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

# **2020 Annual Report**

**Dated: March 30, 2021**

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**VI. Overseas Listings and Access to the Listing Information:**

Listing Bourse	Luxembourg Stock Exchange
Information Access	Bloomberg

# Content

<b>One. Letter to Shareholders</b> .....	<b>1</b>
<b>I. Business Report for the year 2020</b> .....	<b>1</b>
<b>II. 2021 Business Plan</b> .....	<b>4</b>
<b>III. Future strategies, impact of the competitive environment, regulatory environment, and the overall business environment</b> .....	<b>5</b>
<b>IV. Latest Credit Ratings</b> .....	<b>6</b>
<b>Two. Company Profile</b> .....	<b>7</b>
<b>I. Date of Establishment</b> .....	<b>7</b>
<b>II. Company Profile</b> .....	<b>7</b>
<b>Three. Corporate Governance Report</b> .....	<b>11</b>
<b>I. Organization</b> .....	<b>11</b>
<b>II. Board Members, Supervisors and Top Managers from Each Division and Subsidiary</b> .....	<b>14</b>
<b>III. Remuneration Paid to directors (including independent directors), presidents, vice presidents and employees in the latest fiscal year</b> .....	<b>31</b>
<b>IV. Implementation of Corporate Governance</b> .....	<b>40</b>
<b>V. Professional Fees to the Independent Auditor</b> .....	<b>129</b>
<b>VI. Information of Independent Auditor replacement (Table 3-2)</b> .....	<b>129</b>
<b>VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year</b> .....	<b>130</b>
<b>VIII. Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge (Table 4)</b> .....	<b>130</b>
<b>IX. Information of Related Parties of the top ten shareholders (Table 4-1)</b> .....	<b>135</b>
<b>X. Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the financial holding company; disclose shareholding in aggregate of the above parties (Table 5)</b> .....	<b>136</b>
<b>Four. Capital Overview</b> .....	<b>137</b>
<b>I. Capital and Shares</b> .....	<b>137</b>
<b>II. Issuance of Corporate Bonds</b> .....	<b>144</b>
<b>III. Issuance of Preferred Shares (Table 13)</b> .....	<b>148</b>
<b>IV. Issuance of Global Depositary Receipts (Table 14)</b> .....	<b>150</b>
<b>V. Issuance of Employee Stock Option Plan</b> .....	<b>151</b>
<b>VI. Issuance of New Restricted Employee Shares</b> .....	<b>151</b>
<b>VII. Merger and Acquisitions or Transfers of other Financial Institutions</b> .....	<b>151</b>
<b>VIII. Implementation of the Capital Utilization Plans</b> .....	<b>151</b>
<b>Five. Overview of Operations</b> .....	<b>153</b>
<b>I. The content of business</b> .....	<b>153</b>
<b>II. Cross-business &amp; Cross-selling Benefits</b> .....	<b>179</b>
<b>III. Industry and Market Overview</b> .....	<b>179</b>
<b>IV. Employee Profile</b> .....	<b>188</b>
<b>V. Corporate responsibility and moral conduct</b> .....	<b>204</b>
<b>VI. No. of full-time non-managerial employees, mean and median salary of full-time non-managerial employee, and differences from the previous year</b> .....	<b>213</b>
<b>VII. Information System</b> .....	<b>213</b>
<b>VIII. Industrial Relations</b> .....	<b>220</b>
<b>IX. Important contracts and commitments</b> .....	<b>222</b>
<b>Six. Financial Report</b> .....	<b>228</b>
<b>I. Five Year Condensed Balance Sheet and Income Statement Summary (Table 20)</b> .....	<b>228</b>
<b>II. Five Year Financial Analysis (Table 21)</b> .....	<b>232</b>

<b>III. Audit Report from the Auditing Committee on the Latest Financial Statements .....</b>	<b>235</b>
<b>IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year .....</b>	<b>236</b>
<b>V. In case of insolvency of the financial holding company and its subsidiaries in the most recent year to the date this report was printed, specify the effect on the financial position of the Company: .....</b>	<b>236</b>
<b>Seven. Review and analysis of financial status and financial performance and risk management ...</b>	<b>237</b>
<b>I. Analysis of Financial Status .....</b>	<b>237</b>
<b>II. Analysis of Financial Performance.....</b>	<b>238</b>
<b>III. Cash flows .....</b>	<b>238</b>
<b>IV. Major capital expenditures in the most recent year .....</b>	<b>239</b>
<b>V. The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year .....</b>	<b>239</b>
<b>VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation....</b>	<b>240</b>
<b>VII. Special Event Management .....</b>	<b>256</b>
<b>VIII. Other Major Events .....</b>	<b>257</b>
<b>Eight. Special Disclosure .....</b>	<b>259</b>
<b>I. Information on Affiliates .....</b>	<b>259</b>
<b>II. Any private placement of securities in the recent years up to the publication of this annual report. ....</b>	<b>259</b>
<b>III. The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:.....</b>	<b>259</b>
<b>IV. Other important supplementary information:.....</b>	<b>259</b>
<b>V. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to subparagraph 2, paragraph 3, article 36 of the Securities and Exchange Act .....</b>	<b>259</b>
<b>Appendix</b>	
Appendix 1: 2020 Consolidated Financial Statements .....	260
Appendix 2: 2020 Consolidated Business Reports of Affiliated Enterprises .....	585
Appendix 3: 2020 Affiliation Report .....	612
Appendix 4: 2020 Declaration of Internal Control System .....	621

# One. Letter to Shareholders

## I. Business Report for the year 2020

Looking back on 2020, the COVID-19 pandemic has severely impacted global economic activities. Central banks in numerous countries have actively expanded loose monetary policies and introduced economic stimulus packages in response to the impact of the pandemic. However, the global economy still fell into recession. In spite of the international political and economic turmoil and a low-interest environment wherein the financial industry was facing a multitude of challenges, Cathay FHC remained committed to upholding the spirit of steady business operations, delivering a brilliant business performance in 2020, thanks to the concerted efforts of our colleagues. Cathay FHC achieved a record-high consolidated after-tax profit of NT\$76 billion (US\$2.71 billion) for the year, with earnings per share of NT\$5.41. Cathay Life and Cathay United Bank were the primary contributors.

### **Cathay Subsidiaries Continued to Deliver Excellent Performance in 2020**

Cathay Life Insurance generated consolidated after-tax profit of NT\$52.7 billion (US\$1.88 billion) for the year, with an outstanding investment performance and another record-high profit. In addition to strong earnings, Cathay Life Insurance maintained its market leader position in terms of premium income. Total premium income and first-year premium income for the year were NT\$666.1 billion (US\$23.72 billion) and NT\$160.8 billion (US\$5.73 billion), respectively. First-year premium equivalent, a better indicator of policy value, was NT\$62.2 billion (US\$2.21 billion), allowing Cathay Life Insurance to remain the industry leader.

Cathay United Bank recorded consolidated after-tax profit of NT\$22.3 billion (US\$790 million). Despite the impact of the pandemic and low interest rates, Cathay United Bank continued to grow its lending business and maintain excellent asset quality with its robust business foundation and rigorous risk management. With respect to the wealth management business, Cathay United Bank assisted its clients to allocate assets properly to achieve stable wealth creation. In the future, we will continue to uphold a customer-centric and data-driven business strategy in which we work with companies in various industries to collectively create a service ecosystem that provides financial services that meet the needs of our customers.

Cathay Century ranked second in the industry in terms of premium income. Cathay Securities Investment Trust reported NT\$1.1 trillion (US\$37.4 billion) in assets under management, making it the largest securities investment trust company in Taiwan. Cathay Securities generated record-high profit for the second consecutive year and its sub-brokerage service continued to be a market leader. By providing differentiated services, Cathay Securities has received multiple awards and recognition for its innovative digital financial services.

### **Forge a Deeper Presence in Overseas Markets**

Expanding and forging a deeper presence in overseas markets continues to be a focus for Cathay FHC. With respect to expansion in the Greater China region, in addition to close cooperation with our Hong Kong branch and diversification of cross-border businesses, we took a more proactive stance in developing new RMB-related financial products, continued strengthening of our business operations and reinforcing development of local digital platforms. Cathay Lujiazui Life Insurance

currently operates 12 offices (headquarters and branch offices) and 53 sales & service agencies, and continues to demonstrate stable business growth. Cathay Century partnered with Ant Financial Services Group to continuously develop eCommerce-related insurance services in China.

With respect to our presence in Southeast Asia, Cathay United Bank has overseas offices in nine of the ten ASEAN member states, totaling 59 locations. Cathay United Bank has the most extensive network in the ASEAN markets among Taiwanese banks. In addition, our Myanmar Representative Office was upgraded to a Myanmar Branch following approval from the Myanmar Central Bank in 2020. The Myanmar Branch commenced operation on January 8, 2021. In anticipation of Vietnam’s development potential in the insurance business, Cathay Life Insurance (Vietnam) actively expanded its business, incorporating 119 business locations, which allowed for considerable growth in premium income. Cathay Century continued to grow its distribution channels and expand local management teams to maintain a stable profit.

### **Strengthen Our Asset Management Business**

Developing our asset management business as the third pillar of growth for the group is one of Cathay FHC’s core strategies. We continue to strengthen our investment products and asset management capabilities by combining the global asset management expertise of Conning Holdings Corp., Cathay SITE and Cathay SICE. Our asset management platform spans the Asia-Pacific, U.S. and European markets and we are able to provide a broad range of diverse, and innovative products to our banking, insurance, and asset management customers. As of the end of 2020, our total assets under management was US\$197.7 billion.

### **Drive Digital Transformation and Develop a “Cathay as a Service” (CaaS) Ecosystem**

Cathay FHC is committed to digital transformation in which we endeavor to focus on innovation, introduce new technologies, leverage the group’s resources and capacity, and build the digital and data driven ecosystem. We continue to improve Cathay’s AI-enabled customer service chatbot, “Alpha” and expand the range of applications including for Cathay United Bank, Cathay Life Insurance, and our other subsidiaries, becoming the first financial institution in Taiwan to offer a comprehensive range of AI-enabled customer services. Cathay Life Insurance’s Cathay Walker collaboration with Pokémon Go established a cross-industry, collaborative health promotion platform that combined gaming and health, raised awareness on the importance of insurance protection and health concepts, and promoted positive social influence. Cathay United Bank continuously assisted retail chains to introduce their own mobile payment systems that provided a complete range of everyday services in the areas of food, clothing, housing, transportation, education, and entertainment. Cathay United Bank also cooperated with e-commerce operators to introduce personal loan products that utilized e-commerce data as the basis for credit ratings and to provide e-commerce sellers with more suitable credit limits and interest rates. In addition, Cathay United Bank’s micro-service platform allows us to offer services that responded to customer requests within seconds and allows them to experience quick and uninterrupted service when using our digital banking services. Cathay Century introduced the industry’s first e-commerce insurance experience platform called “BeSafe,” providing fragmented insurance products that enable customers to customize their own insurance policy. Cathay Securities endeavored to promote financial inclusion, meet the needs of different types of customers, and strive to be the leading brand in digital brokerage.

In the face of continued growth of fintech, Cathay FHC not only continued to uphold the spirit of “What if We Could” in our digital transformation, but we are also committed to developing a diverse ecosystem with “Cathay as a Service” (CaaS) as the core to seamlessly integrate everyday activities and provide the best digital experience to our customers.

## **Enhance Corporate Governance**

In an effort to continuously improve our corporate governance, Cathay FHC along with Cathay Life Insurance and Cathay United Bank participated again in the CG6012 (2019) Corporate Governance System Evaluation in 2020, which was hosted by the Taiwan Corporate Governance Association. Once again, we received the highest rating of “Excellent”. In the future, we will respond to the feedback and suggestions obtained from the evaluation and continue to improve our corporate governance mechanisms accordingly. Regarding regulatory compliance, we continued to enhance our compliance risk evaluation and management mechanisms. In addition to implementing the group’s compliance digital management system and improving the effectiveness of anti-money laundering/countering terrorism financing information sharing and management mechanisms, we also organized diverse regulatory compliance education and training programs to further deepen the group’s compliance culture. With respect to risk management, apart from continuing to improve existing risk management mechanisms, in response to the rise of emerging risks such as environmental, social, and governance (ESG) risks, we also included ESG risks in the group’s risk management policy and established ESG Risk Management Guidelines as per the resolution of our Board of Directors. With regard to tax management, we continued to reinforce our tax policy and increase the quality of our tax information disclosure in order to strengthen our tax management mechanism. To augment the independence and effectiveness of our evaluation of board performance, we plan to commission an external professional independent institution again in 2022 to conduct evaluations of board performance, thereby continuing to enhance the effectiveness of our corporate governance.

## **Implement Sustainable Operations and Maximize the Impact of Financial Services**

For six consecutive years, Cathay FHC has been selected as a constituent in the Dow Jones Sustainability Index (DJSI), one of the most credible international indicators of corporate sustainability. In the most recent rating, Cathay FHC’s overall score was ranked third in the world and first in Asia among the insurance industry included by DJSI. Specifically, Cathay FHC obtained full marks in financial core competencies (i.e., sustainable finance, sustainable insurance, and financial inclusion), indicating that our sustainability practices are recognized internationally.

In 2020, Cathay FHC set three areas of focus for sustainability: “climate,” “health,” and “empowerment.” Long-term strategies were adopted to address climate change issues, protect the health of our citizens, and actualize empowerment for our employees and youth. We continued to integrate ESG elements into our financial core competencies and we were the first in the financial industry to calculate the carbon footprint of investment securities in order to determine the carbon risks of our investment portfolio. By cooperating with sustainable development research teams in Taiwan’s academic community, we introduced ESG research reports for individual stocks and assisted investment institutions and listed/OTC companies in Taiwan to build a bridge that effectively communicates ESG issues.



The risks of climate change have become one of the most pressing issues in the world. Cathay FHC adhered to the TCFD framework to conduct climate-related risk identification and assessment and monitored the financial impact and management associated with climate risks. We also actively fulfilled core investment responsibilities by participating in Climate Action 100+ and CDP NDC, and engaged extensively with large enterprises in Taiwan through frequent visits and sharing of the latest ESG trends, climate change responses, and policy directions. For four years in a row, we have organized the “Climate Change Forum” and in 2020, companies with a total market value exceeding 70% of the total market value of Taiwanese stocks were in attendance. Through these initiatives, we hope to influence more companies and encourage all the industries in Taiwan to strive for sustainability.

Looking forward to 2021, even though multiple research institutes have forecast the recovery of the global economy, the future remains filled with numerous uncertainties, such as whether the pandemic can be effectively controlled, whether financial asset prices and debt borrowing which have increased under accommodative monetary policies will increase financial market volatility, which direction trade negotiations will go in, and how supply chains will be adjusted. In the face of the financial industry’s challenging business environment, Cathay FHC will continue to focus on risk control, improve operating efficiency, promote digital transformation, and strengthen corporate sustainability by adhering to our core values of “Integrity, Accountability, and Innovation” and the spirit of innovation embodied in “What if We Could.” With “Insurance + Banking + Asset Management” as our three core engines of growth, we will continue to strive toward our vision of becoming “a leading financial institution in Asia-Pacific region,” thereby demonstrating our sincere gratitude and appreciation to the shareholders who have given us their invaluable support over the years.

## **II. 2021 Business Plan**

The global economy was subject to an unprecedented impact caused by the COVID-19 pandemic in 2020, which prompted countries to respond by introducing corresponding supervisory measures and stimulus policies. Although the pandemic has slowed after the third quarter of 2020 and the global economy is on its way to recovery, there are still uncertainties regarding the pandemic, and we should remain vigilant against the potential challenges that might ensue in 2021. Cathay FHC will continue to closely monitor the global markets, pandemic changes, and other market dynamics, stay committed to maximizing value for its shareholders, customers and employees and upholding its core values of “Integrity, Accountability and Innovation”, and adopt business strategies that respond to rapid market changes.

Going forward, the Cathay FHC will continue to improve its regional operations, promote digital transformation and business innovation, and optimize its asset/liability management to lay a solid foundation for sustainable development. Our 2021 business plan is outlined below:

### **(I) Continue to Implement Regional Expansion with the Goal of Becoming a “Leading Financial Institution in the Asia-Pacific Region”:**

Cathay FHC will continue to drive towards our vision of becoming a “leading financial institution in the Asia-Pacific region” and connect the Chinese and ASEAN markets to provide domestic and overseas Taiwanese businesses with financial services and products that meet their needs. We will continue to create business opportunities that increase profits for our shareholders

and create more business value for the group by capitalizing on our experience in financial services and the local operations supported by the resources of our local strategic partners.

In addition, we will continuously strengthen our asset management business as the third pillar of the group's development, continue to complete investment product lines and enhance managerial capabilities, and accelerate the group's third engine of business growth by extending the reach of our asset management business from a global perspective.

## **(II) Continue to Promote Digital Transformation toward Comprehensive Digital Financial Services and Data Ecosystems:**

Cathay FHC is focused on the three areas of digital, data, and technology, to create a data-driven culture, in which innovative technologies are used across our financial products and services. We also look to use the spirit of "What if We Could" to transform our product development, service procedures, and internal management and thereby increase product development capabilities, enhance customer experience, and improve operational efficiency.

The group's digital transformation has now transformed from being technology-oriented to being ecosystem-oriented. In the future, we will continue to complete the group's data infrastructure and connect it seamlessly to the data ecosystem of business partners to build integrated business collaboration models across customer touchpoints, including business travel, e-commerce, tourism, transportation, construction, and healthcare. We aim to build our capability to provide "Cathay as a Service" (CaaS).

## **(III) Optimize Asset/Liability Allocation and Management and Create a Solid Foundation for Sustainable Operations:**

As we face challenges from an increasingly stringent financial regulations and the COVID-19 pandemic, Cathay FHC will steadily and cautiously respond to the potential impact that global political and economic changes have on financial markets, continue to optimize asset/liability allocation and management to strengthen the group's overall capital structure, and lay a firm foundation for the sustainable operations of Cathay FHC.

## **III. Future strategies, impact of the competitive environment, regulatory environment, and the overall business environment**

The global economy remains prone to uncertainty as a result of COVID-19 and availability of its vaccine, whereas tightened supervision in the financial industry coupled with intensifying competition from Fintech make the business environment more challenging. Apart from continuing improving to respond to continuous improvement to market changes, enforcing compliance, refining risk management, and promoting innovative financial technologies, Cathay FHC will continue taking progressive steps to realize its vision of becoming "the best financial institution in Asia Pacific" in 2021 with "Integrity, Accountability and Innovation" as its core values and "insurance, banking, and asset management" as the three profit engines

## IV. Latest Credit Ratings

Rating results summary:

Credit rating agency		Cathay Financial Holdings	Cathay Life	Cathay United Bank	Cathay Century Insurance	Cathay Securities
Taiwan Ratings	Rating Date	2021.3.24	2021.3.24	2021.3.24	2021.3.24	2021.3.24
	Rating Received	twAA	twAA+	twAA+	twAA+	twAA-
	Rating Outlook	Stable	Stable	Stable	Stable	Stable
Moody's	Rating Date	2020.12.17	2020.12.22	2020.9.24	2020.7.22	None
	Rating Received	Baa1	A3	A2	A2	
	Rating Outlook	Negative	Negative	Stable	Stable	
Standard & Poor's	Rating Date	2021.3.24	2021.3.24	2021.3.24	2021.3.24	None
	Rating Received	BBB+	A-	A-	A-	
	Rating Outlook	Stable	Stable	Stable	Stable	

# Two. Company Profile

## I. Date of Establishment

December 31, 2001.

## II. Company Profile

- Cathay Financial Holding Co., Ltd. (hereinafter referred to as the Company or the Group) was founded on December 31, 2001 with paid-in capital of NT\$58.386 billion through a share swap between the Company and Cathay Life Insurance Co., Ltd. (or Cathay Life Insurance) that became a wholly-owned subsidiary of the Company thereafter. All Cathay Life Insurance shares, TAIEX listed, were transferred to the ownership of the Company on the same day.
- In April 2002, Tong Tai Insurance Co., Ltd. (later renamed to Cathay Century Insurance Co., Ltd. or Cathay Century Insurance) and Hui-Tong commercial banks (Later changed to Cathay United Bank Co., Ltd., or Cathay United Bank) jointed the Group as wholly-owned subsidiaries through share swaps. The conversion ratio between Cathay Century Insurance and Cathay United Bank was 4.5 to 1 and 6 to 1 for the latter transaction. After the transaction, the Company's total paid-in capital reached NT\$60.959 billion.
- In May 2002, the Company issued US\$ 700 million in European Convertible Bond (ECB).
- In December 2002, United World Chinese Commercial Bank converted every of its 1.6848 for one share of the Company to become a 100% subsidiary under the Group. After the merger, total paid-in capital reached NT\$ 84.532 billion.
- In January 2003, total paid-in capital was reduced to NT\$ 83.075 billion, followed by the cancellation of treasury stocks for 145.674 million shares.
- In April 2003, the Company invested NT\$ 600 million to establish Cathay Venture Co., Ltd.
- In July 2003, the Company and Cathay Life Insurance issued US\$ 522 million Global Depository Receipts (GDRs) through a conversion of 448.5 million treasury shares.
- In September 2003, the Company acquired 8.33% of Yitai Venture with NT\$ 75 million.
- In October 2003, United World Bank became the surviving entity after its merger with Cathay Bank and changed its name to Cathay United Bank Co., Ltd (Cathay United Bank).
- In April 2004, the Company invested NT\$ 600 million to establish Yitai II Venture Investment Co., Ltd.
- In May 2004, the Company invested NT\$ 3.5 billion to found Cathay Securities Corporation (or Cathay Securities).
- In July 2004, the Company acquired 100% of Yitai Management Consultant Co., Ltd. with NT\$ 16.56 million.
- In November 2004, the Company issued US\$ 495 million GDRs through a conversion of 254.911million treasury shares.
- In May 2005, the Company injected another NT\$ 150 million into Yitai Venture for its secondary equity offering. The ownership increased to 15% from the original 8.33% after the investment.
- In June 2005, the Company solely participated in Cathay Securities' secondary equity offering of NT\$ 500 million, or NT\$ 25/share for a total of 20 million shares. The securities arm's total paid-in capital, hence, reached NT\$3.7 billion from NT\$ 3.5 billion.
- In 2005, the Company acquired 81.35% of The Lucky Bank through insider transfer and public tender offering. Later in June 2006, Shareholders' meetings from both sides together resolved a conversion ratio of one common share of Cathay Financial Holdings to 3.8392 shares of the bank to make The Lucky Bank a wholly-owned subsidiary under the Group, followed by the Company's Board decision to proceed the share swap in March 2006. Cathay United Bank

became the surviving company after the reference merger date of January 1, 2007 based on a decision made in November 2006.

- Rights to convert the ECB into common shares or GDRs became exercisable from October 2004. As of April 30, 2007, a total of 461.242 million common shares were converted, which made the Company's total paid-in capital NT\$ 92.77 billion. ECB worth of US\$ 13.926 million remained outstanding thereafter.
- All outstanding ECB (US\$ 13.926 million) as of April 16, 2007 were paid off before the expiration day of May 20, 2007.
- In June 2008, the Company solely participated in Cathay Life Insurance's secondary equity offering of NT\$ 15 billion, or NT\$ 75/share for a total of 200 million shares. Total paid-in capital of the insurer thus increased to NT\$ 52.69 billion from NT\$ 50.69 billion.
- In August 2008, the total paid-in capital grew to NT\$ 97.38 billion after stock dividend distributions.
- On December 25, 2008, an investment of NT\$ 15 billion on Cathay Life's preferred share was made through the issuance of the first unsecured subordinated debenture in 2008 (2008-1) for NT\$ 20 billion during the same month. The residual NT\$ 5 billion was kept for working capital of the Company.
- In August 2009, Cathay Venture, Yitai II Venture, Yitai Management Consultant, and Yitai Venture were merged. Cathay Venture was the surviving company.
- In October 2009, to stabilize the ownership, the Company paid NT\$ 925 million for 49.97% of Cathay Venture and incorporated the newly acquired a wholly-owned subsidiary.
- On December 18th, 2009, an investment of NT\$ 10 billion on Cathay Life Insurance's Series-B Preferred Share was made through the issuance of the first unsecured debenture in October 2009 (2009-1) for NT\$ 20 billion during the year. The residual NT\$ 10 billion was kept for future merger/acquisition or capital adequacy ratio improvement.
- In October 2009, the total paid-in capital was reduced to NT\$ 96.709 billion, after the cancellation of treasury stocks for 66.66 million shares obtained through the share swap between the Company and the Lucky Bank.
- In September 2010, the total paid-in capital grew to NT\$ 101.54 billion after the distribution of stock dividends.
- In June 2011, the Company paid NT\$ 2.774 billion to acquire the entire Cathay Investment Trust to establish an asset management platform.
- In August 2011, the total paid-in capital grew to NT\$ 103.58 billion after stock dividend distribution.
- In September 2011, the Company injected additional capital of NT\$ 715 million (NT\$ 10/share) to Cathay Investment Trust.
- In September 2011, the Company acquired 9.9% shares of Conning Holdings Corp. for NT\$ 507 million.
- In September 2011, the Company and Conning Holdings Corp. together set up Cathay Conning Asset Management (or CCAM). An investment proceeds of NT\$ 89 million was made to own 50% of the new venture in February 2012.
- In October 2011, the Company bought back 200 million treasury shares (NT\$ 35.9/share in average), for future ECB conversion.
- In July 2012, the Company invested another NT\$ 199.992 million (NT\$ 12/share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$3,866.660 million then.
- In August 2012, the Company issued US\$ 254.4 million ECB that can be later converted to common stocks out of the treasury shares bought back in October 2011.
- In August 2012, the total paid-in capital grew to NT\$ 108.65 billion after stock dividend distribution.

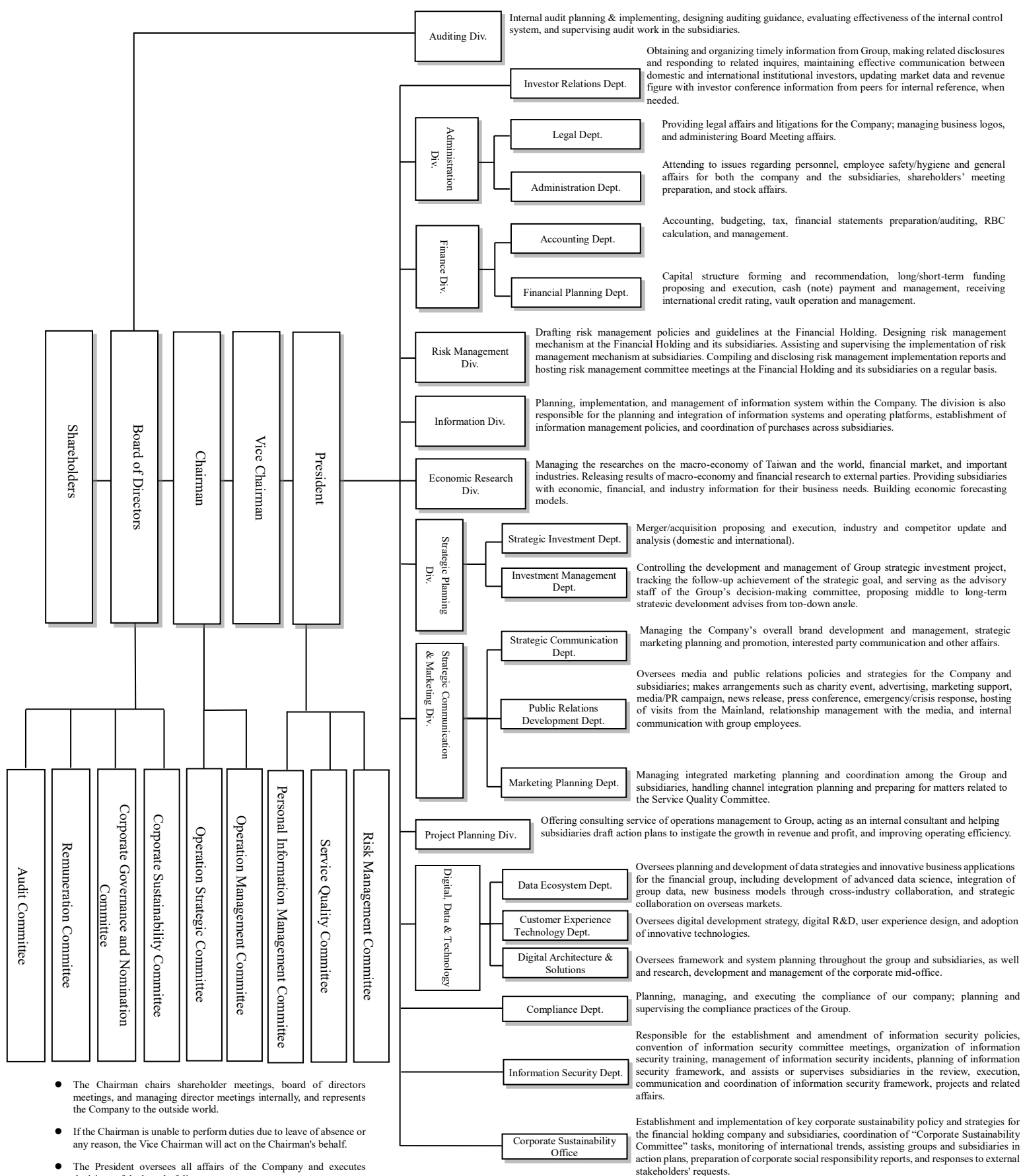
- In January 2013, additional capital of US\$ 1 million (or NT\$ 29 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.
- In May 2013, additional capital of US\$ 2 million (or NT\$ 60 million) was injected to Cathay Conning Asset Management Ltd. Ownership remained 50% after the transaction.
- In September 2013, our company performed a capital raising by cash at \$36 per share. In total, 353 million shares were issued for \$12.708 billion. The paid-in capital of our company increased to NT\$112.18 billion.
- In September 2013, our company became the sole buyer of a stock offering for capital raising by cash of \$12.002 billion at Cathay United Bank. In total, 324,378,000 shares were sold for \$37 per share. After the capital raising, the paid-in capital of the company increased to \$64.67 billion (including increase of capital by appropriating \$9.15 billion of retained earnings in 2013).
- In November 2013, the total paid-in capital grew to NT\$119.65 billion after stock dividend distributions.
- In November 2013, our company redeemed overseas convertible bonds issued in 2012 before maturity date. As of November 28, 2013, those bonds have been fully converted to common shares.
- In August 2014, the total paid-in capital grew to NT\$125.63 billion after stock dividend distributions.
- In October 2014, the Company invested another NT\$700.000 million (NT\$14 per share) on Cathay Securities. Total paid-in capital of the securities arm became NT\$4,700.000 million then.
- In September 2015, the Company sold 9.9% shares of Conning Holdings Corp. to its subsidiary Cathay Life Insurance, with the amount of NT\$710 million. Conning Holdings Corp. became a wholly owned subsidiary of Cathay Life Insurance after the investment was completed.
- In July 2016, the Company invested another NT\$557 million (NT\$13 per share) on Cathay Venture. Total paid-in capital of the venture arm became NT\$3 billion.
- In December 2016, the company issued 833.3 million Series A Preferred Shares in a cash capital increase for NT\$49.998 billion (NT\$60 per share). The paid-in capital of our company increased to NT\$133.97 billion.
- In December 2016, the Company subscribed NT\$35 billion of non-cumulative perpetual subordinated debts issued by Cathay Life Insurance.
- In June 2017, the Company invested another NT\$ 14.998 billion (NT\$28/share) on Cathay United Bank. Total paid-in capital of the securities arm became NT\$78,604,060 thousand then.
- In September 2017, the Company invested another NT\$ 670 million (NT\$40/share) on Cathay Century Insurance. Total paid-in capital of the securities arm became NT\$3,369,552 thousand then.
- In June 2018, the company issued 700 million Series B Preferred Shares in a cash capital increase for NT\$42 billion (NT\$60 per share). The paid-in capital of our company increased to NT\$140.97 billion.
- In June 2018, the Company invested another NT\$ 42,000 million (NT\$ 100/share) on Cathay Life. Total paid-in capital of the securities arm became NT\$57,265.274 million.
- In May 2019, the first issuance of unsecured corporate bonds of Cathay FHC in 2019 (2019-1) was made for the payment upon maturity of outstanding commercial papers.
- In December 2019, the Company made a cash issue of 606 million common shares at NT\$35 each that raised a total of NT\$21.21 billion in capital, which increased paid-up capital to NT\$147.03 billion.
- In December 2019, the Company subscribed to the NT\$10,000,000,000 cash issue of Cathay Life at NT\$80 per share and the NT\$10,000,000,000 cash issue of Cathay United Bank at NT\$20 per share, increasing paid-up capital of the two subsidiaries to NT\$58,515,274,000 and NT\$101,658,352,000, respectively.

- In June 2020, the Company made its first issue of unsecured senior corporate bonds in 2020 (2020-1) in a sum of NT\$8.9 billion; the entirety of the proceeds was intended to repay commercial papers.
- In September 2020, the Company made its second issue of unsecured senior corporate bonds in 2020 (2020-2) in a sum of NT\$21.1 billion; the entirety of the proceeds was intended to repay commercial papers.
- In September 2020, the Company subscribed to the cash issue of Cathay Securities at NT\$15 per share for a total of NT\$1,200,000 thousand, increasing the subsidiary's paid-up capital to NT\$7,300,000 thousand.

# Three. Corporate Governance Report

## III. Organization

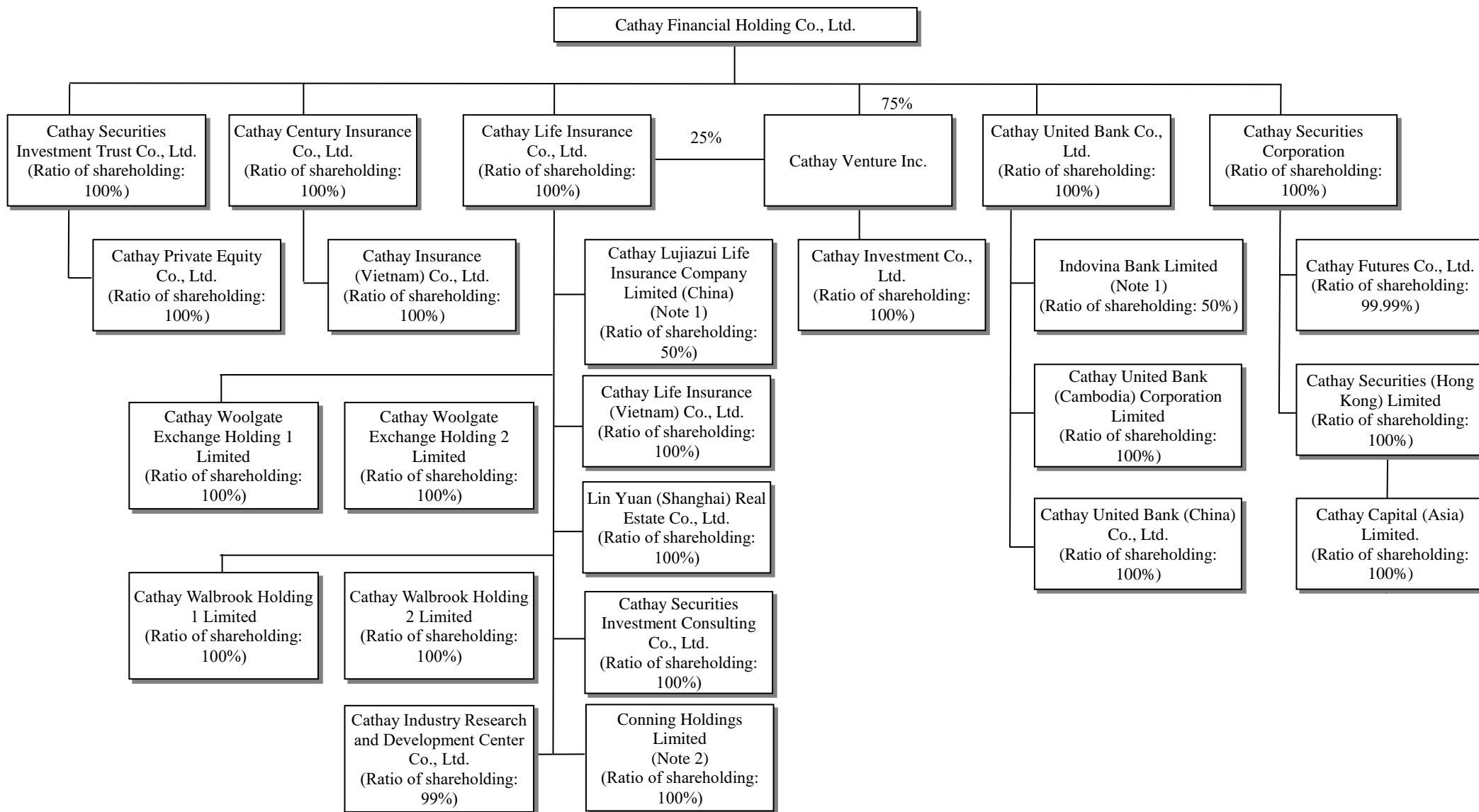
### (I) Organizational Chart and Major Corporate Functions



- The Chairman chairs shareholder meetings, board of directors meetings, and managing director meetings internally, and represents the Company to the outside world.
- If the Chairman is unable to perform duties due to leave of absence or any reason, the Vice Chairman will act on the Chairman's behalf.
- The President oversees all affairs of the Company and executes decisions of the board of directors.



