531</u>	<u>\$ 32,092</u>	<u>\$ 2,410,897</u>	<u>\$ 1,247,918</u>	<u>\$ 101,691,763</u>
<u>Cost</u>									
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	-	-	573,955	-	44,592	4,182	326,429	675,363	1,624,521
Disposals	-	-	(350,473)	-	(460)	(4,492)	(294,450)	-	(649,875)
Reclassification	(451,389)	(260,072)	177,908	-	28,115	2,654	363,538	(620,550)	(759,796)
Others	(1,800)	-	-	-	-	-	-	-	(1,800)
Exchange differences	(18,543)	(31,120)	(48,392)	-	(15,331)	(3,834)	(11,967)	(3,095)	(132,282)
Balance at September 30, 2020	<u>\$ 71,220,454</u>	<u>\$ 46,315,416</u>	<u>\$ 9,026,293</u>	<u>\$ -</u>	<u>\$ 1,155,397</u>	<u>\$ 125,893</u>	<u>\$ 12,887,239</u>	<u>\$ 843,447</u>	<u>\$ 141,574,139</u>
<u>Depreciation and impairment</u>									
Balance at January 1, 2020	\$ 103,134	\$ 22,932,481	\$ 5,883,294	\$ -	\$ 685,957	\$ 86,835	\$ 9,946,299	\$ -	\$ 39,638,000
Depreciation	-	690,232	600,135	-	81,787	8,236	489,913	-	1,870,303
Disposals	-	-	(347,802)	-	(460)	(4,492)	(280,996)	-	(633,750)
Reclassification	-	(232,207)	9	-	-	-	1,019	-	(231,179)
Exchange differences	-	(6,384)	(22,456)	-	(7,647)	(2,583)	(8,456)	-	(47,526)
Balance at September 30, 2020	<u>\$ 103,134</u>	<u>\$ 23,384,122</u>	<u>\$ 6,113,180</u>	<u>\$ -</u>	<u>\$ 759,637</u>	<u>\$ 87,996</u>	<u>\$ 10,147,779</u>	<u>\$ -</u>	<u>\$ 40,595,848</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 September 30, 2020	<u>\$ 71,117,320</u>	<u>\$ 22,931,294</u>	<u>\$ 2,913,113</u>	<u>\$ -</u>	<u>\$ 395,760</u>	<u>\$ 37,897</u>	<u>\$ 2,739,460</u>	<u>\$ 843,447</u>	<u>\$ 100,978,291</u>

(Concluded)

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 as collateral.

16. LEASE AGREEMENTS

a. Right-of-use assets

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amount</u>			
Buildings	\$ 3,759,125	\$ 3,807,403	\$ 3,775,384
Office equipment	13,816	14,247	15,923
Machine equipment	1,974	3,082	3,035
Transportation equipment	<u>72,788</u>	<u>84,181</u>	<u>65,933</u>
	<u>\$ 3,847,703</u>	<u>\$ 3,908,913</u>	<u>\$ 3,860,275</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>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Additions to right-of-use assets	\$ 260,600	\$ 319,663	\$1,077,137	\$ 866,822
Depreciation expense for right-of-use assets				
Buildings	\$ 343,325	\$ 336,207	\$1,037,168	\$ 963,582
Office equipment	1,320	1,270	3,768	3,771
Machine equipment	346	325	1,093	826
Transportation equipment	10,681	10,331	38,138	30,789
	<u>\$ 355,672</u>	<u>\$ 348,133</u>	<u>\$1,080,167</u>	<u>\$ 998,968</u>

b. Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Carrying amounts	\$ 12,772,008	\$ 12,720,337	\$ 12,777,040

Range of discount rates for lease liabilities was as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Buildings	0.33%-8.57%	0.35%-8.57%	0.35%-8.57%
Office equipment	0.42%-4.76%	0.71%-4.76%	0.71%-4.76%
Machine equipment	0.70%-4.15%	0.70%-4.15%	0.70%-4.13%
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
<u>Cost</u>							
Balance at January 1, 2019	\$ 5,195,579	\$ 37,659,600	\$ 403,186	\$ 3,622,314	\$ 19,094,842	\$ 238,414	\$ 66,213,935
Addition - acquired separately	532,365	-	-	-	-	-	532,365
Disposal	(148,209)	-	-	-	-	-	(148,209)
Reclassification	46,015	-	-	-	-	-	46,015
Exchange differences	(15,269)	-	4,054	36,419	79,475	2,229	106,908
Balance at September 30, 2019	<u>\$ 5,610,481</u>	<u>\$ 37,659,600</u>	<u>\$ 407,240</u>	<u>\$ 3,658,733</u>	<u>\$ 19,174,317</u>	<u>\$ 240,643</u>	<u>\$ 66,751,014</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2019	\$ 3,730,271	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 12,387,468
Amortization	477,004	1,559,537	-	301,855	-	14,735	2,353,131
Disposal	(148,209)	-	-	-	-	-	(148,209)
Exchange differences	(21,321)	-	-	12,449	-	1,633	(7,239)
Balance at September 30, 2019	<u>\$ 4,037,745</u>	<u>\$ 8,837,378</u>	<u>\$ -</u>	<u>\$ 1,532,175</u>	<u>\$ -</u>	<u>\$ 177,853</u>	<u>\$ 14,585,151</u>
Carrying amount at September 30, 2019	<u>\$ 1,572,736</u>	<u>\$ 28,822,222</u>	<u>\$ 407,240</u>	<u>\$ 2,126,558</u>	<u>\$ 19,174,317</u>	<u>\$ 62,790</u>	<u>\$ 52,165,863</u>

(Continued)

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	Total
<u>Cost</u>							
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 through business combination (Note 38)	-	-	-	2,467,576	3,587,422	-	6,054,998
Addition - acquired separately	565,096	-	-	-	-	-	565,096
Disposal	(359,668)	-	-	-	-	-	(359,668)
Reclassification	68,350	-	-	-	-	-	68,350
Exchange differences	(15,628)	-	(12,857)	(159,933)	(316,646)	(6,865)	(511,929)
Balance at September 30, 2020	<u>\$ 6,054,589</u>	<u>\$ 37,659,600</u>	<u>\$ 382,104</u>	<u>\$ 5,856,055</u>	<u>\$ 22,195,724</u>	<u>\$ 205,025</u>	<u>\$ 72,353,097</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2020	\$ 4,147,171	\$ 9,357,224	\$ -	\$ 1,583,626	\$ -	\$ 177,257	\$ 15,265,278
Amortization	528,270	1,559,537	-	342,046	-	14,174	2,444,027
Disposal	(359,668)	-	-	-	-	-	(359,668)
Exchange differences	(10,431)	-	-	(59,729)	-	(6,110)	(76,270)
Balance at September 30, 2020	<u>\$ 4,305,342</u>	<u>\$ 10,916,761</u>	<u>\$ -</u>	<u>\$ 1,865,943</u>	<u>\$ -</u>	<u>\$ 185,321</u>	<u>\$ 17,273,367</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 September 30, 2020	<u>\$ 1,749,247</u>	<u>\$ 26,742,839</u>	<u>\$ 382,104</u>	<u>\$ 3,990,112</u>	<u>\$ 22,195,724</u>	<u>\$ 19,704</u>	<u>\$ 55,079,730</u>

(Concluded)

- 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

As of September 30, 2020, December 31, 2019 and September 30, 2019, the carrying amounts of goodwill were \$13,624,580 thousand, \$10,343,445 thousand and \$10,574,291 thousand, respectively. The goodwill arose from the acquisition of which Cathay Life assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. except for their reserved assets and liabilities on July 1, 2015, the acquisition of 100% of Conning Holdings Limited on September 18, 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of Cathay Life, on February 1, 2016 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

	September 30, 2020	December 31, 2019	September 30, 2019
Nominal amount	\$ 38,880,000	\$ 54,020,000	\$ 55,610,000
Less: Discount on short-term bills payable	<u>(28)</u>	<u>(1,155)</u>	<u>(750)</u>
	<u>\$ 38,879,972</u>	<u>\$ 54,018,845</u>	<u>\$ 55,609,250</u>
Interest rate range	0.24%-0.39%	0.51%-0.69%	0.50%-0.70%

19. DEPOSITS AND REMITTANCES

	September 30, 2020	December 31, 2019	September 30, 2019
Checking deposits	\$ 13,435,914	\$ 14,533,346	\$ 13,777,040
Demand deposits	630,584,835	505,115,127	481,033,177
Demand savings deposits	1,025,765,133	931,589,893	928,000,367
Time deposits	442,756,146	465,200,743	459,467,525
Time savings deposits	364,867,160	382,673,168	383,253,959
Negotiable certificates of deposit	7,166,588	2,931,000	3,145,900
Outward remittances and remittances payable	<u>1,256,125</u>	<u>1,400,539</u>	<u>5,302,958</u>
	<u>\$ 2,485,831,901</u>	<u>\$ 2,303,443,816</u>	<u>\$ 2,273,980,926</u>

20. BONDS PAYABLE

	September 30, 2020	December 31, 2019	September 30, 2019
Subordinated financial debentures	\$ 53,800,000	\$ 53,900,000	\$ 53,900,000
Cumulative perpetual subordinated corporate bonds	45,000,000	45,000,000	45,000,000
Unsecured corporate bonds	<u>50,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
	<u>\$ 148,800,000</u>	<u>\$ 118,900,000</u>	<u>\$ 118,900,000</u>

a. Subordinated financial debentures

	September 30, 2020	December 31, 2019	September 30, 2019
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
Second 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
Second 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
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
Second issue of subordinated financial debentures in 2017; fixed rate at 1.85%; maturity: April 2027	12,700,000	12,700,000	12,700,000
Second 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>\$ 53,900,000</u>

b. Cumulative perpetual subordinated corporate bonds

- 1) Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, Cathay life issued its first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. Key terms and conditions are as follows:
 - a) Issue amount: \$35,000,000 thousand.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: Perpetual.
 - d) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year from the issue date.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.

- f) Right of early redemption: If the 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:
- 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.
 - Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - Coupon rate: Fixed rate of 0.59% for A Note, 0.64% for B Note and 0.67% for C Note.
 - Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - Form of bonds: Book-entry securities.
- 3) Pursuant to Order No. Securities-TPEX-Bond-10900108202 of the Taipei Exchange, Cathay Financial Holdings issued its second unsecured corporate bonds on September 8, 2020 through public offering. Key terms and conditions are as follows:
- Issue amount: \$21,100,000 thousand, which is divided into A Note of \$2,400,000 thousand, B Note of \$7,800,000 thousand, C Note of \$2,500,000 thousand and D Note of \$8,400,000 thousand by period issued.
 - Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - Years to maturity: A Note is 5 years, B Note is 6 years, C Note is 7 years and D Note is 10 years.
 - Coupon rate: Fixed rate of 0.61% for A Note, 0.64% for B Note, 0.66% for C Note and 0.70% for D Note.
 - Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - Form of bonds: Book-entry securities.

21. PROVISIONS

	September 30, 2020	December 31, 2019	September 30, 2019
Insurance liability			
Unearned premium reserve	\$ 30,757,292	\$ 30,569,073	\$ 29,234,166
Loss reserve	21,390,167	20,400,362	19,588,479
Policy reserve	5,895,203,793	5,592,979,146	5,490,051,845
Special reserve	13,816,855	13,982,681	14,194,820
Premium deficiency reserve	16,155,633	19,681,482	20,258,988
Reserve for insurance contracts with the nature of financial products	13,076,140	10,932,008	10,514,325

(Continued)

	September 30, 2020	December 31, 2019	September 30, 2019
Reserve for foreign exchange valuation	\$ 10,212,568	\$ 18,000,877	\$ 22,385,769
Other reserves	<u>1,855,141</u>	<u>1,873,141</u>	<u>1,877,542</u>
	6,002,467,589	5,708,418,770	5,608,105,934
Provisions for employee benefits	3,862,331	3,947,500	3,611,558
Other reserves	<u>1,225,844</u>	<u>1,412,115</u>	<u>1,392,456</u>
	<u>\$ 6,007,555,764</u>	<u>\$ 5,713,778,385</u>	<u>\$ 5,613,109,948</u> (Concluded)

As of September 30, 2020, policy reserve belonging to Cathay Life amounted to \$5,861,766,702 thousand.

a. Cathay Life and its subsidiaries

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

1) Unearned premium reserve

	<u>September 30, 2020</u>		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 77,152	\$ -	\$ 77,152
Individual injury insurance	6,858,834	-	6,858,834
Individual health insurance	9,272,605	-	9,272,605
Group insurance	1,464,351	-	1,464,351
Investment-linked insurance	<u>117,080</u>	-	<u>117,080</u>
	<u>17,790,022</u>	-	<u>17,790,022</u>
Less ceded unearned premium reserve			
Individual life insurance	753,770	-	753,770
Individual injury insurance	23,476	-	23,476
Individual health insurance	165,064	-	165,064
Group insurance	<u>359</u>	-	<u>359</u>
	<u>942,669</u>	-	<u>942,669</u>
	<u>\$ 16,847,353</u>	<u>\$ -</u>	<u>\$ 16,847,353</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>114,231</u>
	<u>17,832,203</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>894,878</u>
	<u>\$ 16,937,325</u>	<u>\$ -</u>	<u>\$ 16,937,325</u>

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

The changes in unearned premium reserve are summarized below:

	For the Nine Months Ended September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 17,832,203	\$ -	\$ 17,832,203
Provision	17,697,197	-	17,697,197
Recovery	(17,761,138)	-	(17,761,138)
Reclassification	25,762	-	25,762
Foreign exchange	(4,002)	-	(4,002)
Ending balance	<u>17,790,022</u>	<u>-</u>	<u>17,790,022</u>
Less ceded unearned premium reserve			
Beginning balance	894,878	-	894,878
Increase	47,791	-	47,791
Ending balance	<u>942,669</u>	<u>-</u>	<u>942,669</u>
Net ending balance	<u>\$ 16,847,353</u>	<u>\$ -</u>	<u>\$ 16,847,353</u>
	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	16,958,081	-	16,958,081
Recovery	(16,674,312)	-	(16,674,312)
Reclassification	-	-	-
Foreign exchange	(10,231)	-	(10,231)
Ending balance	<u>17,025,855</u>	<u>-</u>	<u>17,025,855</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	156,502	-	156,502
Ending balance	<u>780,839</u>	<u>-</u>	<u>780,839</u>
Net ending balance	<u>\$ 16,245,016</u>	<u>\$ -</u>	<u>\$ 16,245,016</u>

	December 31, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
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>
			(Concluded)

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

The changes in loss reserve are summarized below:

	For the Nine Months Ended September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 11,011,412	\$ 31,200	\$ 11,042,612
Provision	11,529,379	20,354	11,549,733
Recovery	(10,890,934)	(31,200)	(10,922,134)
Foreign exchange	<u>(13,921)</u>	<u>-</u>	<u>(13,921)</u>
Ending balance	<u>11,635,936</u>	<u>20,354</u>	<u>11,656,290</u>
Less ceded loss reserve			
Beginning balance	24,014	-	24,014
Increase	67,566	-	67,566
Decrease	(51,173)	-	(51,173)
Foreign exchange	<u>(324)</u>	<u>-</u>	<u>(324)</u>
Ending balance	<u>40,083</u>	<u>-</u>	<u>40,083</u>
Net ending balance	<u>\$ 11,595,853</u>	<u>\$ 20,354</u>	<u>\$ 11,616,207</u>
	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 8,894,186	\$ 9,145	\$ 8,903,331
Provision	10,702,313	35,929	10,738,242
Recovery	(8,891,964)	(9,145)	(8,901,109)
Foreign exchange	<u>(10,487)</u>	<u>-</u>	<u>(10,487)</u>
Ending balance	<u>10,694,048</u>	<u>35,929</u>	<u>10,729,977</u>
Less ceded loss reserve			
Beginning balance	22,509	-	22,509
Increase	42,387	-	42,387
Decrease	(44,390)	-	(44,390)
Foreign exchange	<u>(415)</u>	<u>-</u>	<u>(415)</u>
Ending balance	<u>20,091</u>	<u>-</u>	<u>20,091</u>
Net ending balance	<u>\$ 10,673,957</u>	<u>\$ 35,929</u>	<u>\$ 10,709,886</u>

3) Policy reserve

	September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance (Note 1)	\$ 5,091,294,896	\$ 3,720	\$ 5,091,298,616
Injury insurance	7,111,286	-	7,111,286
Health insurance	779,049,875	-	779,049,875
Annuity insurance	1,393,186	15,057,430	16,450,616
Investment-linked insurance	<u>845,228</u>	<u>-</u>	<u>845,228</u>
Total (Note 2)	<u>5,879,694,471</u>	<u>15,061,150</u>	<u>5,894,755,621</u>
Less ceded policy reserve			
Life insurance	397,383	-	397,383
Health insurance	<u>16,913</u>	<u>-</u>	<u>16,913</u>
	<u>414,296</u>	<u>-</u>	<u>414,296</u>
	<u>\$ 5,879,280,175</u>	<u>\$ 15,061,150</u>	<u>\$ 5,894,341,325</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-linked 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>

	September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance (Note 1)	\$ 4,751,459,585	\$ 4,807	\$ 4,751,464,392
Injury insurance	7,310,426	-	7,310,426
Health insurance	706,398,040	-	706,398,040
Annuity insurance	1,397,689	22,435,216	23,832,905
Investment-linked insurance	<u>584,609</u>	<u>-</u>	<u>584,609</u>
Total (Note 2)	<u>5,467,150,349</u>	<u>22,440,023</u>	<u>5,489,590,372</u>
Less ceded policy reserve			
Life insurance	422,994	-	422,994
Health insurance	<u>-</u>	<u>-</u>	<u>-</u>
	<u>422,994</u>	<u>-</u>	<u>422,994</u>
	<u>\$ 5,466,727,355</u>	<u>\$ 22,440,023</u>	<u>\$ 5,489,167,378</u>

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 \$5,895,203,662 thousand, \$5,592,979,067 thousand and \$5,490,051,784 thousand as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

The changes in policy reserve are summarized below:

	For the Nine Months Ended September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 5,572,026,192	\$ 20,479,782	\$ 5,592,505,974
Provision	493,534,407	134,722	493,669,129
Recovery	(145,422,711)	(5,553,327)	(150,976,038)
Reclassification	84,174	-	84,174
Foreign exchange difference	<u>(40,527,591)</u>	<u>(27)</u>	<u>(40,527,618)</u>
Ending balance	<u>5,879,694,471</u>	<u>15,061,150</u>	<u>5,894,755,621</u>
Less ceded policy reserve			
Beginning balance	421,465	-	421,465
Increase	67,549	-	67,549
Decrease	(69,809)	-	(69,809)
Foreign exchange difference	<u>(4,909)</u>	<u>-</u>	<u>(4,909)</u>
Ending balance	<u>414,296</u>	<u>-</u>	<u>414,296</u>
Net ending balance	<u>\$ 5,879,280,175</u>	<u>\$ 15,061,150</u>	<u>\$ 5,894,341,325</u>

	For the Nine Months Ended September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 5,199,281,605	\$ 25,847,690	\$ 5,225,129,295
Provision	485,101,436	987,334	486,088,770
Recovery	(225,091,055)	(4,394,957)	(229,486,012)
Reclassification	-	-	-
Foreign exchange difference	<u>7,858,363</u>	<u>(44)</u>	<u>7,858,319</u>
Ending balance	<u>5,467,150,349</u>	<u>22,440,023</u>	<u>5,489,590,372</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	69,794	-	69,794
Decrease	-	-	-
Foreign exchange difference	<u>(12,209)</u>	<u>-</u>	<u>(12,209)</u>
Ending balance	<u>422,994</u>	<u>-</u>	<u>422,994</u>
Net ending balance	<u>\$ 5,466,727,355</u>	<u>\$ 22,440,023</u>	<u>\$ 5,489,167,378</u>

4) Special reserve

	September 30, 2020			
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Participating policies dividends reserve	\$ (60,288)	\$ -	\$ -	\$ (60,288)
Dividend risk reserve	61,588	-	-	61,588
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>

	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>

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

The changes in special reserve are summarized below:

For the Nine Months Ended September 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	7,882	-	-	7,882
Recovery of participating policies dividends reserve	(11,270)	-	-	(11,270)
Provision for dividend risk reserve	3,388	-	-	3,388
Recovery of dividend risk reserve	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>

For the Nine Months Ended September 30, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Others	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Provision for participating policies dividends reserve	12,613	-	-	12,613
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)
Provision for dividend risk reserve	-	-	-	-
Recovery of dividend risk reserve	(642)	-	-	(642)
Ending balance	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>

5) Premium deficiency reserve

September 30, 2020

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 14,781,148	\$ -	\$ 14,781,148
Individual injury insurance	954	-	954
Individual health insurance	1,239,188	-	1,239,188
Group insurance	<u>133,163</u>	<u>-</u>	<u>133,163</u>
	<u>\$ 16,154,453</u>	<u>\$ -</u>	<u>\$ 16,154,453</u>

December 31, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation 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>

	September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Individual life insurance	\$ 18,728,820	\$ -	\$ 18,728,820
Individual injury insurance	1,103	-	1,103
Individual health insurance	1,400,809	-	1,400,809
Group insurance	<u>123,140</u>	<u>-</u>	<u>123,140</u>
	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>

The changes in premium deficiency reserve are summarized below:

	For the Nine Months Ended September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 19,679,457	\$ -	\$ 19,679,457
Provision	133,333	-	133,333
Recovery	(3,515,795)	-	(3,515,795)
Foreign exchange difference	<u>(142,542)</u>	<u>-</u>	<u>(142,542)</u>
Ending balance	<u>\$ 16,154,453</u>	<u>\$ -</u>	<u>\$ 16,154,453</u>

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

6) Other reserves

	September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,855,141</u>	<u>\$ -</u>	<u>\$ 1,855,141</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>
	September 30, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Others	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>

The changes in other reserves are summarized below:

	For the Nine Months Ended September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 1,873,141	\$ -	\$ 1,873,141
Recovery	<u>(18,000)</u>	<u>-</u>	<u>(18,000)</u>
Ending balance	<u>\$ 1,855,141</u>	<u>\$ -</u>	<u>\$ 1,855,141</u>

For the Nine Months Ended September 30, 2019

	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>
Ending balance	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>

7) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	September 30, 2020	December 31, 2019	September 30, 2019
Unearned premium reserve	\$ 17,790,022	\$ 17,832,203	\$ 17,025,855
Policy reserve	5,895,203,662	5,592,979,067	5,490,051,784
Premium deficiency reserve	16,154,453	19,679,457	20,253,872
Other reserves	<u>1,855,141</u>	<u>1,873,141</u>	<u>1,877,542</u>
Book value of insurance liabilities	<u>\$ 5,931,003,278</u>	<u>\$ 5,632,363,868</u>	<u>\$ 5,529,209,053</u>
Estimated present value of cash flows	<u>\$ 5,147,087,213</u>	<u>\$ 4,535,490,841</u>	<u>\$ 4,376,753,640</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 reserves, 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>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 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 June 30, 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 June 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.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 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 (Vietnam)'s liability adequacy testing methodology is listed as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 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	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 September 30, 2020, December 31, 2019 and September 30, 2019, the details of the balance and reconciliation changes in the reserve for insurance contracts with the nature of financial products were summarized below:

	September 30, 2020	December 31, 2019	September 30, 2019
Life insurance	\$ 12,137,741	\$ 10,005,021	\$ 9,600,163
Investment-linked insurance	<u>938,399</u>	<u>926,987</u>	<u>914,162</u>
	<u>\$ 13,076,140</u>	<u>\$ 10,932,008</u>	<u>\$ 10,514,325</u>
		For the Nine Months Ended September 30	
		2020	2019
Beginning balance		\$ 10,932,008	\$ 9,318,713
Premiums received		4,129,986	2,955,034
Claims and payments		(2,449,380)	(1,998,786)
Net provision of statutory reserve		569,617	505,985
Foreign exchange difference		<u>(106,091)</u>	<u>(266,621)</u>
Ending balance		<u>\$ 13,076,140</u>	<u>\$ 10,514,325</u>

9) Reserve for foreign exchange valuation

a) The hedging strategy and risk exposure

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

b) Reconciliation for reserve for foreign exchange valuation

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 18,000,877	\$ 17,075,289
Provision:		
Compulsory reserve	6,325,428	6,543,982
Additional reserve	<u>7,735,097</u>	<u>12,174,679</u>
	14,060,525	18,718,661
Recovery	<u>(21,848,834)</u>	<u>(13,408,181)</u>
Ending balance	<u>\$ 10,212,568</u>	<u>\$ 22,385,769</u>

The details of application filed by the Company to the FSC for approval to make provision for reserve for foreign exchange valuation from January 1, 2020 to September 30, 2020 are as follows:

Application Date	Approval Number	Amount
April 2020	No. 1090418613	\$ 1,000,000
June 2020	No. 1090423624	1,000,000
July 2020	No. 1090425881	3,000,000
September 2020	No. 1090430759	<u>2,000,000</u>
		<u>\$ 7,000,000</u>

c) Effects due to reserve for foreign exchange valuation

Item	For the Nine Months Ended September 30, 2020		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (3)=(2)-(1)
Net income	\$ 58,184,787	\$ 64,415,434	\$ 6,230,647
Earnings per share	4.08	4.55	0.47
Reserve for foreign exchange valuation	-	10,212,568	10,212,568
Equity	829,197,164	824,630,007	(4,567,157)

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

b. Century Insurance and its subsidiaries

1) Unearned insurance premium reserve

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

Insurance by Type	September 30, 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	\$ 1,930,117	\$ 237,061	\$ 1,155,441	\$ 1,011,737
Marine insurance	128,744	13,357	88,600	53,501
Land and air insurance	5,328,950	27,483	195,661	5,160,772
Liability insurance	812,657	2,246	272,449	542,454
Financial guarantee insurance	56,573	3,837	37,888	22,522
Other property insurance	1,078,219	53,033	773,120	358,132
Accident insurance	1,520,464	8,117	109,356	1,419,225
Health insurance	65,728	2,624	10	68,342
Compulsory automobile liability insurance	<u>1,235,219</u>	<u>462,841</u>	<u>741,131</u>	<u>956,929</u>
	<u>\$ 12,156,671</u>	<u>\$ 810,599</u>	<u>\$ 3,373,656</u>	<u>\$ 9,593,614</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 automobile 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>

September 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	\$ 1,790,142	\$ 132,989	
Marine insurance	123,790	17,459	85,252	55,997
Land and air insurance	5,005,924	9,359	155,542	4,859,741
Liability insurance	769,633	1,010	286,206	484,437
Financial guarantee insurance	51,923	3,959	32,926	22,956
Other property insurance	897,071	64,261	622,763	338,569
Accident insurance	1,531,093	5,089	104,230	1,431,952
Health insurance	81,175	90	-	81,265
Compulsory automobile liability insurance	<u>1,253,109</u>	<u>470,235</u>	<u>751,865</u>	<u>971,479</u>
	<u>\$ 11,503,860</u>	<u>\$ 704,451</u>	<u>\$ 3,070,251</u>	<u>\$ 9,138,060</u>

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

	For the Nine Months Ended September 30			
	2020		2019	
	Unearned Premium Reserve	Ceded Unearned Premium Reserve	Unearned Premium Reserve	Ceded Unearned Premium Reserve
Beginning balance	\$ 12,736,870	\$ 3,199,204	\$ 12,027,482	\$ 2,965,729
Provision	12,971,603	3,375,489	12,204,544	3,070,712
Recovery	(12,752,687)	(3,202,496)	(12,030,271)	(2,967,291)
Foreign exchange difference	<u>11,484</u>	<u>1,459</u>	<u>6,556</u>	<u>1,101</u>
Ending balance	<u>\$ 12,967,270</u>	<u>\$ 3,373,656</u>	<u>\$ 12,208,311</u>	<u>\$ 3,070,251</u>

2) Loss reserve

a) Loss reserve and ceded loss reserve

Items	September 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	\$ 4,551,125	\$ 711,130	\$ 1,579,265	\$ 3,682,990
Not yet filed	<u>4,014,750</u>	<u>456,872</u>	<u>1,208,133</u>	<u>3,263,489</u>
	<u>\$ 8,565,875</u>	<u>\$ 1,168,002</u>	<u>\$ 2,787,398</u>	<u>\$ 6,946,479</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	September 30, 2019			
	Loss Reserve		Ceded Loss Reserve	
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	Retained Business (4)=(1)+(2)-(3)
Filed not yet paid	\$ 3,855,215	\$ 469,460	\$ 1,152,564	\$ 3,172,111
Not yet filed	<u>4,052,597</u>	<u>481,230</u>	<u>1,120,575</u>	<u>3,413,252</u>
	<u>\$ 7,907,812</u>	<u>\$ 950,690</u>	<u>\$ 2,273,139</u>	<u>\$ 6,585,363</u>

b) Net changes in loss reserve and ceded loss reserve

For the nine months ended September 30, 2020

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Loss Reserve
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Filed not yet paid	\$ 4,570,971	\$ 4,115,029	\$ 711,130	\$ 680,547	\$ 486,525
Not yet filed	<u>3,995,807</u>	<u>4,103,229</u>	<u>456,872</u>	<u>458,050</u>	<u>(108,600)</u>
	<u>\$ 8,566,778</u>	<u>\$ 8,218,258</u>	<u>\$ 1,168,002</u>	<u>\$ 1,138,597</u>	<u>\$ 377,925</u>

Items	Ceded Reinsurance Business		Net Changes in Ceded Loss Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed not yet paid	\$ 1,589,461	\$ 1,250,564	\$ 338,897
Not yet filed	<u>1,198,609</u>	<u>1,199,002</u>	<u>(393)</u>
	<u>\$ 2,788,070</u>	<u>\$ 2,449,566</u>	<u>\$ 338,504</u>

For the nine months ended September 30, 2019

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

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

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

September 30, 2020			
Liability			
Insurance by Type	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,503,226	\$ 23,499	\$ 1,526,725
Marine insurance	313,960	89,099	403,059
Land and air insurance	1,607,357	1,336,740	2,944,097
Liability insurance	621,260	654,263	1,275,523
Financial guarantee insurance	69,470	57,104	126,574
Other property insurance	527,233	105,622	632,855
Accident insurance	110,958	510,040	620,998
Health insurance	3,084	38,435	41,519
Compulsory automobile liability insurance	<u>505,707</u>	<u>1,656,820</u>	<u>2,162,527</u>
	<u>\$ 5,262,255</u>	<u>\$ 4,471,622</u>	<u>\$ 9,733,877</u>
December 31, 2019			
Liability			
Insurance by Type	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>
September 30, 2019			
Liability			
Insurance by Type	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 982,461	\$ 64,678	\$ 1,047,139
Marine insurance	229,115	34,246	263,361
Land and air insurance	1,549,421	1,397,337	2,946,758
Liability insurance	521,259	725,726	1,246,985
Financial guarantee insurance	69,703	59,140	128,843
Other property insurance	364,717	144,427	509,144
Accident insurance	99,533	517,429	616,962
Health insurance	1,998	53,618	55,616
Compulsory automobile liability insurance	<u>506,468</u>	<u>1,537,226</u>	<u>2,043,694</u>
	<u>\$ 4,324,675</u>	<u>\$ 4,533,827</u>	<u>\$ 8,858,502</u>

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

September 30, 2020			
Liability			
Insurance by Type	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 511,270	\$ 7,993	\$ 519,263
Marine insurance	204,545	54,391	258,936
Land and air insurance	46,343	38,551	84,894
Liability insurance	354,708	253,450	608,158
Financial guarantee insurance	30,988	29,282	60,270
Other property insurance	254,226	45,017	299,243
Accident insurance	6,292	32,130	38,422
Health insurance	-	-	-
Compulsory automobile liability insurance	<u>170,893</u>	<u>747,319</u>	<u>918,212</u>
	<u>\$ 1,579,265</u>	<u>\$ 1,208,133</u>	<u>\$ 2,787,398</u>
December 31, 2019			
Liability			
Insurance by Type	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>
September 30, 2019			
Liability			
Insurance by Type	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 301,603	\$ 25,860	\$ 327,463
Marine insurance	122,080	19,116	141,196
Land and air insurance	46,693	42,010	88,703
Liability insurance	324,588	253,374	577,962
Financial guarantee insurance	33,664	21,912	55,576
Other property insurance	135,501	52,800	188,301
Accident insurance	5,563	33,491	39,054
Health insurance	-	28	28
Compulsory automobile liability insurance	<u>182,872</u>	<u>671,984</u>	<u>854,856</u>
	<u>\$ 1,152,564</u>	<u>\$ 1,120,575</u>	<u>\$ 2,273,139</u>

e) Reconciliation of loss reserve and ceded loss reserve

	For the Nine Months Ended September 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	9,734,780	2,788,070	8,858,984	2,273,843
Recovery	(9,356,855)	(2,449,566)	(8,477,642)	(2,347,951)
Foreign exchange difference	<u>(1,798)</u>	<u>(1,178)</u>	<u>2,841</u>	<u>2,220</u>
Ending balance	<u>\$ 9,733,877</u>	<u>\$ 2,787,398</u>	<u>\$ 8,858,502</u>	<u>\$ 2,273,139</u>

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 1,122,321	\$ 1,478,016
Provision	12,521	48,082
Recovery	<u>(178,347)</u>	<u>(210,219)</u>
Ending balance	<u>\$ 956,495</u>	<u>\$ 1,315,879</u>

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

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

If the notice for an improvement of the reserves for natural disaster insurance (commercial earthquake, typhoon and flood insurances) in property insurance enterprises, notice for enhancing the reserves of pool member's residential earthquake insurance and regulations governing the reserves of nuclear energy insurance were not applied, there is no material impact on Cathay Century and its subsidiaries' income before tax and earnings per share, and special reserve under liabilities at September 30, 2020 and 2019 would have been lower by \$1,467,236 thousand and \$1,485,963 thousand, respectively, and special reserve under equity would have been higher by \$441,141 thousand and \$508,108 thousand, respectively.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

Insurance by Type	September 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	211	745	-	956
Land and air insurance	88	136	-	224
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 299</u>	<u>\$ 881</u>	<u>\$ -</u>	<u>\$ 1,180</u>

Insurance by Type	December 31, 2019			
	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	-	-	-	-

(Continued)

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)	
	Accident insurance	\$ -	\$ -	
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 12</u>	<u>\$ 2,013</u>	<u>\$ -</u>	<u>\$ 2,025</u>

September 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	853	1,720	-	2,573
Land and air insurance	551	1,992	-	2,543
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 1,404</u>	<u>\$ 3,712</u>	<u>\$ -</u>	<u>\$ 5,116</u>

b) Net loss recognized for premium deficiency reserve

For the Nine Months Ended September 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	211	12	745	613	331	-	-	-	331
Land and air insurance	88	-	136	1,400	(1,176)	-	-	-	(1,176)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 299</u>	<u>\$ 12</u>	<u>\$ 881</u>	<u>\$ 2,013</u>	<u>\$ (845)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (845)</u>

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

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

	For the Nine Months Ended September 30			
	2020		2019	
	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve
Beginning balance	\$ 2,025	\$ -	\$ 11,347	\$ -
Provision	1,180	-	5,116	-
Recovery	<u>(2,025)</u>	<u>-</u>	<u>(11,347)</u>	<u>-</u>
Ending balance	<u>\$ 1,180</u>	<u>\$ -</u>	<u>\$ 5,116</u>	<u>\$ -</u>

5) Policy reserve

a) Details of policy reserve and ceded policy reserve

September 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	\$ 131	\$ -	\$ -	\$ 131

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

September 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	\$ 61	\$ -	\$ -	\$ 61

b) Net changes in policy reserve and ceded policy reserve

For the nine months ended September 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	\$ 78	\$ 26	\$ -	\$ -	\$ 52

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

For the nine months ended September 30, 2019

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

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

Pension expense under defined benefit plans for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019 was calculated by using the actuarially determined pension cost rate at the end of the prior financial year and recognized as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Employee benefit expenses	\$ 122,798	\$ 120,874	\$ 367,592	\$ 366,612

23. OTHER FINANCIAL ASSETS AND LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Other financial assets</u>			
Separate account insurance product assets	\$ 592,035,565	\$ 607,542,434	\$ 592,622,929
Others	16,097,275	7,575,048	6,720,363
	\$ 608,132,840	\$ 615,117,482	\$ 599,343,292
<u>Other financial liabilities</u>			
Separate account insurance product liabilities	\$ 592,035,565	\$ 607,542,434	\$ 592,622,929
Principal received from the sale of structured products	46,460,556	65,671,401	65,793,146
Others	11,192,580	3,758,344	3,709,677
	\$ 649,688,701	\$ 676,972,179	\$ 662,125,752

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 471,310	\$ 518,576	\$ 571,499
Financial assets at FVTPL	583,731,009	600,237,158	587,898,370
Other receivables	<u>7,702,305</u>	<u>6,668,998</u>	<u>4,038,108</u>
	<u>\$ 591,904,624</u>	<u>\$ 607,424,732</u>	<u>\$ 592,507,977</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 296,030	\$ 467,361	\$ 721,308
Reserve for separate accounts - insurance contracts	247,854,190	244,601,804	237,722,883
Reserve for separate accounts - investment contracts	<u>343,754,404</u>	<u>362,355,567</u>	<u>354,063,786</u>
	<u>\$ 591,904,624</u>	<u>\$ 607,424,732</u>	<u>\$ 592,507,977</u>
	For the Three Months Ended September 30	For the Nine Months Ended September 30	
	2020	2019	2020
			2019
<u>Separate account insurance product income</u>			
Premium income	\$ 15,017,050	\$ 8,117,998	\$ 41,561,344
Interest income	251	362	1,317
Gains (losses) from financial assets at FVTPL	10,711,560	1,010,222	(1,319,895)
Foreign exchange (losses) gains	<u>(3,196,695)</u>	<u>(1,502,502)</u>	<u>(7,052,030)</u>
	<u>\$ 22,532,166</u>	<u>\$ 7,626,080</u>	<u>\$ 33,190,736</u>
<u>Separate account insurance product expenses</u>			
Claims and payments	\$ 2,079,252	\$ 2,198,310	\$ 6,830,762
Cash surrender value	7,301,659	6,357,352	19,497,225
Provision (reversal) of separate account reserve	12,168,056	(1,795,825)	4,073,702
Administrative expenses	1,019,950	903,371	2,894,599
Non-operating income and expenses	<u>(36,751)</u>	<u>(37,128)</u>	<u>(105,552)</u>
	<u>\$ 22,532,166</u>	<u>\$ 7,626,080</u>	<u>\$ 33,190,736</u>

The commission earned from counterparties due to the sale of separate account insurance products which was recorded under service fee income amounted to \$183,951 thousand, \$231,255 thousand, \$613,922 thousand and \$686,622 thousand for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019, respectively.