## (II) Organizational Chart of Affiliated Companies



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the consolidated entity

Note 3: Organization chart was dated March 30, 2021

Subsidiary Company	Shares Held by Cathay Financial Holding Co., Ltd.			
	Percentage (%)	Number of shares (thousand shares)	Original Investment (NT\$ thousands)	Book Value (NT\$ thousands)
Cathay Life Insurance Co., Ltd.	100%	5,851,527	134,009,366	629,276,828
Cathay United Bank Co., Ltd.	100%	10,698,583	102,302,226	242,404,492
Cathay Century Insurance Co., Ltd.	100%	305,705	3,240,964	13,625,656
Cathay Securities Corporation	100%	730,000	6,099,992	11,648,089
Cathay Securities Investment Trust Co., Ltd.	100%	150,000	3,488,754	4,754,767
Cathay Venture Inc.	75%	363,177	2,390,881	4,272,088

■ Cross-holdings between the parent company and subsidiaries: None.

## II. Board Members, Supervisors and Top Managers from Each Division and Subsidiary

### (I) Board Members and Supervisors Information (Table 1)

Board Members and Supervisors Information (1)

April 13, 2021

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Chairman	R. O. C.	Hong-Tu Tsai	M	2019/6/14	3 years	2001/12/31	72,713,489	0.579%	45,424,978	0.345%	—	—	—	—	Chairman, Cathay Financial Holdings; Former Chairman, Cathay Life Insurance (J.D., Southern Methodist University, USA)	Chairman of Cathay Medical Care Corporate; Vice Chairman of Cathay Charity Foundation, etc.	Director	Cheng-Ta Tsai	Brothers	None	
							6,128,386	0.399%	6,128,386	0.399%	—	—	—	—			Director	Cheng-Chiu Tsai	Brothers		
							—	—	—	—	—	—	—	—			Senior Executive Vice President	Tsung-Hsien Tsai	Paternity		
Vice Chairman	R. O. C.	Culture and Charity Foundation of the Cathay United Bank	—	2019/6/14	3 years	2007/6/15 (Note 7)	6,500,740	0.052%	6,500,740	0.049%	—	—	—	—	Vice Chairman, Cathay Financial Holdings; Former Chairman, Cathay United Bank (B.A., National Chengchi University)	Director of Cathay Charity Foundation; Director of Taiwan Real Estate Management, Taiwan Asset Management and Culture and Charity Foundation of the Cathay United Bank	None	None	None	None	
							100,000	0.007%	100,000	0.007%	—	—	—	—							
		Representative: Tsu-Pei Chen	M	2019/6/14	3 years	2007/6/15	68,169	0.001%	70,513	0.001%	82,021	0.001%	—	—							
							—	—	—	—	—	—	—	—							

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
Director	R. O. C.	Chia Yi Capital Co., Ltd.	—	2019/6/14	3 years	2013/6/14	53,084,668	0.423%	55,087,569	0.418%	—	—	—	—	Former Managing Director, Cathay Life Insurance (B.A., Chinese Culture University)	Director of Cathay Medical Care Corporate, Cathay Real Estate Foundation and Cathay Charity Foundation, etc.	Chairman	Hong-Tu Tsai	Brothers	None	
							5,153,614	0.336%	5,153,614	0.336%	—	—	—	—							
	Representative: Cheng-Ta Tsai	M	2019/6/14	3 years	2007/6/15	56,624,464	0.451%	32,624,464	0.248%	—	—	—	—	Director			Cheng-Chiu Tsai	Brothers			
						—	—	—	—	—	—	—	—								
Director	R. O. C.	Chen-Sheng Industrial Co., Ltd.	—	2019/6/14	3 years	2010/6/18	27,915,093	0.222%	33,875,134	0.257%	—	—	—	—	Chairman, Cathay Century Insurance (M.A., Keio University, Japan)	Chairman of Cathay Century Insurance; Director of Cathay Medical Care Corporate, Cathay Charity Foundation and Cathay Real Estate Foundation etc.	Chairman	Hong-Tu Tsai	Brothers	None	
							—	—	—	—	—	—	—	—							
	Representative: Cheng-Chiu Tsai	M	2019/6/14	3 years	2007/6/15	600,000	0.005%	620,634	0.005%	—	—	—	—	Director			Cheng-Ta Tsai	Brothers			
						—	—	—	—	—	—	—	—								
Director	R. O. C.	Chia Yi Capital Co., Ltd.	—	2019/6/14	3 years	2013/6/14	53,084,668	0.423%	55,087,569	0.418%	—	—	—	Chairman, CEO, Legal Representative, Moderntimes Co., Ltd.; Director, Cathay United Bank; Former President, CMB Credit Card Center (B.A., Kean Jersey, USA)	Legal Representative, Moderntimes (China) Co., Ltd.; Chairman and CEO (legal representative) of Moderntimes Co., Ltd.; Director of Cathay United Bank, Essence Management Services Limited, Moderntimes Information Co., Ltd., etc.	None	None	None	None		
							5,153,614	0.336%	5,153,614	0.336%	—	—	—							—	
	Representative: Chi-Wei Joong	M	2019/6/14	3 years	2013/6/14	4,545	0%	4,545	0%	—	—	—	—			None	None	None			
						—	—	—	—	—	—	—	—								

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Director	R. O. C.	Culture and Charity Foundation of the Cathay United Bank	—	2019/6/14	3 years	2007/6/15 (Note 7)	6,500,740	0.052%	6,500,740	0.049%	—	—	—	—	Chairman, Cathay United Bank (M.B.A., Baruch College, City University of New York, USA)	Chairman of Cathay United Bank and Cathay United Bank (China); Independent Director of Samson Holding Ltd. and Zhongshan Huali Enterprise Group Co., Ltd.; Director of Cathay Securities Investment Trust, Cathay Private Equity Co., Ltd., Long Chen Paper Co., Ltd., Far East Horizon Limited, Taiwan Farm Industry Co., Ltd., Cathay Medical Care Corporate and Cathay Charity Foundation; R.O.C. Director of The Bankers Association of The Republic of China and The Bankers Association of Taipei, etc.	None	None	None	None	
							100,000	0.007%	100,000	0.007%	—	—	—	—							
	—	—	—	—	—	—	—	—	—												
		Representative: Andrew Ming-Jian Kuo	M	2019/6/14	3 years	2007/6/15 (Note 8)	—	—	—	—	—	—	—								

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Director	R. O. C.	Cathay Life Employees' Welfare Committee	—	2019/6/14	3 years	2010/6/18	34,590,372	0.275%	34,590,372	0.263%	—	—	—	—	Chairman, Cathay Life Insurance; Former Vice Chairman and President, Cathay Life Insurance (M.S., National Tsing Hua University)	Chairman of Cathay Life Insurance; R.O.C.Chairman of The Life Insurance Association of R.O.C.; Managing Supervisor of Cathay Medical Care Corporate, etc.	None	None	None	None	
							—	—	—	—	—	—	—	—							
	Representative: Tiao-Kuei Huang	M	2019/6/14	3 years	2001/12/31 (Note 9)	279,437	0.002%	289,980	0.002%	29,544	0%	—	—								
						27,127	0.002%	27,127	0.002%	2,763	0%	—	—								
Director	R. O. C.	Cathay Life Employees' Welfare Committee	—	2019/6/14	3 years	2010/6/18	34,590,372	0.275%	34,590,372	0.263%	—	—	—	—	Vice Chairman, Cathay Life Insurance; Former President, Cathay Life Insurance (M.S., University of Iowa, USA)	Vice Chairman of Cathay Life Insurance; Director of Culture and Charity Foundation of the Cathay United Bank and Cathay Charity Foundation, etc.	None	None	None	None	
							—	—	—	—	—	—	—	—							
	Representative: Ming-Ho Hsiung	M	2019/6/14	3 years	2007/6/15	58,692	0%	61,570	0%	—	—	—	—								
						25,000	0.002%	25,000	0.002%	—	—	—	—								

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Director	R. O. C.	Cathay Life Employees' Welfare Committee	—	2019/6/14	3 years	2010/6/18	34,590,372	0.275%	34,590,372	0.263%	—	—	—	—	President, Cathay Financial Holdings; Former President, Cathay United Bank (M.B.A., University of Pennsylvania, USA)	President of Cathay Financial Holdings; Chairman of Financial Planning Association of Taiwan; Managing Director of CDIB & Partners Investment Holding Corporation; Director of Cathay United Bank, Cathay Securities, Cathay Securities Investment Trust, Cathay Charity Foundation, United Bank and Joint Credit Information Center; Supervisor of Cathay Medical Care Corporate; Managing Director of The Bankers Association of The Republic of China; Director of The Bankers Association of Taipei, etc.	None	None	None	None	
							—	—	—	—	—	—	—	—							
		Representative: Chang-Ken Lee	M	2019/6/14	3 years	2010/6/18	124,729	0.001%	131,729	0.001%	—	—	—	—							
							20,000	0.001%	20,000	0.001%	—	—	—								

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Independent Director	R. O. C.	Feng-Chiang Miao	M	2019/6/14	3 years	2016/6/8	-	-	-	-	-	-	-	-	Chairman of MiTAC Holdings Corporation; Former ITRI Laureate; President of UPC Technology Corporation, President of Linde Lienhwa Industrial Gases Co., Ltd.; Chairman of Synnex Corporation; Independent Director of Galileo International Shipping Co., Ltd.; Independent Director of British Oxygen Company, Independent Director of Linde Group; Representative of APEC Business Advisory Council (ABAC); Convener of Civil Advisory Committee of National Information and Communications Initiative Committee (NICI); (Honorary Doctorate of National Chiao Tung University, Master of Business Administration of Santa Clara University, U.S.A., Bachelor of Electrical Engineering, University of California, Berkeley, U.S.A.)	Independent Director of Cathay United Bank and Cathay Century Insurance; Chairman of MiTAC Holdings, MiTAC Inc., Synnex Technology International, Lien Hwa Industrial Holdings Corporation, UPC Technology, Harbinger Venture Capital, MiTAC International, Harbinger Management Consultancy, Lien Cheng Venture Capital and Mei Feng Investment; Director of Getac Technology, Wei Chen Investment, Linde Lienhwa Industrial Gases, Harbinger III Venture Capital, Harbinger VII Venture Capital, MiTAC Information Technology, MiTAC Computing Technology, Synnex Corporation, United Industrial Gases, MiTAC Digital Technology, GLORY ACE INTERNATIONAL INC. and Synnex Global Ltd.; Director of Chinese National Association of Industry and Commerce, Taiwan (CNAIC), etc.	None	None	None	None	



Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Independent Director	R. O. C.	Edward Yung Do Way	M	2019/6/14	3 years	2017/6/16	-	-	-	-	-	-	-	-	Chairman, YCSY Co., Ltd.; Former CEO, Deloitte Taiwan (M.B.A., of University of Georgia, USA)	Independent Director of Cathay United Bank, Cathay Securities, Far Eastern Department Stores and Synnex Technology International; Independent Non-executive Director of Da Chan Food (Asia) Limited; Chairman of YCSY Co., Ltd.; Director of Iron Force Industrial, Vanguard International Semiconductor, MiTAC Holdings and Chilislin Electronics Corp. etc.	None	None	None	None	
							-	-	-	-	-	-	-	-							-

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Independent Director	R. O. C.	Li-Ling Wang	F	2019/6/14	3 years	2019/6/14	—	—	—	—	—	—	—	—	President of Pension Fund Association, R.O.C.; Professor of Risk Management and Insurance Department, National Chengchi University; Former Vice President, National Chengchi University; Former Chairman, Financial Supervisory Commission Republic of China (Taiwan); Former Director, First Financial Holding; Former Independent Director, China Life Insurance Co., Ltd. (Ph.D. of Temple University (Dept. of Risk Management, Insurance, and Actuarial Science), USA; Master of Hartford University (Dept. of Accounting), USA)	Independent Director of Cathay Life Insurance; Professor of Risk Management and Insurance, National Chengchi University; Chairman of Pension Funds Association of R.O.C. in Taiwan; Managing Director of Taiwan Risk and Insurance Association, etc.	None	None	None	None	
							—	—	—	—	—	—	—	—							—

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date Elected	Term Expires	Date first Elected (Note 2)	Shares held when Elected			Shares Currently Held (Note 4)		Shares Currently Held by Spouse & Minors (Note 4 & 5)		Shares held in the name of others (Note 4)		Selected Education, Past Positions & Current Positions (Note 10)	Other concurrent positions in the Company or in other companies (Note 6)	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remark (Note 11)
							Common stock	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding			Title	Name	Relationship	
							Preferred shares	Number of shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding	Shares	Ratio of shareholding						
Independent Director	R. O. C.	Tang-Chieh Wu	M	2019/6/14	3 years	2019/6/14	-	-	-	-	-	-	-	-	Secretary-General, Taiwan Financial Services Roundtable; Former Chairman, Hua Nan Financial Holdings Co., Ltd., Hua Nan Bank, Land Bank of Taiwan; Former Political Deputy Minister, Ministry of Finance; Former Vice Chairman, Financial Supervisory Commission Republic of China (Taiwan); Former Director-General, Securities and Futures Bureau, Financial Supervisory Commission Republic of China (Taiwan) (Master of National Chengchi University (Dept. of Public Finance))	Independent Director of Cathay Life Insurance and Cathay Century Insurance; Managing (Independent) Director of Cathay United Bank; Secretary-General of Taiwan Financial Services Roundtable; Consultant of Accounting Research and Development Foundation; Director of Foundation of Pacific Basin Financial Research and Development; Vice Chairman of Alumni Association of Department of Public Finance, National Taipei University; Managing Director of Alumni Association of National Taipei University; Supervisor of Taiwan-Russia Association, etc.	None	None	None	None	
							-	-	-	-	-	-	-	-							

Note 1: For representatives of institutional shareholders, the name of the institutional shareholder should be noted and filled in Chart 1 below.

Note 2: Fill in “the Date of First Elected of the financial holdings’ directors and supervisors” and footnote any discontinuation.

Note 3: The Company has established an audit committee in lieu of a supervisor since June 15, 2007 according to Article 14-4 of the Securities and Exchange Act.

Note 4: Data baseline date: April 13, 2021.

Note 5: For representatives of corporate directors, “Shareholdings of spouse and underage children” shall refer to the representative and spouse and underage children of the representative.

Note 6: Directors’ concurrent employments were accurate as at Feb to Mar 2021.

Note 7: The Culture and Charity Foundation of the Cathay United Bank appointed its representative - Gregory K.H. Wang to serve as Vice Chairman of the Company and Tsu-Pei Chen to serve as Director of the Company from June 15, 2007 to June 17, 2010; representative - Roger M.H. Lee was appointed as the Company’s Director from June 15, 2007 to April 26, 2010.

Note 8: Director Andrew Ming-Jian Kuo served as independent director of the Company from June 15, 2007 to March 30, 2016 and served as director of the Company from June 17, 2017.

Note 9: Director Tiao-Kuei Huang served as director of the Company from December 31, 2001 to February 18, 2008 and again from June 30, 2011 to June 13, 2019.

Note 10: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note 11: In situations where the Company’s President or manager of the highest equivalent grade is the same person as or a spouse or first-degree relative of the Chairman, please explain the reasons, rationality and necessity of such an arrangement and any response measures taken (such as introduction of independent directors). Furthermore, disclose whether more than half of directors are involved in concurrent duty as employees or managers.

Note 12: “—” indicates zero shareholding °

Chart 1: Major Shareholders of Institutional Shareholders

April 13, 2021

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Chen-Sheng Industrial Co., Ltd.	Cheng-Chiu Tsai (80.93%), Tsung-Hsun Tsai (9.74%), Tzung Lien Industrial Co., Ltd. (9.33%)
Chia Yi Capital Co., Ltd.	Wan Pao Development Co., Ltd. (60.07%), Lin Yuan Investment Co., Ltd (39.93%)
Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	Not applicable. (Not a corporate entity, contributions to employees' welfare are made monthly by Cathay Life Insurance through monthly revenue.)
Culture and Charity Foundation of the Cathay United Bank	Not applicable. (Cathay United Bank Co., Ltd. (25.82%) (the founder))

Note 1: For directors and supervisors who are representatives of institutional shareholders, the name of the institutional shareholder should be filled.

Note 2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage. Fill in Chart 2 below, if the major shareholders are institutions/corporate.

Note 3: For corporate shareholders that are not corporate entities, the name of capital contributor or donor and percentage of capital contribution or donation are shown instead of shareholder name and shareholding percentage.

Chart 2: Major Shareholders of the Entities from Chart 1 that Are Institutions/Corporate

April 13, 2021

Tzung Lien Industrial Co., Ltd.	Cheng-Chiu Tsai (91.39%), Tsung-Hsun Tsai (8.61%)
Wan Pao Development Co., Ltd.	Tung Chi Capital Co., Ltd. (19.96%), Chia Yi Capital Co., Ltd. (19.85%), Liang Ting Industrial Co., Ltd. (17.85%), Lin Yuan Investment Co., Ltd (14.70%), Wan Ta Investment Co., Ltd. (12.89%), Pai Hsing Investment Co., Ltd. (9.18%), Chen Sheng Industrial Co., Ltd. (3.57%), Tzung Lien Industrial Co., Ltd. (2.00%)
Lin Yuan Investment Co., Ltd.	Chia Yi Capital Co., Ltd. (19.75%), Tung Chi Capital Co., Ltd. (19.69%), Liang Ting Industrial Co., Ltd. (17.74%), Wan Pao Development Co., Ltd. (14.81%), Wan Ta Investment Co., Ltd. (13.01%), Pai Hsing Investment Co., Ltd. (9.45%), Chen Sheng Industrial Co., Ltd. (3.54%), Tzung Lien Industrial Co., Ltd. (2.01%)

Note 1: The name of the institutional shareholder should be filled in for an institutional investor, like that in Chart 1.

Note 2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage.

Note 3: For corporate shareholders that are not corporate entities, the name of capital contributor or donor and percentage of capital contribution or donation are shown instead of shareholder name and shareholding percentage.

## Directors and Supervisors Information (2)

Name	Criteria	Has at least five years of relevant working experience and the following professional qualifications		Independence Criteria (Note 1)												Name of other Taiwanese Companies currently Serves as an independent Director (Note 2)
		An instructor of Commerce, Law Finance, Accounting, or other fields related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who possessed National Exam Certificate in profession necessary for the business of the company	Work experience in areas of commerce, law, finance, or accounting necessary for the business of the company	1	2	3 (Note 3)	4 (Note 3)	5 (Note 3)	6 (Note 3)	7	8	9	10	11	
Hong-Tu Tsai			✓	✓					✓	✓	✓	✓		✓	✓	
Tsu-Pei Chen			✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	
Cheng-Ta Tsai			✓	✓					✓	✓	✓	✓		✓		
Cheng-Chiu Tsai			✓	✓		✓			✓	✓	✓	✓		✓		
Chi-Wei Joong			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Andrew Ming-Jian Kuo			✓	✓		✓			✓	✓	✓	✓	✓	✓	✓	
Tiao-Kuei Huang	✓		✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	
Ming-Ho Hsiung			✓			✓	✓		✓	✓	✓	✓	✓	✓	✓	
Chang-Ken Lee			✓			✓	✓		✓	✓	✓	✓	✓	✓	✓	
Feng-Chiang Miao			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Edward Yung Do Way		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Li-Ling Wang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tang-Chieh Wu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note 1: Directors or supervisors who, during the two years before being elected or during the term of office, meet any of the following situations, please tick "✓" the appropriate corresponding boxes.

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or supervisor of the company or any of its affiliated companies (this restriction does not apply to concurrent independent director positions in the company, its parent company, subsidiary, or another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names in an aggregate of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a manager listed in (1), or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in (2) or (3).
- (5) Not a director, supervisor, or employee of any corporate shareholder that: 1. holds 5% or more of the Company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the Company according to Paragraph 1 or 2, Article 27 of The Company Act. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).
- (6) Not a director, supervisor, or employee of any other company that controls directorship in the company or where more than half of total voting rights are controlled by a single party (this excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).
- (7) Does not assume concurrent duty as Chairman, President, or equivalent role, and is not a director, supervisor, or employee of another company or institution owned by a spouse. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with The Company Act or local laws).
- (8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company (however, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the Company, or in the Company's parent or subsidiary, or in another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
- (9) Not a professional who provides audit service, or commercial, legal, financial, accounting or related services for an accumulated sum of less than NT\$500,000 in the last 2 years, to the Company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies. This excludes roles as Remuneration Committee, Public Acquisition Review Committee, or M&A Special Committee member appointed in accordance with

the Securities and Exchange Act or Business Mergers And Acquisitions Act.

(10)Not a relative within the second degree of kinship to any other director of the company.

(11)Not been a person of any conditions defined in Article 30 of the Company Act.

(12)Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note 2: Calculated according to Paragraph 2, Article 4 of Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

Note 3: Data baseline date: April 13, 2021.

**(II) Background information of the President, Executive Vice Presidents, Senior Vice Presidents, and heads of departments and branch offices**  
**(Table 1-1)**

April 13, 2021

Title (Note 1)	Nationality	Name	Date Elected	Gender	Number of shares held			Shares held by spouses, underage children		Shares held in the name of others		Selected Education, Past Positions & Current Positions (Note 2)	Concurrent positions at other companies (Note 5)	Managers who are spouses or relatives within the second degree of kinship			Remark (Note 3)
					Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
					Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding						
President	R.O.C	Chang-Ken Lee	2011/2/25	M	131,729		0.001%	—	—	—	—	M.B.A., University of Pennsylvania, USA	Chairman of Financial Planning Association of Taiwan; Managing Director of CDIB & Partners Investment Holding Corporation; Director of Cathay United Bank, Cathay Securities, Cathay Securities Investment Trust, Cathay Charity Foundation, United Bank and Joint Credit Information Center; Supervisor of Cathay Medical Care Corporate; Managing Director of The Bankers Association of The Republic of China; Director of The Bankers Association of Taipei, etc.	None	None	None	None
					20,000		0.001%	—	—	—	—						
Chief Auditor	R.O.C	Hung-Chang Yang	2021/3/8	M	39,865		0%	17,701	0%	—	—	LL.B., Chinese Culture University	None	None	None	None	None
					9,000		0%	—	—	—	—						
Chief Financial Officer	R.O.C	Grace Chen	2004/1/9	F	48,581		0%	—	—	—	—	M.B.A., National Chengchi University	Director of Cathay United Bank, Cathay Venture, the Culture and Charity Foundation of the CUB, Cathay United Bank, Cathay Venture	None	None	None	None
					25,000		0.002%	—	—	—	—						
Senior Executive Vice President	USA	David P. Sun	2008/2/1	M	13,930		0%	—	—	—	—	M.B.A. & M.S., Harvard University, USA	Chairman of Cathay Securities Investment Consulting and Symphox Information; Senior Executive Vice President of Cathay Life Insurance; Director of Cathay United Bank (Cambodia), Conning Holdings Limited and Quantifeed Holdings Limited	None	None	None	None
					15,000		0.001%	—	—	—	—						
Chief Investment Officer	R.O.C	Sophia Cheng	2012/7/23	F	15,737		0%	—	—	—	—	M.S., Golden Gate University, USA	Director of Cathay United Bank and Cathay Venture	None	None	None	None
					6,000		0%	—	—	—	—						
Senior Executive Vice President	R.O.C	Chung-Yi Teng	2013/5/1	M	22,515		0%	—	—	—	—	M.B.A., M.I.T., USA/M.S. Statistics, National Tsinghua University	Senior Executive Vice President of Cathay United Bank; Managing Director of Cathay United Bank; Director of Cathay United Bank, Cathay United Bank (China), Cathay Venture, Culture and Charity Foundation of the Cathay United Bank and Taiwan Star Telecom; Chairman of Cathay United Bank (Cambodia); Supervisor of Taipei Forex Inc.	None	None	None	None
					—		—	—	—	—	—						
Chief Information Office	R.O.C	Chia-Sheng Chang	2015/4/1	M	6,515		0%	—	—	—	—	Ph. D., Weatherhead School of Management at Case Western Reserve University, USA	Director of Cathay Real Estate Culture and Education Foundation	None	None	None	None
					15,000		0.001%	—	—	—	—						
Senior Executive Vice President	R.O.C	Jian-Hsing Wu	2016/1/18	M	7,341		0%	17,558	0%	—	—	M.S., Tamkang University	Senior Executive Vice President of Cathay United Bank; Director of Cathay United Bank and Culture and Charity Foundation of the Cathay United Bank	None	None	None	None
					39,000		0.003%	—	—	—	—						



Title (Note 1)	Nationality	Name	Date Elected	Gender	Number of shares held			Shares held by spouses, underage children		Shares held in the name of others		Selected Education, Past Positions & Current Positions (Note 2)	Concurrent positions at other companies (Note 5)	Managers who are spouses or relatives within the second degree of kinship			Remark (Note 3)
					Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
					Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding						
Senior Executive Vice President	R.O.C	Tsung- Hsien Tsai	2017/8/18	M	10,006,515		0.076%	—	—	—	—	M.S. in Electronic Engineering, Harvard University, USA	Director of Cathay United Bank, Cathay Century Insurance; Vice Chairman of Symphox Information	Chairman	Hong-Tu Tsai	Paternity	None
					15,000		0.001%	—	—	—	—						
Senior Executive Vice President	R.O.C	Hsiang-Hsin Tsai	2020/3/12	F	17,062		0%	—	—	—	—	M.B.A., Thunderbird School of Global Management, USA	Senior Executive Vice President of Cathay United Bank	None	None	None	None
					10,000		0.001%	—	—	—	—						
Senior Executive Vice President	R.O.C	Xu-Jie Yao	2020/3/12	M	6,000		0%	—	—	—	—	M.I.T. SLOAN Business	Senior Executive Vice President of Cathay United Bank; Director of TPI software Corporation	None	None	None	None
					3,000		0%	—	—	—	—						
Executive Vice President and Chief Corporate Governance Officer	R.O.C	Deh-Yen Weng	2011/6/29	F	20,562		0%	—	—	—	—	M.B.A., Massachusetts Institute of Technology, USA	None	None	None	None	None
					9,000		0.001%	—	—	—	—						
Executive Vice President	R.O.C	Shu-Ying Wu	2013/5/1	F	7,532		0%	1,467	0%	—	—	M.B.A., Michigan State University, USA	Executive Vice President of Cathay Life Insurance; Director of Kaitai Energy, PSS, Greenhealth Water Resources Co., Ltd, Tian Ji Energy, Hong Tai Energy, Tian Ji Electric, Long Quan Water Resource, Hong Tai Electric	None	None	None	None
					4,000		0%	—	—	—	—						
Executive Vice President	R.O.C	Ta-Ching Hung	2013/12/28	M	27,524		0%	—	—	—	—	M.B.A., National Chengchi University	Executive Vice President of Cathay Life Insurance; Supervisor of Taiwan Star Telecom Corporation Limited	None	None	None	None
					25,000		0.002%	—	—	—	—						
Chief Compliance Officer	R.O.C	Judie Hsu	2015/3/25	F	6,781		0%	—	—	—	—	LL.M., University of London, School of Oriental and African Studies	None	None	None	None	None
					—		—	—	—	—	—						
Executive Vice President	R.O.C	Ching-Yuan, Kung	2015/11/1	M	—		—	—	—	—	—	M.B.A., Carlson School, University of Minnesota	None	None	None	None	None
					—		—	—	—	—	—						
Executive Vice President	R.O.C	Fu-Min Wang	2017/4/28	M	23,000		0%	—	—	—	—	B.A., Soochow University	Executive Vice President of Cathay Life Insurance; Supervisor of Cathay Life Insurance (Vietnam) Co., Ltd.	None	None	None	None
					11,000		0.001%	—	—	—	—						
Executive Vice President	R.O.C	Yu-Mei Lee	2017/8/18	F	45,993		0%	—	—	—	—	LL.B., National Taipei University	Senior Executive Vice President of Cathay Securities Corporation; Supervisor of Cathay Futures	None	None	None	None
					—		—	—	—	—	—						
Chief Risk Officer	R.O.C	Ching-Lu Huang	2018/9/14	M	17,970		0%	5,067	0%	—	—	M.S. Statistics, National Tsinghua University	Executive Vice President of Cathay Life Insurance	None	None	None	None
					7,000		0%	3,000	0%	—	—						
Executive Vice President	R.O.C	Ming-Chiao Liang	2020/3/12	M	5,000		0%	—	—	—	—	M.S., Ming Chuan University	Executive Vice President of Cathay Century Insurance; Director of Cathay Century Insurance (Vietnam) ,TPI software Corporation	None	None	None	None
					3,000		0%	—	—	—	—						

Title (Note 1)	Nationality	Name	Date Elected	Gender	Number of shares held			Shares held by spouses, underage children		Shares held in the name of others		Selected Education, Past Positions & Current Positions (Note 2)	Concurrent positions at other companies (Note 5)	Managers who are spouses or relatives within the second degree of kinship			Remark (Note 3)
					Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
					Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding						
Executive Vice President	R.O.C	Pei-Ching Lin	2020/3/12	F	7,664		0%	17,682	0%	–	–	M.S., National Taiwan University	Executive Vice President of Cathay Life Insurance	None	None	None	None
					–		–	–	–	–	–						
Executive Vice President	R.O.C	Jui-Reui Hung	2020/09/01	F	13,394		0%	–	–	–	–	B.S., National Taiwan University	Executive Vice President of Cathay Life Insurance	None	None	None	None
					13,000		0.001%	–	–	–	–						
Executive Vice President	R.O.C	Kuang-Hsueh Chen	2021/02/04	M	5,000		0%	2,000	0%	–	–	M.B.A., University of California, USA	Executive Vice President of Cathay United Bank	None	None	None	None
					–		–	–	–	–	–						
Executive Vice President	USA	Hua-Ben Miao	2021/03/11	M	–		–	550	0%	–	–	M.B.A., University of Pennsylvania, USA	Executive Vice President of Cathay United Bank; Director of Cathay United Bank (Cambodia), CircuTech International Holdings Limited	None	None	None	None
					–		–	16,000	0.001%	–	–						
Senior Vice President	R.O.C	Chang-Chao Liao	2009/4/6	M	–		–	–	–	–	–	LL.B., National Chengchi University	None	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Shao-Ling Weng	2013/11/12	F	–		–	–	–	–	–	M.B.A., National Cheng Kung University	None	None	None	None	None
					6,000		0%	–	–	–	–						
Senior Vice President	R.O.C	Gwang-Ying She	2014/4/1	F	148		0%	–	–	–	–	M.B.A., Oregon State University, USA	None	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Sheng-Hsiung Tsai	2015/2/7	M	5,000		0%	–	–	–	–	M.B.A., National Taiwan University	None	None	None	None	None
					–		–	20,000	0.001%	–	–						
Senior Vice President	R.O.C	Hwa-Hsin Yang	2016/7/26	M	–		–	–	–	–	–	M.B.A., Rutgers University, USA	None	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Chin-Tang Lu	2018/4/27	M	–		–	–	–	–	–	M.B.A., Yuan Ze University	None	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Yao-Te Wang	2018/5/2	M	4,000		0%	–	–	–	–	M.S., University of Southern California, USA	Senior Vice President of Cathay United Bank	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Wan-Yu Ho	2019/4/9	F	11,834		0%	5,000	0%	–	–	M.B.A., National Taiwan University of Science and Technology	None	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Ming-Chuan Chen	2019/9/24	M	5,000		0%	–	–	–	–	M.S., Yuan Ze University	Executive President of Symphox Information; Director of Seaward Card	None	None	None	None
					–		–	–	–	–	–						
Senior Vice President	R.O.C	Ya-Jou Chang	2020/04/30	F	3,000		0%	–	–	–	–	M.B.A., Cornell University, USA	None	None	None	None	None
					–		–	–	–	–	–						

Title (Note 1)	Nationality	Name	Date Elected	Gender	Number of shares held			Shares held by spouses, underage children		Shares held in the name of others		Selected Education, Past Positions & Current Positions (Note 2)	Concurrent positions at other companies (Note 5)	Managers who are spouses or relatives within the second degree of kinship			Remark (Note 3)
					Common stock	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
					Preferred shares	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding						
Senior Vice President	R.O.C	Chun-Chieh Chen	2020/04/30	M	4,219		0%	—	—	—	—	M.B.A., National Taiwan University	None	None	None	None	None
					2,000		0%	—	—	—	—						
Senior Vice President	R.O.C	Chi-Ya Hua	2020/06/12	F	43		0%	—	—	—	—	M.B.A., Massachusetts Institute of Technology, USA	Senior Vice President of Cathay United Bank	None	None	None	None
					—		—	—	—	—	—						
Senior Vice President	R.O.C	Jui-Hung Hung	2020/06/13	M	10,432		0%	1,000	0%	—	—	B.A., Soochow University	Supervisor of Cathay Securities Investment Trust	None	None	None	None
					—		—	—	—	—	—						

Note 1: This should include all President, Vice Presidents, Senior Vice Presidents, and those who hold the equivalent positions (regardless the job titles), as well as, key managers from each department and branch entity, must be disclosed.

Note 2: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note 3: In situations where the Company's President or manager of the highest equivalent grade is the same person as or a spouse or first-degree relative of the Chairman, please explain the reasons, rationality and necessity of such an arrangement and any response measures taken, such as introduction of independent directors. Furthermore, disclose whether more than half of directors are involved in concurrent duty as employees or managers.

Note 4: Shareholding data was accurate as at April 13, 2021 (the book closure date). The number and percentage of preferred shares include both Class A and Class B.

Note 5: Managers' concurrent employments were accurate as at Feb to Mar 2021.

Note 6: "—" indicates zero shareholding.