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 4,017	\$ 5,231	\$ 6,279
Financial assets at FVTPL	126,886	112,315	108,617
Others	<u>38</u>	<u>156</u>	<u>56</u>
	<u>\$ 130,941</u>	<u>\$ 117,702</u>	<u>\$ 114,952</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 1,356	\$ (134)	\$ (463)
Reserve for separate accounts - insurance contracts	<u>129,585</u>	<u>117,836</u>	<u>115,415</u>
	<u>\$ 130,941</u>	<u>\$ 117,702</u>	<u>\$ 114,952</u>
	For the Three Months Ended September 30	For the Nine Months Ended September 30	
	2020	2019	2020
			2019
<u>Separate account insurance product income</u>			
Premium income	\$ 37	\$ 52	\$ 138
Gains from financial assets and liabilities at FVTPL	10,543	2,914	24,082
Interest income	<u>15</u>	<u>25</u>	<u>44</u>
	<u>\$ 10,595</u>	<u>\$ 2,991</u>	<u>\$ 24,264</u>
<u>Separate account insurance product expenses</u>			
Cash surrender value	\$ 2,387	\$ 4,036	\$ 8,652
Provision (reversal) of separate account reserve	7,096	(1,584)	12,967
Administrative expenses	417	374	1,136
Tax expense	<u>695</u>	<u>165</u>	<u>1,486</u>
	<u>\$ 10,595</u>	<u>\$ 2,991</u>	<u>\$ 24,264</u>
			<u>\$ 15,560</u>

24. EQUITY

a. Share capital

	September 30, 2020	December 31, 2019	September 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>

Ordinary shares issued, 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) 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.
 - c) 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.

- d) 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.
 - e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (1), 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) 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.
- e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (1), 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.
- f) 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.
- g) 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.
- h) 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.
- i) 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 comprises the following:

	September 30, 2020	December 31, 2019	September 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>168,755</u>	<u>170,475</u>	<u>40,455</u>
	<u>\$ 177,255,256</u>	<u>\$ 177,256,976</u>	<u>\$ 161,689,272</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 residual 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"), when 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	
	For the Year Ended December 31	
	2019	2018
Legal reserve	\$ 5,844,843	\$ 5,146,724
(Special reserve) reversal of 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: The distribution of cash dividends on ordinary shares included \$15,075,852 thousand from retained earnings and \$3,768,963 thousand from the capital surplus.

d. Special reserves

	September 30, 2020	December 31, 2019	September 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
Special reserve appropriated at fair value 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 transferred to capital stock (limited to 50% of the special reserve) once the special reserve reaches one-half of the paid-in capital. The Company set aside a special reserve of \$333,598 thousand in 2011.

2) According to the Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises, for the special reserves for catastrophic event and for fluctuation of risk as of January 1, 2012, amounting to \$9,022,812 thousand, Cathay Life transferred half of the reserves amounting to \$4,511,405 thousand, net of tax effect, to special reserve under retained earnings amounting to \$3,744,467 thousand; half of the reserves were kept as the initial amount of reserve for foreign exchange valuation. The Company set aside a special reserve of \$3,744,467 thousand in 2013.

- 3) At the first-time adoption of IFRSs, Cathay Life chose to use fair values as the deemed costs of investment properties in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects on the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. In accordance with Bao (Tsai) No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Jin Guan Bao Tsai No. 10102508861. The Company set aside a special reserve of \$2,994,565 thousand in 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 at fair value and transferred it to retained earnings.
- 5) Cathay Life transferred insurance liabilities of \$34,764,311 thousand to special reserve in accordance with Jin Guan Bao Tsai No. 10402029590. The Company set aside a special reserve of \$34,764,311 thousand in 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 translation of the financial statements of foreign operations

	For the Nine Months Ended	
	September 30	
	2020	2019
Beginning balance	\$ (13,319,620)	\$ (12,149,871)
Recognized for the period	(2,893,835)	(685,354)
Share of associates accounted for using the equity method	(133,465)	223,436
Tax effects	<u>111,306</u>	<u>(43,545)</u>
Other comprehensive loss recognized for the period	<u>(2,915,994)</u>	<u>(505,463)</u>
Ending balance	<u>\$ (16,235,614)</u>	<u>\$ (12,655,334)</u>

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

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 68,319,953	\$ (17,586,946)
Recognized for the period	37,650,792	123,074,658
Share of associates accounted for using the equity method	322,945	182,229
Reclassification adjustments		
Disposal of investments in debt instruments	(23,888,174)	(19,463,092)
Tax effects	<u>(1,816,942)</u>	<u>(19,950,050)</u>
Other comprehensive income recognized for the period	<u>12,268,621</u>	<u>83,843,745</u>
Cumulative unrealized (loss) gain of equity instruments transferred to retained earnings due to disposal	<u>(152,823)</u>	<u>4,686,887</u>
Ending balance	<u>\$ 80,435,751</u>	<u>\$ 70,943,686</u>

3) Gain (loss) on hedging instruments

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 331,930	\$ 173,289
Recognized for the period	153,902	144,884
Reclassification adjustments		
Hedged item that affects profit or loss	(53,966)	(49,335)
Tax effects	<u>(15,621)</u>	<u>(26,753)</u>
Other comprehensive income recognized for the period	<u>84,315</u>	<u>68,796</u>
Ending balance	<u>\$ 416,245</u>	<u>\$ 242,085</u>

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

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ (1,850,508)	\$ 774,084
Recognized for the period	1,051,925	(3,231,049)
Tax effects	<u>(210,386)</u>	<u>646,210</u>
Other comprehensive income (loss) recognized for the period	<u>841,539</u>	<u>(2,584,839)</u>
Ending balance	<u>\$ (1,008,969)</u>	<u>\$ (1,810,755)</u>

5) Remeasurement of defined benefit plans

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ (1,507,864)	\$ (1,321,138)
Recognized for the period	1,126	3,818
Share of associate accounted for using the equity method	(13,368)	(9,395)
Tax effects	<u>1,948</u>	<u>1,754</u>
Other comprehensive loss recognized for the period	<u>(10,294)</u>	<u>(3,823)</u>
Ending balance	<u>\$ (1,518,158)</u>	<u>\$ (1,324,961)</u>

6) Property revaluation surplus

	For the Nine Months Ended September 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>-</u>	<u>872,403</u>
Transferred to retained earnings	<u>(143,225)</u>	<u>-</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 Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 57,968,675	\$ (52,816,081)
Recognized for the period		
Unrealized gain	55,750,571	126,674,435
Reclassification adjustments		
Disposal of investments in financial instruments	(58,767,654)	(26,997,005)
Tax effects	<u>644,639</u>	<u>(8,469,256)</u>
Other comprehensive (loss) income recognized for the period	<u>(2,372,444)</u>	<u>91,208,174</u>
Ending balance	<u>\$ 55,596,231</u>	<u>\$ 38,392,093</u>

f. Non-controlling interests

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 10,279,814	\$ 9,557,665
Net income attributed to non-controlling interests		
Net profit for the period	1,072,058	984,256
Exchange differences on translation of the financial statements of foreign operations	(205,113)	(106,141)
Unrealized gain (loss) on financial assets at FVTOCI	49,166	(102,372)
Other comprehensive (loss) income on reclassification using the overlay approach	(68,510)	300,866
Acquisition of non-controlling interests in subsidiaries (Note 38)	1,302,994	-
Others	<u>(1,055,822)</u>	<u>(628,048)</u>
Ending balance	<u>\$ 11,374,587</u>	<u>\$ 10,006,226</u>

25. NET PROFIT FOR THE PERIOD

a. Net gain on service fee and commission fee

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Service fee revenue	\$ 7,902,585	\$ 7,440,601	\$ 20,874,377	\$ 20,048,056
Commission fee revenue	<u>2,102,444</u>	<u>1,449,415</u>	<u>5,857,480</u>	<u>4,855,312</u>
	<u>10,005,029</u>	<u>8,890,016</u>	<u>26,731,857</u>	<u>24,903,368</u>
Service fee expense	(2,322,543)	(1,766,206)	(6,140,731)	(5,780,285)
Commission fee expense	<u>(5,146,554)</u>	<u>(5,409,849)</u>	<u>(15,256,181)</u>	<u>(16,339,098)</u>
	<u>(7,469,097)</u>	<u>(7,176,055)</u>	<u>(21,396,912)</u>	<u>(22,119,383)</u>
	<u>\$ 2,535,932</u>	<u>\$ 1,713,961</u>	<u>\$ 5,334,945</u>	<u>\$ 2,783,985</u>

b. Net income on insurance operations

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Retained premiums earned	\$ 131,102,741	\$ 136,328,523	\$ 434,476,891	\$ 443,815,646
Separate account insurance product income	<u>22,542,761</u>	<u>7,629,071</u>	<u>33,215,000</u>	<u>46,299,458</u>
	<u>153,645,502</u>	<u>143,957,594</u>	<u>467,691,891</u>	<u>490,115,104</u>
Claims and payments	(71,499,023)	(73,071,398)	(205,219,976)	(283,323,920)
Separate account insurance product expenses	(22,542,761)	(7,629,071)	(33,215,000)	(46,299,458)
Others	<u>(272,046)</u>	<u>(300,743)</u>	<u>(902,808)</u>	<u>(831,002)</u>
	<u>(94,313,830)</u>	<u>(81,001,212)</u>	<u>(239,337,784)</u>	<u>(330,454,380)</u>
	<u>\$ 59,331,672</u>	<u>\$ 62,956,382</u>	<u>\$ 228,354,107</u>	<u>\$ 159,660,724</u>

c. Net changes in insurance liability reserves

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Net change in loss reserve	\$ (397,887)	\$ (534,592)	\$ (650,627)	\$ (2,294,586)
Net change in policy reserve	(99,103,211)	(96,868,412)	(342,695,403)	(256,532,977)
Net change in premium deficiency reserve	1,228,144	813,587	3,383,306	2,318,408
Net change in special reserve	28,995	(39,562)	165,826	161,913
Net change in other reserves	6,000	6,000	18,000	17,028
Net change in reserve for insurance contracts with the nature of financial products	<u>(201,354)</u>	<u>(164,796)</u>	<u>(569,617)</u>	<u>(505,985)</u>
	<u>\$ (98,439,313)</u>	<u>\$ (96,787,775)</u>	<u>\$ (340,348,515)</u>	<u>\$ (256,836,199)</u>

d. Employee benefit expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term benefits				
Salaries	\$ 13,825,698	\$ 14,266,838	\$ 42,447,791	\$ 45,127,439
Labor and health insurance expenses	1,069,056	1,094,810	3,397,382	3,454,664
Post-employment benefits	584,810	466,695	1,816,029	1,613,407
Remuneration of directors	37,907	36,183	130,098	135,314
Others	<u>376,438</u>	<u>384,774</u>	<u>1,230,428</u>	<u>1,228,787</u>
	<u>\$ 15,893,909</u>	<u>\$ 16,249,300</u>	<u>\$ 49,021,728</u>	<u>\$ 51,559,611</u>
An analysis of employee benefit expenses by function				
Profit from operations	\$ 3,371,519	\$ 3,461,927	\$ 10,037,148	\$ 10,892,480
Operating expenses	<u>12,522,390</u>	<u>12,787,373</u>	<u>38,984,580</u>	<u>40,667,131</u>
	<u>\$ 15,893,909</u>	<u>\$ 16,249,300</u>	<u>\$ 49,021,728</u>	<u>\$ 51,559,611</u>

As of September 30, 2020 and 2019, the total number of employees in the Group was 57,841 and 55,750, respectively.

For the nine months ended September 30, 2020 and 2019, the average number of the Group's employees was 57,083 and 55,173, respectively, including 37 and 36 directors not concurrently serving as employees.

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 accrues employees' compensation and remuneration of directors at the rates of 0.01% and no higher than 0.05%, respectively. The amounts were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	Cash	Cash	Cash	Cash
Employees' compensation	\$ 3,117	\$ 1,767	\$ 6,595	\$ 5,121
Remuneration of directors	675	675	2,025	2,025

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

The employees' compensation and remuneration of directors for 2019 and 2018 which were resolved by the Company's board of directors on March 11, 2020 and March 21, 2019, respectively, were as follows:

	For the Years Ended December 31	
	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 years 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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	Right-of-use assets	\$ 355,672	\$ 348,133	\$ 1,080,167
Property and equipment	631,965	607,931	1,870,303	1,881,797
Intangible assets	<u>858,555</u>	<u>784,391</u>	<u>2,444,027</u>	<u>2,353,131</u>
	<u>\$ 1,846,192</u>	<u>\$ 1,740,455</u>	<u>\$ 5,394,497</u>	<u>\$ 5,233,896</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 987,637</u>	<u>\$ 956,064</u>	<u>\$ 2,950,470</u>	<u>\$ 2,880,765</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 858,555</u>	<u>\$ 784,391</u>	<u>\$ 2,444,027</u>	<u>\$ 2,353,131</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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ 7,428,056	\$ 1,026,932	\$ 23,771,507	\$ 1,946,655
Adjustments for prior years	29,542	(302)	72,794	263,054
Others	52,460	(158,223)	267,082	692,823
Deferred tax				
In respect of the current period	(5,759,781)	2,705,785	(17,239,503)	6,269,513
Adjustments for prior years	<u>972</u>	<u>-</u>	<u>1,395</u>	<u>5,457</u>
Income tax expense recognized in profit or loss	<u>\$ 1,751,249</u>	<u>\$ 3,574,192</u>	<u>\$ 6,873,275</u>	<u>\$ 9,177,502</u>

b. Income tax recognized directly in equity

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
Derecognition of investments in equity instruments at FVTOCI	\$ 7,585	\$ 261,406	\$ 20,955	\$ 370,871
Deferred tax				
Derecognition of investments in equity instruments at FVTOCI	<u>(7,585)</u>	<u>(261,406)</u>	<u>(20,955)</u>	<u>(370,871)</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 September 30		For the Nine Months Ended September 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	\$ 13,078	\$ 290,481	\$ (210,386)	\$ 646,210
Exchange differences on the translation of financial statements of foreign operations	(36,533)	186,659	111,306	(43,545)
Unrealized gain on financial assets at FVTOCI	(108,026)	(4,313,747)	(1,847,087)	(19,924,879)
Gain (loss) on hedging instruments	10,576	(1,123)	(15,621)	(26,753)
Property revaluation surplus		-	-	(54,516)
Remeasurement of defined benefit plans	-	-	(225)	-
Shares of associates accounted for using the equity method	8,812	6,735	32,318	(23,417)
Other comprehensive (income) loss on reclassification using the overlay approach	<u>(2,059,120)</u>	<u>904,015</u>	<u>644,639</u>	<u>(8,469,256)</u>
Income tax expense recognized in other comprehensive income	<u>\$ (2,171,213)</u>	<u>\$ (2,926,980)</u>	<u>\$ (1,285,056)</u>	<u>\$ (27,896,156)</u>

d. Income tax assessments

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

	Year of Assessment	Note
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	2018	-
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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings per share	<u>\$ 2.37</u>	<u>\$ 1.41</u>	<u>\$ 4.55</u>	<u>\$ 3.86</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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Net income for the period attributable to owners of the Company	\$ 31,221,618	\$ 17,728,149	\$ 63,343,376	\$ 51,167,918
Less: Dividends on preference shares	<u>-</u>	<u>-</u>	<u>(3,390,924)</u>	<u>(2,667,891)</u>
Earnings used in the computation of basic earnings per share	<u>\$ 31,221,618</u>	<u>\$ 17,728,149</u>	<u>\$ 59,952,452</u>	<u>\$ 48,500,027</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	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 names and categories of the related parties who engaged in 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

(Continued)

Related Party Name	Related Party Category
Cathay Venture	Subsidiary of the Company
Cathay Lujiazui Life	Subsidiary of the Company
Cathay Life (Vietnam)	Subsidiary of the Company
Conning Asia Pacific Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting	Subsidiary of the Company
Cathay Investment	Subsidiary of the Company
Lin Yuan	Subsidiary of the Company
Conning Holdings Limited	Subsidiary of the Company
Cathay Woolgate Exchange Holding 1 Limited	Subsidiary of the Company
Cathay Woolgate Exchange Holding 2 Limited	Subsidiary of the Company
Cathay Walbrook Holding 1 Limited	Subsidiary of the Company
Cathay Walbrook Holding 2 Limited	Subsidiary of the Company
Octagon Credit Investors, LLC	Subsidiary of the Company
Cathay Insurance (Vietnam)	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
CUBC Bank	Subsidiary of the Company
CUBCN Bank	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Cathay Private Equity	Subsidiary of the Company
Cathay Securities (Hong Kong) Limited	Subsidiary of the Company
Cathay Capital (Asia)	Subsidiary of the Company
Global Evolution Holding ApS	Subsidiary of the Company (associate before June 2020)
Cathay Insurance Company Limited (China)	Associate
Taiwan Real-estate Management Corp.	Associate
Taiwan Finance Co., Ltd	Associate
Symphox Information Co., Ltd.	Associate
Neo Cathay Power Corp.	Associate
PSS Co., Ltd.	Associate
TaiYang Solar Power Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
CMG International One Corp.	Associate
CMG International Two Corp.	Associate
CM Energy Co., Ltd.	Associate
Tien-Tai Management Consulting Co., Ltd.	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
Fund managed by Cathay Securities Investment Trust	Other related party
Private Equity Fund managed by Cathay Private Equity	Other related party
Fund managed by Global Evolution Holding ApS	Other related party
Fund managed by Octagon Credit Investors, LLC	Other related party
Bond managed by Octagon Credit Investors, LLC	Other related party
San Ching Engineering Co., Ltd.	Other related party

(Continued)

Related Party Name	Related Party Category
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 Real Estate Management	Other related party
Cymbal Medical Network Co., Ltd.	Other related party
Cymder Co., Ltd.	Other related party
Cymlin Co., Ltd.	Other related party
Liang-Ting Co., Ltd.	Other related party
Retail Forest Co., Ltd.	Other related party
Tai Lung Capital Inc.	Other related party
Sino Greenergy Group	Other related party
Kao Yi Investment Co., Ltd.	Other related party
Cathay Cultural Foundation	Other related party
Cathay Charity Foundation	Other related party
Cathay United Bank Foundation	Other related party
Cathay Life Insurance Employees' Welfare Committee	Other related party
Cathay United Bank Employees' Welfare Committee	Other related party
Cathay Securities Employees' Welfare Committee	Other related party
Cathay Securities Investment Trust Employees' Welfare Committee	Other related party
Cathay Real Estate Development Employees' Welfare Committee	Other related party
Others	Other related party

(Concluded)

b. Significant transactions with related parties were as follows:

All significant intragroup transactions have been eliminated in the consolidated financial statements, unless they have been disclosed in other notes.

1) Transactions with banks

Name	September 30, 2020	December 31, 2019	September 30, 2019
<u>Due from commercial banks</u>			
Other related party			
Vietinbank	<u>\$ 5,057,854</u>	<u>\$ 5,216,825</u>	<u>\$ 5,368,858</u>
<u>Due to commercial banks</u>			
Other related party			
Vietinbank	<u>\$ 5,067,797</u>	<u>\$ 5,265,818</u>	<u>\$ 5,423,619</u>

Name	Interest Income (Expense)			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
<u>Due from commercial banks</u>				
Other related party Vietinbank	\$ <u>1,299</u>	\$ <u>1,383</u>	\$ <u>3,524</u>	\$ <u>4,096</u>
<u>Due to commercial banks</u>				
Other related party Vietinbank	\$ <u>(846)</u>	\$ <u>(1,360)</u>	\$ <u>(3,441)</u>	\$ <u>(4,011)</u>

2) Shares issued by related parties

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ 1,387,762	\$ 1,382,021	\$ 1,352,028
Cathay Healthcare Management Co., Ltd.	<u>181,830</u>	<u>229,103</u>	<u>246,758</u>
	\$ <u>1,569,592</u>	\$ <u>1,611,124</u>	\$ <u>1,598,786</u>

For the investment balances of associates held by the Group, refer to Note 13.

3) Receivable

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party Fund managed by Cathay Securities Investment Trust	\$ 183,846	\$ 221,014	\$ 206,191
Cathay Medical Care Corp.	<u>3,574</u>	<u>569</u>	<u>2,701</u>
	\$ <u>187,420</u>	\$ <u>221,583</u>	\$ <u>208,892</u>

4) Loans

Name	September 30, 2020	December 31, 2019	September 30, 2019
Associate Taiwan Real-estate Management Corp.	\$ 33,000	\$ 33,000	\$ 33,000
TaiYang Solar Power Co., Ltd.	<u>66,570</u>	<u>-</u>	<u>-</u>
	\$ <u>99,570</u>	\$ <u>33,000</u>	\$ <u>33,000</u>

(Continued)

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Sino Greenery Group	\$ 84,899	\$ -	\$ -
Cathay Real Estate Development Co., Ltd.	-	250,000	250,000
Yua-Yung Marketing (Taiwan) Co., Ltd.	-	10,000	10,000
Others	<u>2,989,110</u>	<u>2,764,157</u>	<u>2,705,919</u>
	<u>3,074,009</u>	<u>3,024,157</u>	<u>2,965,919</u>
	<u>\$ 3,173,579</u>	<u>\$ 3,057,157</u>	<u>\$ 2,998,919</u> (Concluded)

Name	Interest Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Associate				
TaiYang Solar Power Co., Ltd.	\$ 331	\$ -	\$ 1,085	\$ -
Taiwan Real-estate Management Corp.	<u>128</u>	<u>149</u>	<u>400</u>	<u>439</u>
	<u>459</u>	<u>149</u>	<u>1,485</u>	<u>439</u>
Other related parties				
Sino Greenery Group	1,438	-	1,438	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	22	44	103	64
Cathay Real Estate Development Co., Ltd.	-	327	60	797
Others	<u>10,233</u>	<u>11,042</u>	<u>30,082</u>	<u>32,023</u>
	<u>11,693</u>	<u>11,413</u>	<u>31,683</u>	<u>22,884</u>
	<u>\$ 12,152</u>	<u>\$ 11,562</u>	<u>\$ 33,168</u>	<u>\$ 33,323</u>

5) Deposits

Name	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	<u>\$ 429,131</u>	<u>\$ 204,526</u>	<u>\$ 148,340</u>
Associates			
Symphox Information Co., Ltd.	229,020	154,446	161,126
Lin Yuan Property Management Co., Ltd.	181,561	-	-
PSS Co., Ltd.	47,964	54,070	82,817
Tien-Tai Management Consulting Co., Ltd.	12,467	15,238	8,245
Taiwan Finance Co., Ltd	11,430	11,481	11,396

(Continued)

Name	September 30, 2020	December 31, 2019	September 30, 2019
CM Energy Co., Ltd.	\$ 10,139	\$ 138	\$ 129
TaiYang Solar Power Co., Ltd.	3,828	-	-
CMG International Two Corp.	3,548	21,010	7,749
CMG International One Corp.	3,275	16,125	12,638
Neo Cathay Power Corp.	<u>11</u>	<u>11</u>	<u>42,638</u>
	<u>503,243</u>	<u>272,519</u>	<u>326,738</u>
Other related parties			
Seaward Card Co., Ltd.	16,872	36,397	30,286
Cathay Medical Care Corp.	204,083	175,513	192,827
Cathay Real Estate Development Co., Ltd.	392,230	257,587	416,668
Cathay Healthcare Management Co., Ltd.	21,981	38,652	20,470
Cathay Hospitality Management Co., Ltd.	21,756	6,203	3,746
Cathay Hospitality Consulting Co., Ltd.	29,092	-	-
Fund managed by Cathay Securities Investment Trust	56,586	84,784	119,151
San Ching Engineering Co., Ltd.	716,106	9,933	4,901
Ally Logistic Property Co., Ltd.	79,132	19,116	114,990
Yua-Yung Marketing (Taiwan) Co., Ltd.	127,615	123,044	123,679
Hong-Sui Co., Ltd.	41,672	17,344	14,710
Cathay Real Estate Management	87,556	88,219	77,239
Cymbal Medical Network Co., Ltd.	13,551	-	-
Cymder Co., Ltd.	54,828	-	-
Cymlin Co., Ltd.	20,813	-	-
Liang-Ting Co., Ltd.	25,758	27,109	49,022
Retail Forest Co., Ltd.	99,210	-	-
Tai Lung Capital Inc.	74,568	73,711	73,489
Sino Greenergy Group	11,136	11,953	10,018
Kao Yi Investment Co., Ltd.	14,211	9,218	14,316
Cathay Cultural Foundation	217,372	201,794	209,230
Cathay Charity Foundation	286,970	273,982	278,809
Cathay United Bank Foundation	535,049	532,486	545,517
Cathay Life Insurance Employees' Welfare Committee	2,246,234	2,142,876	2,138,613
Cathay United Bank Employees' Welfare Committee	783,933	757,991	780,868
Cathay Securities Employees' Welfare Committee	37,048	34,933	35,973
Cathay Securities Investment Trust Employees' Welfare Committee	3,472	3,277	3,679
Cathay Real Estate Development Employees' Welfare Committee	422,168	397,367	406,023
Lin Yuan Property Management Co., Ltd.	-	250,272	173,840
Others	<u>7,636,882</u>	<u>6,152,160</u>	<u>7,348,572</u>
	<u>14,277,884</u>	<u>11,725,921</u>	<u>13,186,636</u>
	<u>\$ 15,210,258</u>	<u>\$ 12,202,966</u>	<u>\$ 13,661,714</u>

(Concluded)

Name	Interest Expense			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities				
Investment Consulting	\$ 52	\$ 118	\$ 335	\$ 446
Associates				
Symphox Information				
Co., Ltd.	59	199	377	573
Lin Yuan Property				
Management Co., Ltd.	303	-	1,066	-
PSS Co., Ltd.	6	13	22	41
Tien-Tai Management				
Consulting Co., Ltd.	15	14	46	37
Taiwan Finance Co., Ltd.	3	4	8	11
CM Energy Co., Ltd.	-	7	1	38
TaiYang Solar Power				
Co., Ltd.	-	-	1	-
CMG International Two				
Corp.	-	2	1	3
CMG International One				
Corp.	-	3	1	4
Neo Cathay Power Corp.	-	5	-	29
	<u>386</u>	<u>247</u>	<u>1,523</u>	<u>736</u>
Other related parties				
Seaward Card Co., Ltd.	6	15	27	42
Cathay Medical Care				
Corp.	8	30	35	92
Cathay Real Estate				
Development Co., Ltd.	5	17	12	50
Cathay Healthcare				
Management Co., Ltd.	1	13	9	54
Cathay Hospitality				
Management Co., Ltd.	7	1	8	3
Cathay Hospitality				
Consulting Co., Ltd.	-	-	7	-
Fund managed by Cathay				
Securities Investment				
Trust	-	1	-	1
San Ching Engineering				
Co., Ltd.	1	1	1	3
Ally Logistic Property				
Co., Ltd.	2	4	7	13
Yua-Yung Marketing				
(Taiwan) Co., Ltd.	70	89	217	262
Hong-Sui Co., Ltd.	1	3	3	6
Cathay Real Estate				
Management	141	198	556	542
Cymbal Medical				
Network Co., Ltd.	-	-	2	-

(Continued)

Name	Interest Expense			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Cymder Co., Ltd.	\$ 1	\$ -	\$ 10	\$ -
Cymlin Co., Ltd.	-	-	2	-
Liang-Ting Co., Ltd.	1	5	3	10
Retail Forest Co., Ltd.	30	-	73	-
Tai Lung Capital Inc.	114	158	368	469
Sino Greenergy Group	2	-	2	2
Kao Yi Investment Co., Ltd.	2	14	15	56
Cathay Cultural Foundation	412	538	1,300	1,593
Cathay Charity Foundation	483	643	1,542	1,899
Cathay United Bank Foundation	1,074	1,413	3,487	4,209
Cathay Life Insurance Employees' Welfare Committee	4,282	5,588	13,607	16,629
Cathay United Bank Employees' Welfare Committee	8,106	8,827	23,445	22,707
Cathay Securities Employees' Welfare Committee	37	-	117	5
Cathay Securities Investment Trust Employees' Welfare Committee	1	1	3	3
Cathay Real Estate Development Employees' Welfare Committee	859	1,084	2,685	3,140
Lin Yuan Property Management Co., Ltd.	-	434	-	1,327
Others	<u>11,201</u>	<u>4,106</u>	<u>41,216</u>	<u>50,811</u>
	<u>26,847</u>	<u>23,183</u>	<u>88,759</u>	<u>103,928</u>
	<u>\$ 27,285</u>	<u>\$ 23,548</u>	<u>\$ 90,617</u>	<u>\$ 105,110</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 Nine Months Ended September 30			
	2020		2019	
	Items	Amount	Items	Amount
Subsidiary of associate Lin Yuan Property Management Co., Ltd.	International Building, etc.	\$ 6,310	-	\$ -
Other related parties San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	916,201	THSR Taoyuan Commercial Park, etc.	1,682,430
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	696,057	Yangmei Logistics Park, etc.	580,443
Cathay Real Estate Development Co., Ltd.		-	Minsheng Jingguo Building, etc.	306,419
Lin Yuan Property Management Co., Ltd.		-	Cathay Life Head Office Building, etc.	8,636
		<u>1,612,258</u>		<u>2,577,928</u>
		<u>\$ 1,618,568</u>		<u>\$ 2,577,928</u>

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$2,569,290 thousand, \$1,130,238 thousand and \$383,381 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$4,463,999 thousand, \$4,196,448 thousand and \$7,058,781 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$0, \$0 and \$2,744,673 thousand, respectively.

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

Name	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Securities Investment Consulting	\$ 2,464	\$ 2,291	\$ 7,292	\$ 6,872

(Continued)

Name	Rental Income			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Associates				
Symphox Information Co., Ltd.	\$ 7,401	\$ 13,287	\$ 31,522	\$ 36,499
Lin Yuan Property Management Co., Ltd.	5,498	-	13,604	-
Cathay Insurance Company Limited (China)	-	-	-	6,060
	<u>12,899</u>	<u>13,287</u>	<u>45,126</u>	<u>42,559</u>
Other related parties				
Ally Logistic Property Co., Ltd.	184,379	139,779	559,347	422,227
Cathay Medical Care Corp.	46,339	44,777	141,967	138,025
Cathay Hospitality Management Co., Ltd.	42,605	48,516	133,300	145,452
Cathay Hospitality Consulting Co., Ltd.	33,535	23,348	78,715	75,196
Cathay Healthcare Management Co., Ltd.	17,479	17,308	52,414	51,368
Hong-Sui Co., Ltd.	6,955	-	19,932	-
Cathay Real Estate Development Co., Ltd.	4,590	4,462	14,389	12,991
Retail Forest Co., Ltd.	3,650	-	4,750	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	2,322	-	11,072	-
San Ching Engineering Co., Ltd.	1,495	1,422	4,414	4,227
Cathay United Bank Foundation	1,312	-	3,937	-
Lin Yuan Property Management Co., Ltd.	-	1,743	-	3,652
	<u>344,661</u>	<u>281,355</u>	<u>1,024,237</u>	<u>853,138</u>
	<u>\$ 360,024</u>	<u>\$ 296,933</u>	<u>\$1,076,655</u>	<u>\$ 902,569</u>
				(Concluded)

Name	Guarantee Deposits Received		
	September 30, 2020	December 31, 2019	September 30, 2019
Associate			
Symphox Information Co., Ltd.	\$ 13,199	\$ 13,070	\$ 12,996
Other related parties			
Cathay Hospitality Management Co., Ltd.	186,445	184,944	184,602
Cathay Hospitality Consulting Co., Ltd.	179,392	108,145	107,074
Ally Logistic Property Co., Ltd.	127,445	123,085	124,168
Cathay Healthcare Management Co., Ltd.	20,384	16,505	16,198
Cathay Medical Care Corp.	11,435	11,393	11,369
Hong-Sui Co., Ltd.	5,145	-	-
Cathay Real Estate Development Co., Ltd.	4,090	3,959	3,971
Cymlin Co., Ltd.	4,081	-	-
Retail Forest Co., Ltd.	3,663	-	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	3,486	-	-
	<u>545,566</u>	<u>448,031</u>	<u>447,382</u>
	<u>\$ 558,765</u>	<u>\$ 461,101</u>	<u>\$ 460,378</u>

Lease periods are usually between 2 and 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 Nine Months Ended September 30	
	2020	2019
Other related party		
Cathay Real Estate Development Co., Ltd.	\$ 20,565	\$ -

Name	Lease Liabilities		
	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Cathay Real Estate Development Co., Ltd.	\$ 17,309	\$ -	\$ -

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

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Other related party ThinkPower Information Co., Ltd.	\$ -	\$ 867	\$ -	\$ 11,052

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

Name	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Other related party Cathay United Bank Foundation	\$ -	\$ 1,158	\$ -	\$ 3,474

f) Lease arrangements of Cathay United Bank and its subsidiaries

Name	Acquisition of Right-of-use Assets For the Nine Months Ended September 30	
	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ 14,271	\$ 25,777

Name	Lease Liabilities		
	September 30, 2020	December 31, 2019	September 30, 2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ 20,652	\$ 20,954	\$ 25,812

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

g) Disposal of property and equipment of Cathay United Bank and its subsidiaries

Name	Disposal of Right-of-use Assets	
	For the Nine Months Ended	
	September 30	
	2020	2019
Associate		
Symphox Information Co., Ltd.	<u>\$ 4,313</u>	<u>\$ -</u>

h) Acquisition of other assets of Cathay Securities and its subsidiaries

Name	Items	Payment	
		For the Nine Months Ended	
		September 30	
		2020	2019
Other related party			
Symphox Information Co., Ltd.	Intangible assets	<u>\$ 4,997</u>	<u>\$ -</u>

7) Prepayments for long-term investments

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Private Equity Fund managed by Cathay Private Equity	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>

8) Guarantee deposits received

Name	September 30, 2020	December 31, 2019	September 30, 2019
Associate			
Lin Yuan Property Management Co., Ltd.	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>
Other related parties			
San Ching Engineering Co., Ltd.	674,714	453,225	453,225
Ally Logistic Property Co., Ltd.	375,275	151,275	151,080
Cathay Hospitality Management Co., Ltd.	-	51,000	235,319
Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>5,000</u>	<u>5,000</u>
	<u>1,049,989</u>	<u>660,500</u>	<u>844,624</u>
	<u>\$ 1,054,989</u>	<u>\$ 660,500</u>	<u>\$ 844,624</u>

9) Payables

Name	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	\$ 31,312	\$ 30,164	\$ 8,894
Associate			
Symphox Information Co., Ltd.	114,325	137,782	210,840
Lin Yuan Property Management Co., Ltd.	<u>45,788</u>	<u>-</u>	<u>-</u>
	<u>160,113</u>	<u>137,782</u>	<u>210,840</u>
Other related party			
Seaward Card Co., Ltd.	34,711	37,704	33,573
Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>21</u>	<u>58,633</u>
	<u>34,711</u>	<u>37,725</u>	<u>92,206</u>
	<u>\$ 226,136</u>	<u>\$ 205,671</u>	<u>\$ 311,940</u>

10) Balance of bonds managed by related parties

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,072,904</u>	<u>\$ 5,334,030</u>	<u>\$ 5,549,414</u>

11) Balances of beneficiary certificates purchased from related parties

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Fund managed by Cathay Securities Investment Trust	\$ 69,595,765	\$ 62,610,609	\$ 47,233,026
Private Equity Fund managed by Cathay Private Equity	869,983	496,760	248,876
Funds managed by Global Evolution Holdings ApS	2,746,603	2,874,903	2,861,244
Funds managed by Octagon Credit Investors, LLC	<u>836,238</u>	<u>670,292</u>	<u>697,155</u>
	<u>\$ 74,048,589</u>	<u>\$ 66,652,564</u>	<u>\$ 51,040,301</u>

12) Investment balances of related parties' discretionary accounts

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Cathay Charity Foundation	\$ 96,610	\$ 87,128	\$ 79,765
Cathay Cultural Foundation	<u>55,386</u>	<u>55,667</u>	<u>52,674</u>
	<u>\$ 151,996</u>	<u>\$ 142,795</u>	<u>\$ 132,439</u>

13) Discretionary account balances managed by related parties

Name	September 30, 2020	December 31, 2019	September 30, 2019
Associate			
Funds managed by Global Evolution Holdings ApS	<u>\$ -</u>	<u>\$ 22,215,022</u>	<u>\$ 7,081,553</u>

14) Service fee income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities				
Investment Consulting	\$ 4,503	\$ 4,041	\$ 12,521	\$ 11,683
Other related party				
Cathay Real Estate				
Development Co., Ltd.	<u>1,757</u>	<u>2,252</u>	<u>4,862</u>	<u>4,513</u>
	<u>\$ 6,260</u>	<u>\$ 6,293</u>	<u>\$ 17,383</u>	<u>\$ 16,196</u>

15) Premium income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2020	2019	2020	2019
Associate				
Symphox Information				
Co., Ltd.	<u>\$ (115)</u>	<u>\$ 28</u>	<u>\$ 2,129</u>	<u>\$ 3,356</u>
Other related parties				
Cathay Medical Care				
Corp.	16,623	14,229	41,236	33,192
Cathay Real Estate				
Development Co., Ltd.	2,303	2,364	3,523	3,350
San Ching Engineering				
Co., Ltd.	1,049	437	5,618	2,472
Others	<u>182,045</u>	<u>143,734</u>	<u>392,816</u>	<u>318,642</u>
	<u>202,020</u>	<u>160,764</u>	<u>443,193</u>	<u>357,656</u>
	<u>\$ 201,905</u>	<u>\$ 160,792</u>	<u>\$ 445,322</u>	<u>\$ 361,012</u>

16) Net other non-interest income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Other non-interest income</u>				
Other related parties				
Fund managed by Cathay Securities Investment Trust	\$ 570,140	\$ 616,815	\$ 1,727,699	\$ 1,667,725
Private Equity Fund managed by Cathay Private Equity	11,945	3,731	29,126	10,829
Cathay Healthcare Management Co., Ltd.	<u>923</u>	<u>927</u>	<u>3,691</u>	<u>3,705</u>
	<u>\$ 583,008</u>	<u>\$ 621,473</u>	<u>\$ 1,760,516</u>	<u>\$ 1,682,259</u>
<u>Other non-interest expense</u>				
Associate				
Funds managed by Funds managed by Global Evolution Holdings ApS	\$ -	\$ -	\$ 14,163	\$ 10,127

17) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Securities Investment Consulting	\$ 31,789	\$ 8,888	\$ 93,124	\$ 8,888
Associate				
Symphox Information Co., Ltd.	204,441	210,493	605,949	666,208
Lin Yuan Property Management Co., Ltd.	<u>201,472</u>	<u>-</u>	<u>607,009</u>	<u>-</u>
	<u>405,913</u>	<u>210,493</u>	<u>1,212,958</u>	<u>666,208</u>
Other related parties				
Seaward Card Co., Ltd.	74,168	83,408	225,237	237,833
Cathay Real Estate Development Co., Ltd.	1,274	5,445	3,483	13,018
Lin Yuan Property Management Co., Ltd.	-	194,959	-	584,481
Cathay Healthcare Management Co., Ltd.	17,007	19,264	32,489	48,153
Bowl Cut Entertainment Co., Ltd.	21,430	-	40,300	-
ThinkPower Information Co., Ltd.	1,321	785	8,169	5,075

(Continued)

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Cathay Charity Foundation	\$ -	\$ 5,300	\$ -	\$ 5,300
Cathay Medical Care Corp.	-	746	-	3,158
	<u>115,200</u>	<u>309,907</u>	<u>309,678</u>	<u>897,018</u>
	<u>\$ 552,902</u>	<u>\$ 529,288</u>	<u>\$ 1,615,760</u>	<u>\$ 1,572,114</u> (Concluded)

18) Acquisition of shares issued by related parties

Name	Nature of Transaction	For the Nine Months Ended September 30	
		2020	2019
Subsidiary of the Company			
Cathay Securities Investment Consulting Associates	Ordinary shares	\$ 230,000	\$ -
TaiYang Solar Power Co., Ltd.	Ordinary shares	118,150	-
PSS Co., Ltd.	Ordinary shares	51,386	-
Lin Yuan Property Management Co., Ltd.	Ordinary shares	50,649	-
Greenhealth Water Resources Co., Ltd.	Ordinary shares	-	387,816
		<u>220,185</u>	<u>387,816</u>
		<u>\$ 450,185</u>	<u>\$ 387,816</u>

19) Guarantees on duties and contracts

September 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>\$ 56,157</u>	<u>\$ 27</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

September 30, 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>\$ 6</u>	0.65%-0.8%	Securities

20) Compensation of key management personnel

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 190,028	\$ 179,055	\$ 774,472	\$ 716,725
Post-employment benefits	5,732	4,706	16,459	16,093
Other long-term employee benefits	<u>21</u>	<u>-</u>	<u>76</u>	<u>34</u>
	<u>\$ 195,781</u>	<u>\$ 183,761</u>	<u>\$ 791,007</u>	<u>\$ 732,852</u>

Key management personnel of the Group include the chairman, vice chairman, directors, supervisors, general managers, senior vice general managers and vice general managers.

c. The Company

1) Cash in banks

Name	Items	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay United Bank	Cash in bank	<u>\$ 268,894</u>	<u>\$ 79,099</u>	<u>\$ 80,683</u>

Interest income of Cathay United Bank for the three months ended September 30, 2020 and 2019 and the nine months ended September 30, 2020 and 2019 was \$100 thousand, \$176 thousand, \$139 thousand and \$650 thousand, respectively.