**(III) Compensation for retired chairmen and presidents of the Company or related companies re-hired as consultants: disclose name, gender, nationality, title, institution and title before retirement, date of retirement, date appointed as consultant, purpose of hire, and responsibilities (Table 1-4): None**

### III. Remuneration Paid to directors (including independent directors), presidents, vice presidents and employees in the latest fiscal year

#### (I) Remuneration to non-independent and independent directors (Table 1-2)

Remuneration to non-independent and independent directors (aggregate disclosure of directors' names and range of remuneration)

December 31, 2020; Unit: NT\$ thousand

Title	Name	Remuneration Paid to Directors								Sum of A, B, C and D as percentage of Net Income (%) (Note 10)		Relevant Remuneration Received by Directors Who are Also Employees								Sum of A, B, C, D, E, F and G as percentage of Net Income (Note 10)		Compensation from parent company or invested businesses other than subsidiaries (Note 11)	
		Compensation (A) (Note 2)		Pension upon retirement(B)		Remuneration (C) (Note 3)		Service Expenses (D) (Note 4)				Base Compensation, Bonuses, and Allowances (E) (Note 5)		Pension upon retirement (F)		Employee remuneration (G) (Note 6)							
		The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	The Company	Consolidated subsidiaries (Note 7)	Cash Amount	Cash Amount	Cash Amount	Cash Amount	The Company	Consolidated subsidiaries (Note 7)		
Chairman	Hong-Tu Tsai																						
Vice Chairman	Representative of Culture and Charity Foundation of the Cathay United Bank: Tsu-Pei Chen																						
Director	Representative of Chia Yi Capital Co., Ltd.: Cheng-Ta Tsai																						
Director	Representative of Chen-Sheng Industrial Co., Ltd.: Cheng- Chiu Tsai																						
Director	Representative of Cathay Life Employees' Welfare Committee: Chang-Ken Lee	35,057	125,469	0	1,458	2,700	2,700	3,598	11,154	0.06%	0.19%	39,318	39,318	0	0	15	0	15	0	0.11%	0.24%	466	
Director	Representative of Cathay Life Employees' Welfare Committee: Tiao-Kuei Huang																						
Director	Representative of Cathay Life Employees' Welfare Committee: Ming-Ho Hsiung																						
Director	Representative of Chia Yi Capital Co., Ltd.: Chi-Wei Joong																						
Director	Representative of Culture and Charity Foundation of the Cathay United Bank: Ming-Jian Kuo																						
Independent Director	Edward Yung Do Way																						
Independent Director	Li-Ling Wang	18,600	18,600	0	0	0	0	640	2,067	0.03%	0.03%	0	0	0	0	0	0	0	18,600	18,600	0	0	
Independent Director	Tang-Chieh Wu																						
Independent Director	Feng-Chiang Miao																						

- Please explain the policy, system, standards, and structure by which independent director remuneration is paid, and association between the amount paid and independent directors' responsibilities, risks, and time committed: The Company has specified in its Compensation Principles the policies, scope, categories and regular review practices for independent directors' compensation. In general, independent directors' compensation is determined based on participation and contribution to the Company's operations in reference to peer levels. Each independent director shall have compensation reviewed individually by the Remuneration Committee and approved by the board of directors before payment. The Company reviews independent directors' compensation once every three years.
- Apart from the aforementioned disclosure, the remunerations for directors of the Company providing services (such as serving as a consultant that is not an employee) to consolidated subsidiaries: None

## Remuneration Range

Remuneration Paid to Directors by Range	Director Name			
	Total Remuneration from (A+B+C+D)		Total Remuneration from (A+B+C+D+E+F+G)	
	The Company (Note 8)	Consolidated subsidiaries (Note 9) H	The Company (Note 8)	Consolidated subsidiaries (Note 9) I
Under NT\$1,000,000	Cheng-Ta Tsai, Chang-Ken Lee	Cheng-Ta Tsai	Cheng-Ta Tsai	Cheng-Ta Tsai
NT\$ 1,000,000 (inclusive) ~ NT\$ 2,000,000 (non-inclusive)	Hong-Tu Tsai, Cheng-Chiu Tsai, Tiao-Kuei Huang, Ming-Ho Hsiung, Ming-Jian Kuo	Hong-Tu Tsai, Chang-Ken Lee	Hong-Tu Tsai, Cheng-Chiu Tsai, Tiao-Kuei Huang, Ming-Ho Hsiung, Ming-Jian Kuo	Hong-Tu Tsai
NT\$ 2,000,000 (inclusive) ~ NT\$ 3,500,000 (non-inclusive)	None	None	None	None
NT\$ 3,500,000 (inclusive) ~ NT\$ 5,000,000 (non-inclusive)	Chi-Wei Joong, Edward Yung Do Way, Li-Ling Wang, Feng-Chiang Miao	Chi-Wei Joong, Li-Ling Wang	Chi-Wei Joong, Edward Yung Do Way, Li-Ling Wang, Feng-Chiang Miao	Chi-Wei Joong, Li-Ling Wang
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (non-inclusive)	Tang-Chieh Wu	Cheng-Chiu Tsai, Edward Yung Do Way, Tang-Chieh Wu, Feng-Chiang Miao	Tang-Chieh Wu	Cheng-Chiu Tsai, Edward Yung Do Way, Tang-Chieh Wu, Feng-Chiang Miao
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (non-inclusive)	None	None	None	None
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (non-inclusive)	Tsu-Pei Chen	Ming-Ho Hsiung	Tsu-Pei Chen	Ming-Ho Hsiung
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (non-inclusive)	None	Tsu-Pei Chen, Tiao-Kuei Huang, Ming-Jian Kuo	Chang-Ken Lee	Chang-Ken Lee, Tsu-Pei Chen, Tiao-Kuei Huang, Ming-Jian Kuo
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (non-inclusive)	None	None	None	None
Over NT\$100,000,000	None	None	None	None
Total	13	13	13	13

- Note 1: Directors' names are presented separately (for corporate shareholders, the name of the corporate shareholder and its representative are presented separately) and distinguished between independent and non-independent directors, while the amount of benefits are presented in aggregate sums. For directors who are also presidents or executive vice presidents at the Company or the subsidiaries, Chart (3-1) or (3-2-1) and (3-2-2) below must be filled in.
- Note 2: This includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.
- Note 3: This refers to filling in director's profit sharing of the latest fiscal year proposed and resolved by the Board.
- Note 4: Payments to the director to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$3,127 thousand for the period.
- Note 5: Payments to the director, who is also a president, executive vice president, manager, or employee, to cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars (or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 524 thousand for the period. Salary expenses recognized in accordance with IFRS 2 "Share-based Payment" include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.
- Note 6: A person receiving employee remuneration (stock and cash bonus) to the director, (including concurrently serving as a president, executive vice president, other manager, or employee) shall disclose the rewarding amount proposed and resolved by the Board (If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year). Table 1-3 shall be filled in.
- Note 7: Total remuneration paid by the Group companies (including the Company) in the consolidated report to the director.
- Note 8: Disclose remuneration paid by the Company to the director under the suitable range. Name of the receiver must be shown under the suitable range.
- Note 9: Disclose remuneration paid by the Group companies (including the Company) in the consolidated report to the director under the suitable range. Name of the receiver must be shown under the suitable range.
- Note 10: Net income disclosed from the latest financial statement of each company.
- Note 11: a. This field represents all forms of remuneration that the director received from the Company's parent company or invested businesses other than subsidiaries (specify "None" if absent).  
b. For directors who received remuneration from parent company or invested businesses other than subsidiaries, amounts received from these invested businesses or parent company have been added to column I of the remuneration brackets table. In which case, column I will be renamed "...parent company and all invested businesses..."  
c. Remuneration refers to any return, compensation (including compensations received as an employee, director and supervisor) and professional service fee that the Company's director received for serving as director, supervisor, or manager in the parent company or invested businesses other than subsidiaries.
- \* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

**(II) Remuneration Paid to Presidents and Executive Vice Presidents**

Remuneration to the President and Vice Presidents (collective disclosure by name and range of remuneration)

December 31, 2020; Unit: NT\$ thousand

Title	Name (Note 1)	Salary (A) (Note 2)		Pension upon retirement (B)		Bonuses & Allowance Paid (C) (Note 3)		Amount of Employee remuneration (D) (Note 4)				Sum of A, B, C and D as percentage of Net Income (%) (Note 8)		Compensation from parent company or invested businesses other than subsidiaries (Note 9)
		The Company	Consolidated subsidiaries (Note 5)	The Company	Consolidated subsidiaries (Note 5)	The Company	Consolidated subsidiaries (Note 5)	The Company		Consolidated subsidiaries (Note 5)		The Company	Consolidated subsidiaries (Note 5)	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Chang-Ken Lee	84,176	131,686	0	0	106,098	152,039	360	0	360	0	0.26%	0.38%	378
Chief Auditor	Chih-Jung Kun													
Chief Financial Officer	Grace Chen													
Senior Executive Vice President	David P. Sun													
Chief Investment Officer	Sophia Cheng													
Senior Executive Vice President	Chung-Yi Teng													
Chief Information Office	Chia-Sheng Chang													
Senior Executive Vice President	Jian-Hsing Wu													
Senior Executive Vice President	Hsiang-Hsin Tsai													
Senior Executive Vice President	Tsung- Hsien Tsai													
Senior Executive Vice President	Xu-Jie Yao													
Executive Vice President	Deh-Yen Weng													
Executive Vice President	Shu-Ying Wu													
Executive Vice President	Ta-Ching Hung													
Executive Vice President	Judie Hsu													
Executive Vice President	Ching-Yuan, Kung													
Executive Vice President	Fu-Min Wang													
Executive Vice President	Yu-Mei Lee													
Chief Risk Officer	Ching-Lu Huang													
Executive Vice President	Ming-Chiao Liang													
Executive Vice President	Pei-Ching Lin													
Executive Vice President	Jui-Reui Hung													
Executive Vice President	Chen-Tung Chang													
Ex-Executive Vice President, Chao-Chi Tsai, (Discharged from the post on March 12, 2021)														

\* All personnel who hold positions equivalent to president or executive vice president (such as chairman, executive, business director, etc) must be disclosed.

## Remuneration Range

Remuneration to President and Vice presidents (NT\$) Remuneration Range	President & Executive Vice President Name	
	The Company (Note 6)	Consolidated subsidiaries (Note 7)
Under NT\$1,000,000	Jui-Reui Hung, Pei-Ching Lin, Chen-Tung Chang, Fu-Min Wang, Chao-Chi Tsai	None
NT\$ 1,000,000 (inclusive) ~ NT\$ 2,000,000 (non-inclusive)	Ching-Lu Huang, Ta-Ching Hung, Hsiang-Hsin Tsai	None
NT\$ 2,000,000 (inclusive) ~ NT\$ 3,500,000 (non-inclusive)	Ming-Chiao Liang	None
NT\$ 3,500,000 (inclusive) ~ NT\$ 5,000,000 (non-inclusive)	Yu-Mei Lee, Ching-Yuan, Kung	Pei-Ching Lin, Chao-Chi Tsai
NT\$ 5,000,000 (inclusive) ~ NT\$ 10,000,000 (non-inclusive)	Chih-Jung Kung, Chia-Sheng Chang, Jian-Hsing Wu, Deh-Yen Weng, Shu-Ying Wu, Judie Hsu, Xu-Jie Yao	Chih-Jung Kung, Chia-Sheng Chang, Ching-Lu Huang, Ming-Chiao Liang, Jui-Reui Hung, Deh-Yen Weng, Judie Hsu, Ta-Ching Hung, Yu-Mei Lee, Chen-Tung Chang, Fu-Min Wang
NT\$ 10,000,000 (inclusive) ~ NT\$ 15,000,000 (non-inclusive)	Grace Chen, Tsung-Hsien Tsai	Grace Chen, Tsung-Hsien Tsai, Shu-Ying Wu, Ching-Yuan, Kung, Hsiang-Hsin Tsai
NT\$ 15,000,000 (inclusive) ~ NT\$ 30,000,000 (non-inclusive)	David P. Sun, Sophia Cheng, Chung-Yi Teng	David P. Sun, Sophia Cheng, Chung-Yi Teng, Jian-Hsing Wu, Xu-Jie Yao
NT\$ 30,000,000 (inclusive) ~ NT\$ 50,000,000 (non-inclusive)	Chang-Ken Lee	Chang-Ken Lee
NT\$ 50,000,000 (inclusive) ~ NT\$ 100,000,000 (non-inclusive)	None	None
Over NT\$100,000,000 (inclusive)	None	None
Total	24	24

Note 1: Names of the presidents and executive vice presidents must be shown separately. Any directors who co-headed the President or Vice President positions are disclosed in this table and in Table (1-1), or Tables (1-2-1), and (1-2-2).

Note 2: This includes salary, compensation for professional services, severance pay, and all bonus and bounties paid to the director during the year.

Note 3: Payments to presidents or executive vice presidents to reward or cover business expenses (including travel expenditures, allowances, reimbursements, accommodation, company cars, in-kind supplies, etc.) If residences, cars



(or other transportations) or personal expenses are provided, information about the assets (including classification, cost, actual or fair market values of the rent, gasoline expenses, other perks) must be disclosed but not included in the remuneration. Compensation paid to personal drivers must be noted, when applicable, but not accumulated under the remuneration received. Total compensation paid to the pertinent drivers by the Group companies in the consolidated statement was NT\$ 5,082 thousand for the period. Salary expenses recognized in accordance with IFRS 2 "Share-based Payment" include acquisition of employee stock warrants, new restricted employee shares, and participation in capital increases by cash subscription, which shall all be calculated as remuneration.

Note 4: Employee remuneration amount (stock and cash; if cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year) to the president or the executive vice president. The rewarding amount is proposed and resolved by the Board of the fiscal years. Table 1-3 shall be filled in.

Note 5: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president.

Note 6: Aggregated amount of individual compensation paid by the Company to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note 7: Aggregated amount of individual compensation paid by the Group companies (including the Company) in the consolidated statement to the president or executive vice president. Names of the receivers must be shown under the suitable range.

Note 8: Net income disclosed from the latest financial statement of each company.

Note 9:

(1) This field represents all forms of remuneration that the President and Executive Vice Presidents received from the Company's parent company or invested businesses other than subsidiaries (specify "None" if absent).

(2) For President/Executive Vice Presidents who receive remuneration from parent company or invested businesses other than subsidiaries, the amount of remuneration from parent company or invested businesses have been added to column E of the remuneration brackets table. In which case, column E will be renamed "...parent company and all invested businesses..."

(3) Remuneration refers to any returns, compensation (including compensations received as an employee, director, and supervisor) and professional service fees that the Company's President/Executive Vice Presidents received for serving as directors, supervisors or managers in the parent company or invested businesses other than subsidiaries.

\* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

**(III) Employee Remuneration Distributed to Managers and Distribution Situation (Table 1-3)**

December 31, 2020; Unit: NT\$ thousand

	Title (Note 1)	Name (Note 1)	Stock Amount (Note 2)	Cash Amount (Note 2)	Total	Total as a Percentage of Net Income (%)
Manager (Note 3)	President	Chang-Ken Lee	0	570	570	0.0008%
	Chief Auditor	Chih-Jung Kun				
	Chief Financial Officer	Grace Chen				
	Senior Executive Vice President	David P. Sun				
	Chief Investment Officer	Sophia Cheng				
	Senior Executive Vice President	Chung-Yi Teng				
	Chief Information Office	Chia-Sheng Chang				
	Senior Executive Vice President	Jian-Hsing Wu				
	Senior Executive Vice President	Hsiang-Hsin Tsai				
	Senior Executive Vice President	Tsung-Hsien Tsai				
	Senior Executive Vice President	Xu-Jie Yao				
	Executive Vice President	Deh-Yen Weng				
	Executive Vice President	Shu-Ying Wu				
	Executive Vice President	Ta-Ching Hung				
	Executive Vice President	Judie Hsu				
	Executive Vice President	Ching-Yuan, Kung				
	Executive Vice President	Fu-Min Wang				
	Executive Vice President	Yu-Mei Lee				
	Chief Risk Officer	Ching-Lu Huang				
	Executive Vice President	Ming-Chiao Liang				
	Executive Vice President	Pei-Ching Lin				
	Executive Vice President	Jui-Reui Hung				
	Executive Vice President	Chen-Tung Chang				
	Senior Vice President	Chang-Chao Liao				
	Senior Vice President	Shao-Ling Weng				
	Senior Vice President	Gwang-Ying She				
	Senior Vice President	Sheng-Hsiung Tsai				
	Senior Vice President	Hwa-Hsin Yang				
	Senior Vice President	Chin-Tang Lu				
	Senior Vice President	Yao-Te Wang				
	Senior Vice President	Wan-Yu Ho				
	Senior Vice President	Ming-Chuan Chen				
Senior Vice President	Ya-Jou Chang					
Senior Vice President	Chun-Chieh Chen					
Senior Vice President	Chi-Ya Hua					
Senior Vice President	Jui-Hung Hung					
Senior Vice President	Shan-Chih Liu					
Senior Vice President	Wei-Jen Chang					

Note 1: Individual name and title must be disclosed, but the profit sharing awarded may be shown as an aggregated number.

Note 2: Employee remuneration amount (stock and cash) to managers. The rewarding amount is proposed and resolved by the Board of the fiscal years. If cannot be estimated, the distribution amount of this year shall be determined by the actual distribution ratio of last year. Net income disclosed from the latest financial statement of each company.

Note 3: Managers subject to the rewarding (according to per March 27, 2003 Letter No. Securities and Futures Bureaus-III-0920001301 of the Financial Supervisory Commission, Executive Yuan of the Taiwan Stock Exchange Corporation) are: (1) president or their equivalents; (2) executive vice president or their equivalents; (3) Division Head or their equivalents; (4) chief financial officer; (5) chief accounting officer; and (6) other persons authorized to manage affairs and sign documents on behalf of a company.

Note 4: For directors, presidents, and executive vice presidents who received Employee remuneration (including stock and cash bonus), Table 1-2 must be filled in other than this chart.

**(IV) A Company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors:**

None.

**(V) A Company that has had an average ratio of share pledging by director supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director supervisor having a ratio of pledged shares in excess of 50 percent for each such month:**

None.

**(VI) If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT\$15 million, the Company shall disclose the remuneration paid to that individual director or supervisor:**

None.

**(VII) TWSE/TPEX listed financial holding companies that ranked in the worst tier of the most recent corporate governance evaluation, or were denied evaluation by the Corporate Governance Evaluation Committee for reasons such as change of trading method, trade suspension or delisting in the most recent year up till the publication of annual report, shall disclose director and supervisor remuneration on an individual basis:**

None.

**(VIII) TWSE/TPEX listed financial holding companies where annual salary of full-time, non-managerial staff average less NT\$500,000 in the most recent year shall disclose director and supervisor remuneration on an individual basis:**

None.

**(IX) TWSE/TPEX listed financial holding companies that exhibit any of the conditions listed in Item 2, Point 2 or Item 6 shall disclose remuneration of the 5 most highly remunerated managers on an individual basis:**

None.

**(X) Amount of remuneration paid in the last 2 years by the Company and all companies included in the consolidated financial statements to the Company's directors, supervisors, President, and Executive Vice Presidents, and their respective proportions to standalone net income, as well as the policies, standards, and packages by which they were paid, the procedures through which remunerations were determined, and their association with business performance and future risks.**

1. Total remuneration paid to directors, general managers and vice general managers by the Company and all entities included in the consolidated financial statements amounted to NT\$444,512 thousand dollars in 2020 and NT\$420,276 thousand dollars in 2019, representing 0.60% and 0.67% of net income in the respective years.
2. Remuneration policies, standards, packages and procedures, and association with future risks and business performance
  - (1) Directors', president's and executive vice presidents' remuneration are determined according to the Company's "Director Compensation Guidelines" and "Manager Compensation Guidelines" based on an overall assessment of directors' and managers' duties, the market level, their individual contributions, performance assessments, and expected or actual risks.
  - (2) In the "Director Compensation Guidelines" (referred to as the "Guidelines" below), a director's compensation includes fees, remuneration, and traffic and other allowances.

- A. Compensation: The Company's independent directors, external directors, and directors involved in business administration (e.g., the Chairman/Vice Chairman) may be paid a fixed monthly fee. The amount of which is determined by the Remuneration Committee and the board of directors based on the level of individual directors' participation and contribution to the Company's operations, and the usual peer level. Directors who are directly involved in business administration are paid additional bonuses using the same standards as managers. This performance bonus is linked to the Company's overall performance and the performance of individual subjects during the year.
  - B. Remuneration: Director remuneration is determined according to the Company's Articles of Incorporation, which states that up to 0.05% of annual profit may be allocated and distributed at the percentages outlined in the Guidelines. Independent directors and external directors that are being paid monthly fees are not entitled to receive director remuneration.
  - C. Transportation and other allowances are paid at the standards stated in the Guidelines.
- (3) The Company has established a set of "Manager Compensation Guidelines". Managers' remuneration includes salary, bonuses, and pension upon retirement. A manager's salary is determined based on his responsibilities, performances and capabilities, and external salary benchmarking. The amount of which is advised by the Company's Chairman and in effect upon the approval of the Remuneration Committee and the Board of Directors.
3. The Company has established a set of "Director Performance Evaluation Guidelines" and "Manager Performance Management and Development Guidelines" to enhance corporate governance and enforce directors' and managers' duties. Directors' performance evaluation criteria were developed based on "Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers. It has been explicitly stated in the "Director Compensation Guidelines" that directors shall have performance evaluated in combination with internal audit, internal control, and risk indicators; in addition, directors that fail the annual performance evaluation are not entitled to receive remuneration. It has been explicitly stated in the "Manager Performance Management and Development Guidelines" that performance evaluation results shall serve as a reference for managers' salary and bonus.
4. According to the Company's policies, performance evaluation and salary/compensation rules are subject to review or amendment by the Remuneration Committee every three years or at any time deemed necessary.

## IV. Implementation of Corporate Governance

### (I) Functionality of the board of directors (Table 2(1))

The 6th board of directors (data range: 2020.1.1-2020.12.31)

A total of 8 meetings (A) were held in the last year; below are directors' and supervisors' attendance records:

Title	Name (Note 1)	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Chairman	Hong-Tu Tsai	8	0	100%	—
Vice Chairman	Culture and Charity Foundation of the Cathay United Bank Representative: Tsu-Pei Chen	8	0	100%	
Director	Chia Yi Capital Co., Ltd. Representative: Cheng-Ta Tsai	0	8	0%	
Director	Chen-Sheng Industrial Co., Ltd. Representative: Cheng-Chiu Tsai	7	1	88%	
Director	Chia Yi Capital Co., Ltd. Representative: Chi-Wei Joong	7	1	88%	
Director	Culture and Charity Foundation of the Cathay United Bank Representative: Andrew Ming-Jian Kuo	8	0	100%	
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Tiao-Kuei Huang	8	0	100%	
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Ming-Ho Hsiung	8	0	100%	
Director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee Representative: Chang-Ken Lee	8	0	100%	
Independent Director	Matthew Feng-Chiang Miao	8	0	100%	
Independent Director	Edward Yung-Do Way	8	0	100%	
Independent Director	Li-Ling Wang	8	0	100%	
Independent Director	Tang-Chieh Wu	8	0	100%	

Note 1: Where directors and supervisors are corporate entities, the names of corporate shareholders and their representatives are stated.

Note 2:

- (1) The date of resignation is specified for directors or supervisors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of actual attendance during active duty.
- (2) If a re-election of directors or supervisors had taken place prior to the close of the financial year, directors/supervisors of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the director/supervisor was elected in the previous term, the new term, or both. Actual attendance rate (%) was calculated on the basis of the number of board meetings held during each director's term and the number of meetings actually attended by that director.

## Attendance of independent directors at board of directors meetings in 2020:

✓: In person; ☆: By proxy; ✖: Absent

2020	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	Remarks
Matthew Feng-Chiang Miao	✓	✓	✓	✓	✓	✓	✓	✓	—
Edward Yung-Do Way	✓	✓	✓	✓	✓	✓	✓	✓	
Li-Ling Wang	✓	✓	✓	✓	✓	✓	✓	✓	
Tang-Chieh Wu	✓	✓	✓	✓	✓	✓	✓	✓	

## Directors' and supervisors' ongoing education in 2020

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	From				
Chairman	Hong-Tu Tsai	2020/11/09	2020/11/09	Cathay Financial Holding Co., Ltd.	Corporate Governance Forum – Financial Institution Directors' Legal Risk I	2.0	—
		2020/11/09	2020/11/09	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Financial Institution Directors' Legal Risk II	4.0	
Vice Chairman	Tsu-Pei Chen	2020/06/11	2020/06/11	Securities and Futures Institute	Corporate Financial Crisis Alert and Analysis	3.0	
		2020/09/15	2020/09/15	Securities and Futures Institute	International Taxation Trend Topic Analysis and Response in Practice under New Version of Corporate Governance Blueprint	3.0	
Director	Cheng-Ta Tsai	2020/11/09	2020/11/09	Cathay Financial Holding Co., Ltd.	Corporate Governance Forum – Financial Institution Directors' Legal Risk I	2.0	
		2020/11/09	2020/11/09	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Financial Institution Directors' Legal Risk II	4.0	
Director	Cheng-Chiu Tsai	2020/11/09	2020/11/09	Cathay Financial Holding Co., Ltd.	Corporate Governance Forum – Financial Institution Directors' Legal Risk I	2.0	
		2020/11/09	2020/11/09	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Financial Institution Directors' Legal Risk II	4.0	
Director	Chi-Wei Joong	2020/08/12	2020/08/12	Taiwan Investor Relations Institute (TIRI)	Corporate Management and Media Public Relationship Strategy	3.0	
		2020/09/02	2020/09/02	Taiwan Investor Relations Institute (TIRI)	Capital Market legal Obligations and Responsibilities	3.0	
Director	Andrew Ming-Jian Kuo	2020/05/14	2020/05/20	Shenzhen Stock Exchange	Training Course for Independent Director of Publicly Listed Companies	22.0	

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	From				
Director	Tiao-Kuei Huang	2020/07/01	2020/07/01	Securities and Futures Institute	Employee Remuneration Strategy and Instrument Utilization Study	3.0	—
		2020/07/02	2020/07/02	Securities and Futures Institute	Discussion on Information Security Governance of Corporates – Legal Practice Oriented Discussion	3.0	
Director	Ming-Ho Hsiung	2020/09/15	2020/09/15	Securities and Futures Institute	International Taxation Trend Topic Analysis and Response in Practice under New Version of Corporate Governance Blueprint	3.0	
		2020/10/22	2020/10/22	Securities and Futures Institute	Mechanics and Applications of AI	3.0	
Director	Chang-Ken Lee	2020/06/10	2020/06/10	Taiwan Academy of Banking and Finance	Information Security Governance Seminar (8th Session)	3.0	
		2020/12/22	2020/12/22	Taiwan Academy of Banking and Finance	Corporate Governance Seminar 89th Session	3.0	
Independent Director	Matthew Feng-Chiang Miao	2020/09/08	2020/09/08	Securities and Futures Institute	Digital Economy Era – How to Achieve Innovation KPI and Performance Management	3.0	
		2020/09/18	2020/09/18	Taiwan Institute of Directors	Turning Year for Strategies – Seek for New Growth Dynamics	3.0	
Independent Director	Edward Yung-Do Way	2020/01/14	2020/01/14	Insurance Institute of the Republic of China	Impact of IFRS17 on Insurance Operations	3.0	
		2020/05/29	2020/05/29	Taiwan Corporate Governance Association	Complete Guideline to Information Security for Directors and Supervisors	3.0	
		2020/06/23	2020/06/23	Taiwan Corporate Governance Association	Post-pandemic Impact Issues to be Considered by Directors and Supervisors for Risk Management, Corporate Sustainability and ESG	1.0	
		2020/07/14	2020/07/14	Securities and Futures Institute	Digital Economy Era – How to Achieve Innovation KPI and Performance Management	3.0	
		2020/07/16	2020/07/16	Securities and Futures Institute	Mechanics and Applications of AI	3.0	
		2020/07/22	2020/07/22	Taiwan Academy of Banking and Finance	Best Board Practice and Corporate governance Workshop	3.0	
		2020/08/25	2020/08/25	Taiwan Corporate Governance Association	Discussion on Collapse of Corporate Governance and Impacts from Tatung Case Study	1.0	
		2020/08/28	2020/08/28	Taiwan Corporate Governance Association	Understand AI Risk Management Framework, Improve AI Integration Application Trust	3.0	
		2020/09/14	2020/09/14	Insurance Institute of the Republic of China	New Trend of Green Economy	3.0	

Title	Name	Course date		Exam Administrator	Course name	Course hours	Remarks
		From	From				
Independent Director	Edward Yung-Do Way	2020/09/22	2020/09/22	Taiwan Stock Exchange	“Corporate Governance 3.0 Sustainable Development Blueprint” Summit for Publicly Listed Companies	3.0	—
		2020/09/24	2020/09/24	Insurance Institute of the Republic of China	Analysis on Principle of Fair Treatment to Customers	3.0	
		2020/09/29	2020/09/29	Taiwan Corporate Governance Association	Current Status of Liability Insurance for Directors and Supervisors and Recent Case Study and Sharing	1.5	
		2020/09/29	2020/09/29	Taiwan Corporate Governance Association	Management Power Dispute and Case Study Analysis	1.5	
		2020/12/09	2020/12/09	Taiwan Academy of Banking and Finance	Best Board Practice and Corporate governance Workshop	3.0	
		2020/12/31	2020/12/31	Taiwan Corporate Governance Association	Strategy for Corporates to Utilize Capital Market under Modern Environment	1.0	
Independent Director	Li-Ling Wang	2020/10/23	2020/10/23	Accounting Research and Development Foundation	2020 New Vision for Insurance	3.0	—
		2020/10/27	2020/10/27	Taiwan Corporate Governance Association	ESG Development Trend and Social Responsible Investment (SRI)	3.0	
Independent Director	Tang-Chieh Wu	2020/01/16	2020/01/16	Industrial Development Bureau, MOEA (IDB)	Intellectual Property Management Obligation Promotional Education Event for Board of Directors of Publicly Listed Companies	2.5	—
		2020/04/08	2020/04/08	Insurance Institute of the Republic of China	Corporate Governance Topic Seminar – IFRS17 Core Review and Its Impact on Non-Life and Life Insurance Enterprises	3.0	
		2020/07/24	2020/07/24	Insurance Institute of the Republic of China	Directors'/Supervisors' Responsibilities and Liability Insurance for Directors, Supervisors and Key Staff	3.0	
		2020/08/26	2020/08/26	Insurance Institute of the Republic of China	International Anti-Corruption and Whistleblower Protection Practice	3.0	
		2020/11/26	2020/11/26	Insurance Institute of the Republic of China	AI and Technology Law	3.0	

Other items to be stated:

1. Where the operation of the Board of Directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company’s resolution of said opinions:
  - (1) Conditions described in Article 14-3 of the Securities and Exchange Act: According to Article 14-5 of the Securities and Exchange Act, Article 14-3 does not apply to the Company.
  - (2) Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing: None.



2. In instances where an director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof, reason for not voting and actual voting counts:

Directors	Motion	Reasons for avoiding conflict of interest	Participation in voting process
Hong-Tu Tsai, Tsu-Pei Chen, Chang-Ken Lee	Distribution of annual performance bonus and talent retention bonus for managers of department head and above and directors involved in actual business decisions	This motion concerned the interests of Director Hong-Tu Tsai's direct relatives and the following directors	Disassociated from discussion and voting
Hong-Tu Tsai, Tsu-Pei Chen, Cheng-Ta Tsai, Cheng-Chiu Tsai, Chi-Wei Joong, Andrew Ming-Jian Kuo, Tiao-Kuei Huang, Ming-Ho Hsiung, Chang-Ken Lee	Employee and directors' remuneration	The motion concerned the interests of corporate entities represented by Director Hong-Tu Tsai and directors listed on the left	Disassociated from discussion and voting
Matthew Feng-Chiang Miao	Removal of restrictions imposed against the Company's directors for involving in competing businesses	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting
Hong-Tu Tsai, Cheng-Ta Tsai, Cheng-Chiu Tsai, Andrew Ming-Jian Kuo, Tiao-Kuei Huang, Ming-Ho Hsiung, Chang-Ken Lee, Matthew Feng-Chiang Miao, Li-Ling Wang, Tang-Chieh Wu	Appointment of new directors and supervisors for the Company's subsidiaries of "Cathay Life," "Cathay Century Insurance" and "Cathay Securities Investment Trust"	The content of the proposal concerned the interests of blood relative within the second degree of kinship of Director Hong-Tu Tsai and Cheng-Ta Tsai, and the following directors	Disassociated from discussion and voting
Hong-Tu Tsai, Chang-Ken Lee	Regular review of managers' compensation	The content of the proposal concerned the interests of blood relative within the second degree of kinship of Director Hong-Tu Tsai, and the following directors	Disassociated from discussion and voting
Chang-Ken Lee	Presentation of "2021 Audit Plan" proposed by the Company's Auditing Division	The motion concerned the interest of directors listed on the left	Disassociated from discussion and voting

3. TWSE/TPEX listed financial holding companies are required to disclose the cycle, duration, scope, method and detail of board performance self (or peer) evaluations performed, and complete Table 2 (2) Execution of Board Performance Evaluation.

**Table 2 (2) Execution of Board Performance Evaluation**

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
External evaluation of 2018 performance for board of directors	At least once every three years	January 1, 2018 ~ December 31, 2018	Board of Directors.	<ul style="list-style-type: none"> <li>The Company has been engaging professional, independent institutions, experts or scholars from outside the organization to conduct at least once every three years. Details</li> </ul>	The External Evaluator had made the following conclusions and recommendations based on observation of the board's performance: 1. Board's professional

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
				<p>of the assessment, including the indicators used, the procedures, target accomplishment rate and interpretation of assessment outcomes, are planned and executed by the external institutions, experts or scholars.</p> <ul style="list-style-type: none"> <li>■ On June 2019, the Company engaged “Taiwan Institute of Ethical Business and Forensics” (referred to as “External Evaluator” below) to conduct an external evaluation, produce an assessment report and recommend optimizations to board performance for year 2018. The results were raised for discussion during the board of directors meeting held on August 15, 2019, and has been approved and implemented accordingly to further enhance the Company's corporate governance system.</li> <li>■ For this assessment, the External Evaluator had assigned an executive panel to review board meeting and corporate governance-related information provided by the Company for 2018, and to survey and interview directors individually. The goal of this executive panel was to observe how the board functions and to raise recommendations.</li> <li>■ The External Evaluator is a non-profit academic organization consisting of experts and scholars from various fields. The organization focuses on the research and promotion of integrity,</li> </ul>	<p>capacity:</p> <p>The board of directors would make plans to include females and candidates with academic background or previous work experience in the authority for the next board members. Factors such as overall age distribution and presence of additional independent directors were also taken into consideration, and the added diversity proved beneficial in the encouragement of diverse opinions. The Company was advised to obtain information on industry development, new technologies and supervisory trends through external consultants, and thereby enhance the board's knowledge toward the competitive landscape and industry trends.</p> <p>2. Board's decision-making capacity:</p> <p>The Company not only values but also encourages independent directors to express opinions; Board members are given adequate time and ample opportunities to communicate and discuss with senior managers. From a corporate governance standpoint, directors should attend board meetings personally where possible.</p> <p>3. Board's attention and supervision over internal control:</p> <p>The Company currently has an independent Chief Auditor that does not assume concurrent position as audit personnel in any subsidiary. This arrangement not only enhances risk management and control within the group, but also allows audit</p>

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
				<p>corporate governance, fraud prevention and forensic practices that conform with world standards. The executive panel possessed expertise including accounting, law and corporate governance that were relevant to this evaluation. The executive panel possessed expertise including accounting, law and corporate governance that were relevant to this evaluation. Furthermore, the External Evaluator and executive panel did not engage the Company in any business dealing that would compromise independence.</p>	<p>personnel to discover defects more efficiently and minimize chances of recurrence. Furthermore, board members were particularly aware of the potential risks associated with stakeholder transactions, and had adopted rigorous practices to identify such transactions and minimize risk of fraud.</p> <p>In terms of business integrity, the Company currently has independent directors' mailbox set up as direct communication channel for receiving misconduct reports from investors, employees and stakeholders. In light of the world's rising awareness toward whistleblowing (fraud discovery), the Company may consider engaging independent external institutions and providing e-mails and hotlines exclusively for misconduct report.</p> <p>4. Board's attitude toward corporate social responsibilities: The Company Company and subsidiaries have invested significant resources into fulfilling corporate social responsibilities. The Company has been chosen as a composition of DJSI - Emerging Markets for four consecutive years between 2015 and June 11, 2019, and was accepted as part of DJSI - World in 2018. These accomplishments are a testament to the Company's performance in terms of corporate social responsibilities and sustainability governance. The Company is already a leading financial group in Taiwan; the board of</p>

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
					<p>directors or Corporate Sustainability Committee may consider engaging an external consultant to plan the Company's sustainability practices on different levels of operation. Opinions of an objective third party may prove beneficial to the organization's future decisions concerning sustainable growth.</p> <p>The Company has taken the following improvement measures in response to the assessment report and recommendations raised by the External Evaluator:</p> <ol style="list-style-type: none"> <li>1. With respect to board's professional capacity, the Company has arranged external training courses and offered them to directors in need. Outside experts are also invited to host seminars and share information from time to time on emerging issues depending on changes in industry trend, and thereby contribute toward improving board's professional capacity.</li> <li>2. With respect to board's decision-making capacity, the Company makes sure that board meeting agenda and materials are sent to each director seven days before each board meeting. Directors who were unable to attend board meetings in person have appointed other directors as proxies to discuss and resolve on their behalf during meetings.</li> <li>3. With respect to board's attention and supervision over internal control, the Company introduced its "Group Whistleblower System" along with dedicated mail box and comprehensive</li> </ol>

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
					<p>whistleblower procedures in 2018 to ensure that employees and outside third parties are soundly protected by the system and are able to report misconducts through the channels provided. As for the recommendation of seeking whistleblower channel from external institutions, the Company will evaluate such a possibility based on the outcome of the current system.</p> <p>4. With respect to board's attitude toward corporate social responsibilities, the Company has been approaching external consultants for advice and assistance on sustainability and corporate social responsibility issues. For example: PwC and Chia-Wei Hsu from Tungnan University were invited to offer advice on overall CS and internal systems. In the future, the financial group will continue approaching professional consultants for objective opinions on different levels and aspects of sustainability development.</p>
Internal evaluation of 2020 performance for board of directors and functional committees	Once a year	January 1, 2020 ~ December 31, 2020	Board of directors and functional committees (including Audit Committee, Remuneration Committee and Corporate Governance and Nomination Committee)	<ul style="list-style-type: none"> <li>■ The board of directors, each functional committee members and board meeting organizers were invited to conduct assessments on the board's and each functional committee's performance.</li> <li>■ Performance of the board and functional committees was then assigned one of three ratings: Above Standard, Standard, and Substandard. Results of the above performance</li> </ul>	<p>Internal assessment of board and functional committees performance covered 5 main aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in company operations, including the knowledge of functional committees' responsibilities.</li> <li>2. Improvement of board's/functional committee's decision quality.</li> <li>3. Board/functional committee composition.</li> <li>4. Election and ongoing</li> </ol>

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
				assessment will be submitted to the board of directors for discussion and approval.	<p>education of directors/functional committee members.</p> <p>5. Internal control.</p> <p>The internal assessment of the board and functional committee performance in 2020 was completed using the five major aspects of self-assessed “qualitative indicators” with the deduction inapplicable parts (i.e. board indicators 25 and 33) for the year of 2020, and the rest of the assessment was completed by all of the directors and members of the functional committees. The “quantitative indicators” were calculated by the board meeting organizer according to the quantitative indicator data. Based on attainment rates that the meeting organizer had calculated for all assessment indicators, the board of directors and functional committees were considered to have performed exceeding the aforementioned standards in 2020. This result was discussed and approved during the board of directors’ meeting on February 3, 2021.</p>
Evaluation of 2020 performance for individual directors	Once a year	January 1, 2020 ~ December 31, 2020	Applies to individual board members who remain in duty at the time of assessment.	<ul style="list-style-type: none"> <li>■ Board member self-assessment: Self-assessments are performed using assessment indicators based on information provided by the management.</li> <li>■ Independent directors' review: Directors' self-assessments are reviewed by independent directors using appropriate assessment indicators.</li> </ul>	<p>Individual director performance assessment covered the following aspects:</p> <ol style="list-style-type: none"> <li>1. Director's awareness toward the Company's goals and missions.</li> <li>2. Director's awareness to duties.</li> <li>3. Level of participation in the Company's operations.</li> <li>4. Management and communication of internal relations.</li> <li>5. Professionalism and ongoing education of directors.</li> <li>6. Supervision over corporate finance and operations.</li> <li>7. Supervision over corporate internal audit, internal</li> </ol>

	Assessment cycle (Note 1)	Assessment duration (Note 2)	Scope of assessment (Note 3)	Assessment method (Note 4)	Assessment details (Note 5)
					<p>control, risk management and compliance</p> <p>8. Company credit rating.</p> <p>9. Fulfillment of corporate social responsibilities</p> <p>10. Company credit rating.</p> <p>11. Fulfillment of corporate social responsibilities.</p> <p>Individual director performance assessment should combine with internal control and risk assessment indicators.</p> <p>According to “Cathay Financial Holdings Co., Ltd., Regulations Governing Remuneration Paid to the Directors”, remuneration will not be paid to directors that fail the annual individual director performance assessment.</p> <p>The results of director performance assessment were determined to be “Pass” for all the directors in 2020.</p>

Note1: Represents the frequency of board performance evaluation, e.g.: once a year.

Note2: Represents the duration covered by performance evaluation, e.g.: performance of the board of directors between January 1 and December 31, 2020, was assessed.

Note3: The scope of assessment covers performance of the board as a whole, the individual directors and functional committees.

Note4: Assessment methods include: board internal self-assessment, director self-assessment, peer assessment, assessment by external institution or expert, and other methods as deemed appropriate.

Note5: Assessment details, by scope of assessment, include at least the following:

- (1) Board performance assessment: board's participation in the Company's operations, the quality of board's decisions, the board's composition, election and ongoing education of board members, and enforcement of internal control.
- (2) Director individual performance assessment: director's awareness toward the Company's goals and missions, awareness to duties, level of participation in the Company's operations, maintenance of internal relations and communication, professionalism and ongoing education, and enforcement of internal control.
- (3) Performance assessment for functional committees: participation in the Company's operations, awareness to duties, quality of committee's decisions, composition and member selection, and enforcement of internal control.

4. Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc), and the progress of such enhancements:

■ Enhancement of board functionality

Board of Directors:

The Company adopts the “candidate nomination system” where all board candidates are nominated through the “Corporate Governance and Nomination Committee”. After the board reaches a resolution, the list is sent to the shareholders’ meeting for election. The board consists of over ten directors, each with extensive experience and expertise in the fields of finance, commerce, and management. Starting from the 5th board meeting, additional external director seats were included. Through the involvement of external directors and the Company’s board, in addition to providing valuable advice on the Company’s long-term development strategies, the directors also play the role of objective supervision and monitoring based on past experience, thus contributing to the Company’s enhanced corporate governance effectiveness. Mr. Matthew Feng-Chiang Miao, Chairman of MiTAC Holdings, and Mr. Edward Yung-Do Way, former CEO of Deloitte Taiwan, were newly elected as independent directors for the 6th board, whose presence added independence to the board of directors. Furthermore, election for the 7th board was completed in 2019, during which the number of independent director seats was increased from 3 to 4, and two of which were taken up by new independent directors Madam Li-Ling Wang and Mr. Tang-Chieh Wu, whose professional background and knowledge in insurance, securities, risk management, finance and banking contribute to the board's diversity as well as corporate governance capacity. Board members as a whole possess a broad range of skills from finance, business, digital finance, digital technology, overseas markets, M&A to risk management that complement the group's strategies toward “globalization,” “digitalization” and “financial innovation and application.” ( For pertinent information, refer to page 78 “Status of Corporate Governance, deviation and causes of deviation from Corporate Governance Best-Practice Principles for Financial Holding Companies: 6. Other important information enabling a better understanding of the company’s corporate governance?(10)” ).

Functional Committees:

In order to strengthen the board’s professional functions and connect with the world, the Company has set up the “Audit Committee”, the “Remuneration Committee”, and the “Corporate Governance and Nomination Committee”. Among them, the “Audit Committee” has assisted the company board in making a number of important decisions through professional division of labor and impartiality and independence. The “Remuneration Committee” has provided professional opinions and has reached important resolutions on the Company directors and managers’ performance assessment and remuneration standard setting and revision, and remunerations for directors and managers, which are expected to contribute to the effective establishment the directors and managers’ remunerations and performance assessment system in the company, thereby enhancing the Company’s operational performance. Furthermore, through the “Corporate Governance and Nomination Committee”, the functions of the nominating board candidates, constructing the organizational frameworks of respective functional committees, and reviewing board operation related regulations have been



performed, in the hope of enhancing board effectiveness. Since the establishment of the said committee, the following mechanisms regarding board operations have been added: “The Company shall arrange orientation for the board of directors taking up the post for the first time”, the inclusion of “The Evaluation of the Functional Committee’s Performance”, the setup of “Chief Corporate Governance Officer”, and the addition of “Standard Operating Procedures for Resolving Directors’ Requests”.

#### Chief Corporate Governance Officer (CCGO)

In 2018, the board of directors passed a resolution to create the position of “Corporate Governance Officer” to further enforce the corporate governance framework, and the position is assumed by the head of Administration Division (executive vice president grade). In January 2019, the board of directors resolved to adjust prerequisites for the “Chief Corporate Governance Officer,” limiting the role only to those qualified as head of legal affairs, shareholder service, meeting, general administration or corporate governance for at least three years in a finance-related institution or public company. Main responsibilities of the Chief Corporate Governance Officer include: “handling of board meeting and shareholder meeting affairs,” “preparation of board meeting and shareholder minute,” “assisting directors with duty and ongoing education,” “providing directors with the information needed to execute duty,” “assisting directors with compliance affairs,” and “other matters specified by law, the Articles of Incorporation or contracts.” In addition, to assist the directors in their performance of duties and to improve the efficiency of the board of directors, the Company has approved the establishment of the “Standard Operating Procedures for Resolving Directors’ Requests” through resolution of the board of directors in March 2019, in order to provide sufficient support to the directors. According to the provisions of the procedure, all directors of the Company shall be able to obtain assistance from the corporate governance supervisor in order to ensure that the procedures of the board of directors and all applicable laws and regulations are complied with by all directors as well as to ensure proper information communication between members of the board of directors and between directors and the management department. Furthermore, after the corporate governance supervisor receives requests from a director, unless processing time is further specified, it is necessary to coordinate relevant units to handle the request promptly within two business days. After relevant units complete the handling of the request, it is necessary to report to the director immediately and to report the handling status to the corporate governance supervisor. In addition to providing information and documents necessary for directors to perform duties in order to promptly assist the directors to perform duties, the corporate governance supervisor of the Company shall also ensure that the information is communicated between the members of the board of directors and between directors and the management department. Furthermore, it is also necessary to ensure that material information of routine business of the Company, material events and other important matters already confirmed shall be provided to the directors immediately upon the occurrence of such events and matters for their understanding.

#### Progress of the Company’s 2020

corporate governance efforts is explained below:

In addition to appointing a “ Chief Corporate Governance Officer” for supervising corporate governance affairs on the group level, each department is also required to assign “corporate governance personnel” to oversee corporate governance-related matters within each unit:

- (1) Responsibilities with regards to “handling of board and functional committee meeting affairs (including minutes preparation), assisting directors with duty and ongoing education, and providing directors with the information needed to execute duty” are assisted by personnel of the “Legal Department, Administration Division,” who perform the following duties:
- Notify all meeting participants about the agenda and related meeting information seven days before the convention of board of directors’ meeting/Audit Committee meeting/Remuneration Committee meeting/Corporate Governance and Nomination Committee meeting, and make arrangement for the meeting minutes to be signed/sealed by the chairperson and minute taker before distributing them to all participants within twenty days after the meeting, and list the meeting minutes as a major corporate file for preservation.
  - Conduct orientation for first-time directors to introduce them to the Company’s business activities, organization and other important issues; provide newly elected directors with a “Director Manual” that guides them through their duties and compliance requirements; and assist directors in the completion of yearly education as needed by the Company and individual directors.
  - Provide directors with the requested information and maintain communication between directors and various department heads; assist in independent directors’ duties by arranging communication with the chief internal auditor, the financial statement auditor, other internal departments.
  - Amend corporate governance policies in line with the Company’s business activities and the latest regulations, and present them for resolution by the board of directors.
  - Renew “liability insurance for directors and key staff” within the group, and register the required corporate information or changes thereof with the authority before deadline.
- (2) With regards to “shareholder meeting affairs (including preparation of minutes),” personnel of the “Share Administration Section, Administration Department, Administration Division,” have been assigned to perform the following:
- Prepare and convene shareholder meetings, produce minutes, oversee share administration affairs, and provide adequate information to shareholders to ensure that their interests are soundly protected.
  - Responsible of checking major announcements for compliance and accuracy, and ensuring information symmetry for investors.

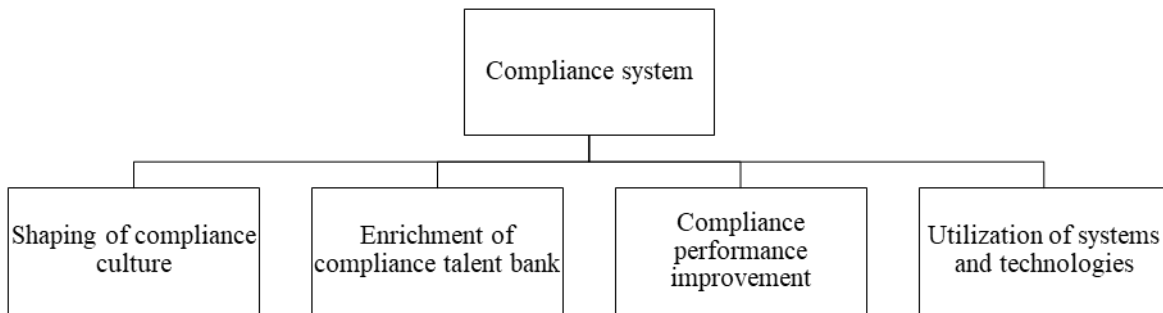
The Chief Corporate Governance Officer training situation for 2020 is as follows:

Course date		Exam Administrator	Course name	Course hours	Total number of training hours for the current year
From	To				
2020/01/15	2020/01/15	Taiwan Institute of Directors	2020 “Director Seminar” Sustainability Series 1: Outlook of 2020 Corporate Governance and Corpora Sustainability	3.0	18.5
2020/03/25	2020/03/25	Cathay Financial Holding Co., Ltd.	Circulating Taiwan 2040 - New Opportunity	1.5	
2020/05/15	2020/05/15	Taiwan Corporate Governance Association	How to Understand Financial Statements - A Lesson to Corporate Governance Unit Personnel Without Financial Background	3.0	

Course date		Exam Administrator	Course name	Course hours	Total number of training hours for the current year
From	To				
2020/08/18	2020/08/18	Taiwan Corporate Governance Association	Will working for other companies with useful technology be viewed as violation of the trade secret law? —Trade Secret and Corporate Governance—	3.0	
2020/08/25	2020/08/25	Cathay Financial Holding Co., Ltd.	Insider Trading Regulations and Practical Example Explanation	2.0	
2020/12/02	2020/12/02	Taiwan Corporate Governance Association	The 16th Corporate Governance Summit	6.0	

Since June 15, 2007, the Company has been purchasing “liability insurance for directors and key staff” to protect itself against the liabilities of directors, supervisors and key staff of the Company and subsidiaries over the course of their duties. Terms of this insurance policy are reviewed on a yearly basis, and since 2017, main details such as the sum assured, the scope of coverage and premium rate are reported to the upcoming board meeting after annual renewal. This insurance exists to reduce the amount of risk borne by directors, supervisors and the Company, as well as to enforce the corporate governance system.

## ■ Enhancement of compliance system



Cathay Financial Holdings has had a Compliance Department established since 2015 to enforce compliance system within the Group. The department is dedicated to enhancing the compliance culture by organizing relevant training and checking compliance in business conducts. The department also reports to the board of directors and the Audit Committee every six months on the Group's compliance progress. Cathay Financial Holdings has placed great emphasis on enhancing compliance awareness and knowledge among employees to shape a compliance culture capable of reacting to the rapid changes in the global financial environment. The Company organizes a broad variety of compliance training for different employees that cover basic knowledge, business-specific topics and the latest local/foreign financial supervisory trends. These training courses promote robust risk management practices as well as compliance awareness among employees.

In response to the AML/CTF trends around the world, Cathay Financial Holdings has adopted a “risk-based” approach towards enhancing its AML/CTF system, and continues to align practices with the rest of the world through overseas offices. Subsidiaries of the Group have established dedicated units and committees to combat money laundering and terrorism financing since 2015. By shaping a compliance culture from within, the Group aims to escalate its AML/CTF efforts and enforce consensus and common understanding amongst employees. Meanwhile, practices such as training of technology/compliance/AML/CTF talents, the timely update of laws, and regular review of current affairs are being adopted to promote proper AML/CTF awareness.

In addition, the Company continues to supervise the Group's compliance with the Foreign Account Tax Compliance Act (FATCA) and Common Report Standard (CRS). A Whistleblower System has been implemented whereas supervisory efforts are being committed to ensure completion of compliance risk assessment report across subsidiaries, compliance with regulations and the authority's instructions on the group level, as well as development and implementation of a robust compliance system.

## ■ Enforcement of corporate governance

The Company has been actively making and amending policies to more effectively support corporate governance efforts, including:

Amended “Procedure for Election of Directors” of the Company to simplify the operation procedure for the director candidate nominated shareholders in order to protect the interests of shareholders.

For improved corporate governance, the Company has amended its “Corporate Governance Code of Conduct” to state that “Corporate shareholder that exercises control over the Company shall appoint professionally qualified personnel to represent its director or supervisor positions acquired through election, and should not reappoint unless supported by valid reasons.” Furthermore, suggestions have been made to limit independent directors' term of service to no more than 3 sessions, whereas rules concerning the duty, eligibility, appointment and dismissal of Chief Corporate Governance Officer have also been added to the Code of Conduct. Foundation principles of various functional committees have been amended in accordance with The Company Act and related regulations to facilitate meeting proceedings.

The Company has implemented “Business Integrity Policy and Code of Conduct,” “Business Integrity Procedures and Behavioral Guidelines,” “Ethical Behavior Guidelines” and “Employee Code of Conduct” to serve as standards for employees’ ethical behavior and to provide stakeholders with a better understanding of the Company’s ethical standards, and thereby ensure the sustainability of future businesses. These codes of conduct specifically require employees to comply with laws and integrity principles, avoid conflict of interest, and refrain from bribery and illicit personal gains when performing business activities.

The Company was the first financial holding company to implement a group-wide whistleblower system that supports business ethics, integrity and sustainability by encouraging employees to report any conducts that are illegal or in violation of Ethical Behavior Guidelines or Business Integrity Policy and Code of Conduct. “Cathay Group Whistleblower System” and the Company’s “Unethical and Dishonest Conduct Reporting Policy” have been implemented to create whistleblower channels that insiders and outsiders may use to uncover illicit conducts without compromising their legal rights. Person-in-charge and employees of the Company may report to the board of directors, the Audit Committee, the audit unit, the compliance unit and personnel of appropriate department upon discovering any act of corruption or bribery. The Company also has the responsibility to maintain secrecy over the informant’s identity and details of the misconduct report. All reported cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company’s policies. Meanwhile, relevant details are to be disclosed over the Company’s Intranet. The Company organized multiple training on integrity-related issues in 2020 (e.g.: annual training on integrity and ethics, orientation training on compliance, and compliance officer conference). These sessions received a total of 733 enrollments and delivered 2,577 man-hours of training.

#### ■ **Improvement of information transparency**

The Company has “Investors,” “Corporate Governance,” and “Corporate Sustainability” sections created on its website to improve information transparency by providing financial, business and corporate governance-related information in both Chinese and English.

Furthermore, the Company has a an “Investor Relations Department” in place to enhance investors’ appreciation of the Company’s values and establish communication with investors. The department holds regular investor seminars to address investors’ queries and enforce their rights to the Company’s financial and business information. The Company has been rated A++ (the highest rating) on many occasions in recent year’s “Information Disclosure Evaluation for TWSE/TPEX Listed Companies.” During the 12th “Information Disclosure Evaluation for TWSE/TPEX Listed Companies” held in 2015, the Company once again received the A++ rating, which serves as a testament to the progress it has made to enforcing open information practices.

Furthermore, in 2020, the Company and its subsidiaries of “Cathay Life” and “Cathay United Bank” participated in the “CG6012 (2019) Corporate Governance Assessment” organized by Taiwan Corporate Governance Association again, and were consecutively awarded the certification of the highest “awarded the highest: Exceptional” rating, and also subsequently continued to improve the corporate governance mechanism based on the feedback and recommendation of the valuation. In addition, the Company was also selected a composition of “TWSE Corporate Governance 100 Index” and “Taiwan Sustainability Index,” and also received the honor of top 5% ranking for the “Corporate Governance Assessment” among the publicly listed companies for 5 years, which served as a testament to the Group’s exceptional performance in terms of information transparency, corporate governance and sustainability.

■ **Enhancement of communication channels with stakeholders (including: investors/shareholders, employees, customers and suppliers)**

The Company has a “Stakeholders” section created on its webpage to serve as a communication channel with stakeholders. It is a transparent and effective means for the Company to communicate with stakeholders and is critical for corporate sustainability.

**(II) Functionality of the Audit Committee (Table 2-1)**

The Company’s Audit Committee consists entirely of independent directors, whose responsibilities are to assist the board with corporate governance, including:

1. Establishment or amendment of internal control system and procedures for asset acquisition/disposal, derivative trading and major financial/business activities, and evaluation of the internal control system.
2. Matters involving directors’ personal interests.
3. Major transaction of assets or derivatives.
4. Offering, issuance, or private placement of securities with equity characteristics.
5. Appointment, dismissal and remuneration of financial statement auditor; appointment and dismissal of financial, accounting and internal audit officers.
6. Annual and second-quarter financial reports signed or sealed by Chairman, President and Chief Account.
7. Business report, earnings appropriation or loss reimbursement proposal.
8. Other issues deemed material by the Company or the authority.

The Audit Committee convenes meetings on a quarterly basis, and has been empowered to request for the presence of any managerial staff, internal auditor, CPA, legal advisor, or any personnel deemed relevant to provide the necessary information.

The Company’s Audit Committee convened 8 meetings in 2020. The main reviewed matters are as follows:

1. 2019 “Business Report, Final Financial Statements and Earnings Distribution,” “Declaration of Internal Control System” and “Audit Committee Operation Status Report.”
2. 2020 “Q1, first half of the year and Q1-Q3 final financial statements” and “Change of CPAs starting from Q4.”
3. 2021 “Audit Plan” and “commissioned Deloitte Taiwan to conduct financial and taxation undertakings”.
4. Amendments to “Internal Control System,” “Internal Audit System and Enforcement Rules” and “Cathay Financial Holdings and Subsidiaries Financial Asset Impairment Control Procedures.”
5. “Planned and handled long-term fundraising,” “Executed senior corporate bond issuance,” “Approved Chief Auditor’s performance evaluation,” “Changed accounting supervisor and personnel changes” and “Lifted non-compete restrictions for directors.”
6. “Entrusted subsidiaries of Cathay Securities and Cathay United Bank to act as the underwriter for the senior corporate bonds of the Company,” “Subscribed to the private cash issue of the subsidiary Cathay Securities,” “Renewed office lease with the subsidiaries of Cathay Life and Cathay United Bank” and “Appointed the subsidiaries of Cathay Life, Cathay Century Insurance and Cathay Securities Investment Trust for new directors and supervisors.”
7. “The Company and 7 subsidiaries, including Cathay Life, jointly entrusted TPIsoftware Corporation to develop performance management and development system” and “The Company and 10 subsidiaries, including Cathay Life, jointly entrusted Sun Net Technology to maintain the Cathay E-Learning System.”

## ■ **Financial Report Review**

The financial statements of Cathay Financial Holdings covering the period from January 1 to December 31, 2019, and the business report and earning distribution plan have been prepared and submitted by the Board of Directors of the Company. The financial statements were audited by Cheng-Hung Kuo CPA, and Li-Chi Chen CPA, of Deloitte Taiwan, who issued an auditors' report. In accordance with Article 14-4 of Securities Trading Act and Article 219 of Corporate Act, the preceding disclosed business reports, financial statements, and surplus distribution cases have been commissioned by the Company's Audit Committee to Deloitte Taiwan for inspection, and no inappropriateness was found. After passing the review by the Company's Audit Committee on April 29, 2020, the Audit Committee's inspection report was presented according to provisions and was submitted to the 2020 annual shareholders' meeting.

## ■ **The assessment of the effectiveness of the internal control system**

The Company's Audit Committee passed the 2019 "Internal Control System Declaration" on March 10, 2020. The design and implementation of the overall internal control system of the Company and its subsidiaries were deemed by the Audit Committee to be valid after assessment. The Audit Committee assessed the effectiveness of the Company's internal control system policies and procedures (including finance, operations, risk management, information security, regulatory compliance, and other control measures) and reviewed the periodic reports (including risk management and regulatory compliance) proposed by certifying CPAs, audit departments, and other managerial departments. The Audit Committee deemed the Company had adopted all necessary control mechanisms to monitor and correct violations.

## ■ **Commissioning of the certifying CPA**

Appointment of financial statement auditor is renewed once a year. In order to ensure the independence, eligibility and professionalism of certifying CPAs, the resumes (including relevant experience, professional qualifications, and main clients) and shareholding situation of CPAs are viewed by the Audit Committee and the Board. Further, the Audit Committee and the Board shall assess the independence of certifying accountants in accordance with Paragraph 1 and Paragraph 2 of Article 47 of the "Certified Public Accountant Act", as well as reviewing the "Impartiality and Independence Declaration" presented by certifying CPAs in order to confirm the provisions in The Norm of Professional Ethics for Certified public Accountant of the Republic of China No. 10 Bulletin-"Integrity, Fairness, Objectivity, and Independence" are not violated (for example, the auditors are not currently employed by the company for regular work; directors, supervisors and the auditors receiving fixed salary do not perform management consulting or other non-auditing businesses to the extent of violating independence, etc.). Following the Audit Committee meeting dated November 11, 2020 and board of directors meeting dated November 12, 2020, the Company passed its decision to engage Deloitte Taiwan for financial and taxation audit services in 2021, and has appointed CPA Denny Kuo and CPA Iris Lin to serve as financial statement auditors since 2020 Q4. As per evaluation, both CPAs have satisfied independence, suitability, and professional requirements.

The 5th Audit Committee (data range: 2020.1.1-2020.12.31)

A total of 8 Audit Committee meetings (A) were held in the last year; independent directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Independent Director (Convener of Audit Committee)	Edward Yung-Do Way	8	0	100%	—
Independent Director (Members of Audit Committee)	Matthew Feng-Chiang Miao	8	0	100%	
Independent Director (Members of Audit Committee)	Li-Ling Wang	8	0	100%	
Independent Director (Members of Audit Committee)	Tang-Chieh Wu	8	0	100%	

Note:

- (1) Where a specific independent director may be relieved from duties before the end of the fiscal year, specify the date of discharge in the "Remark" section. Actual attendance rate (%) was calculated based on the number of board meetings held during each director's term and the number of meetings actually attended by that director.
- (2) Where a reelection may be held for filling the vacancies of independent directors before the end of the fiscal year, list out both the new and the discharged independent directors, and specify if they are the former independent directors, or newly elected, re-elected and the date of the reelection in the "Remark" section. Actual attendance rate (%) was calculated on the basis of the number of meetings held by the audit committee during each independent director's term and the number of meetings actually attended by that independent director.

※ Other items to be stated:

1. Where the operation of the audit committee meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, audit committee's resolution and the Company's resolution of audit committee's opinions:

- (1) Explanation to matters listed in Article 14-5 of the Securities and Exchange Act:

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
The 4 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.1.20	1. Approved the Chief Auditor's performance evaluation.	✓	✗
	Audit Committee resolution (January 20, 2020): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
The 5 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.3.11	1. Review of 2019 final financial statements.	✓	✗
	2. Presentation of the Company's 2019 "Declaration of Internal Control System."	✓	✗
	Audit Committee resolution (March 10, 2020): Motion was passed as proposed by all members of the Audit Committee.		
Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.			



Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
The 6 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.3.27	1. Proposal on the Company's issuance of senior corporate bonds.	✓	✗
	Audit Committee resolution (March 27, 2020): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
The 7 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.4.29	1. 2019 Business Report.	✓	✗
	2. 2019 Earnings Distribution.	✓	✗
	3. Audit Committee's Review Report on the Company's 2019 Financial Statements.	✓	✗
	4. Proposal of the Company's long-term funding plan.	✓	✗
	5. Proposal on entrusting the subsidiaries of Cathay Securities and Cathay United Bank to act as the underwriter for the senior corporate bonds of the Company.	✓	✗
	6. Proposal on submission of the "2019 Audit Committee Annual Operation Status Report" at the shareholders' meeting.	✓	✗
	7. Removal of restrictions imposed against the Company's directors for involving in competing businesses.	✓	✗
	Audit Committee resolution (April 29, 2020): <ul style="list-style-type: none"> <li>■ Motions 1 to 6 were passed as proposed by all members of the Audit Committee.</li> <li>■ With the exception of Independent Director Matthew Feng-Chiang Miao who had recused from the motion, motion 7 was passed as proposed by the remaining attending independent director.</li> </ul>		
Company's response to Audit Committee's opinions: <ul style="list-style-type: none"> <li>■ Motion 1 to 6 were passed as proposed by all attending directors.</li> <li>■ With the exception of Independent Director Matthew Feng-Chiang Miao who had recused from the motion, motion 7 was passed as proposed by the remaining attending directors.</li> </ul>			
The 8 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.5.14	1. Review of the Company's 2020 Q1 financial statements.	✓	✗
	2. Amendments to the Company's "Internal Control System."	✓	✗
	3. Amendments to the Company's "Internal Audit System and Implementation Rules."	✓	✗
	4. Appointed new directors and supervisors for subsidiary – "Cathay Life," "Cathay Century Insurance" and "Cathay Securities Investment Trust."	✓	✗
	Audit Committee resolution (May 13, 2020): <ul style="list-style-type: none"> <li>■ Motions 1 to 3 were passed as proposed by all members of the Audit Committee.</li> <li>■ For Motion 4, Independent Director Matthew Feng-Chiang Miao, Independent Director Li-Ling Wang and Independent Director Tang-Chieh Wu recused</li> </ul>		

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	from the motion; the motion was passed as proposed based on the consent of the remaining Independent Director Edward Yung-Do Way.		
	Company's response to Audit Committee's opinions: <ul style="list-style-type: none"> <li>■ Motion 1 to 3 were passed as proposed by all attending directors.</li> <li>■ For Motion 4, Chairman Hong-Tu Tsai, Director Cheng-Chiu Tsai, Director Andrew Ming-Jian Kuo, Director Tiao-Kuei Huang, Director Ming-Ho Hsiung, Director Chang-Ken Lee, Independent Director Matthew Feng-Chiang Miao, Independent Director Li-Ling Wang and Independent Director Tang-Chieh Wu recused from the motion, and the Chairman Hong-Tu Tsai did not vote on behalf of Director Cheng-Ta Tsai; the motion was passed as proposed based on the consents of the remaining Vice Chairman Tsu-Pei Chen, Director Chi-Wei Joong and Independent Director Edward Yung-Do Way.</li> </ul>		
The 9 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.6.12	1. Proposal to subscribe to the private cash issue of the subsidiary of Cathay Securities.	✓	✗
	2. The Company changed the accounting supervisor and approved the personnel changes.	✓	✗
	Audit Committee resolution (June 12, 2020): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
The 10 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.8.20	1. Review of the Company's 2020 1st half financial statements.	✓	✗
	2. Proposal on the Company and 7 subsidiaries, including Cathay Life, to jointly entrust TPISoftware Corporation to develop performance management and development system.	✓	✗
	Audit Committee resolution (August 19, 2020): Motion was passed as proposed by all members of the Audit Committee.		
	Company's response to Audit Committees' opinions: Motion was passed as proposed by all attending directors.		
The 11 <sup>th</sup> meeting of the 7 <sup>th</sup> term 2020.11.12	1. Review of the Company's 2020 Q1~Q3 financial statements.	✓	✗
	2. Proposal on the change of the Company's CPAs starting from 2020 Q4	✓	✗
	3. Appointment of financial statement auditors and review of audit remuneration for 2021.	✓	✗
	4. Presentation of "2021 Audit Plan" proposed by the Company's Auditing Division.	✓	✗
	5. Amendments to "Cathay Financial Holdings and Subsidiaries Financial Asset Impairment Control Procedures."	✓	✗
	6. Proposal on the Company's renewal of the	✓	✗

Board of Directors	Board of directors meeting motion	The circumstances referred to in Article 14-5 of the Securities and Exchange Act	Resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors
	office lease with the subsidiaries of “Cathay Life” and “Cathay United Bank.”		
	7. Proposal on the Company and 10 subsidiaries, including Cathay Life, to jointly entrust Sun Net Technology to maintain the Cathay E-Learning System.	✓	✗
	Audit Committee resolution (November 11, 2020):		
	<ul style="list-style-type: none"> <li>■ Motions 1 to 6 were passed as proposed by all members of the Audit Committee.</li> <li>■ Motion 7 was passed based on the consents of all members of the Audit Committee as proposed after revision of the texts of the motion.</li> </ul>		
	Company’s response to Audit Committee’s opinions:		
	<ul style="list-style-type: none"> <li>■ Motion 1, 2, 3, 5, 6 were passed as proposed by all attending directors.</li> <li>■ For Motion 4, Director Chang-Ken Lee recused from the motion, and the motion was passed as proposed based on the consents of all of the remaining attending directors.</li> <li>■ Motion 7 was passed with amendment as proposed by all attending directors.</li> </ul>		

(2) Aside from said circumstances, resolution(s) not passed by the audit committee but receiving the consent of two thirds of the Board of Directors: None.

2. In instances where an independent director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director’s name, contents of the motion and resolution thereof, reason for not voting and actual voting counts:

Independent Director Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
Matthew Feng-Chiang Miao	Removal of restrictions imposed against the Company’s directors for involving in competing businesses	The motion concerned the interest of independent directors listed on the left	Disassociated from discussion and voting
Matthew Feng-Chiang Miao, Li-Ling Wang, Tang-Chieh Wu	Appointed new directors and supervisors for subsidiary – “Cathay Life,” “Cathay Century Insurance” and “Cathay Securities Investment Trust”	The motion concerned the interest of independent directors listed on the left	Disassociated from discussion and voting

3. Communication between independent directors and internal auditors (e.g. discussions concerning the Company’s financial and business affairs, the method of communication used, and the outcome):

■ Communication between independent directors and external auditors:

(1) The Audit Committee of the Company consists of all independent directors of the Company. The Audit Committee convenes meetings periodically and also engages in communication and discussion with the CPAs on proposals related to financial affairs of the Company (at least four times annually in principle). The Audit Committee follows the “Audit Committee Organizational Principles” to audit various reports (e.g. business report, financial statements and earnings appropriation report) that the board of directors has prepared for the shareholder meeting, to which the Audit Committee issues its own audit report.

(2) In addition to the Audit Committee's meeting, one financial statements audit result seminar is convened periodically on an annual basis. The CPAs independently provide reports to all independent directors and provide explanation on the financial statements audit status and related matters.

■ Communication between independent directors and internal auditors:

- (1) Effectiveness of the Company's internal control system is reviewed (with Declaration of Internal Control System issued) by the Audit Committee. The outcome of which is submitted to the board of directors for the final resolution.
- (2) Consolidation of the Company's "Internal Control System" policy was first approved by the Audit Committee and proposed to the board of directors for the final resolution.
- (3) Establishment and amendment of the Company's "internal audit system and implementation rules" were first approved by the Audit Committee and proposed to the board of directors for the final resolution.
- (4) The Company has an Audit Division established directly under the board of directors to oversee organization and responsibilities of the internal audit system. A chief auditor has been assigned to oversee audit tasks and make quarterly reports to the Audit Committee and the board of directors on the audit progress.
- (5) The Company's Audit Division regularly presents internal audit reports prepared by the Company and subsidiaries to independent directors for review.
- (6) The Company's Audit Division constantly keeps track of findings or weaknesses raised by the financial supervisory authority, the CPAs, the internal audit unit and internal departments self-inspection, as well as improvements prompted in the declaration of internal control system. Any progress made on such findings are reported to the Audit Committee and the board of directors in writing.
- (7) At the end of each financial year, the Company's Audit Division prepares audit plans for the upcoming year and submits them for approval by the Audit Committee, followed by the board's resolution.
- (8) The Audit Division follows Article 7 of "Corporate Governance Best-Practice Principles for Financial Holding Companies" and convenes "internal control system defect review seminars" once every six months or whenever deemed necessary, during which independent directors are invited to discuss with internal auditors about defects within the internal control system. Detailed minutes are recorded and presented to the board of directors during meetings.
- (9) Any material contingencies encountered by the Company or subsidiaries is notified to all directors (including independent directors) simultaneously via e-mail as a sound corporate governance practice.
- (10) Any penalty imposed by the authority against the Company or subsidiaries is notified to all directors (including independent directors) immediately via e-mail as a sound corporate governance practice.