2) Receivables

Name	Items	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay Life	Consolidated income tax, interest	\$ 7,971,894	\$ 65,589	\$ 1,008,000
Cathay Century	Consolidated income tax	283,042	362,812	283,025
Cathay United Bank	Consolidated income tax	180,257	1,703,104	1,532,949
Cathay Securities	Consolidated income tax	179,848	74,712	37,986
Cathay Securities Investment Trust	Consolidated income tax	127,466	176,613	130,175
Cathay Venture	Consolidated income tax	<u>-</u>	<u>4,345</u>	<u>4,588</u>
		<u>\$ 8,742,507</u>	<u>\$ 2,387,175</u>	<u>\$ 2,996,723</u>

3) Guarantee deposits paid

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

4) Financial assets at FVTPL

Name	September 30, 2020	December 31, 2019	September 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	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay Life	<u>\$ 8,439</u>	<u>\$ 47,191</u>	<u>\$ 60,541</u>

b) Lease expense

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	<u>\$ 19,454</u>	<u>\$ 19,403</u>	<u>\$ 51,756</u>	<u>\$ 36,077</u>

6) Payables

Name	Items	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay Life	Consolidated income tax, etc.	<u>\$ -</u>	<u>\$ 10,147,500</u>	<u>\$ 12,934,473</u>

7) Interest income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Life	<u>\$ 316,722</u>	<u>\$ 317,589</u>	<u>\$ 943,279</u>	<u>\$ 942,411</u>

8) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Life	\$ 2,489	\$ 3,282	\$ 10,615	\$ 8,910
Cathay United Bank	16,256	581	28,487	9,433
Cathay Securities	9,800	-	14,800	-
Associate				
Symphox Information Co., Ltd.	2,540	245	6,867	1,030
Other related parties				
Seaward Card Co., Ltd.	1,484	3,681	4,727	6,428
Bowl Cut Entertainment Co., Ltd.	<u>21,430</u>	<u>-</u>	<u>40,300</u>	<u>-</u>
	<u>\$ 53,999</u>	<u>\$ 7,789</u>	<u>\$ 105,796</u>	<u>\$ 25,801</u>

9) Acquisition of shares issued by related parties

Name	Items	For the Nine Months Ended September 30	
		2020	2019
Subsidiary of the Company Cathay Securities	Ordinary shares	\$ 1,200,000	\$ _____ -

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 Nine Months Ended September 30			
	2020		2019	
	Items	Amount	Items	Amount
Other related parties				
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	\$ 916,201	THSR Taoyuan Commercial Park, etc.	\$ 1,682,430
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	696,057	Yangmei Logistics Park, etc.	580,443
Cathay Real Estate Development Co., Ltd.	-	-	Minsheng Jingguo Building, etc.	306,419
		<u>\$ 1,612,258</u>		<u>\$ 2,569,292</u>

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$2,569,290 thousand, \$1,130,238 thousand and \$383,381 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$4,463,999 thousand, \$4,196,448 thousand and \$7,058,781 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2020, December 31, 2019 and September 30, 2019, between Cathay Life and its subsidiaries and Cathay Real Estate Development Co., Ltd. were \$0, \$0 and \$2,744,673 thousand, respectively.

ii. Real-estate rental income

Name	Rental Income			
	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank	\$ 194,155	\$ 169,181	\$ 539,491	\$ 465,145
Other related parties Ally Logistic Property Co., Ltd.	184,379	139,779	559,347	422,227
Cathay Medical Care Corp.	46,339	44,777	141,967	138,025
Cathay Hospitality Management Co., Ltd.	<u>42,605</u>	<u>48,516</u>	<u>133,300</u>	<u>145,452</u>
	<u>\$ 467,478</u>	<u>\$ 402,253</u>	<u>\$ 1,374,105</u>	<u>\$ 1,170,849</u>

Name	Guarantee Deposits Received		
	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay United Bank	\$ 186,446	\$ 188,158	\$ 175,220
Other related parties Cathay Hospitality Management Co., Ltd.	186,445	184,944	184,602
Cathay Hospitality Consulting Co., Ltd.	179,392	108,145	107,074
Ally Logistic Property Co., Ltd.	<u>127,445</u>	<u>123,085</u>	<u>124,168</u>
	<u>\$ 679,728</u>	<u>\$ 604,332</u>	<u>\$ 591,064</u>

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

b) Shares transactions

Acquisition of shares issued by related parties

Name	Item	For the Nine Months Ended September 30	
		2020	2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	Ordinary shares	\$ 230,000	\$ -
Cathay Venture	Ordinary shares	-	1,567,574
Associates			
TaiYang Solar Power Co., Ltd.	Ordinary shares	118,150	-
Greenhealth Water Resources Co., Ltd.	Ordinary shares	-	387,816
Other related parties			
Cathay Real Estate Development Co., Ltd.	Ordinary shares	<u>107,151</u>	<u>-</u>
		<u>\$ 455,301</u>	<u>\$ 1,955,390</u>

c) Cash in banks

Name	Item	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company				
Cathay United Bank	Time deposits	\$ 1,047,767	\$ 864,340	\$ 1,139,620
	Demand deposits	19,841,778	23,881,382	18,301,410
	Checkable deposits	224,977	240,154	242,919
	Securities deposits	6	6	232,756
Indovina Bank	Time deposits	1,127,009	485,177	368,619
	Demand deposits	<u>12,174</u>	<u>12,042</u>	<u>26,062</u>
		<u>\$ 22,253,711</u>	<u>\$ 25,483,101</u>	<u>\$ 20,311,386</u>

d) Loans

Name	For the Nine Months Ended September 30, 2020		
	Maximum Balance	Rate	Ending Balance
Other related party	<u>\$ 950,932</u>	0.75%-3.17%	<u>\$ 898,706</u>
Name	For the Nine Months Ended September 30, 2019		
	Maximum Balance	Rate	Ending Balance
Other related party	<u>\$ 1,012,640</u>	1.03%-3.44%	<u>\$ 953,712</u>

e) Balance of bonds managed by related parties

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,072,904</u>	<u>\$ 5,334,030</u>	<u>\$ 5,549,414</u>

f) Balance of beneficiary certificates purchased from related parties

Item	Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related party				
Funds managed by Octagon Credit Investors, LLC	Market value	<u>\$ 836,238</u>	<u>\$ 670,292</u>	<u>\$ 697,155</u>
	Cost	<u>\$ 908,300</u>	<u>\$ 679,795</u>	<u>\$ 694,527</u>
Funds managed by Global Evolution Holding ApS	Market value	<u>\$ 2,746,603</u>	<u>\$ 2,874,903</u>	<u>\$ 2,861,244</u>
	Cost	<u>\$ 2,607,948</u>	<u>\$ 2,642,230</u>	<u>\$ 2,694,249</u>
Funds managed by Cathay Securities Investment Trust	Market value	<u>\$ 68,151,466</u>	<u>\$ 61,234,575</u>	<u>\$ 45,714,165</u>
	Cost	<u>\$ 66,119,393</u>	<u>\$ 59,796,572</u>	<u>\$ 42,784,798</u>
Private Equity Funds managed by Cathay Private Equity	Market value	<u>\$ 856,044</u>	<u>\$ 490,168</u>	<u>\$ 245,276</u>
	Cost	<u>\$ 840,089</u>	<u>\$ 494,150</u>	<u>\$ 245,425</u>

g) Discretionary account management balance

Name	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay Securities Investment Trust	\$ 277,500,263	\$ 213,072,442	\$ 219,887,784
Associate			
Global Evolution Holding ApS	<u>-</u>	<u>22,215,022</u>	<u>7,081,553</u>
	<u>\$ 277,500,263</u>	<u>\$ 235,287,464</u>	<u>\$ 226,969,337</u>

h) Other receivables

Name	September 30, 2020	December 31, 2019	September 30, 2019
The Company			
Cathay Financial Holdings (Note)	<u>\$ -</u>	<u>\$ 10,147,500</u>	<u>\$ 12,934,473</u>

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

i) Guarantee deposits paid (futures trading deposits in banks)

Name	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay Futures Co., Ltd.	<u>\$ 2,593,919</u>	<u>\$ 3,078,757</u>	<u>\$ 3,069,414</u>

j) Guarantee deposits received and collaterals received

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
San Ching Engineering Co., Ltd.	\$ 674,714	\$ 453,225	\$ 453,225
Ally Logistic Property Co., Ltd.	375,275	151,275	151,080
Cathay Hospitality Management Co., Ltd.	<u> -</u>	<u> 51,000</u>	<u> 235,319</u>
	<u>\$ 1,049,989</u>	<u>\$ 655,500</u>	<u>\$ 839,624</u>

k) Other payables

Name	September 30, 2020	December 31, 2019	September 30, 2019
The Company			
Cathay Financial Holdings (Note)	\$ 7,971,894	\$ 65,589	\$ 1,008,000
Subsidiary of the Company			
Cathay United Bank	<u> 268,188</u>	<u> 43,208</u>	<u> 339,336</u>
	<u>\$ 8,240,082</u>	<u>\$ 108,797</u>	<u>\$ 1,347,336</u>

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

l) Bonds payable

Name	September 30, 2020	December 31, 2019	September 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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Other related party				
Others	<u>\$ 182,045</u>	<u>\$ 143,734</u>	<u>\$ 392,816</u>	<u>\$ 318,642</u>

n) Premium expense

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Century	\$ <u>4,927</u>	\$ <u>4,861</u>	\$ <u>110,070</u>	\$ <u>98,668</u>

o) Other operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Securities Investment Trust	\$ <u>41,108</u>	\$ <u>35,714</u>	\$ <u>111,868</u>	\$ <u>102,189</u>

p) Other operating costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank Cathay Securities Investment Trust	\$ 259,430	\$ 271,561	\$ 835,137	\$ 880,639
	<u>75,487</u>	<u>46,441</u>	<u>210,711</u>	<u>138,228</u>
	\$ <u>334,917</u>	\$ <u>318,002</u>	\$ <u>1,045,848</u>	\$ <u>1,018,867</u>

q) Finance costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
The Company Cathay Financial Holdings	\$ <u>316,722</u>	\$ <u>317,589</u>	\$ <u>943,279</u>	\$ <u>942,411</u>

Finance costs consist of interest expense of bonds payable.

r) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay United Bank	\$ 1,327,684	\$ 1,301,858	\$ 4,277,325	\$ 4,821,580
Associate Lin Yuan Property Management Co., Ltd.	191,189	-	591,444	-
Symphox Information Co., Ltd.	44,850	56,187	155,058	182,824
Other related party Lin Yuan Property Management Co., Ltd.	-	192,688	-	577,298
	<u>\$ 1,563,723</u>	<u>\$ 1,550,733</u>	<u>\$ 5,023,827</u>	<u>\$ 5,581,702</u>

s) Non-operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company Cathay Century	\$ 150,121	\$ 175,544	\$ 477,738	\$ 496,909
Cathay United Bank	<u>46,387</u>	<u>36,535</u>	<u>131,109</u>	<u>120,352</u>
	<u>\$ 196,508</u>	<u>\$ 212,079</u>	<u>\$ 608,847</u>	<u>\$ 617,261</u>

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

t) Others

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

Name	September 30, 2020	December 31, 2019	September 30, 2019
SWAP	<u>US\$ 3,495,000</u>	<u>US\$ 2,615,000</u>	<u>US\$ 3,335,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans

September 30, 2020

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-09.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	28	\$ 137,673	\$ 12,747	V	\$ -	None	None	\$ 44	\$ 217
Self-used housing mortgage loans	272	2,266,966	2,046,661	V	-	Real estate and securities	None	2,908	25,293
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 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	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

September 30, 2019

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-09.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	23	\$ 63,544	\$ 7,881	V	\$ -	None	None	\$ 9	\$ 157
Self-used housing mortgage loans	246	9,847,741	1,726,406	V	-	Real estate and securities	None	2,530	22,157
Others	Cathay Real Estate Development Co., Ltd.	2,040,000	250,000	V	-	Real estate	None	(1,500)	2,500

Deposits

Name	September 30, 2020	December 31, 2019	September 30, 2019
The Company			
Cathay Financial Holdings	\$ 268,894	\$ 79,099	\$ 80,683
Subsidiary of the Company			
Cathay Life	19,892,435	23,917,315	18,636,931
Cathay Century	2,061,875	2,474,304	1,948,855
Cathay Securities	9,368,374	2,034,207	3,293,071
Cathay Futures	829,609	1,429,607	1,385,577
Cathay Securities Investment Trust	135,273	143,714	127,270
Cathay Securities Investment Consulting	429,131	204,526	148,340
Cathay Life (Vietnam)	1,139,273	497,313	662,996
Cathay Insurance (Vietnam)	278,229	168,057	201,447
Lin Yuan	1,145,821	990,004	931,624
Associates			
Symphox Information Co., Ltd.	229,020	154,446	161,126
Lin Yuan Property Management Co., Ltd.	181,561	-	-

(Continued)

Name	September 30, 2020	December 31, 2019	September 30, 2019
Other related parties			
Lin Yuan Property Management Co., Ltd.	\$ -	\$ 250,272	\$ 173,840
Cathay United Bank Foundation	535,049	532,486	545,517
Cathay Life Insurance Employees' Welfare Committee	2,246,234	2,142,876	2,138,613
Cathay Real Estate Employees' Welfare Committees	422,168	397,367	406,023
Cathay Real Estate Development Co., Ltd.	392,230	257,587	416,668
Fund managed by Cathay Securities Investment Trust	56,586	84,784	119,151
Cathay Medical Care Corp.	204,083	175,513	192,827
Cathay Charity Foundation	286,970	273,982	278,809
Cathay Cultural Foundation	217,372	201,794	209,230
Cathay United Bank Employees' Welfare Committee	783,933	757,991	780,868
San Ching Engineering Co., Ltd.	716,106	9,933	4,901
Yua-Yung Marketing (Taiwan) Co., Ltd.	127,615	123,044	123,679
Ally Logistic Property Co., Ltd.	79,132	19,116	114,990
Others	<u>7,636,882</u>	<u>6,152,160</u>	<u>7,348,572</u>
	<u>\$ 49,663,855</u>	<u>\$ 43,471,497</u>	<u>\$ 40,431,608</u>

Due from commercial banks

Other related party Vietinbank	<u>\$ 5,057,854</u>	<u>\$ 5,216,825</u>	<u>\$ 5,368,858</u>
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Due to commercial banks

Other related party Vietinbank	<u>\$ 5,067,797</u>	<u>\$ 5,265,818</u>	<u>\$ 5,423,619</u> (Concluded)
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Transactions terms with related parties are similar to those with third parties, except for the preferential interest rates set by the employees' interest rates on deposits and loans within prescribed limits.

b) Derivatives

September 30, 2020

Name of Related Party	Name of Derivative Contract	Contract Period	Nominal Principal	Valuation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life	SWAP - exchange between customers (USD)	2019.11.04-2021.09.28	\$ 101,795,370	\$ (118,946)	Valuation adjustment for financial assets at FVTPL	\$ 7,131
					Valuation adjustment for FVTPL financial liabilities	(1,451,252)
Cathay Century	SWAP - exchange between customers (USD)	2019.10.07-2021.08.10	2,772,795	(14,729)	Valuation adjustment for financial assets at FVTPL	-
					Valuation adjustment for FVTPL financial liabilities	(56,213)

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	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	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)

September 30, 2019

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

c) Lease agreements

Acquisition of Right-of-use Assets
September 30

2020 **2019**

Subsidiary of the Company
Cathay Life

\$ 560,067 \$ 30,072

Lease Liabilities

September 30, 2020 **December 31, 2019** **September 30, 2019**

Subsidiary of the Company
Cathay Life

\$ 2,003,443 \$ 1,956,803 \$ 1,960,331

For the Three Months
Ended September 30

For the Nine Months
Ended September 30

Payment
Term

2020 **2019**

2020 **2019**

Rental expense

Subsidiary of the
Company
Cathay Life

\$ 2,775 \$ 52,801 \$ 16,483 \$ 156,292 Monthly

Refundable Deposits Paid

September 30, 2020 **December 31, 2019** **September 30, 2019**

Subsidiary of the Company
Cathay Life

\$ 186,446 \$ 188,158 \$ 175,220

d) Others

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Commission and handling fee income</u>				
Subsidiary of the Company				
Cathay Life	\$ 1,585,377	\$ 1,570,671	\$ 5,086,453	\$ 5,687,772
Cathay Century	35,152	39,459	105,034	113,487
Cathay Securities	40,003	23,456	107,815	57,687
<u>General expenses</u>				
Subsidiary of the Company				
Cathay Life	46,387	36,778	131,109	120,352
Associate				
Symphox Information Co., Ltd.	138,785	135,381	375,058	410,906
Other related party				
Seaward Card Co., Ltd.	53,555	54,420	168,443	169,433
<u>Payment of insurance expenses</u>				
Subsidiary of the Company				
Cathay Century	52,566	28,462	129,302	112,432
Item	September 30, 2020	December 31, 2019	September 30, 2019	
<u>Receivables from related-party for insurance commission</u>				
Subsidiary of the Company				
Cathay Life	\$ 268,188	\$ 43,208	\$ 339,336	
<u>Guarantee deposits paid</u>				
Subsidiary of the Company				
Cathay Futures	230,576	508,694	119,434	
<u>Accounts payable</u>				
Associate				
Symphox Information Co., Ltd.	88,348	123,346	161,701	

(Continued)

Item	September 30, 2020	December 31, 2019	September 30, 2019
Related party payables from <u>linked tax system</u>			
The Company			
Cathay Financial Holdings	\$ 180,257	\$ 1,703,104	\$ 1,532,949 (Concluded)

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

3) Cathay Century and its subsidiaries

a) Business transactions

Item	Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2020	2019	2020	2019
Net premium income	Subsidiary of the Company				
	Cathay Life	\$ 4,927	\$ 4,861	\$ 110,070	\$ 98,668
	Cathay United Bank	52,566	28,462	129,302	112,432
Operating costs					
Marketing costs	Subsidiary of the Company				
	Cathay Life	148,430	173,345	467,601	489,813

b) Payables to related parties

Item	Name	September 30, 2020	December 31, 2019	September 30, 2019
Other payables	The Company			
	Cathay Financial Holdings (Note)	<u>\$ 283,042</u>	<u>\$ 362,812</u>	<u>\$ 283,025</u>

c) Cash in bank

Item	Name	September 30, 2020	December 31, 2019	September 30, 2019
Checking deposits and demand deposits	Subsidiary of the Company Cathay United Bank	\$ 1,780,076	\$ 1,906,704	\$ 1,348,055
Time deposits	Subsidiary of the Company Cathay United Bank Indovina Bank	281,800 <u>253,630</u>	567,600 <u>150,726</u>	600,800 <u>184,687</u>
		<u>\$ 2,315,506</u>	<u>\$ 2,625,030</u>	<u>\$ 2,133,542</u>

d) Financial assets at FVTPL (beneficiary certificate)

	September 30, 2020	December 31, 2019	September 30, 2019
Other related party Fund managed by Cathay Securities Investment Trust	<u>\$ 1,043,962</u>	<u>\$ 712,949</u>	<u>\$ 731,233</u>

e) Discretionary account management balance

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company Cathay Securities Investment Trust	<u>\$ 1,191,086</u>	<u>\$ 1,081,258</u>	<u>\$ 988,750</u>

f) Lease agreements

	<u>Acquisition of Right-of-use Assets</u> <u>For the Nine Months Ended</u> <u>September 30</u>	
	2020	2019
Subsidiary of the Company Cathay Life	\$ 930	\$ 210,625
	Lease Liabilities	
Name	September 30, 2020	December 31, 2019
Subsidiary of the Company Cathay Life	<u>\$ 98,051</u>	<u>\$ 176,326</u>
		<u>\$ 202,435</u>

g) SWAP

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

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>US\$ 95,200</u> <u>EUR 750</u>	<u>US\$ 92,700</u> <u>EUR 750</u>	<u>US\$ 88,700</u> <u>EUR 750</u>

4) Cathay Securities and its subsidiaries

a) Cash in bank

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>\$ 9,551,822</u>	<u>\$ 2,399,307</u>	<u>\$ 3,654,931</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 assets at FVTPL

	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Funds managed by Cathay Securities Investment Trust	<u>\$ 27,845</u>	<u>\$ 61,468</u>	<u>\$ 168,108</u>

c) Customer's margin accounts

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>\$ 646,259</u>	<u>\$ 1,064,570</u>	<u>\$ 1,023,717</u>

d) Futures trader's equity

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay Life	\$ 2,593,919	\$ 3,078,757	\$ 3,069,414
Cathay United Bank	230,576	508,694	119,434
Cathay Securities Investment Trust (Note)	<u>1,662,991</u>	<u>1,218,446</u>	<u>1,466,304</u>
	<u>\$ 4,487,486</u>	<u>\$ 4,805,897</u>	<u>\$ 4,655,152</u>

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

e) Other payables

	September 30, 2020	December 31, 2019	September 30, 2019
The Company			
Cathay Financial Holdings (Note)	<u>\$ 179,848</u>	<u>\$ 74,712</u>	<u>\$ 37,986</u>

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

f) Brokerage service fee income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Life	<u>\$ 32,164</u>	<u>\$ 50,463</u>	<u>\$ 116,024</u>	<u>\$ 165,084</u>

g) Other operating expense

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay United Bank	<u>\$ 40,003</u>	<u>\$ 23,456</u>	<u>\$ 107,815</u>	<u>\$ 57,687</u>

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay United Bank	<u>\$ 113,995</u>	<u>\$ 88,704</u>	<u>\$ 69,822</u>

b) Accounts receivable

	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Funds managed by Cathay Securities Investment Trust	<u>\$ 183,846</u>	<u>\$ 221,014</u>	<u>\$ 206,191</u>

c) Accounts payable

	September 30, 2020	December 31, 2019	September 30, 2019
The Company			
Cathay Financial Holdings (Note)	<u>\$ 127,466</u>	<u>\$ 176,613</u>	<u>\$ 130,175</u>

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

d) Discretionary account management balance

	September 30, 2020	December 31, 2019	September 30, 2019
Subsidiary of the Company			
Cathay Life	\$ 277,500,263	\$ 213,072,442	\$ 219,887,784
Cathay Century	<u>1,191,086</u>	<u>1,081,258</u>	<u>988,750</u>
	<u>\$ 278,691,349</u>	<u>\$ 214,153,700</u>	<u>\$ 220,876,534</u>

e) Operating income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Cathay Life	\$ 75,487	\$ 46,441	\$ 210,711	\$ 138,228
Other related party				
Fund managed by Cathay Securities Investment Trust	<u>570,140</u>	<u>616,815</u>	<u>1,727,699</u>	<u>1,667,725</u>
	<u>\$ 645,627</u>	<u>\$ 663,256</u>	<u>\$ 1,938,410</u>	<u>\$ 1,805,953</u>

f) Consulting fee

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary of the Company				
Conning Asia Pacific Ltd.	<u>\$ 35,136</u>	<u>\$ 32,754</u>	<u>\$ 101,036</u>	<u>\$ 93,828</u>

6) Cathay Venture

Financial assets at FVTPL

	September 30, 2020	December 31, 2019	September 30, 2019
Other related party			
Fund managed by Cathay Securities Investment Trust	\$ 347,858	\$ 539,043	\$ 539,043
Cathay Healthcare Management Co., Ltd.	<u>181,830</u>	<u>229,103</u>	<u>246,758</u>
	<u>\$ 529,688</u>	<u>\$ 768,146</u>	<u>\$ 785,801</u>

29. PLEDGED ASSETS

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

Item	Description	September 30, 2020	December 31, 2019	September 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	\$ 15,358,359	\$ 14,879,748	\$ 14,939,457
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	759,464	1,190,059	997,334
Financial assets at FVTOCI	Provisions for business and collateral	12,006,517	10,006,563	6,579
Financial assets at amortized cost	Provisions for business and collateral	45,523,902	47,521,950	57,512,824
Investment properties	Short-term loans	<u>291,175</u>	<u>293,341</u>	<u>290,341</u>
		<u>\$ 79,939,417</u>	<u>\$ 73,891,661</u>	<u>\$ 73,746,535</u>

Note: Due from the Central Bank of Cathay United Banks and its subsidiaries 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, 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 plaintiff 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 September 30, 2020, December 31, 2019 and September 30, 2019, Cathay United Bank and its subsidiaries had the following material commitments for entrusted item and guarantees:

	September 30, 2020	December 31, 2019	September 30, 2019
Trust and security held for safekeeping	\$ 766,182,222	\$ 720,298,578	\$ 749,654,465
Travelers checks for sale	-	257,286	268,980
Collection and payment on behalf of customers	31,785,476	36,708,754	36,624,560
Book-entry for government bonds and depository for short-term marketable securities under management	453,997,080	429,136,051	406,287,783
Entrusted financial management business	11,910,059	8,205,335	9,560,330
Guarantees on duties and contracts	15,394,150	12,957,304	13,505,393
Unused commercial letters of credit	6,461,053	5,254,667	6,430,586
Irrevocable loan commitments	169,408,849	191,118,192	152,769,575
Unused credit card lines commitments	658,553,544	624,179,881	615,949,979
Underwritten securities	1,000,000	1,350,000	316,628
Financial guarantee contracts	1,615,045	1,831,942	1,881,618

c. As of September 30, 2020, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,153,060 thousand, US\$3,462,244 thousand, EUR484,142 thousand and GBP1,555 thousand.

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

Cathay Financial Holding Co., Ltd.

Balance Sheets
(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2020 (Reviewed)	December 31, 2019 (Audited)	September 30, 2019 (Reviewed)	LIABILITIES AND EQUITY	September 30, 2020 (Reviewed)	December 31, 2019 (Audited)	September 30, 2019 (Reviewed)
CASH AND CASH EQUIVALENTS	\$ 274,481	\$ 84,693	\$ 86,281	COMMERCIAL PAPER PAYABLE, NET	\$ 38,390,000	\$ 48,480,000	\$ 50,090,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	37,334,500	35,269,500	36,400,000	PAYABLES	438,292	10,666,489	13,282,516
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	120,925	106,704	111,146	CURRENT TAX LIABILITIES	20,376,416	2,243,784	-
NOTES AND BONDS PURCHASED UNDER RESALE AGREEMENTS	-	310,000	-	BONDS PAYABLE	50,000,000	20,000,000	20,000,000
RECEIVABLES, NET	8,742,507	2,388,041	2,996,723	PROVISIONS	809,357	832,997	831,144
CURRENT TAX ASSETS	4,727,993	4,853,833	5,415,587	LEASE LIABILITIES	17,639	55,369	69,280
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	872,132,798	810,998,796	761,448,355	DEFERRED TAX LIABILITIES	266,714	266,714	266,714
PROPERTY AND EQUIPMENT, NET	56,763	54,192	59,635	OTHER LIABILITIES	<u>163,937</u>	<u>163,891</u>	<u>164,100</u>
RIGHT-OF-USE ASSETS	17,346	54,891	68,846	Total liabilities	<u>110,462,355</u>	<u>82,709,244</u>	<u>84,703,754</u>
DEFERRED TAX ASSETS	262,385	262,855	345,880	EQUITY			
OTHER ASSETS	<u>48,077</u>	<u>73,104</u>	<u>65,707</u>	Share capital			
TOTAL	<u>\$ 923,717,775</u>	<u>\$ 854,456,609</u>	<u>\$ 806,998,160</u>	Ordinary shares	131,692,102	131,692,102	125,632,102
				Preference shares	15,333,000	15,333,000	15,333,000
				Capital surplus	177,255,256	177,256,976	161,689,272
				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	158,329,889	58,181,890	46,512,387
				Other equity	<u>128,782,575</u>	<u>121,182,880</u>	<u>105,027,128</u>
				Total equity	<u>813,255,420</u>	<u>771,747,365</u>	<u>722,294,406</u>
				TOTAL	<u>\$ 923,717,775</u>	<u>\$ 854,456,609</u>	<u>\$ 806,998,160</u>

Cathay Financial Holding Co., Ltd.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
REVENUE				
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 31,103,355	\$ 17,199,947	\$ 64,435,525	\$ 50,545,805
Other operating income	<u>655,819</u>	<u>1,006,153</u>	<u>3,033,111</u>	<u>1,922,891</u>
Total revenue	<u>31,759,174</u>	<u>18,206,100</u>	<u>67,468,636</u>	<u>52,468,696</u>
EXPENSES AND LOSSES				
Operating expenses	(461,761)	(364,634)	(1,155,343)	(907,836)
Other expenses and losses	<u>(130,372)</u>	<u>(165,036)</u>	<u>(374,979)</u>	<u>(353,421)</u>
Total expenses and losses	<u>(592,133)</u>	<u>(529,670)</u>	<u>(1,530,322)</u>	<u>(1,261,257)</u>
INCOME BEFORE TAX	31,167,041	17,676,430	65,938,314	51,207,439
INCOME TAX BENEFIT (EXPENSE)	<u>54,577</u>	<u>51,719</u>	<u>(2,594,938)</u>	<u>(39,521)</u>
NET INCOME	<u>31,221,618</u>	<u>17,728,149</u>	<u>63,343,376</u>	<u>51,167,918</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	469	22	14,221	8,842
Share of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	(2,739,843)	(4,232,190)	(3,744,746)	4,192,857
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>8,971,484</u>	<u>20,226,216</u>	<u>11,626,268</u>	<u>168,697,294</u>
Other comprehensive income for the period, net of income tax	<u>6,232,110</u>	<u>15,994,048</u>	<u>7,895,743</u>	<u>172,898,993</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 37,453,728</u>	<u>\$ 33,722,197</u>	<u>\$ 71,239,119</u>	<u>\$224,066,911</u>
EARNINGS PER SHARE				
Basic	<u>\$2.37</u>	<u>\$1.41</u>	<u>\$4.55</u>	<u>\$3.86</u>

Cathay Financial Holding Co., Ltd.

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

	Share Capital		Capital Surplus	Retained Earnings			Exchange Differences on Translation of 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	-	-	-	-	-	(72,631,553)	-	-	-	-	-	-	-	-
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	-	-	8,871	-	-	-	-	-	-	-	-	-	-	8,871
Net income for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	-	-	-	-	-	-	-	51,167,918
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(505,463)	83,843,745	68,796	(2,584,839)	(3,823)	872,403	91,208,174	172,898,993
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	-	51,167,918	(505,463)	83,843,745	68,796	(2,584,839)	(3,823)	872,403	91,208,174	224,066,911
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(4,686,887)	-	4,686,887	-	-	-	-	-	-
BALANCE AT SEPTEMBER 30, 2019	<u>\$ 125,632,102</u>	<u>\$ 15,333,000</u>	<u>\$ 161,689,272</u>	<u>\$ 46,122,845</u>	<u>\$ 221,977,672</u>	<u>\$ 46,512,387</u>	<u>\$ (12,655,334)</u>	<u>\$ 70,943,686</u>	<u>\$ 242,085</u>	<u>\$ (1,810,755)</u>	<u>\$ (1,324,961)</u>	<u>\$ 11,240,314</u>	<u>\$ 38,392,093</u>	<u>\$ 722,294,406</u>
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	-	-	-	-	-	(71,928,090)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(26,338,420)	-	-	-	-	-	-	-	(26,338,420)
Cash dividends on ordinary shares	-	-	-	-	-	(3,390,924)	-	-	-	-	-	-	-	(3,390,924)
Cash dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	(1,720)	-	-	-	-	-	-	-	-	-	-	(1,720)
Net income for the nine months ended September 30, 2020	-	-	-	-	-	63,343,376	-	-	-	-	-	-	-	63,343,376
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	-	(2,915,994)	12,268,621	84,315	841,539	(10,294)	-	(2,372,444)	7,895,743
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	-	63,343,376	(2,915,994)	12,268,621	84,315	841,539	(10,294)	-	(2,372,444)	71,239,119
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	152,823	-	(152,823)	-	-	-	-	-	-
Other	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-
BALANCE AT SEPTEMBER 30, 2020	<u>\$ 131,692,102</u>	<u>\$ 15,333,000</u>	<u>\$ 177,255,256</u>	<u>\$ 51,967,688</u>	<u>\$ 149,894,910</u>	<u>\$ 158,329,889</u>	<u>\$ (16,235,614)</u>	<u>\$ 80,435,751</u>	<u>\$ 416,245</u>	<u>\$ (1,008,969)</u>	<u>\$ (1,518,158)</u>	<u>\$ 11,097,089</u>	<u>\$ 55,596,231</u>	<u>\$ 813,255,420</u>

Cathay Financial Holding Co., Ltd.