**(III) Items disclosed in accordance with the Corporate Governance Best-Practice Principles for Financial Holding Companies**

1. Please visit: The Company's website (<http://www.cathayholdings.com>) and the Market Observation Post System.
2. Functionality of the Corporate Governance and Nomination Committee

■ Responsibilities

The Company's Corporate Governance and Nomination Committee comprises three directors (including two independent directors). Ming-Ho Hsiung, the convener of the committee and director, possesses expertise in "Actuarial Science/Management"; members of the committee and independent

directors, including Edward Yung-Do Way and Li-Ling Wang, possess expertise in “Management/Audit”, “Risk Management/Corporate Governance” respectively. The purpose of the committee is to enhance corporate governance and board performance, and its responsibilities include:

- (1) Nomination of director candidates and verification of candidates’ eligibility.
- (2) Review of establishments/amendments made to board of directors policies.
- (3) Design of organizational structure and review of establishments/amendments made to functional committee policies.
- (4) Review of establishments/amendments made to the Company’s Corporate Governance Code of Conduct.
- (5) Any other tasks instructed by the board of directors.

The Corporate Governance and Nomination Committee may convene meetings whenever deemed necessary, and is entitled to approach attorney, CPAs or any other experts for consultation on matters pertaining to its responsibilities.

#### ■ Composition

Members of the first Corporate Governance and Nomination Committee (term of service: 2019.06.14-2022.06.13)

Title	Name	Academic background	Career highlights	Relevant expertise
Director (Convener of Corporate Governance and Nomination Committee)	Ming-Ho Hsiung	M.S., University of Iowa, USA	Vice Chairman of Cathay Life Former President of Cathay Life	Master of Actuarial Science; having served as President of Cathay Life for 9 years and possesses extensive actuarial and managerial experience
Independent Director (Member of Corporate Governance and Nomination Committee)	Edward Yung-Do Way	M.B.A., University of Georgia, USA	Chairman of YCSY Co., Ltd. Former CEO of Deloitte Taiwan	Master of Business Administration; certified public accountant in State of Georgia, U.S., and The Republic of China; former CEO of Deloitte Taiwan; possesses extensive managerial and auditing experience
Independent Director (Member of Corporate Governance and Nomination Committee)	Li-Ling Wang	Ph.D. in Risk Management and Insurance, Temple University, USA  Master of Accounting, University of Hartford, USA	Chairman of Pension Funds Association of R.O.C. Professor of Risk Management and Insurance, National Chengchi University Formerly served as: Vice President of National Chengchi University Commissioner of Financial Supervisory Commission Director of First Financial Holding Independent Director of China Life Insurance	Ph.D. and Professor of Risk Management and Insurance; former Chairman Commissioner of Financial Supervisory Commission and Independent Director of China Life Insurance; possesses extensive experience in risk management and corporate governance

For details on committee meetings and attendance records of each member, please check the Company’s annual reports or access the “Market Observation Post System”(http://mops.twse.com.tw/mops/web/t100sb03\_1stock ID: 2882).

■ **Functionality information**

The first Corporate Governance and Nomination Committee (data range: 2020.1.1-2020.12.31)

A total of 3 Corporate Governance and Nomination Committee meetings (A) were held in the last year; directors' attendance records are summarized below:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Director (Convener of Corporate Governance and Nomination Committee)	Ming-Ho Hsiung	3	0	100%	—
Independent Director (Member of Corporate Governance and Nomination Committee)	Edward Yung-Do Way	3	0	100%	
Independent Director (Member of Corporate Governance and Nomination Committee)	Li-Ling Wang	3	0	100%	

Other items to be stated:

1. In the event that the Corporate Governance and Nomination Committee's proposal is rejected or amended in a board of directors' meeting, please describe the date and session of the meeting, details of the agenda, the board's resolution, and how the company had handled the Corporate Governance and Nomination Committee's proposals: None.
2. For resolution(s) made by the Corporate Governance and Nomination Committee, if there are committee members voicing opposing or qualified opinions on the record or in writing, please state the Corporate Governance and Nomination Committee meeting date, term, contents of motion, opinions of all members and the company's handling of said opinions: None.

Note:

- (1) The date of resignation is specified for directors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Corporate Governance and Nomination Committee meetings held and the number of meetings actually attended during active duty.
- (2) Where a reelection may be held for filling the vacancies of directors before the end of the fiscal year, list both the new and the discharged directors, and specify if they are the former directors, or newly elected, re-elected and the date of the reelection in the "Remark" section. The percentage of actual attendance (%) is calculated based on the number of Corporate Governance and Nomination Committee meetings held and the number of meetings actually attended during active duty.

Corporate Governance and Nomination Committee	Motion and follow-up	Resolution	Company's handling for opinions of the Corporate Governance and Nomination Committee
The 3 <sup>th</sup> meeting of the 2 <sup>th</sup> term 2020.3.10	Amendments to the "Procedures for Board of Directors' Meetings," "Audit Committee Charter" and "Remuneration Committee Charter" of the Company.	Proposal was approved as proposed based on the consents of all members of the Corporate Governance and Nomination Committee.	■ Proposal was submitted to the board of directors' meeting and approved as proposed based on the consents of all attending directors.
The 4 <sup>th</sup> meeting of the 2 <sup>th</sup> term 2020.5.13	Amendment to the "Corporate Governance Best Practice Principles" of the Company.	Proposal was approved as proposed based on the consents of all members of the Corporate Governance and Nomination Committee.	■ Proposal was submitted to the board of directors' meeting and approved as proposed based on the consents of all attending directors.
The 5 <sup>th</sup> meeting of the 2 <sup>th</sup> term 2020.8.19	Amendments to the "Rules for Independent Director Authority and Responsibility Scope," "Corporate Governance Best-Practice Principles Charter," "Board of Directors and Functional Committees Performance Evaluation Policy" and "Corporate Governance Best-Practice Principles" of the Company.	Proposal was approved as proposed based on the consents of all members of the Corporate Governance and Nomination Committee.	■ Proposal was submitted to the board of directors' meeting and approved as proposed based on the consents of all attending directors.

Since the establishment of the Corporate Governance and Nomination Committee, the following mechanisms regarding board operations have been added: "The Company shall arrange orientation for the board of directors taking up the post for the first time", the inclusion of "The Evaluation of the Functional Committee's Performance", the setup of " Chief Corporate Governance Officer", and the addition of "Standard Operating Procedures for Resolving Directors' Requests".

**(IV) Status of Corporate Governance, deviation and causes of deviation from Corporate Governance Best-Practice Principles for Financial Holding Companies (Table 2-2)**

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
1. Equity structure and shareholders' rights of financial holding company (1) Whether the financial holding company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure?	✓		The Company's website discloses information such as spokesperson, investor service contact and link to the "Contact Us" mailbox. Shareholders may express opinions through e-mail, telephone or fax, and the Company assigns dedicated employees to handle shareholders' recommendations, queries, disputes and litigations according to "Cathay Financial Holding Co., Ltd. Shareholder Recommendation, Query, Dispute and Litigation Handling Policy."	No significant difference
(2) Is the financial holding company constantly informed of the identities of its major shareholders and the ultimate controller?	✓		The Company reports changes in share ownership of major shareholders on a monthly basis, and compares details of the shareholder registry on every book closure date for timely monitoring of major shareholders' ownership position.	No significant difference
(3) Whether the financial holding company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?	✓		The Company had already established "Cathay Financial Holding Co., Ltd. and Subsidiaries Firewall Policy" in June 2006 to prevent conflict of interest arising from business transactions, joint marketing activities, information exchange, share of operating equipment, premise or personnel, or internal referral of financial products or services between the Company, its subsidiaries and members of the Group. This policy helps protect the rights of customers and consumers in general.	No significant difference
2. Composition and responsibilities of board of directors (1) Is the financial holding	✓		The Company has assembled a "Corporate Governance and Nomination Committee" to enhance corporate governance and board functionality. The committee comprises three directors (including two independent directors), whose responsibilities are to: nominate director candidates, verify candidates' eligibility,	No significant difference



Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
company, in addition to establishing the remuneration committee and audit committee, pursuant to laws, willing to voluntarily establish any other functional committees?			review establishment and amendment of board-related policies, develop structures for functional committees, establish/amend Organizational Principles for functional committees, review establishment and amendment of Corporate Governance Code of Conduct, and perform other tasks instructed by the board of directors. The committee may convene meetings whenever deemed necessary, and is entitled to approach attorney, CPAs or any other experts for consultation on matters pertaining to its responsibilities. For related information, please refer to page 63: “Disclosures required under Corporate Governance Best-Practice Principles for Financial Holding Companies: 2. Functionality of Corporate Governance and Nomination Committee.”	
(2) Has the TWSE/TPEX listed financial holding company established a set of policies and assessment tools for evaluating board performance, and conducted performance evaluation on a yearly basis? Are performance evaluation results reported to the board of directors and used as reference for compensation, remuneration and nomination decisions?	✓		<p>The Company established its “Board of Directors Performance Evaluation Policy” on November 5, 2015 based on “Corporate Governance Best-Practice Principles for Financial Holding Companies” and “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies,” which outlined performance goals for the purpose of enhancing corporate governance and board performance. The policy was later amended and renamed “Board of Directors and Functional Committees Performance Evaluation Policy” on April 26, 2018 to implement annual internal performance assessments for the board of directors and functional committees (including Audit Committee, Remuneration Committee, Corporate Governance and Nomination Committee). Furthermore, to ensure the independence and effectiveness of board performance evaluation, the Company has been engaging professional, independent institutions, experts or scholars from outside the organization to conduct external performance assessments at least once every three years since 2017. Details of the assessment, including the indicators used, the procedures, target accomplishment rate and interpretation of assessment outcomes, are planned and executed by the external institutions, experts or scholars.</p> <p>In order to supervise directors in fulfilling their duties to improve overall performance and achieve sustainable business management, the Company has “Director Performance Evaluation Guidelines” in place. Indicators used for performance evaluation include: director's awareness toward the Company's goals and missions, awareness to duties, level of participation in the Company's operations, maintenance of internal relations and communication, professionalism and ongoing education, supervision over finance and operations, enforcement of</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>internal audit/control, risk management and compliance, corporate credit rating, and corporate social responsibilities. Remuneration will not be paid to directors that fail the annual individual director performance assessment.</p> <p>For more information, please refer to page 44 : “Table 2 (2) Execution of Board Performance Evaluation.” There is no material deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies. The Company has disclosed “Board of Directors and Functional Committees Performance Evaluation Policy” on Market Observation Post System and at its website. Performance evaluation results of the board of directors and functional committees have been disclosed in the annual report and on the website for public access.</p>	
(3) Does the financial holding company conduct regular assessments regarding the independence of its financial statement auditors?	✓		<p>Appointment of the financial statement auditor is renewed once a year. To ensure independence, suitability, and professionalism of financial statement auditors, the Audit Committee and board of directors would examine CPAs’ background (including past experience, professional qualification, and key customers) and shareholding, and require them to issue statements of independence to confirm that no other financial or business dealing exists that would otherwise compromise the “Statement of CPA Professional Ethics No. 10. on Integrity, Fairness, Objectivity, and Independence.” These CPAs are then subjected to evaluation according to Paragraphs 1 and 2, Article 47 of the Certified Public Accountant Act (e.g. whether the CPA is hired by the Company to perform routine works, or receives a fixed salary from the Company, or assumes non-managerial roles such as director/supervisor/internal accountant, or provides any other non-audit service that would compromise independence).</p>	No significant difference
3. Has the financial holding company allocated adequate number of competent corporate governance staff and appointed a Chief Corporate Governance Officer to oversee corporate governance affairs (including but not limited to providing	✓		<p>In 2018, the board of directors passed a resolution to create the position of “Corporate Governance Officer” to further enforce the corporate governance framework, and the position is assumed by the head of Administration Division (executive vice president grade). In January 2019, the board of directors resolved to adjust prerequisites for the “Chief Corporate Governance Officer,” limiting the role only to those qualified as head of legal affairs, shareholder service, meeting, general administration or corporate governance for at least three years in a finance-related institution or public company. Main responsibilities of the Chief Corporate Governance Officer include: “handling of board meeting and shareholder meeting</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
directors/supervisors with the information needed to perform their duties, assisting directors/supervisors with compliance issues, convention of board meetings and shareholder meetings, and preparation of board/shareholder meeting minutes)?			<p>affairs,” “preparation of board meeting and shareholder minute,” “assisting directors with duty and ongoing education,” “providing directors with the information needed to execute duty,” “assisting directors with compliance affairs,” and “other matters specified by law, the Articles of Incorporation or contracts.” In addition, to assist the directors in their performance of duties and to improve the efficiency of the board of directors, the Company has approved the establishment of the “Standard Operating Procedures for Resolving Directors’ Requests” through resolution of the board of directors in March 2019, in order to provide sufficient support to the directors. According to the provisions of the procedure, all directors of the Company shall be able to obtain assistance from the corporate governance supervisor in order to ensure that the procedure of board of directors and all applicable laws and regulations are complied by all directors as well as to ensure proper information communication between members of the board of directors and between directors and the management department. Furthermore, after the corporate governance supervisor receives requests from a director, unless processing time is further specified, it is necessary to coordinate relevant units to handle the request timely within two business days. After relevant units complete the handling of the request, it is necessary to report to the director immediately and to report the handling status to the corporate governance supervisor. In addition to providing information and documents necessary for directors to perform duties in order to promptly assist the directors to perform duties, the corporate governance supervisor of the Company shall also ensure that the information communication between the members of the board of directors and between directors and the management department. Furthermore, it is also necessary to ensure that material information of routine business of the Company, material events and other important matters already confirmed shall be provided to the directors immediately upon the occurrence of such events and matters for their understanding.</p> <p>Progress of the Company's 2020 corporate governance efforts is explained below:  In addition to appointing a “Chief Corporate Governance Officer” for supervising corporate governance affairs on the group level, each department is also required to assign adequate number of competent “corporate governance personnel” to oversee corporate governance-related matters within each unit:</p> <p>1. Responsibilities with regards to “handling of board and functional committee</p>	

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>meeting affairs (including minutes preparation), assisting directors with duty and ongoing education, and providing directors with the information needed to execute duty” are assisted by personnel of the “Legal Department, Administration Division,” who perform the following duties:</p> <ul style="list-style-type: none"> <li>● Notify all meeting participants about the agenda and related meeting information seven days before the convention of board of directors’ meeting/Audit Committee meeting/Remuneration Committee meeting/Corporate Governance and Nomination Committee meeting, and make arrangement for the meeting minutes to be signed/sealed by the chairperson and minute taker before distributing them to all participants within twenty days after the meeting, and list the meeting minutes as a major corporate file for preservation.</li> <li>● Conduct orientation for first-time directors to introduce them to the Company’s business activities, organization and other important issues; provide newly elected directors with a “Director Manual” that guides them through their duties and compliance requirements; and assist directors in the completion of yearly education as needed by the Company and individual directors.</li> <li>● Provide directors with the requested information and maintain communication between directors and various department heads; assist in independent directors’ duties by arranging communication with the chief internal auditor, the financial statement auditor, other internal departments.</li> <li>● Amend corporate governance policies in line with the Company’s business activities and the latest regulations, and present them for resolution by the board of directors.</li> <li>● Renew “liability insurance for directors and key staff” within the group, and register the required corporate information or changes thereof with the</li> </ul>	

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>authority before deadline.</p> <p>2. With regards to “shareholder meeting affairs (including preparation of minutes),” personnel of the “Share Administration Section, Administration Department, Administration Division,” have been assigned to perform the following:</p> <ul style="list-style-type: none"> <li>● Prepare and convene shareholder meetings, produce minutes, oversee share administration affairs, and provide adequate information to shareholders to ensure that their interests are soundly protected. The Company actively supports electronic voting and candidate nomination system in director/supervisor election as a means to empower and make voting more convenient for its shareholders. Electronic votes have accounted for more than half of total shares represented at shareholder meetings for a consecutive number of years; furthermore, the candidate nomination system has been adopted since the 2016 director election.</li> <li>● Responsible of checking major announcements for compliance and accuracy, and ensuring information symmetry for investors.</li> </ul> <p>Concerning the Chief Corporate Governance Officer training situation in 2020, refer to page 51 “Implementation of Corporate Governance / Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc), and the progress of such enhancements / Enhancement of board functionality”.</p>	
4. Has the financial holding company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers, etc.)?	✓		<p>In addition to spokesperson and deputy spokesperson, the Company also has investor relations, shareholder service and customer service departments available to facilitate two-way communication with shareholders, customers and stakeholders. “Stakeholders,” “Investor Relations” and “Corporate Sustainability” sections have been created on the Company's website to deliver important information and communicate with the outside world, whereas “Chairman's Mailbox” and “Internal Communication Network” have been made available on the Intranet for communication between employees and line managers.</p> <p>The Company prepares a material issues matrix on a yearly basis, and uses it to set short/medium/long term goals and respond to CSR issues that are of concern to stakeholders.</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
<p>5. Information Disclosure</p> <p>(1) Establishment of a corporate website to disclose information concerning financial affairs and corporate governance?</p>	✓		<p>1. The Company’s website has a section called “Introduction to Cathay Financial Holdings” that discloses the Company’s history, business strategies, competitive advantages, organization, affiliates and awards.</p> <p>The “Corporate Sustainability” and “Corporate Governance” sections disclose the Company’s philosophy and progress on the respective topics.</p> <p>The “Investor Relations” section discloses activity information relevant to investors as well as annual reports, financial statements and finance/business-related information of the Company and subsidiaries. The website also has a “Shareholder Services” section that discloses information relating to shareholder meetings, dividends etc.</p> <p>Furthermore, in light of the ever-expanding range of products and services offered by subsidiaries, investors may even use the portal to link to subsidiaries' websites for more detailed information.</p> <p>2. The Company announces “material information” through “Market Observation Post System” according to policy, and in doing so keeps investors up to date about the Company’s operations and financial position.</p>	No significant difference
<p>(2) Has the financial holding company adopted other means to disclose information (e.g. English website, appointment of designated personnel to collect and disclose corporate information, implementation of a spokesperson system and broadcasting of investor conferences via the company website)?</p>	✓		<p>1. The Company has set up an English website, implemented a spokesperson/deputy spokesperson system, and established Public Relations Department, Investor Relations Department, etc. that are responsible for ensuring timely and accurate disclosure of material information within the Company.</p> <p>2. The Company convenes analyst meeting regularly to disclose information about its operations and to enable closer interaction with domestic and foreign investors. All Chinese and English materials used during analyst meeting are disclosed on the Company’s website and at “Market Observation Post System.”</p> <p>3. The Company simultaneously discloses material information in Chinese and English on “Market Observation Post System” to keep local and foreign investors up-to-date on the Company.</p> <p>4. In light of investors’ concerns for ESG (Environmental, Social, Governance) issues in recent years, the Company has created a “Corporate Sustainability” section on its website to disclose non-financial performance and practices of the Company and subsidiaries in both Chinese and English.</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
(3) Does the financial holding company publish and make official filing of annual financial reports according to the Financial Holding Company Act and Securities and Exchange Act within the required timeframe after the end of an accounting period, and publish/file Q1, Q2, and Q3 financial reports plus monthly business performance before the specified due dates?	✓		The Company complies with the Financial Holding Company Act and Securities and Exchange Act by filing self-assessed income monthly, as well as publishing quarterly, semi-annual, and annual consolidated financial reports reviewed or audited by the CPA before the statutory due dates.	No significant difference
6. Other important information enabling a better understanding of the company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the company for	✓		<p>1. Employees' rights and care to employees: Please refer to page 220: "VIII. (I) Employee benefit programs, retirement system, related agreements and rights protection."</p> <p>2. Investor relations: Please refer to sections "1.(1) Whether the financial holding company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure?"</p> <p>3. Stakeholders' interests: Please refer to section "4. Communication channel with stakeholders."</p> <p>4. Directors' and supervisors' ongoing education: Disclosures have been made on the Company's website (<a href="http://www.cathayholdings.com">http://www.cathayholdings.com</a>) and "Market Observation Post System."</p> <p>5. Implementation of risk management policy and risk measurement criteria: Please refer to page 240: "VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation."</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
directors and supervisors, and donations to political parties, interested parties and public welfare groups)?			<p>6. Implementation of customer policy:</p> <p>When engaging in business activities, the Company and subsidiaries are required not only to comply with industry regulations and consumer protection laws, but are also bound by the following internal policies implemented with the goal of protecting customers' interests:</p> <ul style="list-style-type: none"> <li>(1) Cathay Financial Holding Co., Ltd. Subsidiaries Joint Marketing Policy</li> <li>(2) Cathay Financial Holding Co., Ltd. Confidentiality Agreement on Business Dealing with Subsidiaries and Customers' Data</li> <li>(3) Cathay Financial Holding Co., Ltd. and Subsidiaries Confidentiality Joint Statement</li> <li>(4) Cathay Financial Holding Co., Ltd. Data Warehousing Guidelines</li> <li>(5) Cathay Financial Holding Co., Ltd. Marketing Planning Division's Monitoring of Subsidiary Marketing Activities</li> <li>(6) Cathay Financial Holding Co., Ltd. and Subsidiaries Firewall Policy</li> <li>(7) Cathay Financial Holding Co., Ltd. Personal Information Gathering, Processing and Utilization Policy</li> <li>(8) Cathay Financial Holding Co., Ltd. Human Rights Execution Policy for Personal Information Owners</li> <li>(9) Cathay Financial Holding Co., Ltd. Personal Information Infringement Management Policy</li> <li>(10) Cathay Financial Holding Co., Ltd. Personal Information Security Management Policy</li> <li>(11) Cathay Financial Holding Co., Ltd. Personal Information Security Plan and Data Disposal upon Service Termination</li> </ul> <p>Employees of the group are required to sign confidentiality agreements before engaging in any business activity that would expose them to customers' information. Employees are also instructed to place customers' interests at the top of their priority in joint marketing.</p> <p>7. Purchase of liability insurance by the company for directors and supervisors:</p> <p>Since June 15, 2007, the Company has been purchasing "liability insurance for directors and key staff" to protect itself against the liabilities of directors,</p>	



Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>supervisors and key staff of the Company and subsidiaries over the course of their duties. Terms of this insurance policy are reviewed on a yearly basis, and since 2017, main details such as the sum assured, the scope of coverage and premium rate are reported to the upcoming board meeting after annual renewal. This insurance exists to reduce the amount of risk borne by directors, supervisors and the Company, as well as to enforce the corporate governance system.</p> <p>8. Donation to political parties, stakeholders, and charities: Cathay Financial Holdings had been active in supporting charity organizations in 2020. For details on donations, please refer to the Company's website (<a href="https://www.cathayholdings.com/holdings/corp/intro/informationdisclosure/governance">https://www.cathayholdings.com/holdings/corp/intro/informationdisclosure/governance</a>)</p> <p>9. Th Intellectual Property Rights Management The Company and its subsidiaries have implemented patent management and reward policies since 2016 as enhanced measure over management of intellectual properties. Employees are encouraged to explore innovation in their respective areas of expertise, and each subsidiary has a dedicated unit in place to assist employees in filing patents for their creations. Furthermore, the Company holds group-wide patent meetings at least once a year to engage subsidiaries in the discussion of how the group should grow its patent portfolio, and to consolidate financial innovations and applications across subsidiaries for further inspiration, and thereby improve the quality of the group's future patent development efforts. Up to the end of 2020, the Company and its subsidiaries had obtained the grants and publication of over 160 patents worldwide.</p> <p>As for trademarks, the trademark management policy has been implemented since 2004 to govern registration, licensing and use of trademarks on a group scale. Trademarks held by the group are managed and assessed by the Company on an annual basis. In addition, registration and maintenance strategies are constantly adjusted to comply with the trademark laws and to support group business activities. Potential infringement of group trademark is monitored on an ongoing basis, and response measures are taken in a timely manner to prevent customers from falling victim to confusion. Up to the end of 2020, the Company had registered more than 1000 valid trademarks worldwide.</p>	

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>In terms of copyright, the Company has specified in its employment contract that the Company shall retain ownership of any creation developed by employees over performance of duty. Furthermore, it has been explicitly stated in Employee Code of Conduct and work rules that employees must perform their duties free of infringement against copyright of others. When engaging external service providers in collaborative arrangement, the Company would state the ownership of potential copyrights in the agreement. Service providers will also be required to provide warranty, as part of the agreement, that any creations completed or delivered are completely legitimate and free of infringement against others. The above practices are how the Company maintains and manages its copyrights.</p> <p>With respect to trade secrets, the Company has specified in the employment contract, Employee Code of Conduct, Ethical Behavior Guidelines and Business Integrity Policy and Code of Conduct that employees are required to bear the obligation to maintain confidentiality for all business-related information learned directly or indirectly due to performance of job duties. The Company also organizes regular training and online tests to ensure that all employees understand the importance of confidentiality. In terms of information security and control, the Company has implemented “Cathay Financial Holdings Office Information Operation Management Guidelines” and “Cathay Financial Holdings IoT Equipment Security Management Policy” to manage IT equipments. Not only are security updates performed regularly on IT equipment to minimize leakage risk of confidential information, an expert team is readily available to investigate and undertake emergency measures in response to any leakage of confidential information should it occur, and thereby minimize impact. Furthermore, the Company has specified in its “Cathay Financial Holdings and Subsidiaries Information Security Incident Reporting and Emergency Response Management Guidelines” that all outsourced IT service agreements shall contain a confidentiality clause, an audit clause, a penalty clause and loss compensation rules to ensure that service providers do comply with confidentiality duties.</p> <p>The Company will continue adjusting management guidelines for intellectual property rights such as patent, trademark, copyright and trade secrets in line with operational goals and strategies of the group, and use them to support future</p>	

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			<p>business development.</p> <p>10. The Company adopts the “Candidate Nomination System”. All the board candidates are nominated through the “Corporate Governance and Nomination Committee”. After reaching a board resolution, the list is sent to the shareholders’ meeting for election. According to Paragraph 3, Article 30 of the “Corporate Governance Code”, the board should possess general knowledge, skills, and literacy required for performing job tasks. In order to achieve the ideal goal of corporate governance, the board as a whole should possess the following competencies: I. Operational judgment competency. II. Accounting and financial analysis ability. III. Business management ability (including ability to manage subsidiaries). IV. Crisis management ability. V. Knowledge of the industry. VI. An international market perspective. VII. Leadership ability. VIII. Decision-making ability. IX. Risk management knowledge and ability.</p> <p>The Company's board of directors has been adequately diversified in terms of age, industry experience, professional knowledge and capability. In order to strengthen corporate governance and facilitate the sound development of the board makeup and structure, in Paragraph 2, Article 30 of the “Corporate Governance Code”, the policy of “board member diversification” points out that the board make ought to take into consideration the company operational framework, business development direction, future development trends, and various needs, as well as evaluating various diversified dimensions such as basic makeup (i.e., gender, age, nationality, race, etc.), professional experience (i.e., financial holdings, banks, insurance, securities, industries, technology etc.), and professional knowledge and skills (i.e., commerce, finance, accounting, law, marketing, digital technology, etc.). The Company currently has 13 directors in the board of directors, including 8 non-executive directors, 4 independent directors (one of whom is female – Li-Ling Wang) and 1 executive director (Chang-Ken Lee, concurrently acting as the President). The board members collectively possess extensive experience and expertise in finance, digital finance, information technology, business, overseas markets, M&amp;A and management. The board has 8% of directors concurrently serving as employees (President Chang-Ken Lee); independent directors accounted for 31% of all directors and female directors (Li-Ling Wang) accounted for 8% of all directors;</p>	

Scope of assessment	Implementation Status (Note 1)			Departures from the Corporate Governance Best-Practice Principles for Financial Holding Companies and Reasons
	Yes	No	Summary	
			and the 4 independent directors with an average term of office service period of 2.75 years (2 independent directors with the term of office service period less than 3 years, 1 independent director with the term of office service period of 3.5 years, and 1 independent director with the term of office service period of 4.5 years). The average age of the board of directors is 66 years old; 5 directors are at the age between 71–78 years old, 5 directors are at the age between 61–70 years old, and 3 directors are at the age between 51–60 years old. The Company emphasizes the diversity of industry experiences of the board members. The goal for board diversity is to include members with previous working experiences in the Company’s bank, insurance, and securities subsidiaries in each term of board of directors. The current term of board members adheres to the previous goal, and includes 8 members with the previous experience in the bank subsidiary, 10 members with the experience in the insurance subsidiary, and 6 members with the experience in the securities subsidiary. For the board of directors of the next term, it shall also comply with the aforementioned objective on the diversity of the board members. Availability and enforcement of board diversity policy are explained in the following chart.	
7. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies. (Not required if the Company is not one of the evaluated subjects)	✓		A summary description has been provided in the following table (Improvement or Priority Enhancement Measures Made in Response to the 2020 7th Corporate Governance Evaluation).	No significant difference

Note 1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section

Note 2: Please explain deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.

Implementation of board diversity policy at Cathay Financial Holdings

Diversity Core Item  Directors	Basic composition									Industry experience						Professional knowledge/skills								
	Nationality/place of registration	Gender	Concurrent positions in our company	Age			Tenure of Independent Director			Financial Holding	Bank	Insurance	Securities	Asset Management	Digital Finance	Information/Technology/Others	Commerce	Finance / Accounting	Legal	Financial	Mathematics/actuarial science	IT	Overseas markets/M&A	Risk management
				51 to 60	61 to 70	71 to 78	3 years and below	3 to 9 years	9 years and above															
Hong-Tu Tsai	R.O.C	M			✓				✓		✓					✓		✓	✓			✓		
Tsu-Pei Chen	R.O.C	M				✓			✓	✓						✓			✓			✓	✓	
Cheng-Ta Tsai	R.O.C	M				✓			✓		✓					✓			✓					
Cheng-Chiu Tsai	R.O.C	M		✓					✓		✓					✓	✓		✓			✓		
Chi-Wei Joong	R.O.C	M			✓				✓	✓		✓		✓		✓	✓		✓			✓		
Andrew Ming-Jian Kuo	R.O.C	M		✓					✓	✓	✓	✓	✓		✓	✓	✓		✓			✓		
Tiao-Kuei Huang	R.O.C	M				✓			✓		✓					✓			✓	✓		✓	✓	
Ming-Ho Hsiung	R.O.C	M			✓				✓		✓					✓	✓		✓	✓		✓	✓	
Chang-Ken Lee	R.O.C	M	✓		✓				✓	✓	✓	✓	✓			✓	✓		✓			✓	✓	
Matthew Feng-Chiang Miao	R.O.C	M				✓		✓	✓	✓	✓	✓			✓	✓	✓				✓	✓		
Edward Yung-Do Way	R.O.C	M				✓		✓	✓	✓	✓	✓			✓	✓	✓							
Li-Ling Wang	R.O.C	F		✓			✓		✓	✓	✓	✓	✓			✓	✓		✓				✓	
Tang-Chieh Wu	R.O.C	M			✓		✓		✓	✓	✓	✓	✓			✓	✓		✓			✓		

Note: Up to the end of 2020, the term of office service period of Matthew Feng-Chiang Miao was 4.5 years as an independent director and the term of office service period of Edward Yung-Do Way was 3.5 years as an independent director.

Improvement or Priority Enhancement Measures Made in Response to the  
2020 7th Corporate Governance Evaluation

No.	Evaluation indicator	Improved	Priority Enhancement Measures
2.27	Has the Company devised a smart property management plan that is linked to its operational goals, and disclosed execution progress on its website or in the annual report? Is progress reported to the board of directors at least once a year?	—	In recent years, the Company has focused on building brand awareness and value in local and foreign markets, and taken proactive steps toward financial innovation and digital transformation. Considering that intellectual property provides the foundation for brand management and innovation, the Company has developed an intellectual property management system and enforces intellectual property management as part of its corporate governance to ensure business continuity. Progress is reported to the board of directors on a yearly basis, and relevant disclosures are made in the annual report and over the company website.
3.5	Does the Company upload an English version of its financial report 7 days before the annual general meeting?	The Company held its 2019 annual general meeting on June 12, 2020, and published the English version of its 2019 financial report onto the “TWSE Market Observation Post System” ahead of time on May 6, 2020.	—
Extra question	Has the company exhibited exceptional performance in corporate governance, or derived actual yields from corporate governance?	—	<ol style="list-style-type: none"> <li>1. The Company participated in the “CG6012(2019) Corporate Governance Assessment” organized by the Taiwan Corporate Governance Association again along with subsidiaries – Cathay Life Insurance and Cathay United Bank, and was awarded the highest “Exceptional” rating which is valid until 2022 and will continue evaluating the feedback from assessment to improve corporate governance system.</li> <li>2. The Company has been taking the initiative to participate in “DJSI” assessments (the assessment covers corporate governance aspect as well) for several years, and was selected as a composition of DJSI – World for three consecutive years.</li> <li>3. The Company continually make investments in energy efficiency equipment and renewable energy that is considered to be friendly to the environment.</li> </ol>

**(V) Describe the composition, duties and operations of the remuneration committee established by the Company, if any:**

The Company assembled its Remuneration Committee on April 29, 2011 and vested it the responsibility to: set and review performance evaluation and compensation policies, systems, standards, and structures applicable to directors and managers, and regularly assess and determine directors' and managers' compensation. The Remuneration Committee held 3 meetings in 2020 to discuss issues including: 2019 employee/director remuneration, issuance of bonuses to supervisors and directors actually participating in the execution of duties of the Company, regular review/adjustment of managers' compensation, and amendments to Director Performance Evaluation Rules/Compensation Payment Guidelines, etc. The Remuneration Committee has been able to enhance the function of the board of directors effectively.

**1. Information about remuneration committee members (Table 2-2-1)**

Position Title (Note 1)	Name	Criteria	Has at least five years of relevant working experience and the following professional qualifications	Independence Criteria (Note 2)										Number of positions as a Remuneration Committee Member in other public listed companies	Remarks	
				Lecturer (or above) of commerce, law, finance, accounting, or any subject relevant to the Company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holder of professional qualification relevant to the Company's operations	Commercial, legal, financial, accounting or other work experience required to perform the assigned duties	1	2	3	4	5	6	7			8
Independent Director	Matthew Feng-Chiang Miao			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	—
Independent Director	Edward Yung-Do Way		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	Note 3
Independent Director	Tang-Chieh Wu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	—

Note 1: Please specify director, independent director or others.

Note 2: "✓" is marked in the space beneath a condition number when a member has met that condition during the two years prior to election and during his or her period of service. The conditions are as follows:

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or supervisor of the company or an affiliate. However, when the person is an independent director appointed by the company, its parent company, or a subsidiary pursuant to Securities and Exchange Act or the local laws and regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names in an aggregate amount of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a manager listed in (1), or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in (2) or (3).
- (5) Not a director, supervisor, or employee of any corporate shareholder that: 1. holds 5% or more of the Company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the Company according to Paragraph 1 or 2, Article 27 of The Company Act. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).
- (6) Not a director, supervisor, or employee of any other company that controls directorship in the company or where more than half of total voting rights are controlled by a single party (this excludes concurrent independent director positions

held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).

- (7) Does not assume concurrent duty as Chairman, President, or equivalent role, and is not a director, supervisor, or employee of another company or institution owned by a spouse. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with The Company Act or local laws).
- (8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company (however, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the Company, or in the Company's parent or subsidiary, or in another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
- (9) Not a professional who provides audit service, or commercial, legal, financial, accounting or related services for an accumulated sum of less than NT\$500,000 in the last 2 years, to the Company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies. This excludes roles as Remuneration Committee, Public Acquisition Review Committee, or M&A Special Committee member appointed in accordance with the Securities and Exchange Act or Business Mergers And Acquisitions Act.
- (10) Not been a person of any conditions defined in Article 30 of the Company Act.

Note 3: The party's concurrent roles in 1 company (FET) were non-independent and normal directorship.

Note 4: Data baseline date: April 13, 2021.



## 2. Information concerning the remuneration committee

The Company's Remuneration Committee had 3 members in the most recent year.

Term of the 4th committee members: from June 14, 2019 to June 13, 2022. The Remuneration Committee held 3 meetings (A) in the last year (2020.1.1-2020.12.31); members' eligibility and attendance records are as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Convener (Independent Director)	Matthew Feng-Chiang Miao	3	0	100%	-
Member (Independent Director)	Edward Yung-Do Way	3	0	100%	
Member (Independent Director)	Tang-Chieh Wu	3	0	100%	

Other items to be stated:

- If the Board of Directors does not adopt or amend the remuneration committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the Board of Directors, and the company's handling of the remuneration committee's opinions (if the remuneration approved by the Board of Directors is superior than that suggested by the remuneration committee, please specify the deviation and reason): None.
- For resolution(s) made by the remuneration committee with the committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the company's handling of the said opinions: None.

Note:

- The date of resignation is specified for members of the Remuneration Committee who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.
- If a re-election of Remuneration Committee members had taken place prior to the close of the financial year, members of both the previous and the current Remuneration Committee are listed; in which case, the remarks column would specify whether the committee member was elected in the previous board, the new board, or both. The percentage of actual attendance (%) is calculated based on the number of Remuneration Committee meetings held and the number of meetings actually attended during active duty.

Remuneration Committee	Motion and follow-up	Resolution	The Company's handling of the Remuneration Committee members' opinion
The 3th meeting of the 4th term 2020.1.20	<ol style="list-style-type: none"> <li>Amendments to the "Director Performance Evaluation Guidelines/Compensation Payment Guidelines" of the Company.</li> <li>Approval and Distribution of Performance Bonuses and Talent Retention Bonuses to Managers and Directors Actually Involved in Business Undertakings in 2019.</li> </ol>	The Remuneration Committee members unanimously consent to passing the case.	<ul style="list-style-type: none"> <li>The motion 1 was submitted to the board; all the attending directors unanimously consented to passing the motion.</li> <li>Motion 2 was submitted to the board; Chairman Hong-Tu Tsai, Vice Chairman Tsu-Pei Chen and Director Chang-Ken Lee recused from the motion, and Chairman Hong-Tu Tsai did not vote on behalf of Director Cheng-Ta Tsai; the motion was passed as proposed based on the consents of the remaining attending directors.</li> </ul>
The 4th meeting of the 4th term 2020.3.10	Allocation of employee and director remuneration for 2019.	The Remuneration Committee members unanimously consent to passing the case.	<ul style="list-style-type: none"> <li>With the exception of Chairman Hong-Tu Tsai, Vice Chairman Tsu-Pei Chen, Director Cheng-Chiu Tsai, Director Chi-Wei Joong, Director Andrew Ming-Jian Kuo, Director Tiao-Kuei Huang, Director Ming-Ho Hsiung and Director Chang-Ken Lee who had recused from the motion, the motion was passed as proposed by the remaining attending independent directors without</li> </ul>

Remuneration Committee	Motion and follow-up	Resolution	The Company's handling of the Remuneration Committee members' opinion
			Chairman Hong-Tu Tsai voting on behalf of Director Cheng-Ta Tsai.
The 5th meeting of the 4th term 2020.6.12	<ol style="list-style-type: none"> <li>1. Regular Review of Remunerations for the Managers.</li> <li>2. Adjustment to managers' compensation.</li> </ol>	The Remuneration Committee members unanimously consent to passing the case.	<ul style="list-style-type: none"> <li>■ Motion 1 was submitted to the board; Chairman Hong-Tu Tsai and Director Chang-Ken Lee recused from the motion, and Chairman Hong-Tu Tsai did not vote on behalf of Director Cheng-Ta Tsai; the motion was passed as proposed based on the consents of the remaining attending directors.</li> <li>■ The motion 2 was submitted to the board; all the attending directors unanimously consented to passing the motion.</li> </ul>

※ Other items to be stated:

If the Board of Directors does not adopt or amend the remuneration committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the Board of Directors, and the company's handling of the remuneration committee's opinions (if the remuneration approved by the Board of Directors is superior than that suggested by the remuneration committee, please specify the deviation and reason):  
None.

**(VI) Fulfillment of social responsibilities and deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies. (Table 2-2-2)**

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)				
	Yes	No	Summary (Note 2)					
1. Has the company conducted risk assessment on environmental, social and corporate governance issues that are relevant to its operations, and implemented risk management policies or strategies based on principles of materiality?	✓		<p>Cathay Financial Holdings values expectations of its stakeholders and engages them in active communications under four main principles: materiality, effectiveness, flexibility and respect. Cathay Financial Holdings Stakeholder Engagement Strategy has been created to facilitate communication with stakeholders, and findings on stakeholders' concern toward environmental, social and corporate governance issues combined with senior managers' analysis on how each issue affects business operations are used to construct materiality matrix on a yearly basis. In 2020, the Company conducted corporate sustainability (CS) analysis and identified CS issues that were material to Cathay Financial Group. Long-term goals were set accordingly and tracked on a yearly basis to support management of sustainability issues.</p> <p>Compliance, risk management, and information security were some of the material issues highlighted by Cathay FHC in 2020. Below are the risk control strategies implemented for the two material issues listed:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Material Issue</th> <th>Risk Management Strategy</th> </tr> </thead> <tbody> <tr> <td style="text-align: center; vertical-align: middle;">Information Security</td> <td> <p>Cathay FHC has a cross-company FHC-level Information Security Communications Committee and FHC-level information security incident emergency response team, which fully dedicated to information security management and quality improvement. Furthermore, Cathay FHC in 2020 established the Security Operation Center that operates 24/7 to monitor and immediately respond to information security risks. We utilized an external professional information security consulting and response team, which is highly experienced in responding to information security incidents, to provide appropriate and professional recommendations and emergency response support.</p> <p>Furthermore, Cathay Life and CUB invite vendors to perform a</p> </td> </tr> </tbody> </table>	Material Issue	Risk Management Strategy	Information Security	<p>Cathay FHC has a cross-company FHC-level Information Security Communications Committee and FHC-level information security incident emergency response team, which fully dedicated to information security management and quality improvement. Furthermore, Cathay FHC in 2020 established the Security Operation Center that operates 24/7 to monitor and immediately respond to information security risks. We utilized an external professional information security consulting and response team, which is highly experienced in responding to information security incidents, to provide appropriate and professional recommendations and emergency response support.</p> <p>Furthermore, Cathay Life and CUB invite vendors to perform a</p>	No significant difference
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	Yes	No	Summary (Note 2)	
			<p>white-hat hacker penetration test each year to strengthen their information security. Different hacking methods are used to analyze vulnerabilities and scenarios that may be attacked by hackers, including connection management, access right testing, raising authority and escape. Improvements are made for high risk items in test results, and reinforcement measures are taken to improve the quality of information security. Improvements were completed for 100% of severe risk and high risk items in the test results. Furthermore, Cathay FHC and its subsidiaries all had an external vendor conduct computer system safety evaluations in 2020, which examined information structure, inspected network activity, conducted vulnerability scanning and penetration testing, examined security settings, and examined compliance. We carried out follow-up and improvement measures based on the system security status, and improvements for severe risk and high risk items were all 100% completed to ensure the safety of data.</p>	
			<p><b>Ethics and Compliance</b></p> <p>Cathay FHC values the corporate culture of ethical corporate management. We established the Policy and Code of Operation Integrity, the Procedures and Guidelines of Integrity Management Operation, and the Code of Conduct for Employee to require employees to comply with internal regulations when performing their duties, to participate in public affairs in a lawful way, and to ensure that related measures are disclosed in accordance with the law. Furthermore, all of our employees have completed our annual training on the Code of Conduct for Employees with a completion rate of 100% in 2020.</p> <p>Cathay FHC has closely followed changes in the domestic and overseas financial and regulatory environments to strictly ensure that all operations comply with regulatory requirements. We have built systematic management of compliance risks, including</p>	

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			<p>trainings, self-evaluations and self-inspections, quantified compliance risk assessment mechanism, and law amendment management system. We established the External Compliance Incident Reporting and Management Guidelines for the effective supervision of our subsidiaries and to ensure that the Board of Directors and managers rapidly obtain warning information, evaluate, and take improvement measures in response to the group's compliance risks. Furthermore, Cathay FHC adopted the risk-based approach to continue to develop AML/CFT system by establishing the AML/CFT Management Guidelines, group-level risk methodologies, and implementing a group-level management enhancement project, and looked into the use of new technologies, such as RPA, AI, and big data analytics, to improve the Group's AML/CFT performance. We also strengthened cross-business risk management, such as adjusting the cross-business monitoring framework and improving the quality of operations between subsidiaries to improve overall AML/CFT results at the group level.</p>	
2. Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	✓		<p>“Cathay Financial Holdings Corporate Sustainability Committee” has established “Organizational Principles Governing Corporate Sustainability Committee” based on Article 4 of “Cathay Financial Holdings Corporate Sustainability Principles.” The Committee operates under the board of directors, and has one chief committee position assumed by the Company's President. Members of the Committee comprise presidents of various subsidiaries. The Committee convenes its meeting once every quarter and reports its significant matters and subsequent progress to the board once every six months.</p> <p>The Company has a “Corporate Sustainability Office” under the President to plan sustainability strategies for the entire group. A “CS Secretariat” has been designated in each subsidiary to ensure that CS efforts are enforced as part of department duties. In addition, six working groups on “Responsible Investment,” “Sustainable Governance,” “Responsible Products and Services,” “Employee Happiness,” “Green Operation,” and</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
			“Social Prosperity” were formed and staffed with participants from different subsidiaries, departments and the Company. A total of 4 meetings were held in 2020 to communicate and keep track of progress.	
3. Environmental issues (1) Has the Company established environmental policies suitable for the Company’s industrial characteristics?	✓		<p>The Company regards environmental responsibilities as a priority, and has established a “Green Operation Team” under the Company’s Corporate Sustainability Committee from 2014. The team actively participates in external green advocacy, and is in charge of the operation and supply chain management of energy and environmental issues. The related managing rule milestones are as follow:</p> <ol style="list-style-type: none"> <li>1. The Company stipulated “Regulations Governing Energy Saving and Carbon Reduction Operation” in 2010, effectively increasing the resource efficiency and reducing impact of the Company’s operation on natural environment.</li> <li>2. By the end of 2011, the Company established “Cathay Financial Holdings Corporate Social Responsibility Committee”, and the “Environmental Protection Team” is responsible for implementing environmental protection policy. The Company also assigned energy saving and carbon reduction specialized personnel, who is in charge of promoting energy saving and carbon reduction measures.</li> <li>3. By the end of 2014, “Cathay Financial Holdings Corporate Social Responsibility Committee” is officially renamed “Cathay Financial Holdings Corporate Sustainability Committee”, which is under the board. The “Green Operation Team” is responsible for operation management and supply chain management, and actively participates in external green initiatives.</li> <li>4. In 2017, Cathay Financial Holdings established a set of “Environment and Energy Policy” to serve as a guideline for preserving natural resources; it was also the year when ISO 14001 - Environmental Management system was adopted organization-wide, for which the group was certified by external institutions.</li> <li>5. Since 2018, the Company has identified the risks in the procurement process and set the “Cathay Financial Holdings Sustainability Procurement Policy” to implement the concept of sustainable procurement in practice and influence the action of upstream suppliers.</li> </ol>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(2) Does the Company endeavor to upgrade the efficient use of available resources, and the use of environmental-friendly materials?	✓		<p>In order to implement green operation and adhere to government policy, the Company has been actively promoting energy saving and carbon reduction, green procurement, renewable energy, and environmental education to reduce the impact of the operation process on the environment, the relevant measures are as follows:</p> <p>Energy Saving and Carbon Reduction:</p> <ol style="list-style-type: none"> <li>1. Actively coping with the “Regulation of Self-Governance Statutes Governing Energy Saving and Carbon Deduction Counseling and Management of Industry and Business in Taipei”, the Company maintains the average temperature of the air-conditioner in the office above 26°C.</li> <li>2. During working days, the lighting Control System automatically turns off the lights in 12:30-13:00 and in after hours. Specialized personnel are in charge of controlling elevators in office hours and lunch break to reduce electricity consumption.</li> </ol> <p>Green Procurement:</p> <ol style="list-style-type: none"> <li>1. Promote paperless office, adopting electronic official document system and e-mail to handle business connections and reduce paper usage.</li> <li>2. Comprehensively procure FSC/PEFC certified copy papers, use soy inks to print important publications as well as to promote double-sided printing, use recycled paper to print general documents, discarded documents are sent to professional paper plants, and destroyed in order to provide recycled paper pulp.</li> <li>3. The Company fully promotes the purchase of energy-saving products and equipment equipped with environmental and green labels. In addition, for 11 consecutive years (2010–2020), the Company has received Green Purchasing Enterprise Commendation from Taipei City Department of Environmental Protection and Environmental Protection Administration.</li> </ol> <p>Renewable Energy:</p> <ol style="list-style-type: none"> <li>1. The Company has been increasing its solar capacity on a yearly basis since 2013 as a support to the government's policies, and currently has 5,000 kw of solar panel installed throughout proprietary buildings located in Taoyuan and Taichung. The Company began the deployment of solar-powered branches throughout the nation. In 2016, Cathay United Bank’s Ming-Cheng Branch in Kaohsiung was awarded</li> </ol>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
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			<p>“Photovoltaic Intelligent Building Certification from Kaohsiung City Government – Silver Prize”. In addition, Pingtung branch has added solar energy to generate green energy for own use since 2019. As of the end of 2019, a total of 4,711 kWh green energy has been generated, 2,511 kilograms of carbon emission was estimated to be reduced. The Pingtung has also passed the BSI ISO 14064-1 examination.</p> <p>2. In 2015, the newly constructed Cathay Landmark adopted green building design, and the Company was awarded “Gold Certification” by the Ministry of the Interior and “Gold Certification” by Leadership in Energy and Environment Design (LEED) of U.S. Green Building Council. New green building certifications were obtained for Yangmei Logistics Park and Minsheng Jianguo Building in 2018. In 2019, Cathay Life’s Wuri Education Building received LEED NC Gold certification for having exhibited outstanding energy efficiency, water management, waste management and environmental performance overall. The building also has 183 kw of solar panels installed on the rooftop, generating nearly 250,000 kwh of power per year in 2020. In addition, Cathay United Bank also installed rooftop solar panels at the Pingtung branch (installed capacity of 26.7 kw), and the total power generation in 2020 is nearly 34,000 kwh.</p> <p>3. The rainwater recycling system at “Cathay Landmark” commenced operation in 2016, whereas the reclaimed water system at “Cathay Taoyuan Industrial Zone Phase 2” commenced operation at the end of 2017. Meanwhile, a new proprietary building was constructed in Wuri, Taichung, in 2018 with the introduction of reclaimed water system, which is expected to be activated in 2019. Water Usage Survey has been conducted since 2017, and the organization has obtained external verification for 434 offices across nine companies nationwide including the financial holding parent and its 1st-tier and 2nd-tier subsidiaries.</p> <p>4. Cathay Life completed Taiwan's first renewable energy certificate (REC) transaction in September 2017, whereas Cathay United Bank also purchased RECs to make KOKO Lab a 100% green-powered branch. A total of 233 RECs were purchased between 2017 and 2019.</p>	



Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
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			<p>Environmental Actions:</p> <ol style="list-style-type: none"> <li>In 2014, Cathay Financial Holdings was awarded the 23rd “ROC Enterprises Environmental Protection Award - Bronze Prize” by the Environmental Protection Administration (the first financial institution who wins the award). Later in 2017, Cathay Life Insurance was also awarded the 26th “ROC Enterprises Environmental Protection Award -Bronze Prize” (making it the first life insurance Company in Taiwan to win this award). Furthermore, Cathay United Bank was awarded the “27th ROC Enterprises Environmental Protection Award-Bronze Prize” in 2018. In 2019, Cathay Life and Cathay United Bank received Bronze Certification during the 1st National Corporate Environmental Protection Award. In 2020, Cathay Life and Cathay United Bank respectively received the Silver and Bronze Certifications during the 2nd National Corporate Environmental Protection Award.</li> <li>Employees are encouraged to bring their own reusable containers, while supply of packaged drinking water was discontinued in 2017. This measure is estimated to reduce use of disposable containers by 17,130 cups per year, which lessens impact on the environment.</li> <li>The Company has gradually initiated the examination of domestic waste related to operations since 2017. In 2019, the scope of examination had included the headquarters of the financial holdings company and subsidiaries, the 26 branches of Cathay Life Insurance, all branches of Cathy United Bank. In addition, domestic waste and the amount of recycle have been examined according to ISO 14064-1 by a third party from 2018.</li> </ol>	
(3) Does the company assess potential risks and opportunities associated with climate change, and undertake measures in response to climate issues?	✓		<p>In response to the potential impacts of climate change on business operations, the Company signed the “Commitment of Compliance with Climate-related Financial Disclosures” in 2017 and subsequently assembled a “Taskforce on Climate-related Financial Disclosures” (TCFD) in 2018 under the instruction of the Company’s President. The TCFD, spearheaded by the Company’s Chief Risk Officer, is entrusted with the duty to manage climate-related risks and opportunities that are relevant to the Company’s business activities and operations. The TCFD hosts monthly meetings to discuss with CROs from various subsidiaries, the Group CIO, and Vice President of the</p>	No significant difference

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			<p>Group Sustainability Office on the assessment and supervision of climate risks. The TCFD reports its progress regularly to the President, board of directors, and the Audit Committee.</p> <p>From an operational perspective, the Company assesses climate risks through energy and environmental management systems, and performs regular monitoring using the PDCA process. Through this process, the Company is able to confirm execution of its action plans and explore opportunities within. Low-carbon economy, for example, is one opportunity that the Company is actively exploring, from setting reduction goals, developing low-carbon products/services to the use of renewable energy. In terms of core business activities, the Company has made attempts to identify, assess, adjust and mitigate climate change risks on certain assets such as real estate property, and to transfer climate risks and impacts through means such as insurance. Meanwhile, the Company sees climate change risks as opportunities to grow business, and devises business strategies with a goal of becoming the leading brand in green finance. The Company was the first financial institution in Taiwan to finance solar power stations, and is an active proponent of incorporating ESG factors into insurance product development as a way to support low-carbon economy in Taiwan. From renewable energy, green infrastructure, green funds to green bonds, the Company supports environmental protection businesses and designs its products and services in such ways that facilitate low-carbon transformation. Please visit Cathay FHC's website and access the corporate sustainability report for more details. Furthermore, Cathay has expanded the scope of risk identification to the entire value chain by engaging its value chain partners. The Company is currently Taiwan's only participant in Climate Action 100+ and CDP NDC; it hosts climate change forums to engage invested businesses toward reducing climate risks for the entire value chain.</p>	
(4) Does the company maintain statistics on greenhouse gas emission, water usage and total waste volume in the last	✓		<p>In order to reach the goal of carbon reduction and support the government's policy of promoting green operation, Cathay Financial Holdings has set a goal to reduce 5% carbon emission by the year of 2021 compared to the benchmark in 2016. In 2017, the "Green Operating Unit" meeting revised the carbon reduction target to "reduce 5% carbon emission by the year of 2021 as a basic target, 10% as an ideal target, compared to the benchmark in 2016". Greenhouse gas examination is conducted every year to</p>	No significant difference

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two years, and implement policies aimed at reducing energy, carbon, greenhouse gas, water, and waste?			<p>track environmental data, and is being verified by third party. The Company references the result while setting the target of carbon reduction. The environmental data over the years are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Electricity Consumption (kWh)</td> <td>96,462,714</td> <td>110,862,737</td> </tr> <tr> <td>Renewable Energy Usage(kWh)</td> <td>156,000</td> <td>272,000</td> </tr> <tr> <td>Total GHG Emissions (ton CO<sub>2</sub>e)</td> <td>54,769.75</td> <td>60,245.19</td> </tr> <tr> <td>Actual amount of domestic waste (tons)</td> <td>572.97</td> <td>764.61</td> </tr> <tr> <td>Recycling (tons)</td> <td>479.84</td> <td>509.11</td> </tr> <tr> <td>Direct Water Consumption (m<sup>3</sup>)</td> <td>627,950</td> <td>711,445</td> </tr> </tbody> </table> <p>Standard</p> <p>ISO 14064-1 (Including GHG, waste, direct water consumption, business travel, insurance services, credit card services)</p> <p>Note 1: In 2020, the main scope of adjustment was focused on the locations of machine rooms, etc.; therefore, the electrical power, water usage and greenhouse gas emission increased from previous years.</p> <p>Note 2: For waste examination locations, 33 new locations were further added in comparison to the number of locations in 2019.</p>		2019	2020	Electricity Consumption (kWh)	96,462,714	110,862,737	Renewable Energy Usage(kWh)	156,000	272,000	Total GHG Emissions (ton CO <sub>2</sub> e)	54,769.75	60,245.19	Actual amount of domestic waste (tons)	572.97	764.61	Recycling (tons)	479.84	509.11	Direct Water Consumption (m <sup>3</sup> )	627,950	711,445	
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			<p>Leader A-, and Level B in 2020.</p> <p>2. Climate risks associated with core business activities are managed by Chief Risk Officer's TCFD, whose responsibilities are to identify and assess climate risks and report risk monitoring progress on a monthly basis. Members of the taskforce are also required to report to superiors of their respective business units at the same time.</p> <p>3. The Company has responded to the “Voluntarily Energy Saving Signing Meeting for Financial, Catering, and Shoe Industry Groups” since 2012, and 5% of energy was saved in three years. The Company promoted total 27 voluntarily energy saving measures and saved 777,239 kWh. Since 2016, the Company has been participating in the “2016 - 2018 Corporate Headquarter Voluntary Energy Conservation” scheme organized by the Bureau of Energy, Ministry of Economic Affairs, by taking count and replacing energy-intensive equipment. 1,276,000 kWh of power-saving effect was estimated to have been achieved during the three years, for which the Company was awarded commendation of outstanding performance.</p> <p>4. In 2013, the Company was the first company in financial industry to sign the “Greenhouse Gas Reduction Management Declaration for Cathay Financial Holdings and all Subsidiaries”, and the Company launched a three-year greenhouse gas inspection and passed British Standards Institution (BSI) ISO14064-1 inspection.</p> <p>5. All subsidiaries have been introduced in ISO50001 energy management system and ISO14001 environment management system one after another since 2013, setting up the best model of enterprise pole in financial industry as well as implementing energy saving and environment standardized management.</p> <p>6. Between 2014-2015, the Company set goals to reduce energy consumption by 1.5% on 12 buildings, and passed certification for the energy and environment management system.</p> <p>7. By the end of 2015, the “Green Operation Team” of Cathay Financial Holdings Corporate Sustainability Committee held a meeting and resolved that “greenhouse</p>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
			<p>gas inspection operation” will be carried out in 46 operation locations of nine companies of subsidiaries and grandson subsidiaries of Cathay Financial Holdings.</p> <p>8. In a meeting held by the “Green Operation Team” of Cathay Financial Holdings Corporate Sustainability Committee towards the end of 2016, a decision was made to conduct “Greenhouse Gas Inventory” on all 434 office locations under the financial holding parent and 1st tier and 2nd tier subsidiaries. Scope 1 and Scope 2 emissions were measured at a total of 56,021.87 tons.</p> <p>9. In 2017, the Company completed the adoption of ISO50001-Energy Management System and ISO14001-Environmental Management System, for which it was recognized as the role model in the financial industry.</p> <p>10. Projects including “Credit Card Service Carbon Survey” and “Insurance Service Carbon Footprint” were launched in 2018 to enable effective management of carbon emission associated with core business activities. In the end of February 2020, Cathay Life and Cathay Century Insurance were awarded Life Insurance Carbon Reduction Label and Non-life Insurance Carbon Reduction Label, respectively, by the Environmental Protection administration.</p> <p>11. The Company began development of a climate risk and opportunities matrix in 2017 and aims to use the matrix for guidance as to how the Company should respond to climate change. According to the matrix, a typhoon would be the most significant climate risks over the short-term and medium-term, as the disaster has the potential to cause damages to renewable energy facilities invested or insured by the Company; as for the long term, the most significant climate risk involves adopting low-carbon operations to help keep global warming under 2°C. Cathay Financial Holdings has a Corporate Sustainability Committee in place to discuss how to respond to risks and opportunities associated with climate change. These issues are being monitored regularly to assess possible impacts in the future.</p>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
4. Social issues (1) Whether the Company establishes the related management policies and procedures in accordance with the relevant laws and international human right conventions?	✓		To increase the respect and support from the Company and staff, the Company stipulated “Ethical Behavior Guidelines”, “Employee Code of Conduct”, and “Regulations Governing Reporting Unethical or Dishonest Behavior Cases”. The Company also adopted with relevant laws and regulations to amend and publicly announced “Work Rules”. In addition, the content of regulations provided by labor laws is included into the inspection items in the regular law compliance self-assessment operation in order to ensure the compliance of labor laws and international human rights.	No significant difference
(2) Has the company developed and implemented reasonable employee welfare measures (including compensation, leave of absence and other benefits), and appropriately reflected business performance or outcome in employees' compensations?	✓		The Company provides employees with comprehensive care, and is committed to creating a happy workplace. Cathay Financial Holdings has been selected a composition of “Taiwan High Compensation 100 Index” every year since 2014 for compensating employees above the market rate, maintaining average salary adjustment above 3% for the last three years, offering leave of absence more favorable than what the laws require (e.g.: paid sick leave, additional days of paternity leave, paid miscarriage leave etc.), and providing comprehensive employee welfare measures (such as: learning/growth support, family care, health, recreation, social activities, investment allocation etc.). The Company even created a designated section on the employee portal to explain various benefits available to employees and how to apply for them, and thereby helping employees achieve a work-life balance. These measures and rules have been explicitly stated in the work rules for best protection of employees' interest.  The Company has stated in its “Employee Compensation Policy” and “Employee Performance Bonus Policy” that compensations must be determined at levels that commensurate employees' duties, performance and capabilities, and associated with company performance and external market benchmarks.	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(3) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees?	✓		<p>To ensure a safe working environment to guarantee employee personal safety, the Group already established the following measures:</p> <ol style="list-style-type: none"> <li>1. First-aid personnel are required to take the related professional training. First-aid kits and AEDs are provided in all working locations.</li> <li>2. Regular tests for illumination and carbon level of working environment.</li> <li>3. Health checkups and pre-job safety and health training for new hires.</li> <li>4. Health checkups and safety and health training for employees on a regular basis.</li> <li>5. Arrange physician and nursing personnel to provide on-site labor health service.</li> </ol>	No significant difference
(4) Has the Company established some effective career development training plan for employees?	✓		The Company established competency structure for personnel at all levels and planned training activities in accordance with ability and demand. In accordance with “Regulations Governing Employee Performance Management and Development”, supervisors and employee will jointly discuss career planning of individual annual ability development planning, assisting employees to continue to develop abilities through regular inspections and feedbacks.	No significant difference
(5) Has the company complied with laws and international standards with respect to customers' health, safety and privacy, marketing and labeling in all products and services offered, and implemented consumer protection policies and complaint procedures?	✓		Each company stipulates a policy of treating customers fairly with principles in accordance with the “Principle for Financial Service Industries to Treat Clients Fairly” promulgated by FSC, which is consistent with Cathay Financial Group’s service principles of “Start from the heart, treat customers with integrity, touch customers, and create value”, The Policy shapes a value system and code of conduct for the whole corporation to comply with in order to establish and implement the corporate culture with the core of treating customers fairly.	No significant difference



Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
(6) Has the company implemented a supplier management policy that regulates suppliers' conducts with respect to environmental protection, occupational safety and health or work rights/human rights issues, and tracked suppliers' performance on a regular basis?	✓		<p>Cathay Financial Holdings enforces sustainability in its procurement practices, and exerts influence over the conduct of its suppliers in the upstream. Cathay Financial Holdings and subsidiaries have adopted ISO 20400:2017 - Sustainable Procurement Guidelines since 2018, which makes Cathay world's first financial institution to pass audit. The Company has developed Cathay FHC Sustainable Procurement Policy based on the 7 principles of sustainable purchase. Implementation of robust “Sustainable Purchase Procedures” combined with the support of online procurement platform, supplier sustainability self-assessment, 100% suppliers' commitment to Cathay sustainability statement, sustainability training and annual supplier conference, the Company is able to systematically influence supply partners and help them take steps toward achieving sustainability goals such as compliance, human rights protection and local employment.</p> <p>As part of the Company's supplier management practice, all potential suppliers are required to undergo assessment for compliance with the following codes before establishing business relationship; violators will have active status revoked:</p> <ol style="list-style-type: none"> <li>1. Environmental protection regulations</li> <li>2. Regulations governing occupational safety and health management</li> <li>3. Labor rights regulations</li> <li>4. Ethical norms regulations</li> </ol> <p>The company added CSR clauses in the contracts with suppliers, in which requires suppliers to comply with laws and regulations governing environmental protection, labor conditions, labor safety and health, and labor rights. The Company requires suppliers to jointly fulfill CSR with actual conducts. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If the supplier fails to fulfill or improve within that period, the Company may terminate or rescind the contract.</p> <p>Furthermore, subsidiaries Cathay Life and Cathay United Bank have adopted ISO</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
			45001 and implemented “Contractor and Outsourcee Safety and Health” guidelines for enhanced management over contractors. In addition to hazard warnings and coordination meetings, the subsidiaries also perform random safety inspections at work sites to ensure that occupational safety and health are maintained above satisfactory levels.	
5. Does the company prepare corporate sustainability reports or any report of non-financial information based on international reporting standards or guidelines? Are the above mentioned reports supported by assurance or opinion of a third-party certifier?	✓		<p>Cathay FHC publishes annual corporate sustainability reports in both Chinese and English. The 2019 CS report published in 2020 was prepared in accordance with GRI (Global Reporting Initiative) Standards, Financial Services Sector Supplement, Corporate Social Responsibility Best Practice Principles for TWSE/TPEX-Listed Companies, ISO 26000 Social Responsibility Guidelines, UN Global Compact, Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies, Integrated Reporting framework, guidelines of Sustainability Accounting Standards Board (SASB), guidelines of Task Force on Climate-related Financial Disclosures (TCFD), and UN Sustainable Development Goals (SDGs).</p> <p>The Company has engaged BSI Taiwan Branch to review the report for High-level Assurance GRI Standard core option and AA1000 AS Type 2. Meanwhile, PwC Taiwan had corroborated sustainability performance stated in the Company’s GRI Standard-based report using the Statement of Assurance Principles No. 1 – “Audit and Review of Non-financial Information” published by the Accounting Research and Development Foundation (based on International Standard on Assurance Engagements – ISAE3000), to which PwC Taiwan issued a limited assurance. The Company also engaged SGS Taiwan to provide assurance on greenhouse gas emission and energy usage for Cathay FHC and subsidiaries for the year 2019, and BSI Taiwan to provide assurance on compliance with ISO 20400:2017 Sustainable Procurement. A copy of the Independent Assurance Opinion Statement and assurance report have been provided in the Appendix section of the 2019 Corporate Sustainability Report.</p>	No significant difference
6. If the company has established CSR principles in accordance with “Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies,” please describe its current practices and any deviations from the Best Practice Principles: There is no difference between the Company's CSR practices and the code of conduct it imposed.				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
7.			<p>Other information useful to the understanding of corporate social responsibilities:</p> <p>The Company has long dedicated itself to corporate social responsibilities. Depending on changes in international trends and outcomes of stakeholder engagement, the financial group adjusts its short/medium/long-term sustainability plans and takes steps toward fulfilling goals such as responsible investment, sustainable governance, responsible product, employee welfare, green operations, and mutual social prosperity. Progress of the above efforts is disclosed in compliance with law.</p> <p>In addition, in order to be the best sustainable financial institution in Asia Pacific, the Company implements CSR both inside and out. Internally, the Company implements corporate sustainability governance. Externally, the Company affects suppliers through procurement in upstream as promotes the concept from aspects of loans and investments by using cash flow influence in downstream. The result in 2020 was excellent, and the key excellent performances are as follows:</p> <ul style="list-style-type: none"> <li>➤ Cathay Financial Holdings was selected as one of the compositions of TWSE’s “ESG Index - Taiwan Sustainability Index,” and ranked top-10 in terms of market capitalization.</li> <li>➤ Cathay Financial Holdings was ranked Top 5% of TWSE Listed Companies in the 6th Corporate Governance Evaluation in 2019.</li> <li>➤ Cathay Financial Holdings has been selected as a composition of “TWSE RAFI® Taiwan High Compensation 100 Index”.</li> <li>➤ Cathay Financial Holdings has been chosen as a composition of Dow Jones Sustainability Indices (DJSI) - World for three consecutive years, and remained a composition of DJSI - Emerging Markets for six consecutive years.</li> <li>➤ Cathay Financial Holdings was awarded a rating of CDP level B.</li> <li>➤ Cathay Financial Holdings won 4th place in the “Commonwealth CSR Award” organized by Commonwealth Magazine.</li> <li>➤ Cathay FHC ranked first in Global Views Magazine’s “Annual Grand Survey – Finance and Insurance Division” for two consecutive years, whereas Cathay Century Insurance was awarded the Role Model Award in the “Environment Friendliness Division.”</li> <li>➤ During the “2020 Taiwan Corporate Sustainability Award,” Cathay FHC won “The Most Prestigious Sustainability Awards-Top Ten Domestic Corporates – Service Sector” and “Corporate Sustainability Report – Platinum,” and claimed performance awards in multiple categories including “Gender Equality,” “Information Security,” “Talent Development,” “Social Inclusion,” and “Growth through Innovation.”</li> <li>➤ Cathay FHC was awarded “Best Financial Holding Sustainability” during the 2020 Taiwan Financial Award; subsidiary Cathay Life was awarded Gold in “Best Life Insurance Image” and “Best Life Insurance Service”; subsidiary Cathay United Bank was awarded Excellence in “Best Local Bank Image,” “Best Banking Service,” and “Best Digital Bank”; and subsidiary Cathay Securities Investment Trust was awarded Excellence in “Best Local Fund Issuer Image.”</li> <li>➤ Cathay FHC received First Prize and Special Award in the “Buying Power – Social Innovative Product and Service Procurement Incentive” scheme organized by the Small and Medium Enterprise Administration, Ministry of Economic Affairs.</li> <li>➤ Cathay Financial Holdings has won the “Green Purchasing Enterprise Commendation” from Environmental Protection Administration for 10 consecutive years.</li> </ul>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
			<ul style="list-style-type: none"> <li>➤ Cathay Life won Financial Supervisory Commission’s second “Fair Customer Treatment Evaluation – Financial Industry.”</li> <li>➤ Cathay Life once again won BEST Award from the Association for Talent Development (ATD) and ranked 4th overall, making it the only Taiwanese company to win the award among 62 winners worldwide.</li> <li>➤ Cathay Life once again won “First Place,” “Performance Excellence Award,” and “Sustainable Care” in the Financial Supervisory Commission’s “Insurance Competition – Micro Insurance Category,” and won “Elder Friendly Award” for its micro life insurance.</li> <li>➤ Cathay Life Insurance has won “Insurance Company Trade Volume Award” during the “Futures Diamond Awards” organized by Taiwan Futures Exchange Corporation for 6 consecutive years, and was the only insurance company to win such an award.</li> <li>➤ Cathay Life Insurance has won “Sports Sponsorship Award” organized by Sports Administration, for 12 consecutive years as a “Sponsor” and “Promoter,” and has been certified for “Long-term Sponsorship” for 8 years.</li> <li>➤ For the 4 consecutive year, Cathay Life won Gold in Commercial Times’ “The Best Service in Taiwan.”</li> <li>➤ Cathay Life once again won Silver and Low Carbon Excellence during the “Second National Corporate Environmental Protection Awards” organized by the Environmental Protection Administration, Executive Yuan.</li> <li>➤ Cathay Life was named “Life Insurance Company of the Year” during the 24th “Asia Insurance Industry Awards (AIIA)” organized by Asia Insurance Review, making it the only Taiwanese business to win the award.</li> <li>➤ Cathay Life won the Special Award during the 4th “Buying Power – Social Innovative Product and Service Procurement Incentive” scheme organized by the Small and Medium Enterprise Administration, Ministry of Economic Affairs</li> <li>➤ Cathay United Bank was recognized in Financial Supervisory Commission’s second “Fair Customer Treatment Evaluation – Financial Industry.”</li> <li>➤ Cathay United Bank won “Best Green Project Financing,” “Best ESG,” and “Best Trust Service” during the “Taiwan Banking and Finance Best Practice Awards” organized by the Taiwan Academy of Banking and Finance.</li> <li>➤ Cathay United Bank won Bronze during the “National Corporate Environmental Protection Award.”</li> <li>➤ Cathay United Bank was awarded Best Private Bank – Taiwan by Asian Private Banker.</li> <li>➤ Cathay United Bank was named Best Retail Digital Payments Experience in Taiwan, Best Deals – Renewable Energy/Transition Energy, and Best Deals (Financial Institutions/NBFIs) –Best Formosa Bond by The Asset.</li> <li>➤ Cathay United Bank was named Taiwan Domestic Trade Finance Bank of the Year by Asian Banking &amp; Finance.</li> <li>➤ Cathay Century Insurance ranked 1st in Management Magazine’s “Consumers’ Preferred Brands Survey – Non-life Insurance” for five consecutive years.</li> <li>➤ Cathay Century Insurance won Financial Supervisory Commission’s second “Fair Customer Treatment Evaluation – Financial Industry.”</li> <li>➤ Cathay Securities won “National First Award – Most Popular Brand” during the 17th National Brand Yushan Award, and was named digital broker for the young generation.</li> </ul>	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s) (Note 3)
	Yes	No	Summary (Note 2)	
<ul style="list-style-type: none"> <li>➤ Cathay Securities won “Best Sustainable Development Award” in Business Today’s 14th Wealth Management Bank and Securities Evaluation.</li> <li>➤ Cathay Securities won “Financial Holding Group – Best Sustainable Management” in Excellence Magazine’s 2020 Securities Service Evaluation.</li> <li>➤ Cathay Cathay Securities Investment Trust won “Securities Investment Trust Futures Trade Volume Award – Diamond” from Taiwan Futures Exchange Corporation Securities Investment Trust was named “Taiwan Best Institutional House” and “Taiwan Best New ETF” by Asia Asset Management.</li> </ul>				

Note 1: If Implementation Status is specified “Yes,” please explain the key policies, strategies and measures taken and the current progress; if Implementation Status is specified “No,” please provide reasons and explain any policy, strategy and measure planned for the future.