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

	For the Nine Months Ended	
	September 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 65,938,314	\$ 51,207,439
Adjustments for:		
Depreciation expenses	49,648	47,404
Amortization expenses	-	1,330
Gain on of financial assets and liabilities at fair value through profit or loss	(2,065,000)	(955,500)
Interest income	(944,401)	(943,732)
Dividends income	(5,512)	(5,378)
Interest expenses	351,680	325,376
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	(64,435,525)	(50,545,805)
Loss on disposal and retirement of property and equipment	103	-
Changes in operating assets and liabilities		
Other assets	1,886	(349)
Payables	(57,695)	(77,393)
Provisions	2,875	8,576
Other liabilities	46	31
Cash used in operations	(1,163,581)	(938,001)
Interest received	1,201	1,403
Dividends received	5,512	5,378
Interest paid	(354,150)	(235,697)
Income tax refunded	80,654	944,214
Net cash used in operating activities	(1,430,364)	(222,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using equity the method	(1,200,000)	-
Acquisition of property and equipment	(10,810)	(52,030)
Decrease (increase) in other assets	678	(17,483)
Dividends received	12,381,325	10,658,658
Net cash flows generated from investing activities	11,171,193	10,589,145
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	(10,090,000)	(9,170,000)
Issuance of corporate bonds	30,000,000	20,000,000
Repayments of the principal portion of lease liabilities	(41,697)	(42,808)
Dividends paid	(29,729,344)	(21,512,706)
Net cash flows used in financing activities	(9,861,041)	(10,725,514)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(120,212)	(359,072)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	394,693	445,353
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 274,481	\$ 86,281

32. INFORMATION OF THE COMPANY'S SUBSIDIARIES

a. Condensed balance sheets and condensed statements of comprehensive income

Cathay Life Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Cash and cash equivalents	\$ 455,945,907	\$ 297,594,452
Receivables	59,754,077	77,044,160
Financial assets at fair value through profit or loss	1,287,109,177	1,223,234,622
Financial assets at fair value through other comprehensive income	1,096,168,839	900,416,397
Financial assets measured at amortized cost	2,686,486,417	2,597,102,878
Financial assets for hedging	386,927	702,253
Investments accounted for using the equity method	92,460,659	102,290,982
Investment property	457,703,302	449,224,626
Loans	493,197,485	538,497,879
Reinsurance assets	1,518,517	1,289,576
Property and equipment	29,190,388	29,676,768
Right-of-use assets	508,989	507,113
Intangible assets	29,969,144	32,002,637
Deferred tax assets	53,303,640	23,698,355
Other assets	27,962,202	32,506,821
Separate account insurance product assets	<u>591,904,624</u>	<u>592,507,977</u>
Total	<u>\$ 7,363,570,294</u>	<u>\$ 6,898,297,496</u>
 Liabilities		
Payables	\$ 34,437,401	\$ 34,345,649
Current tax liabilities	160,145	261,305
Financial liabilities at fair value through profit or loss	1,824,892	19,584,896
Bonds payable	80,000,000	80,000,000
Insurance liabilities	5,919,490,394	5,526,784,720
Reserve for insurance contracts with the nature of financial products	1,010,729	991,917
Reserve for foreign exchange valuation	10,212,568	22,385,769
Provisions	56,245	56,245
Lease liabilities	9,333,860	9,380,387
Deferred tax liabilities	56,427,342	49,398,676
Other liabilities	17,494,607	7,421,034
Separate account insurance product liabilities	<u>591,904,624</u>	<u>592,507,977</u>
Total liabilities	<u>6,722,352,807</u>	<u>6,343,118,575</u>
 Equity		
Capital	58,515,274	57,265,274
Capital surplus	60,605,736	51,544,796
Retained earnings	408,480,642	356,739,053
Other equity	<u>113,615,835</u>	<u>89,629,798</u>
Total equity	<u>641,217,487</u>	<u>555,178,921</u>
Total	<u>\$ 7,363,570,294</u>	<u>\$ 6,898,297,496</u>

Cathay Life Insurance Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 650,751,493	\$ 656,500,313
Operating costs	(592,358,132)	(605,585,807)
Operating expenses	(15,356,113)	(16,639,800)
Operating income	43,037,248	34,274,706
Non-operating income and expenses	1,189,354	1,147,306
Profit before income tax	44,226,602	35,422,012
Income tax expense	(122,871)	(5,329,230)
Net income	44,103,731	30,092,782
Other comprehensive income	8,496,693	168,484,559
 Total comprehensive income	 \$ 52,600,424	 \$ 198,577,341
 Basic earnings per share	 \$7.54	 \$5.25

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 1,671,438	\$ 1,245,565
Receivables	928,552	793,755
Financial assets at fair value through profit or loss	46,460,010	36,253,870
Financial assets measured at amortized cost	898,086	130,803
Loans	1,188,509	736,625
Reinsurance assets	103,433	52,991
Property and equipment	98,455	116,284
Right-of-use assets	267,551	315,234
Intangible assets	34,432	33,139
Other assets	2,618,264	2,669,282
Separate account insurance product assets	130,941	114,952
Total	\$ 54,399,671	\$ 42,462,500
Liabilities		
Payables	\$ 1,648,453	\$ 1,392,449
Current tax liabilities	222,638	42,418
Insurance liabilities	28,219,592	20,223,453
Reserve for insurance contracts with the nature of financial instruments	12,065,411	9,522,409
Lease liabilities	271,832	316,851
Deferred tax liabilities	18,032	-
Other liabilities	133,318	42,591
Separate account insurance product liabilities	130,941	114,952
Total liabilities	42,710,217	31,655,123
Equity		
Capital	13,497,155	13,497,155
Retained earnings	(1,668,908)	(2,777,810)
Other equity	(138,793)	88,032
Total equity	11,689,454	10,807,377
Total	\$ 54,399,671	\$ 42,462,500

Cathay Lujiazui Life Insurance Co., Ltd.

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

	For the Nine Months Ended	
	September 30	
	2020	2019
Operating revenue	\$ 12,085,597	\$ 10,356,411
Operating costs	(9,452,648)	(8,316,723)
Operating expenses	(1,223,441)	(1,421,760)
Operating income	1,409,508	617,928
Non-operating income and expenses	3,151	45,414
Profit before income tax	1,412,659	663,342
Income tax (expense) benefit	(191,159)	61,807
Net income	1,221,500	725,149
Other comprehensive (loss) income	(246,289)	299,531
Total comprehensive income	\$ 975,211	\$ 1,024,680
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)

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 1,123,769	\$ 1,113,887
Receivables	553,074	559,623
Financial assets at fair value through profit or loss	14,209,017	12,389,317
Financial assets measured at amortized cost	1,086,314	239,502
Loans	85,765	59,576
Property and equipment	21,067	28,085
Right-of-use assets	116,153	123,798
Intangible assets	3,638	4,409
Other assets	90,075	81,108
Total	\$ 17,288,872	\$ 14,599,305
Liabilities		
Payables	\$ 193,471	\$ 184,972
Insurance liabilities	6,034,206	4,015,335
Lease liabilities	113,175	122,977
Other liabilities	-	96
Total liabilities	6,340,852	4,323,380
Equity		
Capital	9,090,730	9,090,730
Retained earnings	(555,498)	240,348
Other equity	2,412,788	944,847
Total equity	10,948,020	10,275,925
Total	\$ 17,288,872	\$ 14,599,305

Cathay Life Insurance Company (Vietnam)

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 2,219,201	\$ 1,647,338
Operating costs	(2,334,293)	(1,013,476)
Operating expenses	(642,329)	(520,048)
Operating (loss) income	(757,421)	113,814
Non-operating income and expenses	4,376	2,040
(Loss) profit before income tax	(753,045)	115,854
Income tax expense	(820)	-
Net (loss) income	(753,865)	115,854
Other comprehensive income	875,992	594,821
 Total comprehensive income	 \$ 122,127	 \$ 710,675
 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)**

	September 30	
	2020	2019
Assets		
Current assets	\$ 818,415	\$ 350,406
Investment property	6,905,933	7,054,642
Property and equipment	2	2
Other non-current assets	<u>628,762</u>	<u>880,133</u>
Total	<u>\$ 8,353,112</u>	<u>\$ 8,285,183</u>
Liabilities		
Current liabilities	\$ 36,850	\$ 1,074
Deferred tax liabilities	481,607	449,538
Other liabilities	<u>73,162</u>	<u>86,331</u>
Total liabilities	<u>591,619</u>	<u>536,943</u>
Equity		
Capital	7,223,435	7,223,435
Retained earnings	1,271,467	1,109,873
Other equity	<u>(733,409)</u>	<u>(585,068)</u>
Total equity	<u>7,761,493</u>	<u>7,748,240</u>
Total	<u>\$ 8,353,112</u>	<u>\$ 8,285,183</u>

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

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 183,598	\$ 294,067
Operating expenses	<u>(41,098)</u>	<u>(22,500)</u>
Operating income	142,500	271,567
Non-operating income and expenses	<u>-</u>	<u>(13)</u>
Profit before income tax	142,500	271,554
Income tax expense	<u>(35,625)</u>	<u>(51,953)</u>
Net income	106,875	219,601
Other comprehensive loss	<u>(80,470)</u>	<u>(208,707)</u>
Total comprehensive income	<u>\$ 26,405</u>	<u>\$ 10,894</u>
Basic earnings per share	Note	Note

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

Cathay Woolgate Exchange Holding 1 Limited

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

	September 30	
	2020	2019
Assets		
Current assets	\$ 3,266,239	\$ 2,749,955
Investment property	<u>10,114,461</u>	<u>10,422,930</u>
Total	<u>\$ 13,380,700</u>	<u>\$ 13,172,885</u>
 Liabilities		
Current liabilities	\$ 37,344	\$ 70,848
Total liabilities	<u>37,344</u>	<u>70,848</u>
 Equity		
Capital	16,654,013	16,654,013
Retained earnings	1,420,351	885,890
Other equity	<u>(4,731,008)</u>	<u>(4,437,866)</u>
Total equity	<u>13,343,356</u>	<u>13,102,037</u>
Total	<u>\$ 13,380,700</u>	<u>\$ 13,172,885</u>

Cathay Woolgate Exchange Holding 1 Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 227,786	\$ 509,601
Operating expenses	<u>(1,005)</u>	<u>(529)</u>
Profit before income tax	226,781	509,072
Income tax expense	<u>(42,641)</u>	<u>(118,586)</u>
Net income	184,140	390,486
Other comprehensive loss	<u>(788,108)</u>	<u>(273,720)</u>
Total comprehensive (loss) income	<u>\$ (603,968)</u>	<u>\$ 116,766</u>
Basic earnings per share	Note	Note

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

Cathay Woolgate Exchange Holding 2 Limited

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

	September 30	
	2020	2019
Assets		
Current assets	\$ 31,631	\$ 27,317
Investment property	<u>102,166</u>	<u>105,282</u>
Total	<u>\$ 133,797</u>	<u>\$ 132,599</u>
 Liabilities		
Current liabilities	\$ 985	\$ 784
Total liabilities	<u>985</u>	<u>784</u>
 Equity		
Capital	168,222	168,222
Retained earnings	12,334	8,416
Other equity	<u>(47,744)</u>	<u>(44,823)</u>
Total equity	<u>132,812</u>	<u>131,815</u>
Total	<u>\$ 133,797</u>	<u>\$ 132,599</u>

Cathay Woolgate Exchange Holding 2 Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 2,282	\$ 5,135
Operating expenses	<u>(1,006)</u>	<u>(529)</u>
Profit before income tax	1,276	4,606
Income tax expense	<u>(712)</u>	<u>(1,184)</u>
Net income	564	3,422
Other comprehensive loss	<u>(7,899)</u>	<u>(2,745)</u>
Total comprehensive (loss) income	<u>\$ (7,335)</u>	<u>\$ 677</u>
Basic earnings per share	Note	Note

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

Cathay Walbrook Holding 1 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Current assets	\$ 1,299,299	\$ 939,843
Investment property	<u>19,575,453</u>	<u>20,330,272</u>
Total	<u>\$ 20,874,752</u>	<u>\$ 21,270,115</u>
Liabilities		
Current liabilities	\$ 154,353	\$ 142,254
Non-current liabilities	<u>12,234,691</u>	<u>12,493,699</u>
Total liabilities	<u>12,389,044</u>	<u>12,635,953</u>
Equity		
Capital	10,189,090	10,189,090
Retained earnings	576,118	542,067
Other equity	<u>(2,279,500)</u>	<u>(2,096,995)</u>
Total equity	<u>8,485,708</u>	<u>8,634,162</u>
Total	<u>\$ 20,874,752</u>	<u>\$ 21,270,115</u>

Cathay Walbrook Holding 1 Limited

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

	For the Nine Months Ended	
	September 30	
	2020	2019
Operating revenue	\$ 268,665	\$ 498,786
Operating costs	(313,664)	(366,053)
Operating expenses	<u>(1,278)</u>	<u>(830)</u>
Profit before (loss) income tax	(46,277)	131,903
Income tax benefit (expense)	<u>1,161</u>	<u>(49,676)</u>
Net (loss) income	(45,116)	82,227
Other comprehensive loss	<u>(508,173)</u>	<u>(177,486)</u>
Total comprehensive loss	<u>\$ (553,289)</u>	<u>\$ (95,259)</u>
Basic earnings per share	Note	Note

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

Cathay Walbrook Holding 2 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Current assets	\$ 64,012	\$ 46,323
Investment property	<u>1,030,287</u>	<u>1,070,014</u>
Total	<u>\$ 1,094,299</u>	<u>\$ 1,116,337</u>
Liabilities		
Current liabilities	\$ 7,933	\$ 7,338
Non-current liabilities	<u>643,931</u>	<u>657,563</u>
Total liabilities	<u>651,864</u>	<u>664,901</u>
Equity		
Capital	536,268	536,268
Retained earnings	25,703	25,188
Other equity	<u>(119,536)</u>	<u>(110,020)</u>
Total equity	<u>442,435</u>	<u>451,436</u>
Total	<u>\$ 1,094,299</u>	<u>\$ 1,116,337</u>

Cathay Walbrook Holding 2 Limited

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

	For the Nine Months Ended	
	September 30	
	2020	2019
Operating revenue	\$ 14,125	\$ 26,231
Operating costs	(16,509)	(19,266)
Operating expenses	<u>(1,278)</u>	<u>(555)</u>
(Loss) profit before income tax	(3,662)	6,410
Income tax benefit (expense)	<u>186</u>	<u>(2,508)</u>
Net (loss) income	(3,476)	3,902
Other comprehensive loss	<u>(26,543)</u>	<u>(9,274)</u>
Total comprehensive loss	<u>\$ (30,019)</u>	<u>\$ (5,372)</u>
Basic earnings per share	Note	Note

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

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

Assets	September 30	
	2020	2019
Current assets	\$ 5,922,010	\$ 4,904,961
Financial assets at fair value through profit or loss	899,601	1,145,633
Financial assets at fair value through other comprehensive income	5,544	4,546
Investments accounted for using the equity method	-	2,829,896
Property and equipment	844,999	668,964
Right-of-use assets	785,646	852,633
Intangible assets	15,108,314	10,245,571
Deferred tax assets	106,301	100,938
Other non-current assets	255,116	217,639
Total	\$ 23,927,531	\$ 20,970,781
Liabilities		
Current liabilities	\$ 3,567,354	\$ 3,335,929
Provisions	-	161,418
Financial liabilities for hedging	57,171	-
Lease liabilities	858,610	903,807
Deferred tax liabilities	639,267	400,371
Other non-current liabilities	943,384	387,389
Total liabilities	6,065,786	5,188,914
Equity		
Capital	99,343	99,343
Capital surplus	15,624,196	15,624,196
Retained earnings	2,734,151	462,514
Other equity	(1,934,129)	(946,077)
Non-controlling interests	1,338,184	541,891
Total equity	17,861,745	15,781,867
Total	\$ 23,927,531	\$ 20,970,781

Conning Holdings Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 7,964,084	\$ 5,444,928
Operating costs	(665,912)	(637,578)
Operating expenses	(4,657,233)	(4,228,587)
Profit before income tax	2,640,939	578,763
Income tax expense	(222,073)	(145,626)
Net income	2,418,866	433,137
Other comprehensive income (loss)	(598,569)	110,814
 Total comprehensive income	 \$ 1,820,297	 \$ 543,951
 Basic earnings per share	Note	Note

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

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 9,263,236	\$ 10,317,680
Receivables	2,062,298	2,627,613
Financial assets at fair value through profit or loss	10,329,349	8,163,375
Financial assets at fair value through other comprehensive income	1,201,182	1,202,755
Financial assets measured at amortized cost	7,184,154	7,841,729
Investments accounted for using the equity method	2,729,378	2,743,865
Loans	208,329	230,265
Reinsurance assets	7,082,543	6,046,454
Property and equipment	176,007	152,145
Right-of-use assets	131,526	231,673
Intangible assets	76,144	60,116
Deferred tax assets	168,874	115,943
Other assets	<u>609,246</u>	<u>641,956</u>
Total	<u>\$ 41,222,266</u>	<u>\$ 40,375,569</u>
Liabilities		
Payables	\$ 2,350,268	\$ 2,614,014
Financial liabilities at fair value through profit or loss	2,257	53,369
Lease liabilities	132,060	231,674
Insurance liabilities	25,176,353	23,915,153
Provisions	433,255	439,051
Deferred tax liabilities	274,649	288,156
Other liabilities	<u>740,937</u>	<u>887,779</u>
Total liabilities	<u>29,109,779</u>	<u>28,429,196</u>
Equity		
Ordinary shares	3,057,052	3,057,052
Capital surplus	518,326	502,500
Retained earnings	9,372,441	8,814,737
Other equity	<u>(835,332)</u>	<u>(427,916)</u>
Total equity	<u>12,112,487</u>	<u>11,946,373</u>
Total	<u>\$ 41,222,266</u>	<u>\$ 40,375,569</u>

Cathay Century Insurance Co., Ltd.

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

	For the Nine Months Ended	
	September 30	
	2020	2019
Operating revenue	\$ 15,249,865	\$ 14,926,364
Operating costs	(10,196,482)	(10,100,146)
Operating expenses	<u>(2,864,272)</u>	<u>(2,863,490)</u>
Operating profit	2,189,111	1,962,728
Non-operating income and expenses	<u>(404)</u>	<u>(1,233)</u>
Profit before income tax	2,188,707	1,961,495
Income tax expense	<u>(321,509)</u>	<u>(313,771)</u>
Net income	1,867,198	1,647,724
Other comprehensive (loss) income	<u>(643,112)</u>	<u>384,731</u>
Total comprehensive income	<u>\$ 1,224,086</u>	<u>\$ 2,032,455</u>
Basic earnings per share	<u>\$6.11</u>	<u>\$5.39</u>

Cathay Insurance Co., Ltd. (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Cash and cash equivalents	\$ 284,069	\$ 218,357
Receivables	67,481	63,820
Financial assets measured at amortized cost	508,718	514,211
Reinsurance assets	117,172	156,112
Property and equipment	9,616	5,790
Right-of-use assets	7,214	7,555
Intangible assets	7,743	3,438
Other assets	<u>49,463</u>	<u>45,395</u>
Total	<u>\$ 1,051,476</u>	<u>\$ 1,014,678</u>
Liabilities		
Payables	\$ 161,147	\$ 94,338
Insurance liabilities	258,336	267,178
Lease liabilities	7,298	7,568
Deferred tax liabilities	124	135
Other liabilities	<u>13,398</u>	<u>13,659</u>
Total liabilities	<u>440,303</u>	<u>382,878</u>
Equity		
Capital	845,585	845,585
Retained earnings	(66,962)	(85,340)
Other equity	<u>(167,450)</u>	<u>(128,445)</u>
Total equity	<u>611,173</u>	<u>631,800</u>
Total	<u>\$ 1,051,476</u>	<u>\$ 1,014,678</u>

Cathay Insurance Co., Ltd. (Vietnam)

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 248,250	\$ 189,796
Operating costs	(59,660)	(62,812)
Operating expenses	<u>(168,445)</u>	<u>(115,814)</u>
Operating income	20,145	11,170
Non-operating income and expenses	<u>875</u>	<u>873</u>
Profit before income tax	21,020	12,043
Income tax expense	<u>(4,690)</u>	<u>-</u>
Net income	16,330	12,043
Other comprehensive (loss) income	<u>(20,586)</u>	<u>5,933</u>
Total comprehensive (loss) income	<u>\$ (4,256)</u>	<u>\$ 17,976</u>
Basic earnings per share	Note	Note

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

Cathay United Bank Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 61,950,071	\$ 69,172,698
Due from the Central Bank and call loans to other banks	140,643,343	108,543,745
Financial assets at fair value through profit or loss	312,713,879	287,774,478
Financial assets at fair value through other comprehensive income	297,000,359	267,402,802
Financial assets measured at amortized cost	426,596,441	406,188,338
Securities purchased under resale agreements	35,112,873	37,370,170
Receivables	89,902,147	125,550,630
Loans	1,535,309,744	1,490,331,343
Investments accounted for using the equity method	25,124,220	25,362,897
Other financial assets	924	37
Property and equipment	24,311,038	24,441,244
Right-of-use assets	3,735,349	3,746,526
Investment property	734,769	1,657,086
Intangible assets	7,671,993	7,583,778
Deferred tax assets	4,227,579	4,580,356
Other assets	31,281,063	40,210,146
Total	\$ 2,996,315,792	\$ 2,899,916,274
Liabilities		
Deposits from the Central Bank and banks	\$ 59,862,970	\$ 95,295,867
Due to the Central Bank and other banks	1,000,000	-
Financial liabilities at fair value through profit or loss	112,409,747	117,136,096
Securities sold under repurchase agreements	10,416,750	22,142,666
Payables	23,721,592	70,495,457
Current tax liabilities	266,716	392,089
Deposits and remittances	2,438,064,229	2,244,140,430
Financial debentures payable	53,800,000	53,900,000
Other financial liabilities	40,183,745	64,692,261
Provisions	3,621,945	3,342,323
Lease liabilities	3,766,605	3,783,625
Deferred tax liabilities	3,268,212	3,264,065
Other liabilities	9,686,539	7,805,420
Total liabilities	2,760,069,050	2,686,390,299
Equity		
Ordinary shares	106,985,830	96,658,353
Capital surplus	38,687,276	33,610,983
Retained earnings	85,675,336	78,437,707
Other equity	4,898,300	4,818,932
Total equity	236,246,742	213,525,975
Total	\$ 2,996,315,792	\$ 2,899,916,274

Cathay United Bank Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Interest income	\$ 33,196,616	\$ 38,643,750
Interest expense	<u>(9,303,303)</u>	<u>(14,239,178)</u>
Net interest income	23,893,313	24,404,572
Non-interest income	<u>21,761,553</u>	<u>22,113,382</u>
Total income	45,654,866	46,517,954
Bad debt expense, commitment and guarantee liability provision	(1,462,219)	(1,464,382)
Operating expenses	<u>(22,656,577)</u>	<u>(23,657,459)</u>
Profit before income tax	21,536,070	21,396,113
Income tax expense	<u>(2,671,000)</u>	<u>(2,782,000)</u>
Net income	18,865,070	18,614,113
Other comprehensive (loss) income	<u>(103,932)</u>	<u>3,146,316</u>
 Total comprehensive income	 <u>\$ 18,761,138</u>	 <u>\$ 21,760,429</u>
 Basic earnings per share	 <u>\$1.76</u>	 <u>\$1.83</u>

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

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 10,404,424	\$ 6,234,811
Due from the Central Bank and call loans to other banks	3,626,211	3,716,527
Financial assets at fair value through profit or loss	2,359,509	5,476,112
Financial assets at fair value through other comprehensive income	9,833,926	10,367,413
Financial assets measured at amortized cost	617,463	684,898
Securities purchased under resale agreements	2,924,691	4,272,727
Receivables	559,884	694,912
Loans	41,591,624	39,379,183
Property and equipment	768,764	821,350
Right-of-use assets	142,330	81,664
Intangible assets	37,328	23,325
Deferred tax assets	-	24,965
Other assets	<u>77,699</u>	<u>50,868</u>
Total	<u>\$ 72,943,853</u>	<u>\$ 71,828,755</u>
Liabilities		
Due to the Central Bank and other banks	\$ 7,627,339	\$ 17,748,091
Payables	1,734,510	1,821,956
Current tax liabilities	142,242	232,784
Deposits and remittances	54,699,709	43,747,716
Provisions	5,240	3,532
Lease liabilities	130,051	59,202
Deferred tax liabilities	120,574	-
Other liabilities	<u>16,207</u>	<u>37,633</u>
Total liabilities	<u>64,475,872</u>	<u>63,650,914</u>
Equity		
Capital	6,094,911	6,094,911
Retained earnings	1,953,235	1,900,404
Other equity	<u>419,835</u>	<u>182,526</u>
Total equity	<u>8,467,981</u>	<u>8,177,841</u>
Total	<u>\$ 72,943,853</u>	<u>\$ 71,828,755</u>

Indovina Bank Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Interest income	\$ 3,183,048	\$ 3,237,871
Interest expense	<u>(1,914,755)</u>	<u>(1,806,024)</u>
Net interest income	1,268,293	1,431,847
Non-interest income	<u>442,078</u>	<u>431,379</u>
Total income	<u>1,710,371</u>	<u>1,863,226</u>
Bad debt expense, commitment and guarantee liability provision	(316,364)	(83,364)
Operating expenses	<u>(552,047)</u>	<u>(547,118)</u>
Profit before income tax	841,960	1,232,744
Income tax expense	<u>(156,781)</u>	<u>(217,477)</u>
Net income	685,179	1,015,267
Other comprehensive loss	<u>(91,746)</u>	<u>(133,560)</u>
 Total comprehensive income	 <u>\$ 593,433</u>	 <u>\$ 881,707</u>
 Basic earnings per share	 Note	 Note

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

Cathay United Bank (Cambodia) Corporation Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
Assets	2020	2019
Cash and cash equivalents	\$ 1,779,351	\$ 1,128,346
Due from the Central Bank and call loans to other banks	2,092,151	2,210,768
Financial assets at fair value through other comprehensive income	745	794
Receivables	64,648	64,866
Current tax assets	8,866	7,812
Loans	7,284,572	7,634,709
Property and equipment	185,902	172,544
Right-of-use assets	102,381	82,532
Intangible assets	42,290	57,925
Deferred tax assets	6,481	-
Other assets	55,051	52,991
Total	\$ 11,622,438	\$ 11,413,287
Liabilities		
Due to the Central Bank and other banks	\$ 424,299	\$ 1,034,066
Payables	310,665	106,830
Current tax liabilities	14,863	48,992
Deposits and remittances	7,770,849	6,871,934
Provisions	1,341	7,044
Lease liabilities	107,663	83,856
Deferred tax liabilities	12,176	7,647
Other liabilities	5,066	12,002
Total liabilities	8,646,922	8,172,371
Equity		
Ordinary shares	3,020,769	3,020,769
Retained earnings	64,824	147,611
Other equity	(110,077)	72,536
Total equity	2,975,516	3,240,916
Total	\$ 11,622,438	\$ 11,413,287

Cathay United Bank (Cambodia) Corporation Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Interest income	\$ 512,326	\$ 495,589
Interest expense	<u>(121,740)</u>	<u>(80,684)</u>
Net interest income	390,586	414,905
Non-interest income	<u>37,364</u>	<u>69,529</u>
Total income	<u>427,950</u>	<u>484,434</u>
Bad debt expense, commitment and guarantee liability provision	(90,124)	(58,416)
Operating expenses	<u>(267,176)</u>	<u>(247,363)</u>
Profit before income tax	70,650	178,655
Income tax expense	<u>(3,445)</u>	<u>(42,547)</u>
Net income	67,205	136,108
Other comprehensive (loss) income	<u>(83,641)</u>	<u>31,749</u>
 Total comprehensive (loss) income	 <u>\$ (16,436)</u>	 <u>\$ 167,857</u>
 Basic earnings per share	 <u>\$0.67</u>	 <u>\$1.36</u>

Cathay United Bank (China) Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Cash and cash equivalents	\$ 217,745	\$ 181,927
Due from the Central Bank and call loans to other banks	14,784,757	8,333,730
Financial assets at fair value through profit or loss	797,207	471,093
Financial assets at fair value through other comprehensive income	20,620,206	20,592,569
Financial assets measured at amortized cost	448,634	455,243
Securities purchased under resale agreements	-	-
Receivables	7,131,464	4,817,164
Loans	20,811,196	16,568,692
Property and equipment	178,513	109,670
Right-of-use assets	201,983	93,541
Intangible assets	119,756	127,241
Deferred tax assets	138,206	24,089
Other assets	<u>3,468,126</u>	<u>66,899</u>
Total	<u>\$ 68,917,793</u>	<u>\$ 51,841,858</u>
Liabilities		
Due to the Central Bank and other banks	\$ 10,044,338	\$ 20,289,042
Financial liabilities at fair value through profit or loss	828,256	411,170
Notes and bonds sold under repurchase agreements	7,306,075	3,374,865
Payables	7,880,835	4,964,635
Current tax liabilities	27,513	77,790
Deposits and remittances	20,550,114	5,716,642
Other financial liabilities	6,266,813	981,065
Provisions	4,229	12,670
Lease liabilities	221,644	94,534
Deferred tax liabilities	5,357	-
Other liabilities	<u>59,365</u>	<u>50,328</u>
Total liabilities	<u>53,194,539</u>	<u>35,972,741</u>
Equity		
Capital	14,377,562	14,377,562
Capital surplus	2,522,670	2,522,670
Retained earnings	631,654	376,086
Other equity	<u>(1,808,632)</u>	<u>(1,407,201)</u>
Total equity	<u>15,723,254</u>	<u>15,869,117</u>
Total	<u>\$ 68,917,793</u>	<u>\$ 51,841,858</u>

Cathay United Bank (China) Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Interest income	\$ 1,375,272	\$ 1,356,327
Interest expense	<u>(642,207)</u>	<u>(554,912)</u>
Net interest income	733,065	801,415
Non-interest income	<u>278,955</u>	<u>6,798</u>
Total income	<u>1,012,020</u>	<u>808,213</u>
Bad debt expense, commitment and guarantee liability (reversal) provision	(38,933)	55,130
Operating expenses	<u>(593,879)</u>	<u>(567,312)</u>
Profit before income tax	379,208	296,031
Income tax expense	<u>(106,857)</u>	<u>(55,369)</u>
Net income	272,351	240,662
Other comprehensive loss	<u>(392,630)</u>	<u>(366,714)</u>
Total comprehensive loss	<u>\$ (120,279)</u>	<u>\$ (126,052)</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)

Assets	September 30	
	2020	2019
Current assets	\$ 33,598,446	\$ 22,254,668
Financial assets at fair value through other comprehensive income - non-current	217	169
Investments accounted for using the equity method	2,148,934	2,115,752
Property and equipment	226,195	103,825
Right-of-use assets	71,361	114,792
Intangible assets	73,125	60,897
Deferred tax assets	47,627	9,563
Other non-current assets	<u>669,686</u>	<u>701,157</u>
Total	<u>\$ 36,835,591</u>	<u>\$ 25,360,823</u>
 Liabilities		
Current liabilities	\$ 25,816,412	\$ 16,778,606
Lease liabilities - non-current	16,562	56,171
Deferred tax liabilities	-	3,044
Other non-current liabilities	<u>28,264</u>	<u>26,458</u>
Total liabilities	<u>25,861,238</u>	<u>16,864,279</u>
 Equity		
Ordinary shares	7,300,000	6,000,000
Capital surplus	898,167	491,766
Retained earnings	2,179,604	1,508,221
Other equity	<u>596,582</u>	<u>496,557</u>
Total equity	<u>10,974,353</u>	<u>8,496,544</u>
Total	<u>\$ 36,835,591</u>	<u>\$ 25,360,823</u>

Cathay Securities Corporation

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

	For the Nine Months Ended September 30	
	2020	2019
Revenues	\$ 3,961,588	\$ 2,587,544
Service fee expenses	(134,003)	(81,803)
Employee benefit expenses	(1,216,799)	(939,851)
Operating expenses	(1,424,563)	(962,891)
Share of the profit of subsidiaries and associates accounted for using the equity method	(7,082)	10,032
Non-operating income and expenses	29,543	18,898
Profit before income tax	1,208,684	631,929
Income tax expense	(187,944)	(82,502)
Net income	1,020,740	549,427
Other comprehensive income	136,963	221,128
 Total comprehensive income	 \$ 1,157,703	 \$ 770,555
 Basic earnings per share	 \$1.57	 \$0.85

Cathay Futures Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

Assets	September 30	
	2020	2019
Current assets	\$ 15,736,533	\$ 8,180,772
Financial assets at fair value through other comprehensive income - non-current	667,084	548,429
Property and equipment	61,020	65,280
Investment property	291,175	290,341
Right-of-use assets	4,233	6,216
Intangible assets	18,488	22,981
Other non-current assets	<u>161,801</u>	<u>151,924</u>
Total	<u>\$ 16,940,334</u>	<u>\$ 9,265,943</u>
Liabilities		
Current liabilities	\$ 15,360,567	\$ 7,817,524
Deferred tax liabilities	6,923	6,742
Other non-current liabilities	<u>2,178</u>	<u>1,675</u>
Total liabilities	<u>15,369,668</u>	<u>7,825,941</u>
Equity		
Ordinary shares	667,000	667,000
Capital surplus	680	-
Retained earnings	266,028	251,528
Other equity	<u>636,958</u>	<u>521,474</u>
Total equity	<u>1,570,666</u>	<u>1,440,002</u>
Total	<u>\$ 16,940,334</u>	<u>\$ 9,265,943</u>

Cathay Futures Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Revenues	\$ 265,889	\$ 213,658
Operating expenses	<u>(277,405)</u>	<u>(240,646)</u>
Operating loss	(11,516)	(26,988)
Non-operating income and expenses	<u>68,285</u>	<u>83,099</u>
Profit before income tax	56,769	56,111
Income tax expense	<u>(11,322)</u>	<u>(8,135)</u>
Net income	45,447	47,976
Other comprehensive income	<u>129,294</u>	<u>225,818</u>
Total comprehensive income	<u>\$ 174,741</u>	<u>\$ 273,794</u>
Basic earnings per share	<u>\$0.68</u>	<u>\$0.72</u>

Cathay Securities (Hong Kong) Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
	2020	2019
Assets		
Current assets	\$ 1,191,018	\$ 1,652,335
Property and equipment	5,809	13,105
Right-of-use assets	12,268	26,426
Intangible assets	1,871	1,954
Other non-current assets	<u>37,501</u>	<u>40,593</u>
Total	<u>\$ 1,248,467</u>	<u>\$ 1,734,413</u>
Liabilities		
Current liabilities	\$ 668,772	\$ 1,056,452
Non-current liabilities	<u>1,280</u>	<u>10,706</u>
Total liabilities	<u>670,052</u>	<u>1,067,158</u>
Equity		
Ordinary shares	1,108,244	1,108,244
Retained earnings	(472,912)	(411,096)
Other equity	<u>(56,917)</u>	<u>(29,893)</u>
Total equity	<u>578,415</u>	<u>667,255</u>
Total	<u>\$ 1,248,467</u>	<u>\$ 1,734,413</u>

Cathay Securities (Hong Kong) Limited

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

	For the Nine Months Ended September 30	
	2020	2019
Revenues	\$ 54,583	\$ 75,038
Service fee expenses	(2,062)	(2,650)
Employee benefit expenses	(38,141)	(36,896)
Operating expenses	(68,893)	(77,281)
Non-operating income and expenses	<u>1,990</u>	<u>4,585</u>
Loss before income tax	(52,523)	(37,204)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(52,523)	(37,204)
Other comprehensive (loss) income	<u>(8,994)</u>	<u>6,624</u>
 Total comprehensive loss	 <u>\$ (61,517)</u>	 <u>\$ (30,580)</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)

	September 30, 2020
Assets	
Current assets	\$ <u>3,645</u>
Total	\$ <u>3,645</u>
 Liabilities	
Current liabilities	\$ <u>228</u>
Total liabilities	<u>228</u>
 Equity	
Ordinary shares	3,875
Retained earnings	(349)
Other equity	<u>(109)</u>
Total equity	<u>3,417</u>
 Total	 <u>\$ 3,645</u>

Cathay Capital (Asia) Limited

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

	From February 24 to September 30, 2020
Operating revenue	\$ (1)
Operating cost	(30)
Operating expenses	(323)
Non-operating income and expenses	<u>5</u>
Loss before income tax	<u>(349)</u>
Income tax expense	<u>-</u>
Net loss	(349)
Other comprehensive loss	<u>(109)</u>
Total comprehensive loss	<u>\$ (458)</u>
Basic earnings per share	Note

Note 1: Cathay Capital (Asia) is a limited company; therefore, there is no information about its 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)

	September 30	
Assets	2020	2019
Current assets	\$ 2,564,356	\$ 2,417,768
Financial assets at fair value through other comprehensive income - non-current	9,566	9,161
Investments accounted for using the equity method	482,122	459,822
Property and equipment	29,749	35,053
Right-of-use assets	61,392	14,266
Intangible assets	17,049	11,300
Deferred tax assets	24,205	22,530
Other non-current assets	255,252	254,838
Total	\$ 3,443,691	\$ 3,224,738
Liabilities		
Current liabilities	\$ 604,272	\$ 589,666
Non-current liabilities	134,071	126,325
Total liabilities	738,343	715,991
Equity		
Ordinary shares	1,500,000	1,500,000
Capital surplus	16,453	13,908
Retained earnings	1,282,060	1,076,626
Other equity	(93,165)	(81,787)
Total equity	2,705,348	2,508,747
Total	\$ 3,443,691	\$ 3,224,738

Cathay Securities Investment Trust Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 2,108,831	\$ 1,942,791
Operating expenses	<u>(1,315,509)</u>	<u>(1,291,296)</u>
Operating profit	793,322	651,495
Non-operating income and expenses	<u>(8,683)</u>	<u>(12,271)</u>
Profit before income tax	784,639	639,224
Income tax expense	<u>(159,880)</u>	<u>(131,757)</u>
Net income	624,759	507,467
Other comprehensive loss	<u>(3,996)</u>	<u>(10,999)</u>
 Total comprehensive income	 <u>\$ 620,763</u>	 <u>\$ 496,468</u>
 Basic earnings per share	 <u>\$4.17</u>	 <u>\$3.38</u>

Cathay Private Equity Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
	2020	2019
Assets		
Current assets	\$ 67,131	\$ 37,972
Other non-current assets	<u>20,181</u>	<u>6,526</u>
 Total	 <u>\$ 87,312</u>	 <u>\$ 44,498</u>
 Liabilities		
Current liabilities	\$ 7,463	\$ 3,444
Other non-current liabilities	<u>139</u>	<u>-</u>
Total liabilities	<u>7,602</u>	<u>3,444</u>
 Equity		
Ordinary shares	100,000	50,000
Capital surplus	63	-
Retained earnings	<u>(20,353)</u>	<u>(8,946)</u>
Total equity	<u>79,710</u>	<u>41,054</u>
 Total	 <u>\$ 87,312</u>	 <u>\$ 44,498</u>

Cathay Private Equity Co., Ltd.