Note 2: If the company has prepared a CSR report, Implementation Status may be completed by providing page references to the CSR report instead.

Note 3: Financial Holding Companies that are not listed in the TWSE/GTSM do not have to fill in “Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)”.

Note 4: Materiality principle refers to environmental, social and corporate governance issues that are of material impact to the Company's investors and stakeholders.

**(VII) Enforcement of business integrity, deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies (Table 2-2-3)**

**Business integrity management**

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
<p>1. Enactment of ethical management policy and program</p> <p>(1) Has the company established a set of board-approved business integrity policy, and stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the senior management committed to fulfilling this commitment?</p>	✓		The Company established a set of “Business Integrity Policy and Code of Conduct” on November 13, 2019 based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies” to provide the foundation needed to support business integrity, corporate culture, corporate governance, risk management and a sustainable business environment. This code of conduct was reported to the board of directors in 2019.	No significant difference
<p>(2) Has the company developed systematic practices for assessing integrity risks? Does the company perform</p>	✓		The Company's “Business Integrity Policy and Code of Conduct” and “Operational Procedures and Guidelines of Ethical Corporate Management Best Practice” specifically outline and prohibit dishonest behaviors (which refers to any direct or indirect offering, commitment, request or acceptance of inappropriate gains by an insider over the course of business activity in an attempt to gain or sustain advantage, or any other conducts that are considered illegal or constitute breach of integrity or	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
regular analyses and assessments on business activities that are prone to higher risk of dishonesty, and implement preventions against dishonest conducts that include at least the measures mentioned in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”?			fiduciary duty). Meanwhile, whistleblowing channels have been made available under “Regulations Governing Reporting Unethical or Dishonest Behavior Cases” and “Cathay Group Whistleblower System.” Each year, the Company implements the “Employee Integrity and Ethical Conduct Education and Training” on all official employees to ensure that all employees understand the regulations of the Company, thereby preventing the occurrence of relevant events and violations.	
(3) Has the company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conducts? Are the above measures reviewed and revised on a regular basis?	✓		The Company has established business integrity practices and preventions against dishonest conducts based on its “Business Integrity Policy and Code of Conduct.” Preventions of dishonest conduct include operating procedures, behavioral guidelines and training programs, for which the Company has implemented through a separate policy called “Operational Procedures and Guidelines of Ethical Corporate Management Best Practice.” The Company is bound to comply with The Company Act, Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest and any laws that pertain to business conduct of TWSE/TPEX listed companies. These regulations shall provide the foundation for the Company's integrity management. Furthermore, the Company’s directors, managers, employees and controllers are prohibited from offering, committing, requesting or accepting any illegitimate benefits, or involving in any conducts that would be	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
			<p>construed as dishonest, illegal or in breach of trust, whether directly or indirectly, while carrying out their duties. All reported cases of violation against business integrity shall be thoroughly investigated by the audit unit; any established cases of misconduct will be referred to the Administration Department and disciplined according to the Company’s policies.</p> <p>The Company has created a “Sustainable Governance Panel” under the “Corporate Sustainability Committee,” the latter reports directly to the board of directors. The panel is responsible for corporate governance-related matters within the group, such as business integrity, anti-corruption, anti-bribery and compliance; it reports progress regularly (at least once a year to) the board of directors. The board of directors of the Company will exercise the duty of care as prudent managers to supervise and prevent dishonest conducts, and ensure that the integrity policy is duly enforced. Furthermore, the Audit Division is required to include compliance with the code of conduct as part of its audits, and report regularly back to the board of directors on any defects found and any steps taken to improve.</p>	
<p>2. Implementation of ethical management</p> <p>(1) Has the Company assess a trading counterpart’s ethical management record, and expressly states the ethical management clause in the contract to be signed with the trading counterpart?</p>	✓		<p>The Company is bound by the “Business Integrity Policy and Code of Conduct” to conduct business activities in the utmost fairness and integrity. Prior to commencing business dealings, the Company is required to evaluate the legitimacy and credibility of its counterparties, and thereby avoid dealing with entities that demonstrate poor integrity. The code of conduct also recommends the inclusion of integrity clauses in contracts signed with other parties.</p>	No significant difference
<p>(2) Does the company have a unit that enforces business integrity directly under the board of</p>	✓		<p>The Company has created a “Sustainable Governance Panel” under the “Corporate Sustainability Committee,” the latter reports directly to the board of directors. The panel is responsible for corporate governance-related matters within the group, such as business integrity, anti-corruption, anti-bribery and compliance; it reports progress</p>	No significant difference



Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
directors? Does this unit report its progress (regarding implementation of business integrity policy and prevention against dishonest conducts) to the board of directors on a regular basis (at least once a year)?			<p>regularly (at least once a year to) the board of directors.</p> <p>To practice integrity and ethics in operation and behavior, the Company had held education and trainings that covered the above topics in 2020, such as annual employee integrity and ethics training, compliance training for new hire, and compliance manager forum. A total of 733 people participated in and 2,577 hours was contributed to such trainings.</p> <p>Furthermore, the “Business Integrity Policy and Code of Conduct” is maintained by the Administration Division, and establishment, amendment and abolishment of which is subject to board of directors' consent. The board of directors of the Company will exercise the duty of care as prudent managers to supervise and prevent dishonest conducts, and ensure that the integrity policy is duly enforced. Furthermore, the Audit Division is required to include compliance with the code of conduct as part of its audits, and report regularly back to the board of directors on any defects found and any steps taken to improve.</p>	
(3) Has the Company defined any policy against conflict of interest, provides adequate channel thereof, and fulfills the same precisely?	✓		<p>Directors are expected to exhibit a high level of discipline according to the Company's “Business Integrity Policy and Code of Conduct.” If a director, or a corporate entity represented by the director, is in conflicting interest against the Company with respect to a motion proposed in a board of directors meeting, the director shall explain key details of the conflicting interest during the current meeting session and may still express opinions and answer queries but must not participate in the discussion or voting of such motion. In addition, the director may not exercise voting rights on behalf of other directors with respect to the motion. Directors must also exercise self-discipline and refrain from backing up each other in inappropriate ways. A director would be considered to hold self interest in a topic raised in the abovementioned meeting if the director's spouse, 2nd-degree direct relative or closer, or any of the director's controlled or controlling entities holds stake in the said topic. Directors and managers of the Company must not exploit their vested authorities for improper gains, whether for themselves or for spouse, parents, children, or any other parties.</p>	No significant difference
(4) Has the company implemented an	✓		<p>1. The Company has developed an effective accounting policy. According to the Company's “accounting policy” and “subsidiary financial supervision policy,” the</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
effective accounting policy and internal control system to maintain business integrity? Has an internal or external audit unit been assigned to devise audit plans based on the outcome of integrity risk assessment, and to audit employees' compliance with various preventions against dishonest conduct?			<p>Finance Division is required to obtain monthly management reports, including operations report, balance sheet, income statement, cash flow statement, accounts receivable aging/quality analysis and overdue receivables statement, from each subsidiary to facilitate analysis.</p> <p>2. The Company has developed an effective internal control system. Internal audit units are required to perform audits on employees' compliance with the above system, including general audits at least once a year, and special audits on finance, risk management and compliance for the Company and subsidiaries at least once every six months. Half-yearly special audits can be exempted if the general audit already covers the scope of the special audit and no major defect is found.</p> <p>3. Before the end of each financial year, the Company is required to prepare audit plans for the upcoming year and submit them in writing for approval of the Audit Committee and board of directors. The audit plan must address business integrity and execution, and shall be carried out accordingly once approved.</p>	
(5) Has the Company organized internal/external education training program for ethical management periodically?	✓		<p>Integrity is the Company's core value. The Company has outlined in its “work rules,” “Ethical Behavior Guidelines,” “Employee Code of Conduct” and management policies the behaviors that employees are bound to obey, and disciplinary systems to enforce such behaviors. Training is organized regularly to promote employees' awareness towards the Money Laundering Control Act, Sexual Harassment Prevention Act, and the Personal Information Protection Act. The Company organized multiple training on integrity-related issues in 2020 (e.g.: annual training on integrity and ethics, orientation training on compliance, and compliance officer conference). These sessions received a total of 733 enrollments and delivered 2,577 man-hours of training.</p>	No significant difference
3. Status of the Company's complaint system (1) Has the Company defined a specific complaints and	✓		<p>According to the Company's “Business Integrity Policy and Code of Conduct,” any violation of business integrity involving the Company's directors, managers or employees must be reported immediately to the board of directors, the Audit Committee or the audit unit. The Company also has the responsibility to maintain secrecy over the informant's identity and details of the misconduct report. All reported</p>	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?			cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company's policies. Meanwhile, the name and title of the offender and the date, details and progress of the offense will be disclosed over the Company's Intranet. Furthermore, according to the Company’s “Employee Discipline and Reward Guidelines”: employees are rewarded credits for uncovering forgery, alteration or impersonation that lead to the prevention or mitigation of losses for the Company or customers; a merit is awarded for reporting fraud or attempting to prevent other harmful acts that lead to the mitigation of losses for the Company; and a major merit is awarded for reporting or assisting in the investigation of crime that lead to the mitigation of losses for the Company. The informant rewards mentioned above are intended to enhance the whistleblower system. In addition, an “Independent Director Mailbox” has been created on the external website to facilitate sound communication between independent directors and the Company's employees, shareholders and stakeholders for better corporate governance. Meanwhile, a “Chairman's Mailbox” has been made available on the Company's Intranet to gather employees' suggestions with respect to the Company's management, system and policies. The Company was the first financial holding company to implement a group-wide whistleblower system for insiders as well as outsiders, with defined policies to protect the legal rights of informants and relevant personnel. Details of “Cathay Group Whistleblower System” and the Company’s “Regulations Governing Reporting Unethical or Dishonest Behavior Cases” have been disclosed on website ( <a href="http://www.cathayholdings.com">http://www.cathayholdings.com</a> ); together, they outline the departments responsible, the reporting channels available, the procedures involved and the disciplinary measures in place. Persons accused of misconduct are given the opportunity to state their opinions or appeal before the final decisions are made.	
(2) Has the company implemented any standard procedures for handling reported misconducts, and subsequent actions	✓		According to the Company's “Business Integrity Policy and Code of Conduct,” any violation of business integrity involving the Company's directors, managers or employees must be reported immediately to the board of directors, the Audit Committee or the audit unit. The Company also has the responsibility to maintain secrecy over the informant's identity and details of the misconduct report. All reported	No significant difference

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons (Note 2)
	Yes	No	Summary	
and confidentiality measures to be undertaken upon completion of an investigation?			cases shall be thoroughly investigated by the audit unit; any established cases of misconduct shall be referred to the Administration Department and disciplined according to the Company's policies. Meanwhile, the name and title of the offender and the date, details and progress of the offense will be disclosed over the Company's Intranet.	
(3) Has the Company adopted any measures to prevent the complainants from being abused after filing complaints?	✓		According to the Company's “Business Integrity Policy and Code of Conduct,” the Company has the responsibility to maintain secrecy over the informant's identity and details of the misconduct report. The audit unit is required to include compliance with the code of conduct as part of its audits, and report regularly back to the board of directors on any defects found and any steps taken to improve, thereby ensuring that the informant is not subjected to improper treatment.	No significant difference
4. Enhancing Information Disclosure Has the Company has disclosed the Ethical Management Principles and effect of implementation thereof on its website and Market Observation Post System?	✓		The Company's “Business Integrity Policy and Code of Conduct” and “Operational Procedures and Guidelines of Ethical Corporate Management Best Practice” have been disclosed on website ( <a href="http://www.cathayholdings.com">http://www.cathayholdings.com</a> ) and on “Market Observation Post System.” The Company has assigned dedicated personnel to gather, disclose and update information regularly on its website. Website information has been made available in Traditional Chinese and English for enhanced disclosure.	No significant difference
5. If the Company has established ethical management principles based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the principles and their implementation: None.				
6. Other information material to the understanding of ethical management operation (e.g. discussion of an amendment to the ethical management best practice principles defined by the company): Corporate social responsibility clauses have been included in supplier contracts to enforce corporate social responsibility and integrity practices among suppliers.				

Note 1: Regardless “Yes” or “No”, the status shall be stated in the Remarks section.

Note 2: Non-TWSE and non-TPEX listed financial holding companies need not explain “Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.”

**(VIII) If the Company has established corporate governance principles or other relevant guidelines, references to such principles must be disclosed**

Disclosures have been made on the Company’s website (<http://www.cathayholdings.com>) and “Market Observation Post System,”

**(IX) Other information material to the understanding of corporate governance within the Company**

1. All directors, managers and insiders are issued a copy of “Notes on Change of Insider Shareholding” upon commencement of duty to prevent insider trading. Each director is given a copy of “Director Handbook” and “Legal Knowledge Manual for Directors and Supervisors of TWSE/TPEX Listed Companies,” “Notes on Securities Market Regulations for Directors, Supervisors and Major Shareholders of TWSE Listed Companies” and “Legal Knowledge Manual for Independent Directors” prepared by Taiwan Stock Exchange Corporation upon commencement of duty. These documents help directors understand more about securities regulations and reporting requirements and legal responsibilities of a public-listed company.
2. The Company has implemented “Material Information Announcement and Management Guidelines/Rules” and “Material Information Press Conference Rules” based on “Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities” to regulate announcement and management of material information within the Company and subsidiaries. All above policies have been disclosed on the legal section of the Company’s Intranet to ensure compliance from all employees while avoid violation or occurrence of insider trading.
3. “Prohibition against insider trading” has been clearly stated in “Business Integrity Policy and Code of Conduct,” “Business Integrity Procedures and Behavioral Guidelines,” “Ethical Behavior Guidelines” and “Employee Code of Conduct.” The Company promotes directors’, managers’ and employees’ awareness toward “integrity, ethics and behavior code of conduct” on a yearly basis; the 2020 session was completed in December:

For directors, copies of the “Business Integrity Policy and Code of Conduct,” “Business Integrity Procedures and Behavioral Guidelines” and “Ethical Behavior Guidelines” were issued for comprehension, acknowledgment and compliance. For managers and employees, training materials have been placed on the internal training platform and made readily accessible at any time. These training materials not only convey prohibition against insider trading, but also explain the Company’s rules on anti-money laundering, prohibition against gifts and treatments, participation in public affairs, political donations etc., using case studies where appropriate.

4. Please refer to page 74 “Status of Corporate Governance, deviation and causes of deviation from Corporate Governance Best-Practice Principles for Financial Holding Companies: 6. Other important information enabling a better understanding of the company’s corporate governance? ”

5. Managers’ ongoing education

Title	Name	Course name	Course hours
President	Chang-Ken Lee	Information Security Governance Seminar (8th Session)	3
		Corporate Governance Seminar 89th Session	3
Deputy Chief Auditor	Hung-Chang Yang	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		2020 Senior Manager Consensus Camp (September)	12
		Auditor Workshop --- (469th session)	3.5
		International Trade Financing Anti-Money Laundering and Counter Terrorism Financing and Economic Sanction E-Course (statutory recognition)	6
		Domestic Bank Internal Audit Seminar	2.5
		Targeted Financial Sanctions E-Course (statutory recognition)	2

Title	Name	Course name	Course hours
Chief Financial Officer	Grace Chen	Impact of IFRS17 on Insurance Operations	3
		How do institutional investors determine corporate ESG performance and investment?	3
		Key Technologies of 5G and IoT and Market Application	2
		2020 Board of Directors/Senior Manager Anti-Money Laundering and Counter Terrorism Financing Education and Training	1
Senior Executive Vice President	David P. Sun	Senior Manager Dialogue Course	29
		The Future of Applications- The Middle Platform, MASA, and Multiexperience Architecture	2
		Gartner EXP Online Round-Table Conference/Digital-Driven Enterprise	2
		Gartner Events/ 2020 IT Symposium/ Xpo	1.5
Chief Investment Officer	Sophia Cheng	Responsible Investment - Sustainability Influence of the Financial Industry	2
		Sustainable Finance Thematic Seminar	1.5
		International Sustainability Science Report “Our Future on Earth” launching event	3
		“ESG Responsible Investment”	3
		Responsible investment and corporate and financial industry’s response to climate change	2
		Industry Transformation Direction, Opportunity and Challenge in the Post-Pandemic Era	1.5
		“Post-Pandemic Series of Topics”	2.5
		Sustainability Influence of the Financial Industry	1.5
		Seminar on State of Emergency for Climate Change	7
		Youth and National Climate Vision Forum	2
		“Climate Influence of Financial Industry”	2.5
		Corporate Governance 3.0 Sustainable Development Blueprint Forum	4
		Corporate Sustainability Cornerstone – Corporate Social Responsibility	4
		Upcoming ESG Trend Sustainable Finance Seminar	3
		2020 Insurance Industry Corporate Governance Seminar	4
Social Impact Investment and Corporate Sustainable Governance Seminar	3		
Global EST Trend Merge due to Pandemic -2020 Corporate Sustainability Report Survey and International Sustainability Evaluation and Insight Forum	4		
Senior Executive Vice President	Chung-Yi Teng	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		21st Credit Suisse Asian Technology Conference	7
		2020 Senior Manager Consensus Camp (September)	12
		2020 Board of Directors/Senior Manager Anti-Money Laundering and Counter Terrorism Financing Education and Training	1
Chief Information Office	Chia-Sheng Chang	Asian Digital Innovation Successful Case Study, Mainly for Financial Related Customers	2
		Remote Working Information Security Protection Mechanism	2
		Response to COVID-19 Pandemic: Corporate CIO Short-term and Long-term Measures	1
		best practices to make innovation successful in your organization	1.5
		COVID-19 and the Future of Work	1
		Corporate Pandemic Prevention and Business Continuity Plan	1
		“Normal Mobile Office Technology and Performance Management” related analysis	1

Title	Name	Course name	Course hours
		Importance of IT Infrastructure Recovery Capability	2.5
		Microsoft Asian Research Institution “Innovation House” Technology Seminar	4
		Open Banking 2.0 Challenges and New Blue Sea for Open Financial Innovation	1
		Market Trend of Finance Mixed with Multi-Cloud Platforms	1
		VDO Issue Analysts Exchange Conference	1
		Financial Supervisory Technology 2020 Summit (Domestic) Supervisory Technology Development Direction and Recommendation (Legal Compliance/Supervisory Technology Development Trend Analysis)	3.5
		Pathways to Digital Transformation	2
		5G in Barking Application	1
		Data Visualization Analysts Exchange	0.5
		Topic Seminar on Behavioral Science with Introduction of Urban Transportation to Achieve Smart City	1
		Bancs AA Upgrade (Introduction on future oracle/AIX related version capability issues)	1
		“Innovation House” 2020 Technology Seminar	3.5
Senior Executive Vice President	Jian-Hsing Wu	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		FinTech Forum – Key Technologies of FinTech	2
		Asian Digital Innovation Successful Case Study and Sharing	1
		Response to COVID-19 Pandemic Corporate CIO Short-term and Long-term Measures	1
		Best practices to make innovation successful in your organization	1
		Gartner EXP Member Online Round – Table Seminar	1.5
		Impact of IBM procurement of REDHAT	1
		Application Architecture and Platforms for Technical Professionals	1
		Digital Workplace and Mobile Workplace	1
		Gartner EXP Online Round – Table Conference Digital-Driven Enterprise	2
		Discussion on Family Holding Company Structure and Heritage from Corporate Governance Aspect	3
		Responsibilities of Directors and Supervisors for Financial Statements and Key Content Analysis	3
		2020 Senior Manager Consensus Camp (September)	12
		Innovation House Technology Seminar	3
		Taipei Financial Technology Forum	3
		2020 Board of Directors/Senior Manager Anti-Money Laundering and Counter Terrorism Financing Education and Training	1
		Innovation House Technology Seminar	3
Senior Executive Vice President	Hsiang-Hsin Tsai	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		Leadership for Long-Term Challenges	1.5
		Digital Technology and Organization	1.5
		Deloitte Financial Industry Taxation Guidance for Planning in Singapore	2
		2020 Commonwealth Economic Forum Summer Session	6
		2020 Senior Manager Consensus Camp (September)	12
		Corporate Governance 3.0 – Planning for Future Sustainable Development Blueprint	2.5
		2020 Board of Directors/Senior Manager Anti-Money Laundering and	1

Title	Name	Course name	Course hours
		Counter Terrorism Financing Education and Training	
		Let's Talk Sharing Conference Cloud & Security	2
Senior Executive Vice President	Tsung- Hsien Tsai	Asian Digital Innovation Successful Case Study and Sharing	1
		Deloitte Remote Office Information Security Protection Mechanism Sharing	2
		Best practices to make innovation successful in your organization	1
		Innovation House Technology Seminar	3
		2020 Board of Directors/Senior Manager Anti-Money Laundering and Counter Terrorism Financing Education and Training	1
Senior Executive Vice President	Xu-Jie Yao	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		2020 Senior Manager Consensus Camp (September)	12
Executive Vice President	Deh-Yen Weng	2020 "Director Seminar" Sustainability Series 1: Outlook of 2020 Corporate Governance and Corpora Sustainability	3
		Circulating Taiwan 2040 – New Opportunity	1.5
		How to Understand Financial Statements – A Lesson to Corporate Governance Unit Personnel Without Financial Background	3
		Will working for other companies with useful technology be viewed as a violation of the trade secret law? –Trade Secret and Corporate Governance–	3
		Insider Trading Regulations and Practical Example Explanation	2
		The 16th Corporate Governance Summit	6
Executive Vice President	Shu-Ying Wu	"Strategic Talent Lv1" Senior Manager Training (4/27) and Vice President Dialogue Course (7/1, 7/8)	17
		2021 Strategic Consensus Camp	8.5
Executive Vice President	Ta-Ching Hung	Senior Manager Dialogue Course	29
		Senior Manager Agility Training	4
		5G Key Technology and Application Business Opportunity	3
		Insurance industry IFRS 17/ICS System Planning and Establishment Practice Seminar	4
		"2020 New Vision for Insurance" Seminar	3
Executive Vice President	Judie Hsu	Tax Convention Important Basic Concept and U.S. ECI Declaration Obligation and Practice Derived from Financial Industry Investment	2
		11th International Anti-Money Laundering Seminar	6
		Integrate Internal Control Mechanism for Improving ESG Information Quality	1
		2020 New Southbound Capital Market Supervisory Mechanism Exchange International Seminar	1
		Bank Practitioner (Behavior Risk Control Seminar)	3
		International FinTech Forum	6
		2020 Cathay Sustainable Finance and Climate Change Summit	8
Executive Vice President	Ching-Yuan, Kung	Audit Committee Advanced Practice Sharing – Merger Review and Responsibilities of Directors	3
		ESG Development Trend and Social Responsible Investment (SRI)	3
		Challenge and Strategy for Information Security	3
		Corporate Governance Case Study – Corporate Culture and Shareholders' Activism	3



Title	Name	Course name	Course hours
Executive Vice President	Fu-Min Wang	2020 Commonwealth Economic Forum	12
		2nd Term Strategic Talent Coating Skills	15
		Senior Manager Dialogue Course	29
		Commonwealth CWF Economic Forum Summer Session	6
		Impact of IFRS17 on Insurance Operations – Discussion on How to Enhance Communication with External Interested Parties	3
Executive Vice President	Yu-Mei Lee	AI Technology Principle and Application Business Opportunity	4
		Business Continuity Management Comprehension	2
		Business Continuity Management (BCM) Mechanism	2
		Investment, Trust and Consulting On-Job Training (Regulations Governing Offshore Funds/Impact of High-Tech Industry Development Trend on Financial Industry)	5
		Anti-Money Laundering and Counter Terrorism Financing Personnel On-Job Training Seminar	12
		Enforcement Roles for Member and Sales Institution Fund Channel Remuneration Disclosure	2
		2020 Securities Sales Personnel On-Job Training for Senior Managers Seminar	7.5
		2020 Supervisor Consensus Camp	16
		Securities and Futures Enterprise Legal Compliance Personnel On-Job Training	3
Chief Risk Officer	Ching-Lu Huang	Senior Manager Agility Training	4
		Leadership Thinking in Response to Pandemic: Resilience Leadership/Corporate Crisis Handling Solution: Business Continuity Management BCP	1
		COVID-19 Pandemic Global Economic and Industry Impact Analysis/Taxation Opportunity and Challenge under COVID-19 Pandemic	1
		Four Major Information Security Protection Key Factors for Remote Office	1
		Overcome Impact of Pandemic and Achieve Transformation and Upgrade Through Corporate Restructure	1
		“Top 2000 Enterprises Survey Online Forum” Taiwanese Enterprises Breaking Through X World	2.5
		Commonwealth CWF Economic Forum Summer Session	8
		Insurance industry IFRS 17/ICS System Planning and Establishment Practice Seminar	4
Executive Vice President	Ming-Chiao Liang	2020 Asian Insurance Foresight Forum	8
		2020 Digital Era Business Strategy Seminar (9/25–26)	12
		Fair Customer Treatment Seminar Course	4
Executive Vice President	Pei-Ching Lin	Senior Manager Dialogue Course	29
		Financial Information Security Senior Manager Reserve Training Program	62
		Commonwealth CWF Economic Forum Summer Session	6
		2020 Asia Pacific Information Security Forum	16
		Information Security Governance Course – Information Security Strategy Thinking and Practice	3
		Corporate Governance Course – FinTech Series	3
Executive Vice President	Jui-Reui Hung	2020 Commonwealth Economic Forum	12
		2020 AICT/CAS JointProperty/Casualty andHealth Actuarial Seminar	5
		“2020 AICT-SOA Joint Seminar – IFRS17” Joint Seminar	6

Title	Name	Course name	Course hours
		TCFD Climate Related Financial Disclosure – Corporate Governance Challenges and Opportunities	3
		2020 Member Conference and 50th Anniversary	4
		2020 “Insurance Contract Liability Fair Value Evaluation” and “Life Insurance Enterprise Certified Actuary Personnel Practical Handling Principles” Seminar	6
		“2020 ERM New Emerging Risk and Business Continuity Management” Seminar	3
Executive Vice President	Kuang-Hsueh Chen	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		Group Manager Development Conference	1
		2020 Senior Manager Consensus Camp (September)	12
		Google x CUB Summit	8
		2020 FinTech TPE	8
		2020 Board of Directors/Senior Manager Anti-Money Laundering and Counter Terrorism Financing Education and Training	1
Senior Vice President	Chang-Chao Liao	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
Senior Vice President	Shao-Ling Weng	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		Group Mid-Level Manager Class: Establish Partnership (Course)	3.5
		Group Mid-Level Manager Class: Establish Partnership (Re-training Course)	3.5
		CTPS Problem Analysis and Problem Solving	10
Senior Vice President	Gwang-Ying She	Internal Audit Operation Quality Assurance Review	3.5
		International Financial Reporting Standards IFRS 17 Insurance Contracts	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		Construct Financial Institution Comprehensive Compliance System – Head Toward Corporate Governance 3.0 – Seminar	3.5
		Financial Derivatives Training Seminar	6
		Financial Examination Bureau Internal Audit Seminar	2
		International Financial Supervisory Forum (6th Session)	3
		501st and 502nd Sessions Auditor Workshop	8
Senior Vice President	Sheng-Hsiung Tsai	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		Cathay Sustainable Finance and Climate Change Summit	7
		Business Continuity Plan Establishment & Certification	2
		Business Impact Analysis and Risk Assessment Education and Training	2
		Business Continuity Management Comprehension Educational Training	2
Senior Vice President	Hwa-Hsin Yang	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
Senior Vice President	Chin-Tang Lu	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5

Title	Name	Course name	Course hours
Senior Vice President	Yao-Te Wang	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		Remote Office Information Security Protection Mechanism Sharing of the Cloud Security Framework	2
		Group Mid-Level Manager Class: Guide and Develop Talents (Course)	1
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		2020 Personal Information Security Protection and Mobile Device Use Security	2.5
		2020 Bank Industry Promotion of Financial Information Security Action Plan Seminar	10
		Taipei FinTech International Forum (2nd Session)	4.5
		Certified Cloud Security Professional CBK Training Seminar	40
		Corporate Governance Course - FinTech Series (2nd Session)	3
		2020 Risk Assessment Education and Training	1.5
		2020 Network Security Risk and Attack/Defense Analysis	2.5
Senior Vice President	Wan-Yu Ho	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		2020 Innovation. Finance Future Forum - AI+Financial Practical Applications	8
		2020 Future Manager Forum – Focus on Digital Talents, Enhance Organizational and Personal Digital Genes	7
Senior Vice President	Ming-Chuan Chen	Core of Post-Data Bonus Era	1.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		2020 International FinTech -“Financial Business Opportunities and Challenges under API Economy”	3.5
		Business Transportation: How to Successfully Cooperate with Salesforce Customer 360	3.5
Senior Vice President	Ya-Jou Chang	Investor Relationship Core Strategy Seminar (Online)	2
		Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
		Insurance industry IFRS 17/ICS System Planning and Establishment Practice Seminar	3.5
		2020 New Vision for Insurance Seminar	3
		2020 FinTech Taipei Forum	5
		2020 Storm Media Summit “Discussion on Taiwan’s Opportunities and Possibilities with Respect to New President at the White House”	2.5
		Financial Digital Transformation Practice Sharing Seminar	4
Senior Vice President	Chun-Chieh Chen	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
Senior Vice President	Chi-Ya Hua	2020 Business Management Conference (1/7, 7/22, 10/27)	14.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Group Mid-Level Manager Class: Guide and Develop Talents (Re-training Course)	3.5
Senior Vice President	Jui-Hung Hung	Group Mid-Level Manager Class: Guide and Develop Talents (Course)	3.5
		Initial Continuing Education for Securities Issuers, Securities Firms, and TWSE Chief Accounting Officer	30

**(X) Implementation of internal control system**

1. Declaration of Internal Control System: Please refer to Attachment 4.
2. If the internal control policy was reviewed by an external auditor, the result of such review must be disclosed: none.

**(XI) Penalties imposed against the financial holding company and subsidiaries in the last 2 years up till the publication date of this annual report, including the weaknesses found and the improvements made**

1. Indictment of the Company's statutory responsible person or an employee by prosecutors for crimes committed on the job: None.
2. Any regulatory violation or defect fined or corrected by FSC, any occurrence that the FSC has exercised decision power in accordance with Paragraph 1, Article 54 of the Act, or any penalty imposed against the company or insider for violation of internal control system; where the penalty is likely to have material impact on shareholders' interest or security price, or meets any of the conditions mentioned in Article 2 of FSC's Regulations Governing Announcement of Major Penalties Imposed for Violation of Financial Regulations, should explain in details the penalty imposed, the main defects involved, and progress for improvement:

■ **Cathay Life Insurance Co., Ltd.**

(1) The following defects were found during FSC's 2018 securities investment special inspection on subsidiary - Cathay Life:

- A. The subsidiary's pricing rationality checks and monthly trade price to market price deviation checks were found to exhibit: lack of consistent pricing rationality guidelines, non-conformity with check and balance in existing standards, and inconsistent basis of comparison.
- B. The same shares were held for trading and available-for-sale at the same time, or carried at fair value through profit and loss (FVTPL) and at fair value through profit and loss using the overlay method (FVTPL+Overlay) at the same time. As a result, the subsidiary's stop-loss mechanism was rendered unenforceable, which undermined its risk management efforts.
- C. Risk assessment for investments in subordinated perpetual bonds (without maturity date) with loss absorption terms was considered inadequate.

The Financial Supervisory Commission issued 3 orders of correction on July 2, 2019.

Improvement: Subsidiary - Cathay Life has rectified the defect.

(2) The following defects were found during FSC's 2018 special e-commerce system inspection on subsidiary - Cathay Life:

- A. FTP servers for online service were not placed according to rules.
- B. Security patches should be installed more quickly after weakness scan; security leaks announced by key network equipment manufacturers were not patched in time; the website and employee portal were under-encrypted, which undermined security of the information system.
- C. Data transmitted outside of the organization was checked for personal information, but e-mail address was not included as part of the detection criteria; no control was implemented to detect attempts to transmit personal information in small volumes over multiple e-mails, and no filter or control was implemented to monitor the appropriateness of files containing personal information that are transmitted externally through open ports or firewall exceptions, which undermines the subsidiary's efforts in preventing leakage of personal information.
- D. Data modification features on the mobile APP used by sales representatives has poorly

designed controls.

The Financial Supervisory Commission issued 4 orders of correction on September 16, 2019.

Improvement: Subsidiary - Cathay Life has rectified the defect.

(3) The following defects were found during Financial Supervisory Commission's (FSC) 2018 general inspection on subsidiary - Cathay Life:

- A. With regards to complaints about sales representatives having persuaded customers to terminate insurance policies or undertake financed purchase of investment-linked policies, the subsidiary did not develop adequate control systems to check transaction patterns and prevent sales representatives from engaging in improper solicitation.
- B. One of branch of the Mainland insurance company which subsidiary had equity investment was issued the administrative penalty to suspend new accident insurance services by the local financial authority, but the Company did not notify FSC in time upon receiving news of the administrative penalty.
- C. The subsidiary did not develop proper underwriting procedures for corporate insurance applicants. Furthermore, the subsidiary lacked reasonable controls to evaluate whether changes in insurance applicant or beneficiary are consistent with the initial insurance purpose.
- D. Inappropriate sales talks were found in telemarketing activities.
- E. The subsidiary did not adopt reasonable measures to verify customers' identity; customer due diligence and enhanced due diligence measures were not fully enforced; insurance policies of high policy value reserve are considered to exhibit high money laundering risk, but online sale of which was not subjected to risk assessment and transaction pattern monitoring.
- F. Investigation of policyholders' complaint found that the subsidiary had not followed up on policyholder's complaint about the private cash exchange between sales representatives and customers that may give rise to consumer dispute. The subsidiary should enhance its awareness promotion and management over the issue.
- G. For structured note-linked insurance products, policyholders are issued "Insurance Principal Overdue Collection Advice" (via ordinary mail) and contacted by phone if proceeds are uncollected within 2 months after maturity, but no call record is maintained.
- H. Post-investment management on venture capital companies was too focused on performance evaluation, and lacked analysis and disclosure on whether investment positions are consistent with investment plans.
- I. The subsidiary did not evaluate the necessity of SWIFT user accounts that were unused for an extended period of time, in order to keep user access to the minimum; monitoring of abnormal activities in the event log was limited only to transactions completed during non-office hours, and there was no monitoring of other abnormal activities.