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 6,466	\$ 2,082
Operating expenses	<u>(15,409)</u>	<u>(10,995)</u>
Operating loss	(8,943)	(8,913)
Non-operating income and expenses	<u>(682)</u>	<u>25</u>
Loss before income tax	(9,625)	(8,888)
Income tax benefit	<u>1,779</u>	<u>1,782</u>
Net loss	<u>(7,846)</u>	<u>(7,106)</u>
Total comprehensive loss	<u>\$ (7,846)</u>	<u>\$ (7,106)</u>
Basic loss per share	<u>\$ (0.78)</u>	<u>\$ (1.42)</u>

Cathay Venture Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30	
	2020	2019
Assets		
Current assets	\$ 1,276,507	\$ 1,584,761
Financial assets at fair value through profit or loss - non-current	4,358,405	3,705,326
Investments accounted for using the equity method	313,783	270,720
Property and equipment	2,936	3,689
Right-of-use assets	12,513	1,106
Deferred tax assets	62,165	50,959
Other non-current assets	<u>1,267</u>	<u>1,126</u>
Total	<u>\$ 6,027,576</u>	<u>\$ 5,617,687</u>
Liabilities		
Current liabilities	\$ 19,666	\$ 33,149
Non-current liabilities	<u>14,641</u>	<u>7,667</u>
Total liabilities	<u>34,307</u>	<u>40,816</u>
Equity		
Ordinary shares	4,842,362	4,565,146
Capital surplus	576,667	576,503
Retained earnings	574,165	435,316
Other equity	<u>75</u>	<u>(94)</u>
Total equity	<u>5,993,269</u>	<u>5,576,871</u>
Total	<u>\$ 6,027,576</u>	<u>\$ 5,617,687</u>

Cathay Venture Inc.

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

	For the Nine Months Ended September 30	
	2020	2019
Operating revenue	\$ 420,231	\$ 283,786
Operating costs	(28,787)	(22,554)
Operating expenses	(8,379)	(10,718)
Non-operating income and expenses	(888)	(25)
Profit before income tax	382,177	250,489
Income tax (expense) benefit	(363)	23,277
Net income	381,814	273,766
Total comprehensive income	\$ 381,814	\$ 273,766
Basic earnings per share	\$ 0.79	\$ 0.67

Cathay Investment Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

	September 30, 2020
Assets	
Current assets	\$ 19,573
Other non-current assets	15,879
Total	\$ 35,452
Liabilities	
Current liabilities	\$ 824
Non-current liabilities	-
Total liabilities	824
Equity	
Ordinary shares	35,000
Retained earnings	(372)
Total equity	34,628
Total	\$ 35,452

Cathay Investment Inc.

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

	For the Nine Months Ended September 30, 2020
Operating revenue	\$ 84
Operating expenses	(510)
Non-operating income and expenses	<u>(8)</u>
Loss before income tax	(434)
Income tax benefit	<u>104</u>
Net loss	<u>(330)</u>
Total comprehensive loss	<u>\$ (330)</u>
Basic loss per share	<u>\$ (0.09)</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 securities subsidiaries.

For the nine months ended September 30, 2020

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.69	0.62	8.87	8.02	13.59
The Company	7.42	7.12	8.32	7.99	94.41
Cathay Life	0.61	0.61	7.19	7.17	6.78
Cathay Century	5.23	4.46	17.67	15.08	12.24
Cathay United Bank	0.73	0.64	9.29	8.14	41.32
Cathay Securities	3.80	3.21	12.34	10.42	25.77

For the nine months ended September 30, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.64	0.54	9.72	8.27	13.63
The Company	7.32	7.32	8.25	8.24	98.18
Cathay Life	0.53	0.45	7.77	6.60	4.58
Cathay Century	5.03	4.22	17.85	15.00	11.04
Cathay United Bank	0.75	0.66	10.30	8.96	40.01
Cathay Securities	2.59	2.25	7.79	6.77	21.23

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 631 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 cannot be directly attributable to or reasonably allocated to certain operating segments.

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

b. Information of reporting segment income was as follows:

For the three months ended September 30, 2020

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 8,352,892	\$ 38,675,203	\$ 131,029	\$ 52,867	\$ (132,552)	\$ 47,079,439
Net income and gains other than interest income	5,428,995	94,008,933	1,791,845	1,351,941	3,339,183	105,920,897
Profit from operations	13,781,887	132,684,136	1,922,874	1,404,808	3,206,631	153,000,336
Provision for bad debt, commitments and guaranteed liability reserve	(635,684)	(196,191)	-	2,692	(45)	(829,228)
Net changes in insurance liability reserve	-	(98,253,392)	(185,921)	-	-	(98,439,313)
Operating expenses	(7,949,652)	(8,271,187)	(775,207)	(792,843)	(2,477,935)	(20,266,824)
Profit (loss) from continuing operations before taxes	5,196,551	25,963,366	961,746	614,657	728,651	33,464,971
Income tax (expense) benefit	(696,992)	(683,188)	(82,798)	(94,059)	(194,212)	(1,751,249)
Net income from continuing operations	4,499,559	25,280,178	878,948	520,598	534,439	31,713,722

For the three months ended September 30, 2019

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

For the nine months ended September 30, 2020

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 26,328,237	\$ 116,489,574	\$ 408,752	\$ 133,727	\$ (375,448)	\$ 142,984,842
Net income and gains other than interest income	16,553,041	297,149,311	4,451,212	3,473,214	9,539,335	331,166,113
Profit from operations	42,881,278	413,638,885	4,859,964	3,606,941	9,163,887	474,150,955
Provision for bad debt, commitments and guaranteed liability reserve	(1,907,639)	155,528	-	2,823	(74)	(1,749,362)
Net changes in insurance liability reserve	-	(340,475,712)	127,197	-	-	(340,348,515)
Operating expenses	(23,201,186)	(26,076,827)	(2,362,770)	(2,276,813)	(6,846,773)	(60,764,369)
Profit (loss) from continuing operations before taxes	17,772,453	47,241,874	2,624,391	1,332,951	2,317,040	71,288,709
Income tax (expense) benefit	(2,941,347)	(358,197)	(326,264)	(187,952)	(3,059,515)	(6,873,275)
Net income (loss) from continuing operations	14,831,106	46,883,677	2,298,127	1,144,999	(742,475)	64,415,434

For the nine months ended September 30, 2019

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

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. Subsidiary

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 Nine Months Ended September 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,176,105	Decrease (increase)	\$ 1,740,884
Expense	×1.05 (×0.95)	Decrease (increase)	2,256,684	Decrease (increase)	1,805,347
Surrender rate	×1.05 (×0.95)	Increase (decrease)	303,219	Increase (decrease)	242,575
Rate of return	+0.1%	Increase	4,652,954	Increase	3,722,363
Rate of return	-0.1%	Decrease	4,656,390	Decrease	3,725,112

For the Nine Months Ended September 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,148,174	Decrease (increase)	\$ 1,718,539
Expense	×1.05 (×0.95)	Decrease (increase)	2,452,839	Decrease (increase)	1,962,271
Surrender rate	×1.05 (×0.95)	Increase (decrease)	438,462	Increase (decrease)	350,770
Rate of return	+0.1%	Increase	4,268,837	Increase	3,415,070
Rate of return	-0.1%	Decrease	4,271,990	Decrease	3,417,592

ii. Cathay Lujiazui Life

For the Nine Months Ended September 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 112,496	Decrease (increase)	\$ 84,372
Expense	×1.05 (×0.95)	Decrease (increase)	65,101	Decrease (increase)	48,826
Surrender rate	×1.10 (×0.90)	Increase (decrease)	60,369	Increase (decrease)	45,277
Rate of return	+0.25%	Increase	115,669	Increase	86,752
Rate of return	-0.25%	Decrease	115,950	Decrease	86,962

For the Nine Months Ended September 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 110,981	Decrease (increase)	\$ 87,735
Expense	×1.05 (×0.95)	Decrease (increase)	64,214	Decrease (increase)	48,161
Surrender rate	×1.10 (×0.90)	Increase (decrease)	69,634	Increase (decrease)	52,226
Rate of return	+0.25%	Increase	96,358	Increase	72,268
Rate of return	-0.25%	Decrease	96,594	Decrease	72,446

iii. Cathay Life (Vietnam)

For the Nine Months Ended September 30, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,430	Decrease (increase)	\$ 1,144
Expense	×1.05 (×0.95)	Decrease (increase)	43,006	Decrease (increase)	34,405
Surrender rate	×1.10 (×0.95)	Increase (decrease)	7,832	Increase (decrease)	6,266
Rate of return	+0.1%	Increase	11,562	Increase	9,250
Rate of return	-0.1%	Decrease	11,570	Decrease	9,256

For the Nine Months Ended September 30, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 965	Decrease (increase)	\$ 772
Expense	×1.05 (×0.95)	Decrease (increase)	33,859	Decrease (increase)	27,087
Surrender rate	×1.10 (×0.95)	Increase (decrease)	5,808	Increase (decrease)	4,646
Rate of return	+0.1%	Increase	9,791	Increase	7,833
Rate of return	-0.1%	Decrease	9,798	Decrease	7,838

- i) Changes in income before tax listed above referred to the effects of income before tax for the nine months ended September 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		
2013Q4-2014Q3	14,397,589	17,761,644	18,098,010	18,192,255	18,189,858	18,212,182	18,233,522	-	-
2014Q4-2015Q3	14,692,358	18,265,362	18,613,904	18,701,037	18,738,383	18,766,149	18,788,432	22,283	22,327
2015Q4-2016Q3	15,684,311	19,355,665	19,691,862	19,770,388	19,817,396	19,844,848	19,868,343	50,947	51,049
2016Q4-2017Q3	16,765,826	20,661,210	21,052,051	21,146,198	21,190,009	21,219,526	21,244,802	98,604	98,802
2017Q4-2018Q3	18,893,765	23,395,979	23,834,220	23,943,417	23,993,755	24,026,527	24,054,533	220,313	220,754
2018Q4-2019Q3	20,940,466	25,823,425	26,308,440	26,429,034	26,483,951	26,519,421	26,549,471	726,046	727,499
2019Q4-2020Q3	21,411,548	26,495,721	26,997,010	27,121,066	27,177,515	27,214,025	27,244,989	5,833,441	5,845,108
					Expected future payment				\$ 6,965,539
					Add: Assumed reserve for incurred but not reported claim				27,376
					Reserve for unreported claim				6,992,915
					Add: Reported but not paid claim				4,258,464
					Claims reserve balance				<u>\$ 11,251,379</u>

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2013Q4-2014Q3	14,488,939	17,896,520	18,236,636	18,331,599	18,329,998	18,352,599	18,374,037	-	-
2014Q4-2015Q3	14,822,271	18,434,222	18,785,549	18,874,208	18,911,743	18,939,602	18,961,986	22,384	22,429
2015Q4-2016Q3	15,804,471	19,501,696	19,844,120	19,923,161	19,970,342	19,997,931	20,021,501	51,159	51,262
2016Q4-2017Q3	16,845,302	20,797,324	21,191,027	21,285,451	21,329,620	21,359,300	21,384,665	99,214	99,413
2017Q4-2018Q3	19,016,850	23,550,400	23,989,761	24,100,144	24,151,152	24,184,397	24,212,650	222,889	223,335
2018Q4-2019Q3	20,986,589	25,877,600	26,364,835	26,486,202	26,541,600	26,577,498	26,607,770	730,170	731,630
2019Q4-2020Q3	21,442,280	26,542,562	27,045,786	27,170,513	27,227,380	27,264,262	27,295,420	5,853,140	5,864,846
					Expected future payment				\$ 6,992,915
					Add: Reported filed but not paid claim				4,228,722
					Retained claims reserve balance				<u>\$ 11,221,637</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 judgment; 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		
2013Q4-2014Q3	348,479	560,203	595,326	604,506	604,506	604,506	604,506	-	
2014Q4-2015Q3	204,526	382,793	409,668	414,528	414,528	414,528	414,528	-	
2015Q4-2016Q3	242,695	431,816	462,334	493,094	493,094	493,094	493,094	-	
2016Q4-2017Q3	249,685	444,254	483,663	483,663	483,663	483,663	483,663	-	
2017Q4-2018Q3	297,546	337,139	374,598	383,200	383,200	383,200	383,200	8,602	
2018Q4-2019Q3	376,731	533,702	575,628	588,846	588,846	588,846	588,846	55,144	
2019Q4-2020Q3	428,246	669,866	722,488	739,078	739,078	739,078	739,078	310,832	
								Expected future payment	\$ 374,578
								Less: Expected reported but not paid claim	(924)
								Reserve for unreported claim	373,654
								Add: Reported but not paid claim	16,856
								Claims reserve balance	<u>\$ 390,510</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
2013Q4-2014Q3	340,329	552,050	587,131	596,309	596,309	596,309	596,309	-	
2014Q4-2015Q3	183,290	361,161	388,014	392,672	392,672	392,672	392,672	-	
2015Q4-2016Q3	232,976	413,660	443,644	474,404	474,404	474,404	474,404	-	
2016Q4-2017Q3	238,197	429,750	462,740	462,740	462,740	462,740	462,740	-	
2017Q4-2018Q3	283,856	310,601	352,956	361,322	361,322	361,322	361,322	8,366	
2018Q4-2019Q3	357,461	506,403	547,377	560,351	560,351	560,351	560,351	53,948	
2019Q4-2020Q3	410,461	645,662	697,904	714,446	714,446	714,446	714,446	303,985	
								Expected future payment	\$ 366,299
								Less: Expected reported but not paid claim	(924)
								Add: Reported but not paid claim	14,794
								Retained claim reserve balance	<u>\$ 380,169</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 judgment; 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
2015Q4-2016Q3	1,173	2,184	2,184	2,184	2,184
2016Q4-2017Q3	8,271	11,234	11,234	11,296	11,296
2017Q4-2018Q3	40,496	46,588	46,588	46,757	46,757
2018Q4-2019Q3	118,370	136,888	136,888	137,386	137,386
2019Q4-2020Q3	201,403	235,452	235,452	236,309	236,309

ii) Retained business development trend

Accident Year	Development Year				
	1	2	3	4	5
2015Q4-2016Q3	1,173	2,184	2,184	2,184	2,184
2016Q4-2017Q3	8,271	11,234	11,234	11,296	11,296
2017Q4-2018Q3	40,496	46,588	46,588	46,757	46,757
2018Q4-2019Q3	118,370	136,888	136,888	137,386	137,386
2019Q4-2020Q3	201,403	235,452	235,452	236,309	236,309

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 above table. Estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgment; 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
September 30, 2020	\$ (1,189)	\$ 3,836	\$ 182,853
December 31, 2019	(1,665)	3,012	179,320
September 30, 2019	(2,055)	2,218	181,298

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 the 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	For the Years Ended December 31	
	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 a response to the risk management committee 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		
	September 30, 2020	December 31, 2019	September 30, 2019
Fire insurance	\$ 12,573	\$ 11,803	\$ 27,656
Marine insurance	19,974	14,046	21,532
Land and air insurance	35,919	41,335	43,883
Liability insurance	27,498	48,045	34,045
Financial guarantee insurance	2,935	3,952	(456)
Other property insurance	41,756	21,993	31,359
Accident insurance	14,575	18,354	13,796
Health insurance	-	-	-
Compulsory auto liability insurance	<u>214,037</u>	<u>178,606</u>	<u>167,291</u>
	369,267	338,134	339,106
Less: Loss allowance	<u>(18,463)</u>	<u>(16,907)</u>	<u>(3,391)</u>
Net amount	<u>\$ 350,804</u>	<u>\$ 321,227</u>	<u>\$ 335,715</u>

3) Receivables and payables of insurance contracts

a) Receivables

Insurance by Type	Premiums Receivable		
	September 30, 2020	December 31, 2019	September 30, 2019
Fire insurance	\$ 686,708	\$ 832,679	\$ 666,450
Marine insurance	236,606	280,050	236,263
Land and air insurance	161,678	165,238	171,821
Liability insurance	258,649	252,358	279,939
Financial guarantee insurance	32,190	24,869	29,632
Other property insurance	154,478	466,437	418,816
Accident insurance	110,214	130,202	154,261
Health insurance	5,091	9,748	12,337
Compulsory auto liability insurance	<u>19,149</u>	<u>20,950</u>	<u>35,161</u>
	1,664,763	2,182,531	2,004,680
Less: Loss allowance	<u>(33,138)</u>	<u>(33,108)</u>	<u>(58,457)</u>
Net amount	<u>\$ 1,631,625</u>	<u>\$ 2,149,423</u>	<u>\$ 1,946,223</u>

Aging analysis of premiums receivable:

	September 30, 2020	December 31, 2019	September 30, 2019
Up to 90 days	\$ 978,246	\$ 1,460,661	\$ 1,416,059
Over 90 days	<u>686,517</u>	<u>721,870</u>	<u>588,621</u>
	<u>\$ 1,664,763</u>	<u>\$ 2,182,531</u>	<u>\$ 2,004,680</u>

The overdue amounts as of September 30, 2020, December 31, 2019 and September 30, 2019 in the above premiums receivable were \$686,517 thousand, \$721,870 thousand and \$588,621 thousand, respectively, and loss allowance of \$23,468 thousand, \$19,019 thousand and \$44,344 thousand were provided, respectively.

b) Payables

Insurance by Type	September 30, 2020		
	Commission Payable	Others	Total
Fire insurance	\$ 27,985	\$ 12,516	\$ 40,501
Marine insurance	8,658	11,526	20,184
Land and air insurance	86,181	95,288	181,469
Liability insurance	9,885	21,737	31,622
Financial guarantee insurance	4,648	586	5,234
Other property insurance	6,668	9,930	16,598
Accident insurance	9,828	29,401	39,229
Health insurance	1,362	901	2,263
Compulsory automobile liability insurance	<u>29,583</u>	<u>-</u>	<u>29,583</u>
	<u>\$ 184,798</u>	<u>\$ 181,885</u>	<u>\$ 366,683</u>

December 31, 2019			
Insurance by Type	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>

September 30, 2019			
Insurance by Type	Commission Payable	Others	Total
Fire insurance	\$ 29,819	\$ 11,847	\$ 41,666
Marine insurance	5,669	15,167	20,836
Land and air insurance	60,662	91,952	152,614
Liability insurance	24,607	19,543	44,150
Financial guarantee insurance	3,764	616	4,380
Other property insurance	4,239	9,275	13,514
Accident insurance	11,346	40,895	52,241
Health insurance	3,251	5,854	9,105
Compulsory automobile liability insurance	<u>30,487</u>	<u>-</u>	<u>30,487</u>
	<u>\$ 173,844</u>	<u>\$ 195,149</u>	<u>\$ 368,993</u>

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

September 30, 2020		
Items	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 343,296	\$ 343,064
AON	71,327	80,175
Central Re	19,594	120,847
Guy Carpenter	50,572	16,995
Marsh	19,937	81,011
Swiss Re	20,144	84,616
Others (individually below 5%)	<u>199,969</u>	<u>532,330</u>
	724,839	1,259,038
Less: Loss allowance	<u>(44,025)</u>	<u>-</u>
Net amount	<u>\$ 680,814</u>	<u>\$ 1,259,038</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>

Items	September 30, 2019	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 139,336	\$ 328,541
AON	78,353	232,086
Willis	30,632	14,025
Central Re	30,715	110,999
Others (individually below 5%)	<u>278,412</u>	<u>747,317</u>
	557,448	1,432,968
Less: Loss allowance	<u>(33,987)</u>	<u>-</u>
Net amount	<u>\$ 523,461</u>	<u>\$ 1,432,968</u>

The overdue amounts as of September 30, 2020, December 31, 2019 and September 30, 2019 in the above due from (to) reinsurers and ceding companies were \$13,093 thousand, \$10,483 thousand and \$12,323 thousand, respectively, and loss allowances of \$13,093 thousand, \$10,483 thousand and \$12,323 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

For the Three Months Ended September 30, 2020					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 52,867	\$ 3,981	\$ 34,848	\$ 4,539	\$ 96,235
Marine insurance	12,180	227	1,983	381	14,771
Land and air insurance	251,744	210	7,920	95,765	355,639
Liability insurance	51,382	129	(42)	6,764	58,233
Financial guarantee insurance	2,656	69	1,889	55	4,669
Other property insurance	19,559	962	6,617	925	28,063
Accident insurance	90,999	419	(310)	19,420	110,528
Health insurance	8,577	69	273	291	9,210
Compulsory auto liability insurance	-	104,979	-	-	104,979
	<u>\$ 489,964</u>	<u>\$ 111,045</u>	<u>\$ 53,178</u>	<u>\$ 128,140</u>	<u>\$ 782,327</u>

For the Three Months Ended September 30, 2019					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 49,335	\$ 2,699	\$ 17,405	\$ 4,347	\$ 73,786
Marine insurance	13,315	748	6,123	366	20,552
Land and air insurance	252,252	170	8,407	103,855	364,684
Liability insurance	50,715	37	38	6,004	56,794
Financial guarantee insurance	1,700	91	2,621	34	4,446
Other property insurance	14,712	2,005	14,317	879	31,913
Accident insurance	119,141	286	245	33,365	153,037
Health insurance	22,137	-	-	4,938	27,075
Compulsory auto liability insurance	-	102,580	-	-	102,580
	<u>\$ 523,307</u>	<u>\$ 108,616</u>	<u>\$ 49,156</u>	<u>\$ 153,788</u>	<u>\$ 834,867</u>

For the Nine Months Ended September 30, 2020					
Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance Commission Expenses	Others	Total
Fire insurance	\$ 148,787	\$ 15,920	\$ 130,965	\$ 13,872	\$ 309,544
Marine insurance	41,322	1,021	7,448	1,264	51,055
Land and air insurance	776,273	980	31,843	306,748	1,115,844
Liability insurance	126,315	195	315	20,617	147,442
Financial guarantee insurance	9,807	268	7,408	184	17,667
Other property insurance	57,665	4,912	28,293	3,431	94,301
Accident insurance	257,676	1,100	(186)	62,748	321,338
Health insurance	28,001	497	1,987	3,226	33,711
Compulsory auto liability insurance	-	292,666	-	-	292,666
	<u>\$ 1,445,846</u>	<u>\$ 317,559</u>	<u>\$ 208,073</u>	<u>\$ 412,090</u>	<u>\$ 2,383,568</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Commission Expenses	Service fee Charge	Reinsurance		Total
			Commission Expenses	Others	
Fire insurance	\$ 138,826	\$ 10,396	\$ 56,988	\$ 11,961	\$ 218,171
Marine insurance	47,637	1,368	12,676	1,043	62,724
Land and air insurance	768,477	171	8,410	303,075	1,080,133
Liability insurance	132,383	84	102	13,794	146,363
Financial guarantee insurance	9,901	95	2,679	34	12,709
Other property insurance	52,747	4,920	36,604	2,374	96,645
Accident insurance	321,442	423	690	87,156	409,711
Health insurance	56,067	132	147	12,534	68,880
Compulsory auto liability insurance	-	294,600	-	-	294,600
	<u>\$ 1,527,480</u>	<u>\$ 312,189</u>	<u>\$ 118,296</u>	<u>\$ 431,971</u>	<u>\$ 2,389,936</u>

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 September 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	\$ 769,883	\$ (141,034)	\$ 61,386	\$ 81,773	\$ 242,797	\$ 524,961
Marine insurance	118,148	(35,053)	12,786	90,008	(42,562)	92,969
Land and air insurance	2,489,589	23,239	347,719	1,425,680	(7,059)	700,010
Liability insurance	475,599	96,120	58,275	147,794	82,893	90,517
Financial guarantee insurance	25,377	(464)	2,780	11,508	(11,474)	23,027
Other property insurance	155,803	(77,372)	21,449	105,706	(10,987)	117,007
Accident insurance	767,700	36,437	110,839	324,272	1,157	294,995
Health insurance	42,789	8,351	8,936	16,970	(7,901)	16,433
Compulsory auto liability insurance	<u>750,197</u>	<u>1,500</u>	<u>104,979</u>	<u>505,148</u>	<u>8,371</u>	<u>130,199</u>
	<u>\$ 5,595,085</u>	<u>\$ (88,276)</u>	<u>\$ 729,149</u>	<u>\$ 2,708,859</u>	<u>\$ 255,235</u>	<u>\$ 1,990,118</u>

For the Three Months Ended September 30, 2019

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 572,437	\$ (304,705)	\$ 56,378	\$ 183,873	\$ 27,121	\$ 609,770
Marine insurance	131,400	(38,965)	14,429	83,481	(24,186)	96,641
Land and air insurance	2,281,184	(76,330)	356,277	1,397,657	43,863	559,717
Liability insurance	418,399	44,884	56,757	153,559	(53,075)	216,274
Financial guarantee insurance	19,582	(14,321)	1,825	31,312	6,481	(5,715)
Other property insurance	353,964	144,682	17,599	89,515	(33,125)	135,293
Accident insurance	946,150	16,259	152,791	442,421	(60,219)	394,898
Health insurance	131,512	10,064	27,075	28,958	2,679	62,736
Compulsory auto liability insurance	<u>742,951</u>	<u>(1,387)</u>	<u>102,580</u>	<u>451,483</u>	<u>(12,678)</u>	<u>202,953</u>
	<u>\$ 5,597,579</u>	<u>\$ (219,819)</u>	<u>\$ 785,711</u>	<u>\$ 2,862,259</u>	<u>\$ (103,139)</u>	<u>\$ 2,272,567</u>

For the Nine Months Ended September 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	\$ 2,740,931	\$ 118,595	\$ 178,578	\$ 335,651	\$ 333,633	\$ 1,774,474
Marine insurance	450,986	(30,655)	43,606	184,948	146,696	106,391
Land and air insurance	7,254,973	2,852	1,084,000	4,226,570	(94,549)	2,036,100
Liability insurance	1,127,768	12,840	147,127	535,601	35,146	397,054
Financial guarantee insurance	92,356	14,403	10,259	(58,588)	10,791	115,491
Other property insurance	756,987	4,220	66,010	306,340	2,774	377,643
Accident insurance	2,187,906	652	321,525	1,063,076	(29,092)	831,745
Health insurance	147,445	(6,628)	31,724	66,300	(22,223)	78,272
Compulsory auto liability insurance	<u>2,111,081</u>	<u>(18,199)</u>	<u>292,666</u>	<u>1,599,965</u>	<u>(34,656)</u>	<u>271,305</u>
	<u>\$ 16,870,433</u>	<u>\$ 98,080</u>	<u>\$ 2,175,495</u>	<u>\$ 8,259,863</u>	<u>\$ 348,520</u>	<u>\$ 5,988,475</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Written Premium (Net of Premium Allowance)	Net Changes in Unearned Premium Reserve	Acquisition Cost of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 2,492,176	\$ (92,617)	\$ 161,181	\$ 508,907	\$ 79,022	\$ 1,835,683
Marine insurance	465,527	(38,090)	50,048	223,932	8,524	221,113
Land and air insurance	6,946,490	42,637	1,071,723	4,074,618	229,328	1,528,184
Liability insurance	1,130,940	27,700	146,261	468,872	76,206	411,901
Financial guarantee insurance	91,257	627	10,030	56,530	(20,947)	45,017
Other property insurance	786,338	220,942	60,044	210,177	(37,318)	332,493
Accident insurance	2,594,940	67,813	409,020	1,090,399	(74,095)	1,101,803
Health insurance	327,823	18,866	68,733	74,271	4,528	161,425
Compulsory auto liability insurance	<u>2,150,832</u>	<u>(8,348)</u>	<u>294,600</u>	<u>1,640,365</u>	<u>(57,237)</u>	<u>281,452</u>
	<u>\$ 16,986,323</u>	<u>\$ 239,530</u>	<u>\$ 2,271,640</u>	<u>\$ 8,348,071</u>	<u>\$ 208,011</u>	<u>\$ 5,919,071</u>

Reinsurance inward business

For the Three Months Ended September 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	\$ 161,955	\$ (5,596)	\$ 34,848	\$ 95,781	\$ 36,091	\$ 831
Marine insurance	9,090	(5,359)	1,983	7,570	(47)	4,943
Land and air insurance	33,717	11,199	7,920	23,623	5,280	(14,305)
Liability insurance	908	347	(42)	210	(120)	513
Financial guarantee insurance	7,097	(1,473)	1,889	1,782	(23,413)	28,312
Other property insurance	38,935	1,022	6,617	23,586	12,807	(5,097)
Accident insurance	3,585	490	(310)	1,028	91	2,286
Health insurance	2,735	(1,120)	273	7,573	70	(4,061)
Compulsory auto liability insurance	<u>192,322</u>	<u>(4,149)</u>	<u>-</u>	<u>225,030</u>	<u>(2,090)</u>	<u>(26,469)</u>
	<u>\$ 450,344</u>	<u>\$ (4,639)</u>	<u>\$ 53,178</u>	<u>\$ 386,183</u>	<u>\$ 28,669</u>	<u>\$ (13,047)</u>

For the Three Months Ended September 30, 2019

Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 108,574	\$ (9,185)	\$ 17,405	\$ 54,931	\$ 81,862	\$ (36,439)
Marine insurance	27,619	7,179	6,123	9,687	19,502	(14,872)
Land and air insurance	19,260	9,446	8,408	880	1,421	(895)
Liability insurance	514	(119)	38	29	(71)	637
Financial guarantee insurance	9,227	3,322	2,621	51	13,231	(9,998)
Other property insurance	64,284	(778)	14,316	14,310	(8,248)	44,684
Accident insurance	3,707	(59)	245	1,494	1,319	708
Health insurance	-	(2,251)	-	-	(23)	2,274
Compulsory auto liability insurance	<u>198,621</u>	<u>(149)</u>	<u>-</u>	<u>197,142</u>	<u>(1,601)</u>	<u>3,229</u>
	<u>\$ 431,806</u>	<u>\$ 7,406</u>	<u>\$ 49,156</u>	<u>\$ 278,524</u>	<u>\$ 107,392</u>	<u>\$ (10,672)</u>

For the Nine Months Ended September 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	\$ 668,419	\$ 96,726	\$ 130,964	\$ 336,796	\$ 17,049	\$ 86,884
Marine insurance	38,941	569	7,448	30,715	(959)	1,168
Land and air insurance	73,776	19,713	31,842	43,347	19,489	(40,615)
Liability insurance	3,703	1,562	315	354	1,210	262
Financial guarantee insurance	26,055	1,258	7,408	3,570	(6,856)	20,675
Other property insurance	168,777	5,831	28,295	158,379	(4,188)	(19,540)
Accident insurance	10,661	460	(186)	4,090	117	6,180
Health insurance	19,873	1,279	1,987	20,318	84	(3,795)
Compulsory auto liability insurance	<u>555,660</u>	<u>(6,563)</u>	<u>-</u>	<u>673,030</u>	<u>3,459</u>	<u>(114,266)</u>
	<u>\$ 1,565,865</u>	<u>\$ 120,835</u>	<u>\$ 208,073</u>	<u>\$ 1,270,599</u>	<u>\$ 29,405</u>	<u>\$ (63,047)</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Reinsurance Premium	Net Changes in Unearned Premium Reserve	Reinsurance Commission Expense	Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 355,264	\$ (69,293)	\$ 56,988	\$ 187,488	\$ 148,563	\$ 31,518
Marine insurance	53,523	9,566	12,676	30,665	13,220	(12,604)
Land and air insurance	19,316	8,242	8,411	884	1,705	74
Liability insurance	2,116	12	102	58	568	1,376
Financial guarantee insurance	10,012	3,279	2,679	652	12,332	(8,930)
Other property insurance	185,122	(12,030)	36,603	108,127	(23,444)	75,866
Accident insurance	10,622	(57)	690	2,742	1,907	5,340
Health insurance	5,270	(9,472)	147	8,939	283	5,373
Compulsory auto liability insurance	<u>566,264</u>	<u>(737)</u>	<u>-</u>	<u>659,232</u>	<u>18,358</u>	<u>(110,589)</u>
	<u>\$ 1,207,509</u>	<u>\$ (70,490)</u>	<u>\$ 118,296</u>	<u>\$ 998,787</u>	<u>\$ 173,492</u>	<u>\$ (12,576)</u>

Ceded reinsurance business

For the Three Months Ended September 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	\$ 443,986	\$ (83,781)	\$ 35,189	\$ 20,274	\$ 70,508	\$ 401,796
Marine insurance	58,484	(44,027)	9,583	45,325	(23,979)	71,582
Land and air insurance	84,493	(10,655)	21,403	35,919	1,105	36,721
Liability insurance	201,798	84,989	21,059	30,671	59,217	5,862
Financial guarantee insurance	14,258	(2,098)	2,706	3,012	(5,976)	16,614
Other property insurance	91,363	(93,358)	23,553	54,002	(31,167)	138,333
Accident insurance	58,863	(4,483)	14,918	17,588	419	30,421
Health insurance	9	6	4	-	-	(1)
Compulsory auto liability insurance	<u>314,975</u>	<u>899</u>	<u>-</u>	<u>300,369</u>	<u>(973)</u>	<u>14,680</u>
	<u>\$ 1,268,229</u>	<u>\$ (152,508)</u>	<u>\$ 128,415</u>	<u>\$ 507,160</u>	<u>\$ 69,154</u>	<u>\$ 716,008</u>

For the Three Months Ended September 30, 2019

Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 326,409	\$ (256,084)	\$ 26,854	\$ 54,211	\$ 5,116	\$ 496,312
Marine insurance	78,256	(26,999)	11,118	53,422	(12,817)	53,532
Land and air insurance	71,849	(18,201)	21,627	43,882	(8,215)	32,756
Liability insurance	176,013	40,368	33,033	37,056	(32,194)	97,750
Financial guarantee insurance	7,967	(12,944)	1,853	23,829	(6,864)	2,093
Other property insurance	279,809	155,258	19,891	56,317	(17,998)	66,341
Accident insurance	56,571	(7,680)	14,599	18,957	(2,748)	33,443
Health insurance	-	-	-	-	28	(28)
Compulsory auto liability insurance	<u>312,024</u>	<u>(832)</u>	<u>-</u>	<u>269,942</u>	<u>(7,318)</u>	<u>50,232</u>
	<u>\$ 1,308,898</u>	<u>\$ (127,114)</u>	<u>\$ 128,975</u>	<u>\$ 557,616</u>	<u>\$ (83,010)</u>	<u>\$ 832,431</u>

For the Nine Months Ended September 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	\$ 1,700,633	\$ 158,001	\$ 113,746	\$ 82,643	\$ 242,254	\$ 1,103,989
Marine insurance	306,883	(20,131)	34,560	112,241	128,060	52,153
Land and air insurance	281,574	10,494	66,516	109,680	(6,005)	100,889
Liability insurance	374,797	15,055	62,963	197,898	(8,784)	107,665
Financial guarantee insurance	58,377	12,542	10,802	(71,304)	4,006	102,331
Other property insurance	520,501	(21,937)	78,511	172,044	11,237	280,646
Accident insurance	180,156	29,878	44,449	51,407	(5,365)	59,787
Health insurance	13	10	5	-	-	(2)
Compulsory auto liability insurance	<u>881,851</u>	<u>(10,920)</u>	<u>-</u>	<u>938,330</u>	<u>(26,899)</u>	<u>(18,660)</u>
	<u>\$ 4,304,785</u>	<u>\$ 172,992</u>	<u>\$ 411,552</u>	<u>\$ 1,592,939</u>	<u>\$ 338,504</u>	<u>\$ 1,788,798</u>

For the Nine Months Ended September 30, 2019

Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Profit (Loss)
Fire insurance	\$ 1,593,200	\$ (105,453)	\$ 114,022	\$ 245,934	\$ (37,035)	\$ 1,375,732
Marine insurance	314,597	(20,704)	44,128	167,325	(5,523)	129,371
Land and air insurance	221,185	(51,672)	64,682	143,342	(25,395)	90,228
Liability insurance	405,220	19,600	81,738	149,671	60,110	94,101
Financial guarantee insurance	58,290	(3,559)	12,032	46,239	(17,620)	21,198
Other property insurance	574,780	234,761	64,973	106,134	(14,363)	183,275
Accident insurance	176,185	30,223	45,223	55,162	(677)	46,254
Health insurance	-	-	-	-	28	(28)
Compulsory auto liability insurance	898,382	(5,008)	-	951,316	(33,472)	(14,454)
	<u>\$ 4,241,839</u>	<u>\$ 98,188</u>	<u>\$ 426,798</u>	<u>\$ 1,865,123</u>	<u>\$ (73,947)</u>	<u>\$ 1,925,677</u>

6) Sensitivity to insurance risk

a) Cathay Century

For the nine months ended September 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	\$ 2,623,507	42.72%	\$ (131,175)	\$ (131,175)
Marine insurance	443,777	36.22%	(22,189)	(10,761)
Land and air insurance	7,107,779	63.32%	(355,389)	(344,895)
Liability insurance	1,126,793	50.58%	(56,340)	(35,979)
Financial guarantee insurance	92,356	265.16%	(4,618)	(2,712)
Other property insurance	752,173	63.64%	(37,609)	(29,579)
Accident insurance	2,166,816	42.68%	(108,341)	(102,606)
Health insurance	147,445	36.07%	(7,372)	(7,372)
Compulsory automobile liability insurance	2,111,080	Not applicable	Not applicable	Not applicable
	<u>\$ 16,571,726</u>		<u>\$ (723,033)</u>	<u>\$ (665,079)</u>

For the nine months ended September 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	\$ 2,346,405	42.03%	\$ (117,320)	\$ (98,603)
Marine insurance	459,254	40.43%	(22,963)	(9,833)
Land and air insurance	6,852,230	64.41%	(342,611)	(330,313)
Liability insurance	1,130,050	53.73%	(56,503)	(38,716)
Financial guarantee insurance	91,257	183.21%	(4,563)	(2,994)
Other property insurance	784,015	67.24%	(39,201)	(29,532)
Accident insurance	2,574,330	43.07%	(128,717)	(120,886)
Health insurance	327,823	41.38%	(16,391)	(16,368)
Compulsory automobile liability insurance	2,150,832	Not applicable	Not applicable	Not applicable
	<u>\$ 16,716,196</u>		<u>\$ (728,269)</u>	<u>\$ (647,245)</u>

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 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 nine months ended September 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	\$ 147,194	30.61%	\$ (7,360)	\$ (7,328)
Marine insurance	7,209	15.16%	(360)	(83)
Fire insurance	117,424	53.38%	(5,871)	(1,364)
Engineering insurance	4,815	28.25%	(241)	(73)
Accident insurance	21,089	36.75%	(1,054)	(1,054)
Liability insurance	<u>975</u>	14.24%	<u>(49)</u>	<u>(16)</u>
	<u>\$ 298,706</u>		<u>\$ (14,935)</u>	<u>\$ (9,918)</u>

For the nine months ended September 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	\$ 94,260	39.29%	\$ (4,713)	\$ (4,701)
Marine insurance	6,273	22.58%	(314)	(80)
Fire insurance	145,771	144.65%	(7,288)	(1,001)
Engineering insurance	2,323	75.90%	(116)	(34)
Accident insurance	20,610	33.47%	(1,030)	(1,029)
Liability insurance	<u>890</u>	48.22%	<u>(45)</u>	<u>(14)</u>
	<u>\$ 270,127</u>		<u>\$ (13,506)</u>	<u>\$ (6,859)</u>

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

As of September 30, 2020, the underwriting department, reinsurance department and risk management department have reviewed or discussed the related underwriting guidelines for the commercial insurance with low frequency of occurrence but enormous possible losses in project meeting.

ii) Exposure to unanticipated changes in trend

As of September 30, 2020, there is no exposure to unanticipated change in trend.

iii) Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Regulations for Assisting in Filing Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of Cathay Century and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of September 30, 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. In order to mitigate the risks of catastrophic events in its operations, Cathay Century established “Operation Standards under Crisis”, under which crisis handling team is set up as a response to such events and executes tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century, as well as to maintain financial stability. As of September 30, 2020, relevant measures have been proposed to respond to the impact of COVID-19 on Cathay Century’s operations, 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 September 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 718,851	\$ 174,356	\$ 411,825	\$ 481,382	10.20
Marine insurance	115,474	9,090	56,617	67,947	1.44
Land and air insurance	2,448,467	33,717	84,493	2,397,691	50.82
Liability insurance	475,423	908	201,666	274,665	5.82
Financial guarantee insurance	25,377	7,098	14,258	18,217	0.39
Other property insurance	153,595	38,909	90,150	102,354	2.17
Accident insurance	757,837	3,585	58,863	702,559	14.89
Health insurance	42,789	2,735	9	45,515	0.97
Compulsory automobile liability insurance	750,196	192,322	314,975	627,543	13.30
Total	\$ 5,488,009	\$ 462,720	\$ 1,232,856	\$ 4,717,873	100.00

Insurance Type	For the Three Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 543,604	\$ 108,138	\$ 301,810	\$ 349,932	7.49
Marine insurance	129,506	27,619	76,974	80,151	1.72
Land and air insurance	2,242,878	19,260	71,848	2,190,290	46.90
Liability insurance	418,244	447	175,893	242,798	5.20
Financial guarantee insurance	19,582	9,227	7,967	20,842	0.45
Other property insurance	352,986	64,283	279,222	138,047	2.96
Accident insurance	939,709	3,707	56,571	886,845	18.99
Health insurance	131,512	-	-	131,512	2.81
Compulsory automobile liability insurance	742,951	198,621	312,024	629,548	13.48
Total	\$ 5,520,972	\$ 431,302	\$ 1,282,309	\$ 4,669,965	100.00

Insurance Type	For the Nine Months Ended September 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 2,623,507	\$ 679,798	\$ 1,610,295	\$ 1,693,010	12.14
Marine insurance	443,777	38,941	301,835	180,883	1.30
Land and air insurance	7,107,779	73,776	281,538	6,900,017	49.49
Liability insurance	1,126,793	3,703	374,163	756,333	5.42
Financial guarantee insurance	92,356	26,055	58,377	60,034	0.43
Other property insurance	752,173	168,752	517,485	403,440	2.89
Accident insurance	2,166,816	10,661	180,156	1,997,321	14.33
Health insurance	147,445	19,873	13	167,305	1.20
Compulsory automobile liability insurance	2,111,080	555,660	881,851	1,784,889	12.80
Total	\$ 16,571,726	\$ 1,577,219	\$ 4,205,713	\$ 13,943,232	100.00

Insurance Type	For the Nine Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 2,346,405	\$ 355,601	\$ 1,460,963	\$ 1,241,043	8.98
Marine insurance	459,254	53,523	310,214	202,563	1.47
Land and air insurance	6,852,230	19,300	221,146	6,650,384	48.12
Liability insurance	1,130,050	2,049	404,620	727,479	5.26
Financial guarantee insurance	91,257	10,012	58,290	42,979	0.31
Other property insurance	784,015	185,122	573,386	395,751	2.86
Accident insurance	2,574,330	10,622	176,185	2,408,767	17.43
Health insurance	327,823	5,270	-	333,093	2.41
Compulsory automobile liability insurance	2,150,832	566,264	898,382	1,818,714	13.16
Total	\$ 16,716,196	\$ 1,207,763	\$ 4,103,186	\$ 13,820,773	100.00

- iii. Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as earthquake, typhoon, and flood along with related hung claims, result in tremendous impact to the property insurance business.

To control and manage risk with low frequency of occurrence but enormous impact, Cathay Century assesses the risk of natural disasters and special insured items (for example, high-tech factory, power plant and traffic engineering) holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

b) Cathay Insurance (Vietnam)

i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

As of September 30, 2020, the underwriting department and reinsurance department have reviewed or discussed the related underwriting guidelines for the commercial insurance with low frequency of occurrence but enormous possible losses in project meeting.

ii) Exposure to unanticipated changes in trend

For the nine months ended September 30, 2020, the premiums of comprehensive travel insurance decreased due to lower demands for domestic and international tourism from the impact of COVID-19; however, no effect on business risk has been identified so far and 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 September 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. In order to mitigate the risks of catastrophic events in its operations, Cathay Insurance (Vietnam) established the Points for Handling Major Events of Cathay Insurance (Vietnam), under which crisis handling team is set up as a response to such events and executes tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century, as well as to maintain financial stability. As of September 30, 2020, there was no interaction among different risks resulting from a catastrophic event.

v) Concentration of geographical regions and operating segments

Cathay Insurance (Vietnam)’s catastrophe insurance for earthquakes and floods are mainly in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

- ii. Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature.

The following table summarizes the Cathay Insurance (Vietnam)'s concentration of risk before and after reinsurance by insurance type:

Insurance Type	For the Three Months Ended September 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 41,123	\$ -	\$ -	\$ 41,123	69.31
Flood insurance	2,674	-	1,867	807	1.36
Fire insurance	51,032	2,600	47,162	6,470	10.91
Engineering insurance	2,209	26	1,214	1,021	1.72
Accident insurance	9,862	-	-	9,862	16.62
Liability insurance	175	-	130	45	0.08
Total	\$ 107,075	\$ 2,626	\$ 50,373	\$ 59,328	100.00

Insurance Type	For the Three Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 38,306	\$ -	\$ 1	\$ 38,305	75.83
Flood insurance	1,894	-	1,283	611	1.21
Fire insurance	28,833	438	24,598	4,673	9.24
Engineering insurance	978	-	587	391	0.77
Accident insurance	6,441	-	-	6,441	12.75
Liability insurance	155	67	120	102	0.20
Total	\$ 76,607	\$ 505	\$ 26,589	\$ 50,523	100.00

Insurance Type	For the Nine Months Ended September 30, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 147,194	\$ -	\$ 36	\$ 147,158	78.16
Flood insurance	7,209	-	5,048	2,161	1.15
Fire insurance	117,424	3,622	105,339	15,707	8.34
Engineering insurance	4,815	26	3,016	1,825	0.97
Accident insurance	21,089	-	-	21,089	11.20
Liability insurance	975	-	633	342	0.18
Total	\$ 298,706	\$ 3,648	\$ 114,072	\$ 188,282	100.00

Insurance Type	For the Nine Months Ended September 30, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 94,260	\$ 17	\$ 39	\$ 94,238	71.81
Flood insurance	6,273	-	4,384	1,889	1.44
Fire insurance	145,771	1,164	133,736	13,199	10.06
Engineering insurance	2,323	-	1,394	929	0.71
Accident insurance	20,610	-	-	20,610	15.71
Liability insurance	890	67	600	357	0.27
Total	\$ 270,127	\$ 1,248	\$ 140,153	\$ 131,222	100.00

- c) Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes such as typhoon and flood, will bring tremendous insurance risk to property insurance business. To control and manage risk with low frequency occurrence but enormous impact, Cathay Insurance (Vietnam) assesses the risk of natural disasters and special insured items holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

8) Development trends of claims

a) Cathay Century

September 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	\$ 7,152,507	
After the first year	-	7,217,836	7,418,703	11,455,620	8,025,062	8,574,948	10,099,791	-	
After the second year	-	7,156,309	7,548,387	10,970,548	7,965,701	8,483,677	-	-	
After the third year	-	7,135,341	7,495,744	11,133,431	7,993,330	-	-	-	
After the fourth year	-	7,133,873	7,449,663	11,172,800	-	-	-	-	
After the fifth year	-	7,145,756	7,454,367	-	-	-	-	-	
After the sixth year	-	7,171,701	-	-	-	-	-	-	
Final estimated claim payments	-	7,171,701	7,454,367	11,172,800	7,993,330	8,483,677	10,099,791	7,152,507	
Accumulated claims disbursed	-	6,945,582	7,414,320	11,084,660	7,831,854	8,070,718	8,196,533	3,252,361	
Adjustment	92,794	226,119	40,047	88,140	161,476	412,959	1,903,258	3,900,146	\$ 6,824,939
Amount recognized in balance sheet	\$ 92,794	\$ 226,119	\$ 40,047	\$ 88,140	\$ 161,476	\$ 412,959	\$ 1,903,258	\$ 4,043,379	\$ 6,968,172

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

September 30, 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	\$ 7,562,218	
After the first year	-	6,109,827	7,217,836	7,418,703	11,455,620	8,025,062	8,628,206	-	
After the second year	-	6,169,858	7,156,309	7,548,387	10,970,548	7,972,723	-	-	
After the third year	-	6,103,460	7,135,341	7,495,744	11,101,429	-	-	-	
After the fourth year	-	6,135,016	7,133,873	7,444,985	-	-	-	-	
After the fifth year	-	6,114,404	7,153,055	-	-	-	-	-	
After the sixth year	-	6,058,643	-	-	-	-	-	-	
Final estimated claim payments	-	6,058,643	7,153,055	7,444,985	11,101,429	7,972,723	8,628,206	7,562,218	
Accumulated claims disbursed	-	6,003,292	6,930,303	7,391,060	10,871,046	7,649,700	7,509,083	3,411,292	
	59,946	55,351	222,752	53,925	230,383	323,023	1,119,123	4,150,926	\$ 6,215,429
Adjustment	-	-	-	-	-	-	-	145,146	145,146
Amount recognized in balance sheet	\$ 59,946	\$ 55,351	\$ 222,752	\$ 53,925	\$ 230,383	\$ 323,023	\$ 1,119,123	\$ 4,296,072	\$ 6,360,575

Note 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 \$1,540,932 thousand and \$1,168,001 thousand as of September 30, 2020, \$1,575,588 thousand and \$1,138,597 thousand as of December 31, 2019, \$1,425,807 thousand and \$950,690 thousand as of September 30, 2019.

b) Cathay Insurance (Vietnam)

Since the claim data of Cathay Insurance (Vietnam) is still immature, the historical experience for development trend of claim are not available. Cathay Insurance (Vietnam) provided loss reserve for claims incurred but not yet filed at 5% of retained premiums following the suggestion by Vietnamese Ministry of Finance 2842/BTC/QLBH.

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,684,851,058	\$ 1,653,983,453	\$ 1,586,459,556
Financial assets at FVTOCI	1,428,047,111	1,182,534,102	1,202,571,937
Financial assets for hedging	386,927	548,075	702,253
Measured at amortized cost			
Cash and cash equivalents	494,736,913	413,405,471	343,245,590
Due from the Central Bank and other banks	160,635,656	110,945,093	110,869,396
Financial assets measured at amortized cost	3,125,566,149	3,068,838,014	3,014,160,425
Notes and bonds purchased under resale agreements	63,619,193	43,586,931	63,391,762
Discounts and loans, net	2,086,797,598	2,066,761,296	2,080,288,090
Receivables, net	167,753,341	185,049,532	210,297,923
Other financial assets	608,132,840	615,117,482	599,343,292
Guarantee deposits paid	39,005,299	38,396,708	48,786,668

(Continued)

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	\$ 121,107,668	\$ 111,526,387	\$ 138,241,318
Financial liabilities for hedging	57,171	30,894	38,240
Financial liabilities at amortized cost			
Deposits from the Central Bank and banks	67,455,803	84,108,128	112,585,730
Due to the Central Bank and banks	1,000,000	-	-
Notes and bonds sold under repurchase agreements	20,121,182	50,278,533	27,419,737
Commercial paper payable, net	38,879,972	54,018,845	55,609,250
Payables	69,580,012	66,934,725	124,011,839
Deposits and remittances	2,485,831,901	2,303,443,816	2,273,980,926
Bonds payable	148,800,000	118,900,000	118,900,000
Other borrowings	372,779	2,201,364	217,276
Other financial liabilities	649,688,701	676,972,179	662,125,752
Lease liabilities	12,772,008	12,720,337	12,777,040
Guarantee deposits received	16,145,851	18,257,447	7,581,916
			(Concluded)

b. The valuation technique and assumptions used in determining the fair value of financial instruments

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

- 1) The carrying amount of cash and cash equivalents, accounts receivable, short-term debts and accounts payable approximates their fair value due to their short maturities.
- 2) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- 3) Fair values of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- 4) Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instruments (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).

- 5) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using the interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- 6) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded on the Taipei Exchange.

c. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

Items	September 30, 2020				December 31, 2019				September 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	\$ 458,465,287	\$ 423,037,029	\$ 27,547,931	\$ 7,880,327	\$ 495,159,801	\$ 445,750,414	\$ 42,710,567	\$ 6,698,820	\$ 565,652,693	\$ 483,336,253	\$ 76,606,471	\$ 5,709,969
Bonds	241,913,672	8,619,862	230,790,395	2,503,415	305,294,693	8,748,708	294,583,505	1,962,480	305,462,219	13,003,987	290,386,081	2,072,151
Other	888,691,417	546,431,497	232,518,485	109,741,435	773,731,408	474,400,100	205,203,877	94,127,431	643,290,573	370,658,324	183,296,293	89,335,956
Financial assets at FVTOCI												
Stocks	96,141,199	86,454,559	-	9,686,640	62,877,916	52,330,749	-	10,547,167	51,216,778	41,458,303	-	9,758,475
Bonds (Note)	1,244,573,061	151,422,306	1,093,150,755	-	1,050,516,360	107,544,852	942,517,660	453,848	1,152,462,465	213,672,357	938,790,108	-
Other	88,490,022	-	88,490,022	-	70,253,313	-	70,253,313	-	-	-	-	-
Liabilities												
Financial liabilities at FVTPL												
Financial liabilities designated as at FVTPL	44,924,947	-	44,924,947	-	57,604,294	-	57,604,294	-	60,075,661	-	60,075,661	-
Held for trading	7,145,358	7,145,358	-	-	2,510,119	2,510,119	-	-	1,793,666	1,793,666	-	-
Derivative instruments												
Assets												
Financial assets at FVTPL	95,780,682	912,060	86,826,955	8,041,667	79,797,551	1,330,214	67,786,158	10,681,179	72,054,071	1,222,706	70,481,116	350,249
Financial assets for hedging	386,927	-	386,927	-	548,075	-	548,075	-	702,253	-	702,253	-
Liabilities												
Financial liabilities at FVTPL	69,037,363	388,357	60,607,339	8,041,667	51,411,974	492,986	40,237,809	10,681,179	76,371,991	628,739	75,393,003	350,249
Derivative financial liabilities for hedging	57,171	-	57,171	-	30,894	-	30,894	-	38,240	-	38,240	-

Note: Including refundable deposits.

Transfers between Level 1 and Level 2:

For the nine months ended September 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 Nine Months Ended September 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			
Loss on financial assets and liabilities at FVTPL	(698,502)	-	(1,809,202)
Gain on reclassification using the overlay approach	3,340,256	-	
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	(70,240)	(201)	-
Other comprehensive loss reclassified using the overlay approach	(3,340,256)	-	-
Loss on equity instruments at FVTOCI	-	(905,986)	-
Acquisitions or issuances	28,692,289	115,542	88,630
Disposals or settlements	(13,052,185)	(60,000)	(918,940)
Transfers out of Level 3	(174,428)	(463,730)	-
Ending balance	<u>\$ 128,166,844</u>	<u>\$ 9,686,640</u>	<u>\$ 8,041,667</u>
	For the Nine Months Ended September 30, 2019		
	Financial Assets		Financial Liabilities
	At FVTPL	At FVTOCI	At FVTPL
Beginning balance	\$ 97,317,031	\$ 8,375,581	\$ 12,084,217
Recognized in profit or loss			
Loss on financial assets and liabilities at FVTPL	(5,355,683)	-	(10,942,346)
Loss on reclassification using the overlay approach	(1,553,915)	-	-
Amount recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	14,595	44	-
Other comprehensive gain reclassified using the overlay approach	1,553,915	-	-
Gain on equity instruments at FVTOCI	-	1,269,555	-
Acquisitions or issuances	18,728,304	140,485	23,000
Disposals or settlements	(13,234,241)	(27,190)	(814,622)
Transfers to Level 3	19,942	-	-
Transfers out of Level 3	(21,623)	-	-
Ending balance	<u>\$ 97,468,325</u>	<u>\$ 9,758,475</u>	<u>\$ 350,249</u>

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2020 and 2019, unrealized losses of \$2,136,035 thousand and unrealized losses of \$11,515,293 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 nine months ended September 30, 2020 and 2019, unrealized gains of \$1,809,202 thousand and unrealized gains of \$10,942,346 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

September 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	2%-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.	20%-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	85%-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

September 30, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	4%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, 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%)-20%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates

Cathay United Bank and its subsidiaries

September 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.

September 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

September 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

September 30, 2019				
Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Weighted Average Number	Relationship Between Inputs and Fair Value
Financial assets at FVTOCI	Market approach	Discount for lack of marketability	29%	The higher the discount for lack of marketability, the lower the fair value of the shares

Cathay Securities and its subsidiaries

September 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%)

September 30, 2019					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	Sensitivity of the Input to Fair Value
Investments in equity instruments at 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

Other than cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resale agreements, receivables, loans, guarantee deposits paid, due to the Central Bank and other banks, securities sold under repurchase agreements, commercial paper payable, bonds payable, other borrowings, payables, deposits and guarantee deposits received, and the items whose carrying amount approximate their fair value, the fair values of the Group's financial instruments which are not measured at fair value are listed as follows:

September 30, 2020

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 3,135,466,472	\$ 125,307,990	\$ 3,342,185,424	\$ 1,343,293	\$ 3,468,836,707

December 31, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
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

September 30, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 3,025,598,286	\$ 133,108,853	\$ 3,089,618,569	\$ 5,100,302	\$ 3,227,827,724

Note: Including refundable deposits.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above were determined using the income approach, which is 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 bond investments held by Cathay Life and its subsidiaries may fluctuate due to the changes in market interest rates, and thus give rise to risks. Accordingly, Cathay Life and its subsidiaries held IRS to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

a) Hedging instruments

September 30, 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	\$ 6,200,000	\$ 167,772	\$ -	Financial assets for hedging	\$ 36,538
Interest rate swaps	1,155,938	-	57,171	Financial liabilities for hedging	(27,950)
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)
September 30, 2019					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
Interest rate swaps	\$ 6,800,000	\$ 203,060	\$ -	Financial assets for hedging	\$ 35,784
Interest rate swaps	1,358,088	-	38,240	Financial liabilities for hedging	(38,214)

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

Period Till Maturity						
		1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2020</u>						
Interest rate swaps						
Nominal principal	\$	-	\$ 2,200,000	\$ 136,528	\$ 5,019,410	\$ -
Average fixed rate		-	1.5%	2.5%	1.7%-2.5%	-

	Period Till 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%	-

	Period Till Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2019</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 677,605	\$ 7,480,483	\$ -
Average fixed rate	-	-	1.7%-2.5%	1.6%-2.5%	-

c) Hedged items

	For the Nine Months Ended September 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	\$ (36,538)	\$ 167,772	N/A	\$ 36,538	\$ -	\$ -	\$ (53,973)	Net other non-interest gain
Payables	27,950	(57,171)	N/A	(27,950)	-	-	-	Net other non-interest gain
Discontinued hedge - bond investments	N/A	N/A	(259)	N/A	N/A	N/A	7	Net other non-interest gain

	For the Nine Months Ended September 30, 2019							
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other 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	\$ (35,784)	\$ 203,060	N/A	\$ 35,784	\$ -	\$ -	\$ (49,335)	Net other non-interest gain
Payables	38,214	(38,240)	N/A	(38,214)	-	-	-	Net other non-interest gain
Discontinued hedge - bond investments	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 Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 116,268	\$ 173,288
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	8,596	(2,430)
Amount reclassified from the cash flow hedge reserve to profit or loss	(53,966)	(49,335)
Income tax	<u>13,440</u>	<u>2,710</u>
Ending balance	<u>\$ 84,338</u>	<u>\$ 124,233</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

September 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	\$ 4,930,304	\$ 219,155	\$ -	Financial assets for hedging	\$ (289,019)
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
September 30, 2019					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amount of the Hedging Instrument		Line Item in the Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period
		Assets	Liabilities		
Cross currency swaps	\$ 10,044,893	\$ 499,193	\$ -	Financial assets for hedging	\$ 351,879

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

	Period Till Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2020</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 4,930,304
Interest rate	-	-	-	-	2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285

	Period Till 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

	Period Till Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>September 30, 2019</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 10,044,893
Interest rate	-	-	-	-	2.20%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285-1.1353

c) Hedged items

	For the Nine Months Ended September 30, 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				
Overseas bonds	\$ 4,930,304	\$ -	\$ 289,019	\$ -	Financial assets at amortized cost	\$ 289,019	\$ -	\$ -

	For the Nine Months Ended September 30, 2019							
	Book Value of Hedged Item		Cumulative Adjustment for Change in Fair Value of Hedged Item Included in the Book Value of the Hedged Item		Line Item in the Statement of Financial Position That Includes the Hedged Items	Charges in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period	Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss That Includes the Hedge Ineffectiveness
	Assets	Liabilities	Assets	Liabilities				
Overseas bonds	\$ 10,044,893	\$ -	\$ (351,879)	\$ -	Financial assets at amortized cost	\$ (351,879)	\$ -	\$ -

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

	For the Nine Months Ended September 30	
	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	145,306	147,314
Income tax	<u>(29,061)</u>	<u>(29,463)</u>
Ending balance	<u>\$ 331,906</u>	<u>\$ 117,851</u>

- f. Offsetting of financial assets and financial liabilities

Cathay Life and its subsidiaries

Cathay Life and its subsidiaries engage in derivative financial instruments that do not meet the offsetting criteria of standards, but enters into master netting arrangements or other similar agreements with counterparties. Financial instruments subject to master netting arrangements or other similar agreements could be settled at net amount as agreed by both parties of the transaction, or the financial instrument should be settled at gross amount otherwise. However, if one of both parties of the transaction defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

September 30, 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 Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 24,311,690	\$ -	\$ 24,311,690	\$ 1,824,892	\$ 7,779,730	\$ 14,707,068

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	\$ 1,824,892	\$ -	\$ 1,824,892	\$ 1,824,892	\$ -	\$ -

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

September 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	\$ 9,925,349	\$ -	\$ 9,925,349	\$ 9,049,564	\$ 1,295,155	\$ (419,370)

Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (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	\$ 19,441,309	\$ -	\$ 19,441,309	\$ 9,049,564	\$ 4,168,281	\$ 6,223,464

Cathay United Bank and its subsidiaries

Cathay United Bank and its subsidiaries engages in financial instrument transactions that are offset in accordance with IAS 32, section 42, and the financial assets and financial liabilities that are relevant to such transactions are presented in the balance sheets at net amounts.

Cathay United Bank and its subsidiaries is also engaged in financial instrument transactions that are not offset in accordance with the regulations, but entered into enforceable master netting arrangements or other similar agreements with counterparties, for example: Global master repurchase agreements, global securities lending agreements, or other similar agreements. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities was disclosed as follows:

September 30, 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	\$ 72,282,946	\$ -	\$ 72,282,946	\$ 68,313,055	\$ 3,969,891	\$ -

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

September 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	\$ 68,313,055	\$ -	\$ 68,313,055	\$ 68,313,055	\$ -	\$ -

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.

September 30, 2019

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/ Pledged	
Derivative financial instruments	\$ 62,593,985	\$ -	\$ 62,593,985	\$ 57,323,025	\$ 2,983,186	\$ 2,287,774

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

September 30, 2019

Financial 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	\$ 57,323,025	\$ -	\$ 57,323,025	\$ 57,323,025	\$ -	\$ -

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:

September 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	\$ 2,398,357	\$ -	\$ 2,398,357	\$ 2,418,518	\$ -	\$ (20,161)

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

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.

September 30, 2019

Financial Liabilities	Gross Amount of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on the Balance Sheet	Net Financial Liabilities Recognized on the Balance Sheet	Relevant Amount That Has Not Been Offset on the Balance Sheet		Net Amount
				Financial Instruments (Note)	Cash Collateral Received	
Repurchase bonds	\$ 1,902,206	\$ -	\$ 1,902,206	\$ 1,915,756	\$ -	\$ (13,550)

g. Transfers of financial assets

Financial assets transferred that have not been fully removed

Cathay United Bank and its subsidiaries

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

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

September 30, 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	\$ 17,925,149	\$ 16,837,053	\$ 17,925,149	\$ 16,837,053	\$ 1,088,096
Financial assets at amortized cost					
Repurchase agreements	890,929	885,772	900,125	885,772	14,353

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

September 30, 2019					
Category of Financial Assets	Carrying Value of Transferred Financial Assets	Carrying Value of Related Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Related Financial Liabilities	Net Fair Value
Financial assets at FVTOCI					
Repurchase agreements	\$ 26,793,197	\$ 25,236,750	\$ 26,793,197	\$ 25,236,750	\$ 1,556,447
Financial assets at amortized cost					
Repurchase agreements	255,203	280,781	258,913	280,781	(21,868)

Cathay Securities and its subsidiaries

Transferred financial assets that are part of Cathay Securities and its subsidiaries' daily operations that do not meet the criteria for full derecognition are mostly made up of notes and bonds issued under repurchase agreements. The cash flows of these transactions have been transferred, and reflects the liability where Cathay Securities and its subsidiaries are obligated to buy back the transferred financial assets according to fixed prices in future periods. With respect to such transactions, Cathay Securities and its subsidiaries will not be able to use, sell or pledge the said transferred financial assets during the effective period. However, Cathay Securities and its subsidiaries are still exposed to interest rate risk and credit risk, hence the assets are not fully derecognized.

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

September 30, 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	\$ 2,418,518	\$ 2,398,357	\$ 2,418,518	\$ 2,398,357	\$ 20,161

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)

September 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	\$ 1,915,756	\$ 1,902,206	\$ 1,915,756	\$ 1,902,206	\$ 13,550

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

Cathay Life and its subsidiaries simulate rational expectations for possible extreme market changes to evaluate the losses incurred on 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 stress testing with historical and hypothetical scenarios to serve as a basis for risk analysis, early warning for risk and business management.

Table of Stress Testing

Risk Factor	Variable (+/-)	For the Nine Months Ended September 30	
		2020	2019
Equity risk (stock price index)	-10%	\$ (48,704,147)	\$ (52,805,101)
Interest rate risk (yield curve)	+100bps	(136,694,732)	(112,396,873)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(10,448,027)	(11,619,149)

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 Nine Months Ended September 30, 2020			
Risk Factor	Variable (+/-)	Change in Profit or Loss	Change in Equity
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 5,890,793	\$ 4,661,714
	Appreciation of CNY/USD by 1%	213,382	267,941
	Appreciation of HKD/USD by 1%	5,164	242,680
	Appreciation of EUR/USD by 1%	(41,912)	192,069
	Appreciation of GBP/USD by 1%	(13,489)	277,100
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	1,041	(1,150,760)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(16,643)
	Upward parallel shift of the yield curve (EUR) by 1bp	1,011	(4,982)
	Upward parallel shift of the yield curve (GBP) by 1bp	-	(6,246)
	Upward parallel shift of the yield curve (NTD) by 1bp	-	(326,674)
Equity price risk	Increase in equity price by 1%	(95,701)	4,990,610

For the Nine Months Ended September 30, 2019

Risk Factor	Variable (+/-)	Change in Profit or Loss	Change in Equity
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 7,233,836	\$ 4,501,505
	Appreciation of CNY/USD by 1%	1,203,259	355,500
	Appreciation of HKD/USD by 1%	(2,788)	382,262
	Appreciation of EUR/USD by 1%	140,302	162,308
	Appreciation of GBP/USD by 1%	(116,155)	278,723
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	(75)	(921,129)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(16,566)
	Upward parallel shift of the yield curve (EUR) by 1bp	99	(13,294)
	Upward parallel shift of the yield curve (GBP) by 1bp	-	(7,619)
	Upward parallel shift of the yield curve (NTD) by 1bp	249	(85,528)
Equity price risk	Increase in equity price by 1%	(145,643)	5,444,008

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:

September 30, 2020

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 302,682,752	\$ 13,226,760	\$ 60,065	\$ 119,169,569	\$ 20,512,603	\$ 455,651,749
Financial assets at FVTPL	56,484,077	24,663,570	76,142,540	30,330,178	35,856,576	223,476,941
Financial assets at FVTOCI	48,755,202	42,662,704	158,134,286	456,343,060	310,874,918	1,016,770,170
Financial assets for hedging	83,688	-	219,155	84,084	-	386,927
Financial assets measured at amortized cost	<u>156,507,709</u>	<u>178,558,025</u>	<u>433,383,255</u>	<u>1,241,934,198</u>	<u>676,103,230</u>	<u>2,686,486,417</u>
	<u>\$ 564,513,428</u>	<u>\$ 259,111,059</u>	<u>\$ 667,939,301</u>	<u>\$ 1,847,861,089</u>	<u>\$ 1,043,347,327</u>	<u>\$ 4,382,772,204</u>
Proportion	12.9%	5.9%	15.2%	42.2%	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%

September 30, 2019

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 214,498,960	\$ 14,172,956	\$ 135,652	\$ 68,471,407	\$ 57,253	\$ 297,336,228
Financial assets at FVTPL	33,670,230	32,290,066	104,008,821	40,984,794	88,929,421	299,883,332
Financial assets at FVTOCI	44,626,755	44,110,032	173,118,907	370,741,910	237,085,959	869,683,563
Financial assets for hedging	94,992	-	499,193	108,068	-	702,253
Financial assets measured at amortized cost	<u>187,136,416</u>	<u>172,314,161</u>	<u>433,064,135</u>	<u>1,149,918,125</u>	<u>654,670,041</u>	<u>2,597,102,878</u>
	<u>\$ 480,027,353</u>	<u>\$ 262,887,215</u>	<u>\$ 710,826,708</u>	<u>\$ 1,630,224,304</u>	<u>\$ 980,742,674</u>	<u>\$ 4,064,708,254</u>
Proportion	11.8%	6.5%	17.5%	40.1%	24.1%	100%

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

September 30, 2020

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 213,297,034	\$ 40,743,437	\$ 59,611,696	\$ 3,156,137	\$ 316,808,304
Non-accrual receivables	<u>194,574</u>	<u>36,054</u>	<u>55,511</u>	<u>1,491,221</u>	<u>1,777,360</u>
	<u>\$ 213,491,608</u>	<u>\$ 40,779,491</u>	<u>\$ 59,667,207</u>	<u>\$ 4,647,358</u>	<u>\$ 318,585,664</u>
Proportion	67.0%	12.8%	18.7%	1.5%	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%

September 30, 2019

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 245,145,911	\$ 42,158,168	\$ 65,797,795	\$ 7,384,055	\$ 360,485,929
Non-accrual receivables	417,306	72,575	114,910	-	604,791
	<u>\$ 245,563,217</u>	<u>\$ 42,230,743</u>	<u>\$ 65,912,705</u>	<u>\$ 7,384,055</u>	<u>\$ 361,090,720</u>
Proportion	68.0%	11.7%	18.3%	2.0%	100%

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 Corp. and Moody’s and is determined based upon current observable information and macroeconomic information (for example, gross domestic product and economic growth rate) with adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of financial assets.

- ii. Forward-looking information considerations

Cathay life takes forward-looking information into consideration while measuring expected credit losses of financial assets.

g) Gross carrying amounts of maximum credit risk exposure and categories for credit quality

i. Financial assets of Cathay Life

September 30, 2020						
	Stage 1	Stage 2	Stage 3			
	12-month	Lifetime Expected	Lifetime Expected	Purchased or	Loss Allowance	Gross Carrying
	Expected Credit	Credit Losses	Credit Losses	Originated		Amount
	Losses			Credit-impaired		
				Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 1,012,820,317	\$ -	\$ -	\$ -	\$ -	\$ 1,012,820,317
Financial assets measured at amortized cost	2,670,941,847	-	-	-	(1,839,555)	2,669,102,292
Non-investment grade						
Debt instruments at FVTOCI	3,764,905	184,948	-	-	-	3,949,853
Financial assets measured at amortized cost	14,144,697	4,063,718	-	-	(824,290)	17,384,125
December 31, 2019						
	Stage 1	Stage 2	Stage 3			
	12-month	Lifetime Expected	Lifetime Expected	Purchased or	Loss Allowance	Gross Carrying
	Expected Credit	Credit Losses	Credit Losses	Originated		Amount
	Losses			Credit-impaired		
				Financial Assets		
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
September 30, 2019						
	Stage 1	Stage 2	Stage 3			
	12-month	Lifetime Expected	Lifetime Expected	Purchased or	Loss Allowance	Gross Carrying
	Expected Credit	Credit Losses	Credit Losses	Originated		Amount
	Losses			Credit-impaired		
				Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 854,603,526	\$ -	\$ -	\$ -	\$ -	\$ 854,603,526
Financial assets measured at amortized cost	2,565,457,577	-	-	-	(1,003,240)	2,564,454,337
Other financial assets	-	-	-	-	-	-
Non-investment grade						
Debt instruments at FVTOCI	14,652,849	427,188	-	-	-	15,080,037
Financial assets measured at amortized cost	27,195,565	5,953,109	-	-	(500,133)	32,648,541

Note: Investment grade assets refer to those with credit ratings of at least BBB-; non-investment grade assets are those with credit ratings lower than BBB-.

ii. Secured loans and non-accrual loans of Cathay Life

September 30, 2020							
	Stage 1	Stage 2	Stage 3			Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month	Lifetime Expected	Lifetime Expected	Purchased or	Loss Allowance		
	Expected Credit	Credit Losses	Credit Losses	Originated			
	Losses			Credit-impaired			
				Financial Assets			
Secured loans and non-accrual loans	\$ 311,005,891	\$ 86,326	\$ 7,493,447	\$ -	\$ (1,848,361)	\$ (2,910,917)	\$ 313,826,386
December 31, 2019							
	Stage 1	Stage 2	Stage 3			Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month	Lifetime Expected	Lifetime Expected	Purchased or	Loss Allowance		
	Expected Credit	Credit Losses	Credit Losses	Originated			
	Losses			Credit-impaired			
				Financial Assets			
Secured loans and non-accrual loans	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)	\$ 340,964,004

September 30, 2019

	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses			
Secured loans and non-accrual loans	\$ 353,626,032	\$ 696,661	\$ 6,768,027	\$ -	\$ (947,403)	\$ (4,090,118)	\$ 356,053,199

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	288,577	-	-	-	288,577
Financial assets that have been derecognized during the period	(200,477)	(289,638)	-	-	(490,115)
Changes in models/risk parameters	247,890	330,596	-	-	578,486
Foreign exchange and other movements	(17,845)	(5,855)	-	-	(23,700)
September 30, 2020	<u>\$ 653,532</u>	<u>\$ 46,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 699,992</u>

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(2,661)	2,661	-	-	-
New financial assets originated or purchased	121,537	-	7	-	121,544
Financial assets that have been derecognized during the period	(223,009)	(64,281)	(12,462)	-	(299,752)
Changes in models/risk parameters	7,208	67,000	-	-	74,208
Foreign exchange and other movements	4,256	709	116	-	5,081
September 30, 2019	<u>\$ 375,611</u>	<u>\$ 23,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,749</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	\$ 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	325,816	-	-	-	325,816
Financial assets that have been derecognized during the period	(273,932)	(949,045)	-	-	(1,222,977)
Changes in models/risk parameters	859,569	1,591,703	-	-	2,451,272
Foreign exchange and other movements	(49,340)	(37,947)	-	-	(87,287)
September 30, 2020	<u>\$ 1,897,173</u>	<u>\$ 766,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,663,845</u>

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(542)	542	-	-	-
New financial assets originated or purchased	380,587	-	-	-	380,587
Financial assets that have been derecognized during the period	(297,146)	(236,044)	(658,551)	-	(1,191,741)
Changes in models/risk parameters	66,882	(35,921)	-	-	30,961
Foreign exchange and other movements	6,934	8,029	(51,893)	-	(36,930)
September 30, 2019	<u>\$ 1,061,145</u>	<u>\$ 442,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,503,373</u>

iii. Other financial assets

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 594	\$ -	\$ -	\$ -	\$ 594
Financial assets that have been derecognized during the period	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
September 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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	(18)	18	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,432)	(69)	1,501	-	-	-	-
Transferred to 12-month expected credit losses	485	(89)	(396)	-	-	-	-
New financial assets originated or purchased	92,655	-	32,448	-	125,103	-	125,103
Financial assets that have been derecognized during the period	(37,174)	(121)	(275,878)	-	(313,173)	-	(313,173)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(683,012)	(683,012)
Changes in models/risk parameters	180,289	1,011	623,084	-	804,384	-	804,384
September 30, 2020	<u>\$ 319,614</u>	<u>\$ 1,049</u>	<u>\$ 1,527,698</u>	<u>\$ -</u>	<u>\$ 1,848,361</u>	<u>\$ 2,910,917</u>	<u>\$ 4,759,278</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	(608)	608	-	-	-	-	-
Transferred to credit-impaired financial assets	(1,302)	(93)	1,395	-	-	-	-
Transferred to 12-month expected credit losses	1,662	(77)	(1,585)	-	-	-	-
New financial assets originated or purchased	1,782	-	7,903	-	9,685	-	9,685
Financial assets that have been derecognized during the period	(10,067)	(26)	(102,255)	-	(112,348)	-	(112,348)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(1,036,234)	(1,036,234)
Changes in models/risk parameters	(6,608)	69	374,351	-	367,812	-	367,812
September 30, 2019	<u>\$ 75,426</u>	<u>\$ 682</u>	<u>\$ 871,295</u>	<u>\$ -</u>	<u>\$ 947,403</u>	<u>\$ 4,090,118</u>	<u>\$ 5,037,521</u>

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:

	Aging of Receivables and ECL Recognized				
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
<u>September 30, 2020</u>					
Gross carrying amount (Note)	\$ 18,578,183	\$ 55,551	\$ 6,431	\$ -	\$ 18,640,165
Loss rate	0%	2%	10%	50%	-
Lifetime expected credit losses	-	1,111	643	-	1,754

Note: Cathay Life's receivables included notes receivable in the amount of \$19,933 thousand and other receivables in the amount of \$18,620,232 thousand.

Aging of Receivables and ECL Recognized					
	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.

Aging of Receivables and ECL Recognized					
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	Total
<u>September 30, 2019</u>					
Gross carrying amount (Note)	\$ 20,105,699	\$ 96,192	\$ 8,074	\$ -	\$ 20,209,965
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,924	807	-	2,731

Note: Cathay Life's receivables included notes receivable in the amount of \$7,206 thousand and other receivables in the amount of \$20,202,759 thousand.

The movements of loss allowance were as follows:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 1,541	\$ 2,346
Increase for the current period	<u>213</u>	<u>385</u>
Ending balance	<u>\$ 1,754</u>	<u>\$ 2,731</u>

3) 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.

	September 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 (Note 1)	\$ 30,100,822	\$ 903,404	\$ 436,166	\$ 996,589	\$ 1,915
Bonds payable (Note 2)	252,000	926,160	2,715,000	8,145,000	86,030,000
Lease liabilities (Note 3)	435,284	225,841	647,646	1,391,835	18,198,220
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	869,931	242,090	141,580	-	-
Foreign currency swaps	1,742,538	-	-	-	-
	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	-	-	-	-
	September 30, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 36,599,222	\$ 801,654	\$ 348,610	\$ 1,191,520	\$ 41,291
Bonds payable (Note 2)	252,000	927,385	2,715,000	8,145,000	88,745,000
Lease liabilities (Note 3)	523,981	234,023	489,239	1,380,791	18,589,800
<u>Derivative financial liabilities</u>					
Foreign exchange forward contracts	20,979,468	128,655	-	-	-
Foreign currency swaps	2,818,552	93,300	-	-	-
Interest rate swaps	2,297	1,480	3,574	2,045	-
Options	143,587	-	-	-	-
Cross currency swaps	-	-	542	-	-

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

Note 2: For bonds payable without maturity dates, the remaining period used to calculate the contractual cash flows was 10 years.

Note 3: For lease liabilities, the remaining periods used to calculate the contractual cash flows were from 1 to 43 years.

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.

The loan committee is the top lending authority within CUBC Bank, and is composed of CUBC Bank's senior management. It is in charge of approval of all credit facilities 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, which effectively reduces Cathay United Bank's credit risk. The disclosure of the maximum credit exposure does not take into account any collateral held or other enhancement

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 in 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, it is determined that the credit risk has increased significantly since the initial recognition.

ii) Qualitative indicators

When the information observed at the reporting date meets the following conditions, credit risk is deemed to have increased significantly since initial recognition.

- Bounced checks are reported.
- Auditors have expressed significant doubt on the entity's ability to continue as a going concern.
- Auditors' opinion- adverse opinion.
- Auditors' opinion- disclaimer of opinion.
- The stock was placed in full-cash delivery stock.

- Other changes in the internal or external information on determining the changes in credit quality.

ii. Indovina Bank

Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

i) Notch downgrade

A notch downgrade of obligor's internal or external ratings between the current grade and the grade at initial recognition greater than specific threshold would be classified as a significant increase in credit risk since initial recognition.

ii) Low credit risk criteria

An exposure rated below Moody's investment grade (i.e., the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency) at the reporting date would be classified as a significant increase in credit risk since initial recognition.

iii) Past due information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

iv) Internal credit assessment indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

iii. CUBC Bank

CUBC Bank observes the following indicators at each reporting date in order to determine if the financial asset is credit impaired:

i) Past due information

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 in 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 is subject to default:

i) Notch downgrade

An obligor who has failed to pay one or more of its financial obligations or has defaulted 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 is subject to default:

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 at the reporting date, such as substandard, doubtful and loss, would be classified as a significant increase in credit risk since initial recognition.

iii) Internal credit assessment indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

d) The measurement of expected credit loss

i. Cathay United Bank and CUBCN Bank

For the purpose of assessing the expected credit losses, Cathay United Bank and CUBCN Bank classify the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category, and so on.

Credit Category	Definition
Enterprise loan	Grouped by risk characteristics, enterprise size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

When the credit risk of the financial instrument has not increased significantly after initial recognition (Stage 1), Cathay United Bank and CUBCN Bank should measure the allowance for losses using 12-month expected credit losses. When the credit risk of the financial instrument has increased significantly (Stage 2) or the financial instrument is credit impaired (Stage 3) after initial recognition, Cathay United Bank and CUBCN Bank should measure the allowance for losses based on lifetime expected credit losses.

For the measurement of the expected credit loss, Cathay United Bank and CUBCN Bank calculate its expected credit losses over 12 months and the life time respectively by multiplying three factors, i.e., probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) of the borrower over the next 12 months and the life time.

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 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 September 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, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

ii) Bond portfolio

The segmentation of Indovina Bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

iii. Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank 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, 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 Cathay United Bank (China) Co., Ltd.

Cathay United Bank and Cathay United Bank (China) Co., Ltd. use historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and use the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD differ depending on the type of financial instruments.

The significant economic factors identified by Cathay United Bank and Cathay United Bank (China) Co., Ltd. on September 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 2020/09/30 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 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 employs statistical methods and the professional judgment from the experts. Cathay United Bank develops the rating model of business credit after considering the clients’ relevant information. The model is reviewed periodically to verify if the calculated results conform to reality and revise every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

The credit quality of Cathay United Bank’s corporate borrowers is classified as excellent, good, average, and bad.

To ensure the reasonable estimated values of credit rating system’s design, process, and relevant risk factors, Cathay United Bank executes the relevant verification and tests the model according to the actual default every year so that the calculated results will be close to actual default.

Cathay United Bank evaluates the counterparties’ credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

iii. Hedge of credit risk and easing policy

i) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collateral. To ensure the creditor's rights, Cathay United Bank sets the scope available as collateral and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collateral, and offset provisions to stipulate when a credit trigger event occurs, Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, Cathay United Bank will use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

Other non-credit business collateral shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

ii) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, Cathay United Bank limits the credit amounts of single counterparties and groups; Cathay United Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, Cathay United Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

iii) Net settlement agreement

Cathay United Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, Cathay United Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

iv. Cathay United Bank's maximum exposure to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

i) Cathay United Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2020	December 31, 2019	September 30, 2019
Irrevocable loan commitments	\$ 168,200,851	\$ 189,579,513	\$ 151,976,389
Credit card commitments	732,024,180	710,712,032	692,991,384
Unused commercial letters of credit	5,343,430	4,496,860	5,413,454
Guarantees on duties and contracts	15,394,150	12,957,304	13,505,393

ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2020	December 31, 2019	September 30, 2019
Financial guarantee contracts	\$ 1,271,051	\$ 1,380,304	\$ 1,389,371
Unused commercial letters of credit	907,191	662,214	836,415
Irrevocable loan commitments	-	-	667

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2020	December 31, 2019	September 30, 2019
Financial guarantee contracts	\$ 16,685	\$ 23,652	\$ 24,388
Credit card commitments	295,093	280,881	323,110
Irrevocable loan commitments	308,755	488,140	-

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2020	December 31, 2019	September 30, 2019
Financial guarantee contracts	\$ 327,309	\$ 427,986	\$ 467,859
Unused commercial letters of credit	210,432	95,593	180,717
Irrevocable loan commitments	899,243	1,050,539	792,519

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 amounts of the maximum credit risk exposure of on-balance-sheet financial assets are as follows:

Cathay United Bank and its subsidiaries' discounts and loans:

	September 30, 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	\$ 1,560,568,474	\$ 60,253,970	\$ 12,024,276	\$ -	\$ 1,632,846,720
Less: Allowance impairment	(4,274,189)	(2,451,466)	(5,673,662)	-	(12,399,317)
Difference from impairment charged in accordance with regulations	-	-	-	(15,450,268)	(15,450,268)
	<u>\$ 1,556,294,285</u>	<u>\$ 57,802,504</u>	<u>\$ 6,350,614</u>	<u>\$ (15,450,268)</u>	<u>\$ 1,604,997,135</u>

Cathay United Bank and its subsidiaries' receivables:

	September 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	\$ 88,252,646	\$ 2,059,746	\$ 2,098,874	\$ -	\$ 92,411,266
Less: Allowance impairment	(440,714)	(200,571)	(1,685,030)	-	(2,326,315)
Difference from impairment charged in accordance with regulations	-	-	-	(63,293)	(63,293)
	<u>\$ 87,811,932</u>	<u>\$ 1,859,175</u>	<u>\$ 413,844</u>	<u>\$ (63,293)</u>	<u>\$ 90,021,658</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:

	September 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	\$ 1,509,638,536	\$ 58,508,578	\$ 12,768,952	\$ -	\$ 1,580,916,066
Less: Allowance impairment	(2,711,798)	(1,456,176)	(5,567,120)	-	(9,735,094)
Difference from impairment charged in accordance with regulations	-	-	-	(17,267,045)	(17,267,045)
	<u>\$ 1,506,926,738</u>	<u>\$ 57,052,402</u>	<u>\$ 7,201,832</u>	<u>\$ (17,267,045)</u>	<u>\$ 1,553,913,927</u>

Cathay United Bank and its subsidiaries' receivables:

	September 30, 2019			Difference from Impairment Charged in Accordance with Applicable Laws and Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 129,397,098	\$ 1,496,092	\$ 2,222,852	\$ -	\$ 133,116,042
Less: Allowance impairment	(562,512)	(133,544)	(1,580,096)	-	(2,276,152)
Difference from impairment charged in accordance with regulations	-	-	-	(52,742)	(52,742)
	<u>\$ 128,834,586</u>	<u>\$ 1,362,548</u>	<u>\$ 642,756</u>	<u>\$ (52,742)</u>	<u>\$ 130,787,148</u>

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 and its subsidiaries according to industry and country were listed below:

Industry Type Item	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 136,408,281	8.26	\$ 116,211,750	7.28	\$ 118,131,808	7.40
Financial institutions and insurance	77,074,019	4.67	79,217,724	4.96	76,799,272	4.81
Leasing and real estate	143,620,450	8.70	144,353,511	9.04	142,428,313	8.93
Individuals	948,513,727	57.45	904,288,042	56.65	888,894,583	55.70
Others	<u>345,456,789</u>	<u>20.92</u>	<u>352,249,142</u>	<u>22.07</u>	<u>369,522,906</u>	<u>23.16</u>
	<u>\$ 1,651,073,266</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>	<u>\$ 1,595,776,882</u>	<u>100.00</u>

Geographic Region Item	September 30, 2020		December 31, 2019		September 30, 2019	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,359,824,715	82.36	\$ 1,308,219,217	81.95	\$ 1,307,802,306	81.96
Asia	218,024,949	13.21	211,659,637	13.26	206,963,646	12.97
America	49,427,059	2.99	53,564,188	3.36	45,673,111	2.86
Others	<u>23,796,543</u>	<u>1.44</u>	<u>22,877,127</u>	<u>1.43</u>	<u>35,337,819</u>	<u>2.21</u>
	<u>\$ 1,651,073,266</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>	<u>\$ 1,595,776,882</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 and its subsidiaries 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, financial assets at amortized cost, discounts and loans, and securities purchased under resale agreements.

ii. Maturity analysis of non-derivative financial liabilities of Cathay United Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

	September 30, 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	\$ 35,293,619	\$ 16,083,093	\$ 8,629,260	\$ 18,303	\$ 60,024,275
Central Bank and interbank lending	-	-	-	1,000,000	1,000,000
Non-derivative financial liabilities at FVTPL	379,711	-	242,372	37,572,540	38,194,623
Securities sold under repurchase agreements	9,865,297	563,327	-	-	10,428,624
Payables	12,958,787	7,113,319	786,245	373,142	21,231,493
Deposits and remittances	315,850,430	1,083,406,828	887,939,880	152,732,013	2,439,929,151
Financial debentures payable	-	1,131	7,334,112	46,800,000	54,135,243
Lease liabilities	128,059	519,064	657,733	2,503,774	3,808,630
Other capital outflow at maturity	12,486,068	20,222,322	6,583,483	1,008,627	40,300,500

	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

	September 30, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 57,895,243	\$ 27,047,523	\$ 10,404,878	\$ 172,286	\$ 95,519,930
Non-derivative financial liabilities at FVTPL	401,788	-	261,218	53,298,757	53,961,763
Securities sold under repurchase agreements	13,339,822	1,352,279	20	7,613,325	22,305,446
Payables	58,440,124	6,564,038	983,997	352,375	66,340,534
Deposits and remittances	318,443,971	946,165,199	856,369,022	126,172,118	2,247,150,310
Financial debentures payable	-	5,568	433,877	53,800,000	54,239,445
Lease liabilities	-	18,315	50,035	3,715,275	3,783,625
Other capital outflow at maturity	20,043,647	37,857,589	5,836,347	1,373,431	65,111,014

Additional information about the maturity analysis for lease liabilities:

	September 30, 2020				
	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	Total
Lease liabilities	\$ 1,304,856	\$ 2,298,693	\$ 205,081	\$ -	\$ 3,808,630

	December 31, 2019				
	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	Total
Lease liabilities	\$ 1,116,536	\$ 2,470,871	\$ 204,253	\$ 634	\$ 3,792,294

	September 30, 2019				
	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	Total
Lease liabilities	\$ 68,350	\$ 3,350,126	\$ 365,149	\$ -	\$ 3,783,625

	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>
	September 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	\$ (1,959,588)	\$ (4,045,436)	\$ (951,360)	\$ (150,562)	\$ (7,106,946)
Cash inflow	6,059	48,705	193	2	54,959
Interest rate derivative instruments					
Cash outflow	(65,457)	(83,449)	-	(548,372)	(697,278)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,025,045)	(4,128,885)	(951,360)	(698,934)	(7,804,224)
Cash inflow subtotal	6,059	48,705	193	2	54,959
Net cash flow	<u>\$ (2,018,986)</u>	<u>\$ (4,080,180)</u>	<u>\$ (951,167)</u>	<u>\$ (698,932)</u>	<u>\$ (7,749,265)</u>

iv. Maturity analysis of off-balance sheet items

- i) Irrevocable commitments: Include Cathay United Bank's irrevocable loan commitments and credit card commitments.
- ii) Financial guarantee contracts: Cathay United Bank acts as a guarantor or an issuer of credit lines in a financing guarantee agreement.

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

September 30, 2020

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 136,571,155	\$ 26,136,664	\$ 5,493,032	\$ 168,200,851
Credit card commitments	38,388,757	232,322,457	461,312,966	732,024,180
Financial guarantee contracts	14,559,479	6,149,179	28,922	20,737,580

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

September 30, 2019

	Not Later Than 1 Year	1-5 Years	Later Than 5 Years	Total
Irrevocable loan commitments	\$ 98,318,671	\$ 39,887,880	\$ 13,769,838	\$ 151,976,389
Credit card commitments	38,899,195	236,530,144	417,562,045	692,991,384
Financial guarantee contracts	13,340,165	5,252,122	326,560	18,918,847

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. The portfolio held for trading is intended to earn profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

i. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, Cathay United Bank carries out various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

ii. Policy and procedure

Cathay United Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding the trading portfolio.

iii. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

iv. Method of measurement

i) The assumption and calculation of VaR: See the VaR section.

ii) Cathay United Bank executes the stress test monthly with the following scenarios: The fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

d) Interest risk management of trading book

i. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuations in interest rate. The main instruments include the securities and derivatives that relate to interest rates.

ii. Interest risk management procedure of the trading book

Cathay United Bank prudently chooses its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

iii. Method of measurement

i) The assumptions and calculation of the VaR: See VaR section.

ii) Cathay United Bank uses DV01 to measure the investment portfolio’s interest risk exposure on a monthly basis.

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.

September 30, 2020				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 116,903	\$ 194,699	\$ 72,467	\$ 79,068
Foreign exchange	193,957	371,160	35,686	161,156
Equity securities price	318,495	791,984	103,986	234,264

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

September 30, 2019				
Factors of Market Risk	Average Balance	Maximum Balance	Minimum Balance	Ending Balance
Interest rate	\$ 77,746	\$ 212,043	\$ 40,550	\$ 118,285
Foreign exchange	127,451	198,936	35,686	35,686
Equity securities price	285,942	393,133	159,476	159,476

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	September 30, 2020	December 31, 2019	September 30, 2019
Stock market	Major stock exchanges +15%	\$ 1,020,298	\$ 2,275,627	\$ 1,337,011
	Major stock exchanges -15%	(1,020,298)	(2,275,627)	(1,337,011)
Interest rate/bond market	Major interest rate + 100bp	(1,704,028)	(2,123,313)	(1,689,903)
	Major interest rate (100bp)	714,874	1,761,718	1,986,134
Foreign exchange market	Major currencies +3%	412,530	232,248	280,845
	Major currencies -3%	(399,896)	(219,225)	(267,381)
Composite	Major Stock Exchanges -15%	(2,311,796)	(4,166,692)	(2,746,069)
	Major Interest Rate +100bp			
	Major Currencies +3%			

Note: The information of stress test is defined by risk management policy of the trading book.

i) Sensitivity analysis

i. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. Cathay United Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

ii. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuations.

iii. Equity securities price risk

Equity securities price factor sensitivities (“Equity Delta”) represent the change in the equity of the securities price portfolio caused by a parallel shift of 1% (100 basis points) in the underlying share price fluctuation. Cathay United Bank’s equity portfolios include shares and equity index options.

		September 30, 2020	
Risk Factors	Changes (+/-)	Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 143,240	\$ -
	HKD+1%	(6,311)	-
	JPY+1%	22	-
	AUD+1%	299	-
	CNY+1%	6,843	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(6,893)	-
	Yield curves (HKD) parallel shift+1bp	170	-
	Yield curves (AUD) parallel shift+1bp	(534)	-
	Yield curves (CNY) parallel shift+1bp	(658)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	8,225	59,795

		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

		<u>September 30, 2019</u>	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 68,018	\$ -
	HKD+1%	(19,490)	-
	JPY+1%	14,461	-
	AUD+1%	(779)	-
	CNY+1%	6,246	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(6,177)	-
	Yield curves (HKD) parallel shift+1bp	11	-
	Yield curves (JPY) parallel shift+1bp	-	-
	Yield curves (AUD) parallel shift+1bp	(882)	-
	Yield curves (CNY) parallel shift+1bp	(1,059)	-
	Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	633

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.

Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

Cathay Century and its subsidiaries conduct stress testing regularly on positions by simple sensitivity analysis test and scenario analysis. Such tests cover the losses on positions resulting from changes of various risk factors in various historical scenarios.

i. Simple sensitivity test

Simple sensitivity test measures the changes in the value of the investment portfolio caused by specific risk factors.

ii. Scenario analysis

Scenario analysis measures the changes in the total value of the investment portfolio under a stress event, including the follows scenarios:

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Century and its subsidiaries evaluate whether the event would result in losses to 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 (+/-)	September 30, 2020	December 31, 2019	September 30, 2019
Equity risk (stock index)	-10%	\$ (617,186)	\$ (504,117)	\$ (425,282)
Interest rate risk (yield curve)	+20bps	(135,761)	(150,339)	(155,032)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(113,539)	(115,390)	(91,972)

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 Nine Months Ended September 30, 2020			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1%	\$ 21,191	\$ 4,750
	CNY appreciates 1%	2,561	-
	HKD appreciates 1%	983	3,701
	EUR appreciates 1%	120	285
	VND appreciates 1%	-	6,112
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,020)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(54)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,053)	(734)
Equity securities price sensitivity	Increases 1% in equity price	-	61,719
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 Nine Months Ended September 30, 2019

Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1% against the NTD	\$ 21,398	\$ 2,222
	CNY appreciates 1% against the NTD	2,502	-
	HKD appreciates 1% against the NTD	530	3,977
	EUR appreciates 1% against the NTD	96	275
	VND appreciates 1% against the NTD	6,318	-
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,646)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(82)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,252)	(847)
Equity securities price sensitivity	1% increase in equity security price	-	42,528

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's credit risk is the risk that Cathay Century and its subsidiaries or banks may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations due to default, bankruptcy or liquidation.
 - ii. Counterparty credit risk is the risk that Cathay Century and its subsidiaries may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.
 - iii. Credit risk of the underlying assets is the risk that Cathay Century may suffer losses due to deterioration of the credit quality, increase in credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Credit risk concentration analysis

i. Regional distribution of maximum risk exposure for Cathay Century and its subsidiaries' financial assets:

September 30, 2020

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 9,247,560	\$ -	\$ -	\$ -	\$ 284,069	\$ 9,531,629
Financial assets at FVTPL	422,491	-	-	-	-	422,491
Financial assets at FVTOCI	763,782	-	-	-	-	763,782
Financial assets at amortized cost	1,906,640	335,346	1,257,174	3,043,073	1,658,970	8,201,203
Total	\$ 12,340,473	\$ 335,346	\$ 1,257,174	\$ 3,043,073	\$ 1,943,039	\$ 18,919,105
Proportion	65.23%	1.77%	6.64%	16.09%	10.27%	100.00%

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%

September 30, 2019

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 10,301,142	\$ -	\$ -	\$ -	\$ 218,356	\$ 10,519,498
Financial assets at FVTPL	789,450	-	-	-	-	789,450
Financial assets at FVTOCI	753,955	-	-	-	-	753,955
Financial assets at amortized cost	1,913,399	359,210	1,506,989	3,274,427	1,816,313	8,870,338
Total	\$ 13,757,946	\$ 359,210	\$ 1,506,989	\$ 3,274,427	\$ 2,034,669	\$ 20,933,241
Proportion of each region to total	65.72%	1.72%	7.20%	15.64%	9.72%	100.00%

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.

In the measurement of expected credit losses, Cathay Century took into consideration the 12-month and lifetime probability of default (“PD”) of issuers, guarantee agencies or borrowers, which is included in loss given default (“LGD”) and multiplied by the exposure at default (“EAD”), at the same time taking into consideration the time value of money, when calculating the 12-month and lifetime expected credit losses.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Century in impairment assessment is based on information regularly issued by Moody’s. Probability of default is based on information regularly issued by Taiwan Ratings and Moody’s and is determined based upon current observable information and macroeconomic information (i.e., 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 the financial assets.

- ii. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets. 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

	September 30, 2020					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 763,782	\$ -	\$ -	\$ -	\$ -	\$ 763,782
Financial assets measured at amortized cost	8,075,372	-	-	-	(6,783)	8,068,589
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	-	144,209	-	-	(11,595)	132,614
	December 31, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 754,014	\$ -	\$ -	\$ -	\$ -	\$ 754,014
Financial assets measured at amortized cost	8,698,998	-	-	-	(3,909)	8,695,089
	September 30, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 753,955	\$ -	\$ -	\$ -	\$ -	\$ 753,955
Financial assets measured at amortized cost	8,874,412	-	-	-	(4,074)	8,870,338

Note: Investment grade assets refer to those with credit ratings of at least BBB-; non-investment grade assets are those with credit rating lower than BBB-.

ii. Secured loans

	September 30, 2020					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Secured loans	\$ 210,901	\$ -	\$ -	\$ -	\$ (2,572)	\$ 208,329
	December 31, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Secured loans	\$ 232,652	\$ -	\$ -	\$ -	\$ (2,803)	\$ 229,849
	September 30, 2019					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3		Loss Allowance	Gross Carrying Amount
			Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Secured Loans	\$ 233,061	\$ -	\$ -	\$ -	\$ (2,796)	\$ 230,265

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	<u>32</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32</u>
September 30, 2020	<u>\$ 98</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98</u>
January 1, 2019	\$ 148	\$ -	\$ -	\$ -	\$ 148
Changes in models/risk parameters	<u>(80)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80)</u>
September 30, 2019	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68</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					
Transferred to lifetime expected credit loss	(523)	-	523	-	-
Derecognition of financial assets in the current period	-	-	(8,854)	-	(8,854)
Changes in models/risk parameters	<u>3,397</u>	<u>-</u>	<u>19,926</u>	<u>-</u>	<u>23,323</u>
September 30, 2020	<u>\$ 6,783</u>	<u>\$ -</u>	<u>\$ 11,595</u>	<u>\$ -</u>	<u>\$ 18,378</u>
January 1, 2019	\$ 3,542	\$ -	\$ -	\$ -	\$ 3,542
Changes in models/risk parameters	<u>480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>480</u>
September 30, 2019	<u>\$ 4,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,022</u>

iii. Secured loans

	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
	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	\$ 66	\$ -	\$ -	\$ -	\$ 66	\$ 2,737	\$ 2,803
Changes in model/risk parameters	229	-	-	-	229	-	229
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(460)	(460)
September 30, 2020	<u>\$ 295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295</u>	<u>\$ 2,277</u>	<u>\$ 2,572</u>
January 1, 2019	\$ 53	\$ -	\$ -	\$ -	\$ 53	\$ 2,832	\$ 2,885
Changes in model/risk parameters	(4)	-	-	-	(4)	-	(4)
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(85)	(85)
September 30, 2019	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49</u>	<u>\$ 2,747</u>	<u>\$ 2,796</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

Cathay Century applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, and the estimation of lifetime credit loss was as follows:

September 30, 2020	Not Overdue	Overdue	Total
Carrying amount	\$ 1,160,737	\$ 688,213	\$ 1,848,950
Expected credit loss rate	0.99%	3.66%	
Lifetime expected credit losses	\$ 11,495	\$ 25,164	\$ 36,659
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
September 30, 2019	Not Overdue	Overdue	Total
Carrying amount	\$ 1,618,727	\$ 591,482	\$ 2,210,209
Expected credit loss rate	1.00%	7.98%	-
Lifetime expected credit losses	\$ 16,141	\$ 47,205	\$ 63,346

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 complete capital liquidity management by assessing the business features, monitoring short-term cash flow, and considering the trading volume and holding position to carefully manage the market liquidity risk.

According to the actual management need or special situations, Cathay Century and its subsidiaries uses cash flow model and stress testing to assess cash flow risk. Moreover, Cathay Century has drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

The analysis of cash outflows to Cathay Century and its subsidiaries are listed below and based on the residual terms to maturity on the balance sheet date. The disclosed amounts are prepared in accordance with contract cash flows and, accordingly for certain line items, the disclosed amounts are different to the amounts on consolidated balance sheets.

The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

September 30, 2020

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,454,284	\$ 14,142	\$ 10,089	\$ 25,443	\$ 414
Lease liabilities	72,565	55,461	10,708	1,455	-
<u>Derivative financial liabilities</u>					
Swap	2,257	-	-	-	-

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	-	-	-	-

September 30, 2019

	Less than 6 Months	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 2,681,474	\$ 13,813	\$ 5,570	\$ 7,495	\$ -
Lease liabilities	68,630	64,720	106,173	3,050	-
<u>Derivative financial liabilities</u>					
Swap	53,369	-	-	-	-

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 and its subsidiaries 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 and its subsidiaries 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 compiles the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet date and liquidity of overall foreign currency. Capital allocation planning is based on the compiled structure analysis as of the balance sheet date. In addition, capital liquidity simulation operations are regularly conducted to ensure 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.

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 lack of proper responses to the competitors.

ii) Controls

In response to significant events related to reputation and strategy risk, Cathay Securities and its subsidiaries establish internal regulations to mitigate the risk of losses when significant events occur.

Risk management policies and principles are established based on the above-mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraints for each risk and review the appropriateness of each constraint regularly. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay Securities and its subsidiaries to assess 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 and its subsidiaries 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, report to the risk management department and be approved by senior executive vice president.

Cathay Securities and its subsidiaries establishes the approval limit and stop-loss mechanism based on the attributes of each product. When the position meets the stop-loss point, the risk management department will inform the supervisor or position administrator in time and monitor the change in the position. In addition, the business department should operate in accordance with the approval limits. If the stop-loss point is met, the investment should be sold or the business department is required to provide an exception report detailing the reason and specific response measures.

2) Market risk analysis

Cathay Securities and its subsidiaries assess, monitor, and manage market risks completely and effectively by applying market risk management tools such as sensitivity analysis, Value at Risk ("VaR") and stress testing continuously.

a) Sensitivity analysis

Sensitivity analysis is used to measure the degree of impact on each product and investment portfolio due to fluctuations in specific market factors. The relevant monitoring and control regulations are set based on the differences in the types of risk and business attributes of Cathay Securities and its subsidiaries. The degree of risk exposure is monitored and measured by the following sensitivities:

i. Measurement based on interest factors

Price value of basis point (PVBP): Denoting the change in the value of a position given a 1 basis point change in the yield curve.

ii. Measurement based on commodity factors

i) Delta: Measuring the change in the value of a position given a 1% price change of a certain underlying asset.

ii) Gamma: Measuring the dollar amount of change in Delta of a position given a 1% price change of a certain underlying asset.

iii) Vega: Denoting the change in the value of a position given a 1% price 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 Nine Months Ended September 30, 2020			
	Average	Highest	Lowest	End of Period
VaR	\$ 27,289	\$ 43,375	\$ 11,733	\$ 43,375
	For the Nine Months Ended September 30, 2019			
	Average	Highest	Lowest	End of Period
VaR	\$ 15,924	\$ 21,983	\$ 9,609	\$ 15,041

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, find the risk factors which exert greater significant influence on the asset portfolio, follow up review and report such factors according to the market conditions and customized or extreme scenarios which are performed periodically by taking rapid changes in foreign and domestic financial environments into consideration, and the maximum losses arising from these scenarios are measured to ensure that Cathay Securities and its subsidiaries manage the risk from each potential scenario effectively.

Stress testing scenarios, which include the historical scenario and hypothesis scenario, are described as follows:

i. Historical Scenario

Cathay Securities and its subsidiaries assess the dollar amount of losses for the investment portfolio by choosing a specific time frame of historical events and taking the fluctuations of risk factors into the consideration such as the immediate, significant, and comprehensive impact on financial markets from the bankruptcy of Lehman Brothers in 2008 and the Great East Japan earthquake in 2011.

ii. Hypothesis Scenario

Cathay Securities and its subsidiaries make reasonable expected hypotheses on possible future extreme market fluctuations, include movements of the related risk factors in the current investment portfolio, and measure the loss amount generated from such events on the investment position, including the 10% drop in the total stock market value arising from the breakdown of the global system.

**For the Nine Months Ended September 30, 2020
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (212,385)
Interest rate risk (yield curve)	+100bps	(94,566)
Exchange rate risk (exchange rate)	+3%	10,374
Product risk (price)	-10%	3,331

**For the Nine Months Ended September 30, 2019
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (77,543)
Interest rate risk (yield curve)	+100bps	(67,806)
Exchange rate risk (exchange rate)	+3%	152
Product risk (price)	-10%	(434)

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 (i.e., gross domestic product and economic growth rate) after adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

Cathay Securities and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets.

e) Loss allowance of accounts receivables

The movements of the loss allowance of accounts receivables were as follows:

	Debt Instrument Investments	Receivables	Other Receivables	Overdue Receivables	Securities Financing Receivables	Security Lending Receivables	Futures Trading Margin Receivables	Total
Balance at January 1, 2020	\$ 852	\$ 96	\$ 17	\$ 94,993	\$ 166	\$ 16	\$ -	\$ 96,140
Increase (decrease)	<u>1,063</u>	<u>6</u>	<u>9</u>	<u>(2,940)</u>	<u>90</u>	<u>12</u>	<u>74</u>	<u>(1,686)</u>
Balance at September 30, 2020	<u>\$ 1,915</u>	<u>\$ 102</u>	<u>\$ 26</u>	<u>\$ 92,053</u>	<u>\$ 256</u>	<u>\$ 28</u>	<u>\$ 74</u>	<u>\$ 94,454</u>
Balance at January 1, 2019	\$ 1,020	\$ 88	\$ 12	\$ 95,047	\$ 132	\$ 7	\$ -	\$ 96,306
Increase (decrease)	<u>(189)</u>	<u>144</u>	<u>(2)</u>	<u>20</u>	<u>25</u>	<u>9</u>	<u>-</u>	<u>7</u>
Balance at September 30, 2019	<u>\$ 831</u>	<u>\$ 232</u>	<u>\$ 10</u>	<u>\$ 95,067</u>	<u>\$ 157</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 96,313</u>

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of September 30, 2020, December 31, 2019 and September 30, 2019, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$8,622,714 thousand, \$7,100,772 thousand and \$9,206,952 thousand, respectively.

a) Cash flow analysis

Capital liquidity risk is the risk that Cathay Securities and its subsidiaries are unable to acquire sufficient capital at a reasonable cost within a reasonable time frame and which results in a cash flow gap, or the risk that Cathay Securities and its subsidiaries sell assets at a loss to meet the cash flow requirements.

September 30, 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	\$ 372,779	\$ -	\$ -	\$ -	\$ 372,779
Commercial paper payable	489,972	-	-	-	489,972
Financial liabilities at FVTPL	7,541,791	-	-	-	7,541,791
Liabilities for bonds with repurchase agreements	2,398,357	-	-	-	2,398,357
Short sale margins and payables for short sale collateral received	52,425	104,850	157,275	629,099	943,649
Securities lending margin - deposit received	3,663	7,326	10,989	43,963	65,941
Futures trader's equity	14,001,137	-	-	-	14,001,137
Equity for each customer in the account	37,779	-	-	-	37,779
Accounts payable	8,398,420	-	247,567	268,604	8,914,591
Other financial liabilities	9,998	-	-	-	9,998
Lease liabilities - current	6,753	13,365	20,203	48,296	88,617
Others	5,672,810	-	-	-	5,672,810
Total	<u>\$ 38,985,884</u>	<u>\$ 125,541</u>	<u>\$ 436,034</u>	<u>\$ 989,962</u>	<u>\$ 40,537,421</u>
% to the total	<u>96.17%</u>	<u>0.31%</u>	<u>1.08%</u>	<u>2.44%</u>	<u>100%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

September 30, 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	\$ 5,180,794	\$ -	\$ -	\$ -	\$ 5,180,794
Financial assets at FVTPL					
Lent securities	384	-	-	-	384
Operation securities	5,004,740	-	-	-	5,004,740
Open-end funds and beneficiary certificates	50,050	-	-	-	50,050
Call option-futures	23,103	-	-	-	23,103
Futures trading margin	776,215	-	-	-	776,215
Structured products	87,136	-	-	-	87,136
Financial assets at FVTOCI - current	2,418,518	-	-	-	2,418,518
Securities financing receivables	225,781	447,284	670,926	2,683,707	4,027,698
Refinancing margin and refinancing deposits receivable	1,685	3,370	5,055	20,216	30,326
Security lending receivable	47,254	94,508	141,763	-	283,525
Customer's margin accounts	14,009,319	-	-	-	14,009,319
Security lending deposits price and security lending margin deposits paid	135,183	270,366	405,549	1,622,193	2,433,291
Receivables	7,139,489	-	-	168,618	7,308,107
Others	6,333,169	1,796	2,695	1,200,000	7,537,660
	<u>41,432,820</u>	<u>817,324</u>	<u>1,225,988</u>	<u>5,694,734</u>	<u>49,170,866</u>
Residual cash	<u>\$ 2,446,936</u>	<u>\$ 691,783</u>	<u>\$ 789,954</u>	<u>\$ 4,704,772</u>	<u>\$ 8,633,445</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
Deposits for securities borrowed	55,597	111,194	166,791	667,165	1,000,747
Futures trader's equity	7,358,470	-	-	-	7,358,470
Ledgers of securities firms' settlement accounts - customer's equity	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>

September 30, 2019

Cash Flows Analysis of Financial Liabilities

	Payment Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial liabilities</u>					
Short-term borrowings	\$ 217,276	\$ -	\$ -	\$ -	\$ 217,276
Commercial paper payable	5,519,250	-	-	-	5,519,250
Financial liabilities at FVTPL	2,034,437	32	-	-	2,034,469
Liabilities for bonds with repurchase agreements	1,902,206	-	-	-	1,902,206
Deposits for securities borrowed	47,299	94,598	141,897	567,580	851,374
Securities lending margin - deposits received	5,387	10,774	16,161	64,651	96,973
Futures trader's equity	6,913,926	-	-	-	6,913,926
Ledgers of securities firms' settlement accounts - customer's equity	6,432	-	-	-	6,432
Payables	6,499,432	-	180,871	275,973	6,956,276
Other financial liabilities	119,820	-	-	-	119,820
Lease liabilities - current	6,940	13,918	20,858	39,497	81,213
Others	78,887	-	-	-	78,887
Total	<u>\$ 23,351,292</u>	<u>\$ 119,322</u>	<u>\$ 359,787</u>	<u>\$ 947,701</u>	<u>\$ 24,778,102</u>
% to the total	<u>94.24%</u>	<u>0.48%</u>	<u>1.45%</u>	<u>3.83%</u>	<u>100%</u>

Short-term borrowings, commercial paper payable and repurchase bonds are fund procurement instruments of Cathay Securities and its subsidiaries with maturities within three months.

September 30, 2019

Cash Flow Gap

	Fund Receipt Period				Total
	Less than 1 Month	1 to 3 Months	3 to 6 Months	More than 6 Months	
<u>Financial assets</u>					
Cash and cash equivalents	\$ 3,079,685	\$ -	\$ -	\$ -	\$ 3,079,685
Financial assets at FVTPL					
Lending securities	248,069	-	-	-	248,069
Operation securities	6,106,531	-	-	-	6,106,531
Call option-futures	29,244	-	-	-	29,244
Futures trading margin	953,838	-	-	-	953,838
Structured products	61,846	-	-	-	61,846
Financial assets at fair value through other comprehensive income - current	1,915,756	-	-	-	1,915,756
Securities financing receivables	174,624	344,786	517,179	2,068,712	3,105,301
Refinancing margin and refinancing deposits receivable	4,922	9,844	14,766	59,055	88,587
Security lending receivable	27,486	54,972	82,460	-	164,918
Customer's margin accounts	6,922,501	-	-	-	6,922,501
Security lending deposits price and security lending margin deposits paid	45,641	91,282	136,923	547,696	821,542
Receivables	5,685,111	-	-	8,575	5,693,686
Others	1,079,835	-	-	900,000	1,979,835
	<u>26,335,089</u>	<u>500,884</u>	<u>751,328</u>	<u>3,584,038</u>	<u>31,171,339</u>
Residual cash	<u>\$ 2,983,797</u>	<u>\$ 381,562</u>	<u>\$ 391,541</u>	<u>\$ 2,636,337</u>	<u>\$ 6,393,237</u>

b) Capital liquidity risk stress testing

Cathay Securities and its subsidiaries perform stress testing regularly to measure and evaluate the changes of capital liquidity under extreme and abnormal events to ensure that Cathay Securities and its subsidiaries maintain capital liquidity. Stress scenarios include significant fluctuations in the financial markets, the occurrence of various credit events, the unexpected tightening of capital liquidity in the financial markets and other assumptions that may cause financial liquidity stress, and are used to measure Cathay Securities and its subsidiaries' abilities to meet the demand for cash and the changes in cash flow gap.

If the cash flow gap arises under the specific stress scenario, the following procedures are performed to prevent the occurrence of the stress events:

- i. Cathay Securities and its subsidiaries make fund raising and balance sheet adjustments in accordance with the Crisis Management Principles and Regulations of Emergency Management.
- ii. Financing: (i) short-term loan credit line (ii) collateralized time deposits (iii) issuance of commercial paper
- iii. Balance sheet adjustments: (i) sale of securities (ii) recovery of short-term capital invested in the currency market.

i. Structured entities

1) Consolidated structured entities

The consolidated structured entities in Cathay Life and its subsidiaries' consolidated financial statements are the real estate investments and management organizations. As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group provided loans amounting to GBP345,000 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 Cathay Life and its subsidiaries do 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:

Type of Structured Entity	Nature and Purpose	Interests Owned
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in units or limited partnership interests issued by the funds
Asset-backed securities	Investment in asset-backed securities to receive returns	Investment in asset-backed securities issued by the entities

- b) As of September 30, 2020, December 31, 2019 and September 30, 2019, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	September 30, 2020	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 109,727,496	\$ 40,724,469
Financial assets at FVTOCI	-	64,314,331
Financial assets measured at amortized cost	-	128,346,485
	<u>\$ 109,727,496</u>	<u>\$ 233,385,285</u>

	December 31, 2019	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 94,120,839	\$ 33,447,848
Financial assets at FVTOCI	-	47,465,038
Financial assets measured at amortized cost	<u>-</u>	<u>191,072,559</u>
	<u>\$ 94,120,839</u>	<u>\$ 271,985,445</u>

	September 30, 2019	
	Private Equity Funds	Asset-backed Securities
Financial assets at FVTPL	\$ 89,332,356	\$ 32,530,305
Financial assets at FVTOCI	-	33,991,317
Financial assets measured at amortized cost	<u>-</u>	<u>187,315,213</u>
	<u>\$ 89,332,356</u>	<u>\$ 253,836,835</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 September 30, 2020, December 31, 2019 and September 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:

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets at FVTOCI	\$ 16,313,861	\$ 27,942,654	\$ 25,396,788
Investments in debt instruments measured at amortized cost	<u>36,528,004</u>	<u>38,848,276</u>	<u>37,966,143</u>
	<u>\$ 52,841,865</u>	<u>\$ 66,790,930</u>	<u>\$ 63,362,931</u>

- d) 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 the unconsolidated structured entities is limited to the carrying amount of assets recognized by Cathay Century. 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 September 30, 2020, December 31, 2019 and September 30, 2019, the carrying amounts of assets recognized by Cathay Century relating to its interests in unconsolidated structured entities are disclosed as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets at FVTOCI	\$ 31,730	\$ 79,951	\$ 72,637
Investments in debt instruments measured at amortized cost	<u>541,995</u>	<u>591,412</u>	<u>618,546</u>
	<u>\$ 573,725</u>	<u>\$ 671,363</u>	<u>\$ 691,183</u>

37. CAPITAL MANAGEMENT

The Group's capital adequacy ratios meet the statutory requirements currently. Under the pretext that the Group meets the statutory capital adequacy requirements, dynamic capital management mechanism is utilized to increase the capital efficiency of the subsidiaries. After reallocation of capital, the subsidiaries' capabilities of risk-taking are not affected due to lower level of retained core capital. Accordingly, the Company conducts overall planning based on the status of the subsidiaries' capital in order to improve the capital efficiency of the Group.

38. 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	Holding company	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 and Its Subsidiaries
Current assets	
Cash and cash equivalents	\$ 628,816
Other	519,684
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 and Its Subsidiaries
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 and Its Subsidiaries
Consideration paid in cash	\$ 781,317
Less: Cash and cash equivalent balances acquired	<u>(628,816)</u>
	<u>\$ 152,501</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:

	September 30, 2020		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 136,909,763	29.1260	\$ 3,987,633,757
CNY	23,852,412	4.2766	102,007,225
Non-monetary items			
USD			
<u>Financial liabilities</u>			
	11,463,460	29.1260	333,884,736
Monetary items			
USD	15,239,763	29.1260	443,873,337
	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

September 30, 2019

	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 125,722,036	31.0420	\$ 3,902,663,442
CNY	23,030,500	4.3601	100,415,283
AUD	3,593,161	20.9766	75,372,416
HKD	7,120,153	3.9593	28,190,729
Non-monetary items			
USD	9,131,137	31.0420	283,448,755
HKD	12,691,527	3.9593	50,249,398
<u>Financial liabilities</u>			
Monetary items			
USD	13,380,324	31.0420	415,352,018
CNY	8,352,710	4.3601	36,418,651
AUD	1,613,308	20.9766	33,841,768

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 gains (losses) for the nine months ended September 30, 2020 and 2019 were \$(81,538,941) thousand and \$18,141,810 thousand, respectively.

b. Information on discretionary investments

1) Cathay life and its subsidiaries

- a) As of September 30, 2020, December 31, 2019 and September 30, 2019, Cathay life entrusted securities investment trust companies to provide discretionary investment services on its behalf, and the related investments are as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic shares	\$ 144,432,033	\$ 110,798,703	\$ 113,695,998
Overseas shares	59,565,720	51,029,574	53,610,884
Bonds purchased under resale agreements	16,745,000	14,812,000	14,794,000
Cash in banks	55,799,688	35,979,663	37,563,130
Beneficiary certificates	449,739	17,180	7,101
Futures and options	<u>508,083</u>	<u>435,322</u>	<u>216,671</u>
	<u>\$ 277,500,263</u>	<u>\$ 213,072,442</u>	<u>\$ 219,887,784</u>

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

b) As of September 30, 2020, December 31, 2019 and September 30, 2019, the discretionary investments limits are as follows (in thousands):

	September 30, 2020	December 31, 2019	September 30, 2019
NTD	\$ 84,358,163	\$ 64,358,163	\$ 87,872,589
USD	1,312,200	952,200	952,200
HKD	74,084	544,084	961,384

2) Cathay Century and its subsidiaries

Cathay Century enters into contracts with securities investment trust companies or consulting companies for discretionary investment management. The investment details are disclosed as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic shares	\$ 1,305,051	\$ 1,249,637	\$ 1,043,039
Bonds purchased under resale agreements	150,047	370,220	400,045
Cash in banks	558,052	216,196	228,531
Future margins	<u>2,011</u>	<u>2,010</u>	<u>2,010</u>
	<u>\$ 2,015,161</u>	<u>\$ 1,838,063</u>	<u>\$ 1,673,625</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 September 30, 2020, December 31, 2019 and September 30, 2019, Cathay Century and its subsidiaries entered into discretionary management contracts with investment limits amounted to \$1,200,000 thousand.

c. Disclosure information as required by the Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality - loans

(In Thousands of New Taiwan Dollars, %)

Period		September 30, 2020					September 30, 2019				
		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	\$ 866,166	\$ 245,809,962	0.35%	\$ 3,860,785	445.73%	\$ 571,523	\$ 222,937,429	0.26%	\$ 2,888,408	505.39%
	Unsecured	287,779	347,502,591	0.08%	7,301,184	2537.08%	533,586	343,190,640	0.16%	7,775,939	1457.30%
Consumer banking	Residential mortgage (Note 4)	365,366	375,526,956	0.10%	5,963,110	1632.09%	665,780	345,493,347	0.19%	5,510,424	827.66%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	242,762	95,958,362	0.25%	3,648,590	1502.95%	166,509	78,947,587	0.21%	2,688,989	1614.92%
	Other (Note 6)	Secured	701,827	475,518,974	0.15%	5,319,097	757.89%	1,132,714	499,438,620	0.23%	6,055,822
Unsecured		23,838	21,610,959	0.11%	298,591	1252.57%	150,548	25,586,277	0.59%	443,604	294.66%
Total loan		2,487,738	1,561,927,804	0.16%	26,391,357	1060.86%	3,220,660	1,515,593,900	0.21%	25,363,186	787.52%
		Nonperforming Receivables	Receivables	Ratio of Nonperforming Receivables	Allowance for Credit Losses	Coverage Ratio	Nonperforming Receivables	Receivables	Ratio of Nonperforming Receivables	Allowance for Credit Losses	Coverage Ratio
Credit cards		\$ 95,343	\$ 76,558,389	0.12%	\$ 1,916,048	2009.64%	\$ 121,625	\$ 76,791,456	0.16%	\$ 1,824,486	1500.09%
Accounts receivable factored without recourse (Note 7)		-	6,496,990	-	80,298	-	-	2,723,799	-	42,072	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans.” Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau’s letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the 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	September 30, 2020		September 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)	\$ 1,561	\$ 55,502	\$ 2,248	\$ 81,460
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	65,664	1,197,627	51,139	1,182,524
	Total	\$ 67,225	\$ 1,253,129	\$ 53,387	\$ 1,263,984

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 and September 20, 2016 (Ref. No. 09700318940 and No. 10500134790).

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

September 30, 2020			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate lease activities	\$ 25,429,131	10.76
2	Group B - packaging and testing of semi-conductors	11,822,675	5.00
3	Group C - ocean transportation	8,369,619	3.54
4	Group D - security consulting	7,083,375	3.00
5	Group E - other financial intermediation	6,616,953	2.80
6	Group F - real estate development activities	6,200,000	2.62
7	Group G - other financial intermediation	5,178,327	2.19
8	Group H - other financial intermediation	4,787,327	2.03
9	Group I - wired telecommunications activities	4,597,718	1.95
10	Group J - manufacture of computers	4,154,254	1.76

September 30, 2019			
Rank	Company Name	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development activities	\$ 29,320,572	13.73
2	Group B - packaging and testing of semi-conductors	17,006,347	7.96
3	Group C - air transport	9,551,100	4.47
4	Group D - other	8,891,393	4.16
5	Group E - other financial intermediation	8,748,828	4.10
6	Group F - real estate development activities	6,400,000	3.00
7	Group G - other financial intermediation	5,067,522	2.37
8	Group H - other financial intermediation	4,630,956	2.17
9	Group I - wired telecommunications activities	4,465,128	2.09
10	Group J - overseas financial institution	4,449,095	2.08

3) Information on interest rate sensitivity

Interest Rate Sensitivity
September 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	\$ 1,907,412,976	\$ 26,475,753	\$ 134,818,871	\$ 128,297,142	\$ 2,197,004,742
Interest rate-sensitive liabilities	186,717,285	1,483,800,146	230,016,680	90,477,682	1,991,011,793
Interest rate-sensitive gap	1,720,695,691	(1,457,324,393)	(95,197,809)	37,819,460	205,992,949
Net worth					236,246,742
Ratio of interest rate-sensitive assets to liabilities					110.35%
Ratio of interest rate sensitivity gap to net worth					87.19%

September 30, 2019

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,793,524,378	\$ 5,989,567	\$ 91,012,016	\$ 121,175,025	\$ 2,011,700,986
Interest rate-sensitive liabilities	210,322,714	1,330,455,575	246,497,699	95,451,402	1,882,727,390
Interest rate-sensitive gap	1,583,201,664	(1,324,466,008)	(155,485,683)	25,723,623	128,973,596
Net worth					213,525,975
Ratio of interest rate-sensitive assets to liabilities					106.85%
Ratio of interest rate sensitivity gap to net worth					60.40%

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)
September 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	\$ 7,670,274	\$ 1,628,071	\$ 1,097,394	\$ 6,116,613	\$ 16,512,352
Interest rate-sensitive liabilities	10,454,563	3,442,741	3,327,152	4,265,366	21,489,822
Interest rate-sensitive gap	(2,784,289)	(1,814,670)	(2,229,758)	1,851,247	(4,977,470)
Net worth					8,111,198
Ratio of interest rate-sensitive assets to liabilities					76.84%
Ratio of interest rate sensitivity gap to net worth					(61.37%)

September 30, 2019

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 8,302,958	\$ 715,224	\$ 1,025,962	\$ 8,320,963	\$ 18,365,107
Interest rate-sensitive liabilities	10,041,374	2,552,151	2,944,735	3,406,768	18,945,028
Interest rate-sensitive gap	(1,738,416)	(1,836,927)	(1,918,773)	4,914,195	(579,921)
Net worth					6,878,615
Ratio of interest rate-sensitive assets to liabilities					96.94%
Ratio of interest rate sensitivity gap to net worth					(8.43%)

Note 1: The above amounts included only U.S. dollar amounts held by Cathay United Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities (in U.S. dollars)

4) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
September 30, 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	\$ 2,958,660,921	\$ 472,639,240	\$ 315,648,537	\$ 448,696,770	\$ 259,626,918	\$ 394,592,457	\$ 1,067,456,999
Main capital outflow on maturity	3,495,686,461	157,811,679	250,623,220	478,789,988	634,704,489	643,627,789	1,330,129,296
Gap	(537,025,540)	314,827,561	65,025,317	(30,093,218)	(375,077,571)	(249,035,332)	(262,672,297)

September 30, 2019

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,807,289,224	\$ 446,126,532	\$ 379,964,169	\$ 387,817,087	\$ 238,747,268	\$ 334,109,211	\$ 1,020,524,957
Main capital outflow on maturity	3,290,752,215	199,429,803	249,889,939	517,934,215	625,608,022	468,505,767	1,229,384,469
Gap	(483,462,991)	246,696,729	130,074,230	(130,117,128)	(386,860,754)	(134,396,556)	(208,859,512)

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

Maturity Analysis of Assets and Liabilities
September 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	\$ 68,609,526	\$ 16,431,268	\$ 12,382,170	\$ 10,647,016	\$ 8,291,734	\$ 20,857,338
Main capital outflow on maturity	73,307,126	13,627,946	10,239,107	8,416,214	9,687,007	31,336,852
Gap	(4,697,600)	2,803,322	2,143,063	2,230,802	(1,395,273)	(10,479,514)

September 30, 2019

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 62,474,212	\$ 17,915,337	\$ 13,537,814	\$ 11,037,567	\$ 8,563,949	\$ 11,419,545
Main capital outflow on maturity	67,174,766	16,885,010	17,644,200	12,422,549	13,154,208	7,068,799
Gap	(4,700,554)	1,030,327	(4,106,386)	(1,384,982)	(4,590,259)	4,350,746

Note: The above amounts included only U.S. dollar amounts held by the Bank and excluded contingent assets and contingent liabilities.

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 on investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	None
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	Table 3
3	Discount on processing fee for transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by investees	None
6	Related information of financial assets securitization or real estate securitization by investees	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided to others	Note
9	Endorsements/guarantees provided	None
10	Marketable securities held as of September 30, 2020	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 4.
- d. The significant intercompany transactions among the Group are disclosed in Table 5 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 6.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL

SEPTEMBER 30, 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	\$ 6,963,026	Note 1	\$ -	-	\$ -	\$ -
	Cathay Life Insurance Co., Ltd.	Subsidiary	1,008,868	Note 2	-	-	-	-
Cathay United Bank Co., Ltd.	Cathay United Bank (China) Co., Ltd.	Subsidiary	646,532	Note 2	-	-	-	-
Conning Holdings Limited	Cathay Life Insurance Co., Ltd.	Subsidiary	322,934	-	-	-	-	-

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 consisted of interest receivables, for which turnover rate cannot be calculated.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 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	September 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	-	\$ 8	-	\$ 8	
	Guanghe CBI	"	"	-	87,417	-	87,417	
	A2G CB	"	"	-	1,561	-	1,561	
	PT Cemerlang Multimedia CB	"	"	-	73,936	-	73,936	
	Huang Chieh Mental Composite Material Tech. Co., Ltd. CB	"	"	-	71,502	-	71,502	
	<u>Fund</u> Cathay Superior Venture Capital Limited Partnership	"	Financial assets at fair value through profit or loss	-	15,000	-	15,000	
	<u>Beneficiary certificates</u> Mega Diamond Money Market Fund	"	"	31,861	402,673	-	402,673	
	Taishin 1699 Money Market Fund	"	"	26,888	366,589	-	366,589	
	Cathay Taiwan Money Market Fund	"	"	27,921	349,717	-	349,717	
	<u>Shares</u> Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	141	5,733	28.20	5,733	
	Dun-Yang Energy Corp.	"	"	3,897	46,133	32.20	46,133	
	Yong-Chang Energy Corp.	"	"	3,490	39,708	32.32	39,708	
	RI-Zhao Energy Corp.	"	"	4,040	48,129	32.32	48,129	
	Tien-Tai Optronics Corporation	"	"	10,646	139,453	33.64	139,453	
	F- Fulgent Sun International (Holding) Co., Ltd.	N/A	Financial assets at fair value through profit or loss	600	65,100	-	65,100	
	F- Hiroca Holdings Ltd.	"	"	439	24,282	-	24,282	
	Min Aik Precision Industrial Co., Ltd.	"	"	171	5,139	-	5,139	
	Man Zai Industrial Co., Ltd.	"	"	349	5,654	-	5,654	
	Taisun - KY	"	"	120	14,101	-	14,101	
	Senhwa Biosciences, Inc.	"	"	1,393	376,802	1.87	376,802	
	Tanvex BioPharma, Inc.	"	"	1,250	50,000	-	50,000	
	Kayee International Group Co., Ltd.	"	"	280	31,780	-	31,780	
	Global Tek Fabrication Co., Ltd.	"	"	812	29,191	1.22	29,191	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Cryomax Cooling System Corp.	"	"	729	\$ 18,870	1.10	\$ 18,870	
	Shane Global Holdings Inc.	"	"	3,943	415,955	3.55	415,955	
	Brighton-Best International (Taiwan) Inc.	"	"	5,573	142,669	-	142,669	
	Nan Pao Resins Chemical Co., Ltd.	"	"	323	40,575	-	40,575	
	Compal Broadband Networks, Inc.	"	"	78	2,012	-	2,012	
	Ching Chan Optical Technology Co., Ltd.	"	"	744	19,195	2.02	19,195	
	Fusheng Precision Co., Ltd.	"	"	800	140,400	-	140,400	
	Tot Biopharm Co., Ltd.	"	"	6,909	112,570	1.21	112,570	
	WW Holding Inc.	"	"	1,413	67,047	1.08	67,047	
	Airmate (Cayman) International Co Limited	"	"	652	16,099	-	16,099	
	World Known MFG (Cayman) Limited	"	"	1,499	56,213	5.00	56,213	
	Yonggu Group Inc. (Cayman)	"	"	1,130	81,142	-	81,142	
	Easywell Biomedicals Inc.	"	"	2,025	33,413	1.45	33,413	
	REMOTEK Corp.	"	"	480	3,928	2.20	3,928	
	Smartdisplayer Technology Co., Ltd.	"	"	1,000	19,730	4.01	19,730	
	Sincere Group	"	"	548	24,408	2.74	24,408	
	BioGend Therapeutics Co., Ltd.	"	"	2,000	38,240	2.44	38,240	
	Winway Technology Co., Ltd.	"	"	707	216,724	2.48	216,724	
	Tigerair Taiwan Co., Ltd.	"	"	1,829	32,812	-	32,812	
	Wendell Industrial Co., Ltd.	"	"	945	39,000	4.65	39,000	
	Evergreen Steel Corp.	"	"	1,500	67,470	-	67,470	
	Weblink International Inc.	"	"	2,144	62,326	2.91	62,326	
	CDIB Bioscience Venture Management (BVI) Inc.	"	"	19	578	1.88	578	
	Proconn Technology Co., Ltd.	"	"	2,055	1,048	3.30	1,048	
	EasyCard Investment Holdings Co., Ltd.	"	"	1,430	23,656	1.37	23,656	
	Lien-an Service Co., Ltd.	"	"	125	1,034	5.00	1,034	
	Koatech Technology Corp.	"	"	101	1,038	-	1,038	
	Mega Union Technology Incorporated.	"	"	3,022	56,785	10.68	56,785	
	Cathay Healthcare Management Co., Ltd.	"	"	8,250	181,830	15.00	181,830	
	Fashionguide Co., Ltd.	"	"	714	9,854	4.26	9,854	
	Sunmile Group Holding Co., Limited	"	"	528	-	1.85	-	
	Beauty Essentials International Ltd.	"	"	43,252	73,960	4.02	73,960	
	SMS Holdings One I	"	"	1	-	5.00	-	
	Shengzhuang Holdings	"	"	122	-	1.09	-	
	Bioengine Capital Inc.	"	"	10,800	123,228	3.16	123,228	
	Bravo Ideas Digital Co., Ltd.	"	"	3,386	3,420	6.03	3,420	
	Episonica Holding	"	"	2,255	40,991	12.45	40,991	
	Andros Pharmaceuticals Co., Ltd.	"	"	1,050	15,876	4.19	15,876	
	Transound Electronics Co., Ltd.	"	"	1,200	5,352	3.30	5,352	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Hyper Crystal Inc.	"	"	2,000	\$ 31,820	13.80	\$ 31,820	
	Amaryllo International B.V.	"	"	1,000	3,800	6.84	3,800	
	Noratech Pharmaceuticals, Inc.	"	"	1,000	26,740	-	26,740	
	Kuang Ming Shipping Corp.	"	"	157	424	-	424	
	Grandsys, Inc.	"	"	1,860	30,206	7.77	30,206	
	SinoGreenergy	"	"	-	1	10.00	1	
	DTCO (Samoa)	"	"	325	2,910	2.94	2,910	
	Tennrich International Corp.	"	"	1,938	368	3.19	368	
	Allianz Pharmascience Limited	"	"	2,000	33,740	6.85	33,740	
	KKDAY	"	"	5,668	16,664	1.20	16,664	
	SmartGames	"	"	164	2,074	1.91	2,074	
	SSC Holdco Limited	"	"	100	73,608	-	73,608	
	PSS Co., Ltd.	"	"	330	16,447	-	16,447	
	Altek Semiconductor (Cayman) Co., Ltd.	"	"	800	32,640	1.80	32,640	
	Anywhere2Go	"	"	2	7,603	8.99	7,603	
	Yikon Genomics	"	"	1,340	48,535	3.55	48,535	
	Rani Therapeutics, LLC	"	"	119	1,572	-	1,572	
	Mimetas B.V.	"	"	8	18,114	2.81	18,114	
	Xiongchuang (Samoa)	"	"	19	14,348	4.49	14,348	
	91APP	"	"	8,333	30,000	-	30,000	
	Acepodia Inc.	"	"	1,848	30,327	5.81	30,327	
	Greenway Environmental Technology Co., Ltd.	"	"	4,375	33,381	11.22	33,381	
	Chu Chien Technology Limited	"	"	2,302	101,275	1.57	101,275	
	Pacific 8 Venture	"	"	-	57,653	15.00	57,653	
	Monk's hill Venture Fund	"	"	-	18,537	2.50	18,537	
	One Degree	"	"	350,926	52,639	2.40	52,639	
	Validus	"	"	145	48,833	2.90	48,833	
	Vizionfocus Inc.	"	"	1,700	51,153	3.49	51,153	
	Finaxar	"	"	87	12,126	4.72	12,126	
	aetherAI Holding Co., Ltd.	"	"	582	19,189	1.48	19,189	
	Intudo Venture II, LP	"	"	-	30,374	3.76	30,374	
	King Point Enterprise Co., Ltd.	"	"	1,000	21,240	2.53	21,240	
	Cowealth Medical Holding Co., Ltd.	"	"	3,750	55,388	1.49	55,388	
	INNOPACK VIETNAM CO., LTD.	"	"	1,350	32,927	11.70	32,927	
	Pharmosa Biopharma Inc.	"	"	4,700	74,550	9.40	74,550	
	Transcene Corp.	"	"	2,400	24,000	14.63	24,000	
	Cirocomm Technology Corporation	"	"	2,000	20,000	6.85	20,000	
	Dingxin Metal Chemical	"	"	-	59,990	2.41	59,990	
	Ampak Technology Inc.	"	"	1,400	72,800	2.32	72,800	
	New Garden Co., Ltd.	"	"	5,000	44,040	8.30	44,040	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Yuen Foong Yu Consumer Products Co., Ltd.	"	"	500	\$ 19,850	-	\$ 19,850	
	Taiwan Aerospace Corp.	"	"	1	14	-	14	
	Hua Zhi Venture Capital Co., Ltd.	"	"	-	1	-	1	
	HWA VI Venture Capital Corp.	"	"	-	2	-	2	
	CDIB BioScience Ventures I, Inc.	"	"	-	1	-	1	
	WK Technology Fund	"	"	-	2	-	2	
	WK Technology Fund IV	"	"	-	2	-	2	
	WK 5 Venture Capital Co., Ltd.	"	"	-	2	-	2	
	WK 8 Venture Capital Co., Ltd.	"	"	-	1	-	1	
	WK 6 Venture Capital Co., Ltd.	"	"	-	2	-	2	
	WK 7 Venture Capital Co., Ltd.	"	"	-	2	-	2	
	<u>Preference shares</u> Winking Entertainment Co., Ltd.	"	"	3,612	60,572	8.62	60,572	
Cathay Futures Co., Ltd.	<u>Beneficiary certificate</u> JKO Pion Money Market Fund	N/A	Financial assets at fair value through profit or loss	4,302	50,040	-	50,040	
	<u>Shares</u> Taiwan Futures Exchange	N/A	Financial assets at fair value through other comprehensive income	5,617	667,084	1.52	667,084	

(Concluded)

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 NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date (Note 2)	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Cathay Life Insurance Co., Ltd.	Land located at Sanmin Section, Taoyuan City	2020.01.20	\$ 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, dates of boards of directors' resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Investee Company	Principal business activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2020	Remittance of Funds for the period		Accumulated Outward Remittance for Investments from Taiwan as of September 30, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of September 30, 2020	Accumulated Repatriation of Investment Income as of September 30, 2020
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 1,221,500	50.0	\$ 610,750 (Note 2,b,2))	\$ 5,844,727	\$ -
Cathay Century (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	140,775	49.0	68,979 (Note 2,b,3))	4,457,271	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	106,875	100.0	61,816 (Note 2,b,2))	7,403,724	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	272,351	100.0	272,351 (Note 2,b,2))	15,723,254	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(42,711)	33.3	(14,223) (Note 2,b,2))	402,412	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	24,708	33.3	8,228 (Note 2,b,2))	208,516	-

Accumulated Outward Remittance for Investments in Mainland China as of September 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	\$ 36,949,511	\$ 537,909,633

Note 1: The 3 methods of investment are as follows:

- Direct investment in China.
- Reinvestment in China through companies located in a third region (please indicate the companies located in that 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 statements are reviewed and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 - The financial statements are reviewed 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.

(Continued)

Note 4: CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY\$100 million in Mainland China.

Note 5: Information on investments in mainland China

- a. On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand, approved by the MOEAIC on December 20, 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life’s subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. Cathay Life injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized Cathay Life to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of September 30, 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 September 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 September 30, 2020, Cathay Life’s remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY1,500,000 thousand.
- d. On December 31, 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 September 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. The approved working capital of Cathay United Bank’s Shamchun Branch amounted to CNY400,000,000 (US\$60,708,160.7) on January 5, 2015 and was approved on December 22, 2016.
- 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 September 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 NINE MONTHS ENDED SEPTEMBER 30, 2020

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			% of Total Sales or Assets (Note 3)
				Financial Statement Account	Amount	Payment Terms	
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	0.33
		Cathay Life	a	Income tax receivable for consolidated income tax	6,963,026		0.07
		Cathay Life	a	Interest receivable	1,008,868		0.01
		Cathay Life	a	Interest revenue	943,279		0.20
		Cathay United Bank	a	Income tax receivable for consolidated income tax	180,257		-
		Cathay United Bank	a	Cash and cash equivalents	268,894		-
		Cathay Century	a	Income tax receivable for consolidated income tax	283,042		-
		Cathay Securities	a	Income tax receivable for consolidated income tax	179,848		-
		Cathay Securities Investment Trust	a	Income tax receivable for consolidated income tax	127,466		-
		1	Cathay Life	Cathay United Bank	c		Guarantee deposits received
Cathay United Bank	c			Cash and cash equivalents	19,892,435	''	0.19
Cathay United Bank	c			Gain on investment property	539,491	''	0.11
Cathay United Bank	c			Other operating expense	4,117,447	''	0.87
Cathay United Bank	c			Payables	268,188	''	-
Cathay United Bank	c			Service fee and commission fee	995,015	''	0.21
Cathay United Bank	c			Net other non-interest gain	131,109	''	0.03
Cathay United Bank	c			Gain on financial assets and liabilities at fair value through profit or loss	118,946	''	0.03
Cathay United Bank	c			Financial assets at fair value through profit or loss	1,444,121	''	0.01
Cathay Century	c			Net other non-interest gain	477,738	''	0.10
Cathay Century	c			Other operating expense	110,070	''	0.02
Cathay Futures	c			Guarantee deposits paid	2,593,919	''	0.02
Cathay Securities Investment Trust	c			Service fee and commission fee	210,711	''	0.04
Cathay Walbrook Holding 1 Limited	c			Loans	12,235,645	''	0.12
Cathay Walbrook Holding 1 Limited	c			Interest revenue	313,287	''	0.07
Cathay Walbrook Holding 2 Limited	c			Loans	643,981	''	0.01
Conning holding limited	c			Payables	322,934	''	-
Conning holding limited	c			Service fee and commission fee	639,982	''	0.13

(Continued)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			% of Total Sales or Assets (Note 3)
				Financial Statement Account	Amount	Payment Terms	
2	Cathay United Bank	Cathay Century	c	Deposits	\$ 2,061,875	"	0.02
		Cathay Century	c	Service fee and commission revenue	105,034	"	0.02
		Cathay Century	c	Other operating expense	129,302	"	0.03
		Cathay Securities	c	Deposits	9,368,374	"	0.09
		Cathay Securities	c	Net service fee and commission gain	107,815	"	0.02
		Cathay Securities Investment Trust	c	Deposits	135,273	"	-
		Cathay Futures	c	Deposits	829,609	"	0.01
		Cathay Futures	c	Guarantee deposits paid	230,576	"	-
		Lin Yuan	c	Deposits	1,145,821	"	0.01
		Indovina Bank	c	Call loans to banks	233,008	"	-
		CUBC Bank	c	Due to the Central Bank and other bank	436,890	"	-
		CUBC Bank	c	Dividend receivable	171,689	"	-
		CUBCN Bank	c	Call loans to banks	277,798	"	-
		CUBCN Bank	c	Due to other bank	9,406,599	"	0.09
		CUBCN Bank	c	Interest receivable	646,532	"	0.01
CUBCN Bank	c	Other receivables	102,691	"	-		
3	Indovina Bank	Cathay Insurance (Vietnam)	c	Deposits	278,229	"	-
		Cathay Life (Vietnam)	c	Deposits	1,139,182	"	0.01
4	Cathay Securities	Cathay Futures	c	Financial assets at fair value through profit or loss	1,307,652	"	0.01
5	Cathay Securities Investment Trust	Conning Asia Pacific Ltd.	c	Other operating expense	101,036	"	0.02

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 6**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****INFORMATION ON MAJOR SHAREHOLDERS
SEPTEMBER 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.