The Financial Supervisory Commission imposed NT\$5.6 million in fines and issued 6 orders of correction on February 18, 2020.

Improvement: Subsidiary - Cathay Life has rectified the defect.

(4) The following defects were found during the Financial Supervisory Commission's (FSC) 2018 general inspection (September to October) on subsidiary Cathay Life:

When reclassifying self-occupied real estate into investment property, the subsidiary was found to have negotiated and signed lease agreements with tenants and made half-yearly reports to the board of directors beforehand, and did not complete the reclassification until the board of directors had made the final resolution. This practice did not conform with Subparagraph 4, Note 3 of FSC Instruction No. Jing-Guan-Bao-Cai-10804945921 dated August 23, 2019, for which the

Financial Supervisory Commission issued an order of correction on April 22, 2020.

Improvement: Subsidiary - Cathay Life has rectified the defect.

- (5) The following defects were found during FSC's special inspection on subsidiary Cathay Life regarding the prevention of conflicting domestic equity interest:

The subsidiary did not implement appropriate verification practices for reports of conflicting domestic equity interest, for which the Financial Supervisory Commission issued an order of correction on July 31, 2020.

Improvement: Subsidiary - Cathay Life has rectified the defect.

#### ■ **Cathay United Bank Co., Ltd.**

- (1) FSC's general inspection on subsidiary Cathay United Bank found defects in deposit account opening that posed concern to the subsidiary's operations, for which the Financial Supervisory Commission issued an order of correction on June 13, 2019.

Improvement: Additional checks have been implemented for account opening.

- (2) Embezzlement of customer's proceeds involving a former financial advisor from the Southern Kaohsiung Branch was found to have violated Article 45-1 of the Banking Act and posed concern to the subsidiary's operations. On August 7, 2019, the FSC imposed a fine of NT\$2 million according to Subparagraph 7, Article 129, issued an order of correction under Paragraph 1, Article 61-1, and ordered dismissal of the employee according to Subparagraph 3, Paragraph 1, Article 61-1 of the Act.

Improvement: The subsidiary has reiterated rules on counter transactions, enhanced management over business premise, undertaken self-inspection, and enforced training to promote employees' awareness toward daily duties and compliance.

- (3) Deposit service to Ruen Yin Group exhibited defects that violated Paragraph 1, Article 7 of the Money Laundering Control Act, for which the FSC imposed a fine of NT\$1 million on October 17, 2019 according to Paragraph 5, Article 7 of the Money Laundering Control Act.

Improvement: The subsidiary has undertaken tightened controls, enhanced training and ongoing check for discrepancies between the remittance applicant and the payer.

- (4) Former financial advisor of Banqiao Branch was found to have embezzled customers' funds, failed to establish insurance applicants' needs, and failed to check the solicited applications before submission. These defects were in violation against Paragraph 1, Article 45-1 of The Banking Act and Article 6 and Paragraph 1, Article 7 of the "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies," for which the Financial Supervisory Commission imposed a fine of NT\$12 million on December 31, 2020 out of concern for the integrity of banking operations. Furthermore, pursuant to Subparagraph 1, Paragraph 1, Article 164-1 of the Insurance Act and Subparagraph 2, Paragraph 1, Article 61-1 of The Banking Act, the Bank's Banqiao Branch was suspended from soliciting new insurance brokerage and money trust customers for one month each, starting from the effective date of penalty, and may resume service only when improvements are approved by the FSC.

Improvements: The Company has enhanced its control over non-counter transactions, its assessment of customers' insurance needs and product suitability, its identification of abnormal insurance transactions, and the monitoring of cash flow between financial advisors or related accounts and customers. Meanwhile, on-site audits, self-audits, and training are being conducted at high intensity to promote employees' compliance awareness.

(5) Former employee of Anhe Branch was found to have embezzled customers' funds, for which the Financial Supervisory Commission issued an order of correction on December 31, 2020 out of concern for the integrity of business operations.

Improvements: The subsidiary has abolished the practice of manually stamping the collection seal; statements are now printed automatically by the system with warning messages to prevent fraud.

#### ■ Cathay Century Insurance Co., Ltd.

(1) The following defects were found during FSC's special inspection on investment activities:

- A. Investment of equity products lacked prevention against conflict of interest, which undermined the subsidiary's internal control system.
- B. The transaction worksheet used for domestic share investments was inadequately designed, which resulted in poorly defined responsibilities and improper execution that posed concerns to the subsidiary's operations.
- C. The subsidiary did not apply the issuer credit limit control in a timely manner for bank debentures that it had signed a subscription commitment to purchase through the primary market (IPO) but were yet to be unsettled. This defect in credit limit control posed concern to the subsidiary's operations.
- D. Fund holdings in the Mainland were not subjected to country risk management, which undermined the subsidiary's efforts in controlling investment exposure to individual countries.
- E. No stock selection procedure was developed when investing into domestic and foreign equity instruments.
- F. Investment assessments were not duly executed for domestic and foreign securities.
- G. The subsidiary did not implement appropriate investment controls on high-risk shares that have been placed on alert, which resulted in losses and posed concern to the subsidiary's operations.
- H. Stop-losses were not duly executed on domestic and foreign share investments, which resulted in losses and posed concern to the subsidiary's operations.

The Financial Supervisory Commission imposed NT\$1.8 million in fines and issued 4 orders of correction on May 9, 2019.

Improvement: Subsidiary - Cathay Century Insurance has rectified the defect.

(2) The following defects were found during the FSC's general inspection:

- A. With regards to the renewal of basic fire and earthquake insurance policies requested by Chunghwa Post Co., Ltd. on behalf of its mortgage borrowers, the subsidiary either did not adopt any method to verify each applicant's intent or obtain adequate proof of applicants' intent to renew insurance coverage. As a result, some insurance policies were underwritten against application forms that were not signed by applicants.
- B. Direct-written compulsory automobile liability insurance policies were not charged at the direct rate, which resulted in over-billing of insurance premiums.
- C. Renewal of small- or medium-size commercial fire insurance on the same building was charged using rates of a different building category; furthermore, when underwriting commercial fire insurance (including disaster insurance) policies, some additional terms that were subject to technical surcharge were excluded from premium rate assessment.
- D. With regards to management over the use of blank compulsory automobile liability insurance certificates, there were cases where: some sales representatives resigned without returning blank insurance certificates that they had previously collected; the certificate collector or custodian did not sign on the application form; and the collector specified on the application

form was different from the collector specified on system.

- E. For claims that are rejected in document review, the subsidiary was found to have sent notifications to policyholders without mentioning the legal or contractual basis for claim rejection. The absence of which is considered inappropriate and poses concern to the subsidiary's operations.
- F. In terms of AML/CTF transaction monitoring, an error in system configuration prevented the subsidiary from effectively checking suspicious transactions, which posed a concern to the subsidiary's operations.

The Financial Supervisory Commission imposed NT\$3.6 million in fines and issued 2 orders of correction on November 14, 2019.

Improvement: Subsidiary - Cathay Century Insurance has rectified the defect.

(3) The following defects were found during FSC's special inspection on IT systems:

- A. The Company has a set of source code checking procedures in place, but the coverage was somewhat inadequate. The inspection also uncovered defects such as lack of full-scale examination over external services/applications and user accounts/access that are unfavorable to process compliance and security of the network system, and pose concern to the subsidiary's operations.
- B. The subsidiary's firewall rule examination practices exhibited a number of defects including non-coverage of key areas and incomplete scope. Data transmitted externally through e-mail was not fully filtered/blocked/controlled, and certain filtering criteria lacked stringency. The above defects were unfavorable to the Company's information security protection efforts, and posed concern to its operation.

The Financial Supervisory Commission issued 2 orders of correction on December 4, 2019.

Improvement: Subsidiary - Cathay Century Insurance has rectified the defect.

## ■ Cathay Securities Corporation

- (1) FSC conducted a general inspection on subsidiary Cathay Securities from June 21 to July 12, 2018, during which the subsidiary was found to have established business relationships without properly identifying customers as part of the AML/CTF process, reinstated dormant accounts without due diligence review, foregone regular reviews on high-risk customers for more than 1 year, and failed to maintain records on customer name checks and account/transaction monitoring. The Financial Supervisory Commission imposed a fine of NT\$500,000 and issued an order of correction on March 12, 2019.

Improvement: Subsidiary - Cathay Securities has rectified the defect.

- (2) The FSC conducted a securities brokerage special inspection at Cathay Securities' Corporate Service Division and Guanqian Branch from June 17 to July 3, 2019, during which the FSC found several defects, including lack of transaction check for insider accounts and customer accounts, acceptance of customers' trade instructions at unspecified prices, absence of voice recording for trade instructions placed via telephone, customers' margin trading limits not being approved/rejected by personnel of proper approval authority, and the rate of securities borrowing fees collected from customers not published at the business premise or on the website. The Financial Supervisory Commission issued an order of correction on January 30, 2020.

Improvement: Subsidiary - Cathay Securities has rectified the defect.

- (3) Taipei Exchange (TPEX) conducted an audit on the subsidiary, Cathay Securities, on November 9 and 10, 2020. The audit found the deficiencies where the subsidiary performed the co-location service operation but the co-location service was provided to specific clients with customized service for their use only, the trading software developed by the client was placed in the system of the co-location host machine, the client entrustment time record was



not preserved, the system log record content failed to be preserved for 3 years, account passwords failed to be changed after a period of 3 months, the firewall access record was not preserved for 3 years, and vulnerability scan was not performed, etc., during the audit. On December 11, 2020, Taiwan Stock Exchange (TWSE) issued a letter requesting attention on improvements and an administrative fine of NT\$300,000 was imposed. In addition, on March 4, 2021, the Financial Supervisory Commission (FSC) rendered a decision on an administrative fine of NT\$1.44 million and a warning sanction was imposed.

Improvement: Subsidiary - Cathay Securities has rectified the defect.

■ **Cathay Securities Investment Trust Co., Ltd.**

- (1) Subsidiary Cathay Securities Investment Trust had some of its PC terminals and servers infected with a virus on October 22, 2019, but did not make preliminary reports using the information security reporting system within 30 minutes. The Financial Supervisory Commission issued an order of correction on April 22, 2020 for this defect.

Improvements: Subsidiary Cathay Securities Investment Trust has reexamined its information security reporting procedures and organized enhanced training to correct this defect.

- (2) With regard to the refund of over-charged commission by Raymond James Financial Service (RJF), an overseas broker, at the end of 2018, subsidiary Cathay Securities Investment Trust was found to have credited the refund into the appropriate accounts after verifying calculations and reaching a settlement with RJF, but did not notify the authority or make timely reports according to its major occurrences policy. The Financial Supervisory Commission issued an order of correction on August 20, 2020 for lack of diligence.

Improvements: Subsidiary Cathay Securities Investment Trust has since reexamined its definition of major occurrence; no transaction with RJF has taken place since 2018, hence the defect is considered rectified.

- (3) In August 2020, the FSC proceeded to the subsidiary Cathay Securities Investment Trust to conduct general business inspection. Upon inspection, the deficiencies including that the Know Your Client (KYC) process was performed but the offshore company's substantial beneficiary identification was not performed thoroughly, identification and verification of agent identity for agent account opening were not performed and no photocopies of such identification and verification were preserved, and existence certificates were not obtained for offshore corporate judicial person account opening, were found, and the FSC requested for correction on March 2, 2021.

Improvement: Subsidiary – Cathay Securities Investment Trust has reinforced the offshore company related KYC measures and has completed the improvement of the deficiencies.

3. Disclosure of losses exceeding \$50 million incurred during the year, whether individually or in total, as a result of conspiracy, material contingencies (including fraud, theft, misappropriation of assets, fictitious transactions, forgery of documents and securities, kick-backs, natural disasters, external forces, hackers' attacks, theft and leakage of confidential information, disclosure of customers' details or other major events), or accidents arising from failure to comply with Safety and Maintenance Guidelines for Financial Institutions: none.
4. Other disclosures required by the Financial Supervisory Commission: None.

**(XII) Shareholder meeting(s) and significant board resolutions during the most recent year and up to the date of publication of this annual report**

1. Major resolutions of the 2020 annual general meeting and the execution progress

Major resolutions of the 2020 annual general meeting	Implementation Status
(1) Acknowledgment of 2019 business report and financial statements.	Announced to the public after shareholder meeting resolution.
(2) Acknowledgment of the Company's 2019 earnings appropriation.	<p>July 7, 2020 was set as the baseline date for distribution, whereas July 29, 2020 was determined as the distribution date.</p> <p>(1) EPS of NT\$2 for common shares.                      (2) NT\$2.28 per share for Class-A preferred shares.                      (3) NT\$2.13 per share for Class-B preferred shares.</p>
(3) Amendments to the Company's Articles of Incorporation.	Registered with the approval of the Ministry of Economic Affairs. The amended Articles of Incorporation have been published on the Company's website.
(4) Discussion for amendments to the Rules of Procedure for Shareholders' Meetings of the Company.	The Rules of Procedure for Shareholders' Meetings have been amended as resolved in the shareholders' meeting and announced to the public.
(5) Discussion of the Company's long-term funding plan.	After determination and assessment, currently, there is no need to execute such plan.
(6) Discussion for removal of restrictions imposed against the Company's directors for involving in competing businesses.	Restrictions on directors' competing business involvement have been removed.

2. Major board of directors resolutions made in 2020 and in 2021 up till the publication date of this annual report:

(1) 4th meeting of the 7th board dated January 20, 2020

- Passed extension of unsecured credit from the Company to CTBC Bank, Taiwan Cooperative Bank and First Commercial Bank.
- Passed discussion for organizational changes.
- Passed amendments to the Company's "Director Performance Evaluation Guidelines" and "Director Compensation and Payment Guidelines."
- Passed discussion of Chief Auditor's performance evaluation.
- Passed distribution of bonus to the Company's managers and directors involved in business decisions.
- Passed discussion to grant approval for managers' concurrent involvement in other profit-seeking enterprises, and to remove restrictions on competing business involvements.
- Passed the Company's 2019 "board of directors and functional committee" internal performance evaluation.

- Passed the discussion to inject NT\$230 million of capital into Cathay Securities Investment Consulting by having subsidiary - Cathay Life subscribe to new common shares issued by Cathay Securities Investment Consulting.
- (2) 5<sup>th</sup> meeting of the 7<sup>th</sup> board dated March 11, 2020
  - Passed the 2019 employee and director remuneration.
  - Passed review of the 2019 year-end financial statements.
  - Passed the 2020 business target.
  - Passed the Company's 2019 "Declaration of Internal Control System."
  - Passed extension of unsecured credit from the Company to Bank SinoPac and Mega Bills.
  - Amendments to the "Articles of Incorporation," "Rules of Procedure for Shareholders' Meetings," "Procedures for Board of Directors' Meetings," "Audit Committee Charter," "Remuneration Committee Charter," "Market Risk Management Rules" and "Risk Management Measurement Indicator Overview Table" of the Company.
  - Passed personnel assignment of the Company.
- (3) 6<sup>th</sup> meeting of the 7<sup>th</sup> board dated March 27, 2020
  - Approved the proposal on the Company's issuance of senior corporate bonds.
- (4) 7<sup>th</sup> meeting of the 7<sup>th</sup> board dated April 29, 2020
  - Passed the 2019 business report.
  - Passed review of the 2019 earnings appropriation.
  - Approved the Audit Committee's Review Report on the Company's 2019 Financial Statements.
  - Passed the Company's long-term funding plan.
  - Approved the "2019 Audit Committee Annual Operation Status Report" submitted at the shareholders' meeting.
  - Approved the extension of unsecured credit from the Company to IBFC and Grand Bills.
  - Approved the amendment to the "Articles of Incorporation" of Company.
  - Passed removal of restrictions imposed against the Company's directors for involving in competing businesses.
  - Passed personnel assignment of the Company.
- (5) 8<sup>th</sup> meeting of the 7<sup>th</sup> board dated May 14, 2020
  - Passed review of the 2020 Q1 financial statements.
  - Passed extension of unsecured credit from the Company to Bank of Taiwan, E.SUN BANK, Ta Ching Bills and China Bills.
  - Approved the amendments to the "Taxation Governance Policy," "Internal Control System," "Internal Audit System and Enforcement Rules," "Corporate Sustainability Rules," "Corporate Sustainability Committee Charter" and "Corporate Governance Best-Practice Principles" of the Company.
  - Passed amendments to "Foreign Insurance Business Investment Procedures" of the subsidiary "Cathay Life."
  - Passed appointment of new director and supervisor for subsidiary - "Cathay Life", "Cathay Century Insurance" and "Cathay Securities Investment Trust".
- (6) 9<sup>th</sup> meeting of the 7<sup>th</sup> board dated June 12, 2020
  - Approved the Company's subscription to the private cash issue of the subsidiary of Cathay Securities.
  - Approved the managers' compensation of the Company.
  - Approved the Company's change of the accounting supervisor and the personnel changes.

- (7) 10<sup>th</sup> meeting of the 7<sup>th</sup> board dated August 20, 2020
- Passed review of the 2020 first-half financial statements.
  - Approved the extension of unsecured credit from the Company to Taishin International Bank, Union Bank and Dah Chung Bills.
  - Approved the establishment of “Business Continuity Management Guidelines” of the Company.
  - Approved the amendments to the “Rules for Independent Director Authority and Responsibility Scope,” “Corporate Governance Best-Practice Principles Charter,” “Board of Directors and Functional Committees Performance Evaluation Policy” and “Corporate Governance Best-Practice Principles” of the Company.
  - Passed personnel assignment of the Company.
- (8) 11<sup>th</sup> meeting of the 7<sup>th</sup> board dated November 12, 2020
- Approved the review of the Company’s 2020 Q1–Q3 financial statements.
  - Approved the change of the Company’s CPAs starting from 2020 Q4.
  - Passed appointment of financial statement auditors and review of audit remuneration for 2021.
  - Passed extension of unsecured credit from the Company to Yuanta Bank, Hua Nan Bank, CTBC Bank and Taipei Fubon Bank.
  - Approved the reporting of the Company’s post-investment management mechanism for examination of reports.
  - Approved the amendments to the “Risk Management Policy” and “Emerging Risk Management Guidelines” of the Company and established the “ESG Risk Management Guidelines” of the Company.
  - Passed amendments to “Cathay Financial Holdings and Subsidiaries Financial Asset Impairment Control Procedures.”
- (9) 12<sup>th</sup> meeting of the 7<sup>th</sup> board dated January 15, 2021
- Passed the decision to have subsidiary of Cathay Life to participate in the cash issue of Cathay Life Vietnam.
  - Passed amendments to the Company’s “Investment Management Guidelines.”
- (10) 13<sup>th</sup> meeting of the 7<sup>th</sup> board dated February 3, 2021
- Passed extension of unsecured credit from the Company to Taiwan Cooperative Bank, First Commercial Bank and KGI Bank.
  - Approved the amendments to the “Self-Disciplinary Guidelines for Transactions of the Company and Subsidiaries with Transaction Monitoring Subjects” and the “Manager Performance Management and Development Guidelines,” “Business Integrity Policy and Code of Conduct” and “Business Integrity Procedures and Behavioral Guidelines” of the Company.
  - Passed discussion of Chief Auditor’s performance evaluation.
  - Passed personnel assignment of the Company.
  - Passed distribution of bonus to the Company’s managers and directors involved in business decisions.
  - Passed the Company’s 2020 “board of directors and functional committee” internal performance evaluation.
  - Passed the appointment of directors and supervisors to the subsidiaries of “Cathay United Bank” and “Cathay Securities.”
  - Approved the proposal on the application for registration of a wholly owned subsidiary at Shanghai submitted by Conning Asia Pacific Limited, a sub-subsidiary of Cathay Life in Hong Kong.
- (11) 14<sup>th</sup> meeting of the 7<sup>th</sup> board dated March 10, 2021
- Passed the 2020 employee and director remuneration.
  - Passed review of the 2020 year-end financial statements.
  - Passed the 2021 finance and business target.

- Passed the Company’s 2020 “Declaration of Internal Control System.”
- Amendments to the “Rules of Procedure for Shareholders’ Meetings,” “Director Election Procedures,” “Coporate Charter” of the company.
- Passed personnel assignment of the Company.
- Passed the appointment of directors of “Cathay United Bank”.

**(XIII) The main contents of important resolutions passed by the Board of Directors regarding in which directors or Supervisors have voiced differing opinions on the record or in writing, during the most recent year and up to the date of publication of this annual report:**

None.

**(XIV) Resignation or dismissal of personnel related to financial statement preparations (including the chairman, president, head of finance, head of accounting, chief internal auditor, and the Chief Corporate Governance Officer) in the most recent year up till the publication date of annual report (Table 2-3):**

Title	Name	Date of Appointment	Date of Discharged	Reason of Resignation or Dismissal
Senior Vice President of Accounting Dept.	Huan-Chen Chang	2009-03-05	2020-07-26	Retired at retirement age
Chief Auditor	Chih-Jung Kun	2016-08-05	2021-02-04	Transferred to affiliated enterprise

Note: The “related parties of the Company” described refers to the Chairman, President, Financial Supervisor, Accounting Supervisor, Internal Audit Supervisor and Corporate Governance Supervisor, etc.

## V. Professional Fees to the Independent Auditor

Range of Professional Fees to the Independent Auditor (Table 3-1)

Unit: NT\$ thousand

Accounting firm name	Names of Auditors	Audit Fee	Non-audit Fee					Audit period (Note 1)	Remarks
			Designing regulations	Business registration	Human resources	Others (Note 2)	Subtotal		
Deloitte Taiwan	Cheng-Hung Kuo	10,070	—	—	—	1,452	1,452	Q1 to Q3 of 2020	1. Changed CPAs due to organizational adjustment within Deloitte Taiwan. 2. Non-audit fee and other items: Mobile office consulting and consultation service as well as remote work information security protection measure assessment, etc.
	Li-Chi Chen								
Deloitte Taiwan	Cheng-Hung Kuo							2020 Q4	
	Shu-Wan Lin								

Note 1: If the CPAs or public accounting firms for the Company were replaced during the year, the duration of their audit engagement should be separately disclosed, and the reason for replacement should be explained in the remark section, and information such as audit and non-audit fees paid should be disclosed in said sequence.

Note 2: Please list non-audit fees according to service categories. If "other fees" of non-audit fees are more than 25% of non-audit fees, the service details should be disclosed in the remarks section.

## VI. Information of Independent Auditor replacement (Table 3-2)

### (I) Information relating to the former CPA

Date of reappointment	Passed during the board of directors meeting dated November 12, 2020		
Reason for reappointment	Organizational adjustment within Deloitte Taiwan		
Was the termination of audit services initiated by the principal or by the CPA	Parties involved Situation	Certified Public Accountant	Principal
	Service terminated by	—	—
	Service no longer accepted (continued) by	—	—
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
Disagreements with the company	Yes	—	Accounting principles or practices
		—	Disclosure of financial report
		—	Scope or steps of audit
		—	Others
	None	✓	
Notes	None		
Other disclosures (Matters that shall be disclosed in Article 10, Subparagraph 6, Item 1, Point 4, of Regulations Governing the Preparation of Financial Reports by Financial Holding Companies)	None		

**(II) Information relating to the succeeding CPA**

Firm name	Deloitte Taiwan
Names of Auditors	Cheng-Hung Kuo, Shu-Wan Lin
Date of reappointment	Passed during the board of directors meeting dated November 12, 2020
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

**(III) The reply letters on Article 10, Subparagraph 6, Item 1, and Item 2, Point 3, of Regulations Governing the Preparation of Financial Reports by Financial Holding Companies from the previous CPA:**

None.

**VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year**

None of the Company chairman, president, and managerial officer in charge of financial or accounting affairs has served with the CPA Office or the affiliation thereof over the past year.

**VIII. Facts about the director or supervisor, managerial office, or a same person or a same affiliated enterprise having held the equity of a same financial holding corporation with voting power exceeding the specified ratio which should be declared under Article 11 of the Managerial Regulations: The facts of equity transfer and change in equity pledge (Table 4)**

Facts of change in equity which should be declared as required (I)

Title (Note 1)	Name	2020		The year till March 30, 2021	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Chairman	Hong-Tu Tsai	(30,000,000)	0	0	0
Vice Chairman	Tsu-Pei Chen	0	0	0	0
Juristic (corporate) person director	Chen-Sheng Industrial Co., Ltd.	0	0	0	0
Juristic (corporate) person director	Chia Yi Capital Co., Ltd.	0	0	0	0
Juristic (corporate) person director	Cathay Life Insurance Co., Ltd. Employees' Welfare Committee	0	0	0	0

Title (Note 1)	Name	2020		The year till March 30, 2021	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Juristic (corporate) person director	Culture and Charity Foundation of the Cathay United Bank	0	0	0	0
Director	Cheng-Ta Tsai	(12,000,000)	0	0	0
Director	Cheng- Chiu Tsai	0	0	0	0
Director	Chi-Wei Joong	0	0	0	0
Director	Andrew Ming-Jian Kuo	0	0	0	0
Director	Tiao-Kuei Huang	0	0	0	0
Director	Chang-Ken Lee	0	0	0	0
Director	Ming-Ho Hsiung	0	0	0	0
Independent Director	Feng-Chiang Miao	0	0	0	0
Independent Director	Edward Yung-Do Way	0	0	0	0
Independent Director	Li-Ling Wang	0	0	0	0
Independent Director	Tang-Chieh Wu	0	0	0	0
Major shareholder and the same related party	Wan Pao Development Co., Ltd.	0	(105,000,000)	0	0
Major shareholder and the same related party	Lin Yuan Investment Co., Ltd.	0	(80,000,000)	0	0
The same related party	Chia Yi Capital Co., Ltd.	0	0	0	0
The same related party	Wan Ta Investment Co., Ltd.	0	0	0	0
The same related party	Tung Chi Capital Co., Ltd.	0	0	0	0
The same related party	Weng-Chuan Lin	0	0	0	0
The same related party	Mei-Hui Wang	0	0	0	0
The same related party	Weng-Chin Lin	0	0	0	0
The same related party	Weng-Chen Lin	0	0	0	0
The same related party	Hsiu-Te Lin	0	0	0	0
President	Chang-Ken Lee	0	0	0	0
Chief Auditor	Hung-Chang Yang (Newly appointed on February 4, 2021)(Note 6)	(Note 3)	(Note 3)	0	0
Chief Auditor	Chih-Jung Kun (Discharged from the post on February 4, 2021)	11,000	0	0	0
Chief Financial Officer	Grace Chen	0	0	0	0



Title (Note 1)	Name	2020		The year till March 30, 2021	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Senior Executive Vice President	David P. Sun	0	0	0	0
Chief Investment Officer	Sophia Cheng	0	0	0	0
Senior Executive Vice President	Chung-Yi Teng	0	0	0	0
Chief Information Office	Chia-Sheng Chang	0	0	0	0
Senior Executive Vice President	Jian-Hsing Wu	0	0	0	0
Senior Executive Vice President	Hsiang-Hsin Tsai	0	0	0	0
Senior Executive Vice President	Tsung- Hsien Tsai	10,000,000	0	0	0
Senior Executive Vice President	Xu-Jie Yao	0	0	0	0
Vice President and Chief Corporate Governance Officer	Deh-Yen Weng	0	0	0	0
Executive Vice President	Shu-Ying Wu	0	0	0	0
Executive Vice President	Ta-Ching Hung	0	0	0	0
Chief Compliance Officer	Judie Hsu	0	0	0	0
Executive Vice President	Ching-Yuan, Kung	0	0	0	0
Executive Vice President	Fu-Min Wang	72	0	0	0
Executive Vice President	Yu-Mei Lee	0	0	0	0
Chief Risk Officer	Ching-Lu Huang	0	0	0	0
Executive Vice President	Ming-Chiao Liang	5,000 3,000 Preferred Share B	0	0	0
Executive Vice President	Pei-Ching Lin (Newly appointed on March 12, 2020)	0	0	0	0
Executive Vice President	Jui-Reui Hung (Newly appointed on September 1, 2020)	0	0	0	0
Executive Vice President	Kuang-Hsueh Chen (Newly appointed on February 4, 2021)	(Note 3)	(Note 3)	0	0
Executive Vice President	Hua-Ben Miao (Newly appointed on March 11, 2021)	(Note 3)	(Note 3)	0	0
Executive Vice President	Chen-Tung Chang (Discharged from the post on March 11, 2021)	(4,000) Preferred Share B	0	0	0
Executive Vice President	Chao-Chi Tsai (Discharged from the post on March 12, 2020)	0	0	(Note 3)	(Note 3)
Senior Vice President	Chang-Chao Liao	(6,000)	0	(8,000)	0
Senior Vice President	Shao-Ling Weng	(5,000)	0	0	0
Senior Vice President	Gwang-Ying She	(7,000)	0	0	0
Senior Vice President	Sheng-Hsiung Tsai	0	0	0	0
Senior Vice President	Hwa-Hsin Yang	(5,000) (3,000) Preferred Share B	0	0	0
Senior Vice President	Chin-Tang Lu	(5,000)	0	0	0

Title (Note 1)	Name	2020		The year till March 30, 2021	
		Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in shares held	Increase (decrease) in the number of shares pledged
Senior Vice President	Yao-Te Wang	0	0	0	0
Senior Vice President	Wan-Yu Ho	0	0	0	0
Senior Vice President	Ming-Chuan Chen	0	0	0	0
Senior Vice President	Ya-Jou Chang (Newly appointed on April 30, 2020)	0	0	0	0
Senior Vice President	Chun-Chieh Chen (Newly appointed on April 30, 2020)	0	0	0	0
Senior Vice President	Chi-Ya Hua (Newly appointed on June 12, 2020)	0	0	0	0
Senior Vice President	Jui-Hung Hung (Newly appointed on June 13, 2020)	0	0	0	0
Senior Vice President	Huan-Chen Chang (Discharged from the post on July 26, 2020)	0	0	(Note 3)	(Note 3)
Senior Vice President	Shan-Chih Liu (Discharged from the post on March 8, 2021)	0	0	0	0
Senior Vice President	Wei-Jen Chang (Discharged from the post on March 8, 2021)	0	0	0	0

Note 1: Any of the aforementioned personnel who fill up this Table if holding over 1% of the total shares of the financial holding corporation shall be remarked as a major shareholder and shall respectively enumerate such fact.

Note 2: In the event that the opposite party of share transfer or share pledge is a related party, please additionally fill up the following table.

Note 3: Not required to declare information of change in equity.

Note 4: In the event that the changes of shares occurring are preferred stocks, such shares are marked as (Preferred Share A) or (Preferred Share B), and those without a mark are ordinary shares.

Note 5: Since the preferred stocks issued by the Company do not contain voting rights, the changes in equity of the same person or the same concerned person in this Table do not include preferred stocks in accordance with the regulation that the calculation is made based on the total number of outstanding voting shares provided in Article 16 of Financial Holding Company Act.

Note 6: Motion of Chief Auditor's reappointment was passed during the board of directors meeting dated February 3, 2020. Hung-Chang Yang was newly appointed on February 4, 2021 and become effective after receiving approval by the Banking Bureau on March 18, 2021.

### Information of change in equity (II)

Name (Note 1)	Causes leading to transfer in equity (Note 2)	Date of transaction	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Prices of transaction
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of acquirement or disposal.

### Information of equity pledge (III)

Name (Note 1)	Causes leading to change in pledge (Note 2)	Date of change	Counterparts of transaction	The relationship between the transaction counterparts and the financial holding corporation's director, supervisor and shareholders over 10% in shareholding	Number of shares	Amount pledged (redeemed)
None						

Note 1: Entries of the names of the financial holding corporation's directors and supervisors, managerial officers and those where the same person or the same related party holds the voting powers of the issued shares which exceed the ratios specified under Article 11 of the Managerial Regulations.

Note 2: Entries of pledge or redemption.

## IX. Information of Related Parties of the top ten shareholders (Table 4-1)

Name (Note 1)	Shares held by themselves		Shares held by spouses, minor children		Shareholding using other's name		Names and the relationship among the top ten shareholders in the relationship of related parties or spouses, blood relatives within the second degree of kinship. (Note 3)		Remarks
	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Number of shares	Ratio of shareholding (Note 2)	Name	Relationship	
Wan Pao Development Co., Ltd. Representative: Weng-Chuan Lin	2,309,617,689	15.71%	0	0%	0	0%	Lin Yuan Investment Co., Ltd.	With the same person as the representative	—
							Wan Da Investment Co., Ltd.	With the same person as the representative	
Lin Yuan Investment Co., Ltd. Representative: Weng-Chuan Lin	2,016,949,426	13.72%	0	0%	0	0%	Wan Pao Development Co., Ltd.	With the same person as the representative	—
							Wan Da Investment Co., Ltd.	With the same person as the representative	
Labor Pension Fund	416,422,378	2.83%	0	0%	0	0%	None		—
Shin Kong Life Insurance Co., Ltd. Representative: Peng Hsu	291,719,422	1.98%	0	0%	0	0%	None		—
Labor Insurance Fund	212,132,412	1.44%	0	0%	0	0%	None		—
Nan Shan Life Insurance Company, Ltd. Representative: Tang Chen	193,582,000	1.32%	0	0%	0	0%	None		—
Trans Globe Life Insurance Inc. Representative: Teng-Te Peng	191,084,309	1.30%	0	0%	0	0%	None		—
China Life Insurance Co., Ltd. Representative: Shu-Fen Huang	157,498,000	1.07%	0	0%	0	0%	None		—
Chang Gung Medical Foundation	155,452,594	1.06%	0	0%	0	0%	None		—
Wan Da Investment Co., Ltd. Representative: Weng-Chuan Lin	146,843,670	0.99%	0	0%	0	0%	Wan Pao Development Co., Ltd.	With the same person as the representative	—
							Lin Yuan Investment Co., Ltd.	With the same person as the representative	

Note 1: All top ten shareholders should be enumerated in full. In case of juristic (corporate) person shareholders, the names of all such juristic (corporate) person shareholders and their representatives should be enumerated respectively.

Note 2: The shareholding ratios should be calculated based on the own names, names of spouses, minor children respectively.

Note 3: On the aforementioned shareholders, including juristic (corporate) persons and natural persons (individuals), the relationship among them should be disclosed based on the rules for financial statements of the financial holding company.

Note 4: The calculation of the number of shares and shareholding ratio includes ordinary shares, Preferred Share A and Preferred Share B

**X. Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the financial holding company; disclose shareholding in aggregate of the above parties (Table 5)**

Date: March 30, 2021

Unit: thousand shares; %

Invested enterprise (Note)	Held by the Company		Held by Directors, Supervisors, Managers, and Directly/Indirectly Controlled Businesses		Total Investment	
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	5,851,527	100%	0	0%	5,851,527	100%
Cathay United Bank Co., Ltd.	10,698,583	100%	0	0%	10,698,583	100%
Cathay Century Insurance Co., Ltd.	305,705	100%	0	0%	305,705	100%
Cathay Securities Corporation	730,000	100%	0	0%	730,000	100%
Cathay Securities Investment Trust Co., Ltd.	150,000	100%	0	0%	150,000	100%
Cathay Venture Inc.	363,177	75%	121,059	25%	484,236	100%
Cathay Conning Asset Management Co., Ltd.	46,800	17.15%	226,150	82.85%	272,950	100%
Taiwan Depository and Clearing Corporation	1,614	0.41%	660	0.17%	2,274	0.58%

Note: Investees of Cathay Financial Holding Co., Ltd. and the subsidiaries.

## Four. Capital Overview

### I. Capital and Shares

#### (I) Capital Source (Table 6)

Unit: thousand shares; NT\$ thousand

Date	Issue price	Registered Capital		Total Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	Capital Source	Others
2001/12	None	12,000,000	120,000,000	5,838,615	58,386,157	Share swap with Cathay Life	None
2002/4	None	12,000,000	120,000,000	6,095,872	60,958,728	Share swap with Cathay Century Insurance and Cathay Bank	
2002/12	None	12,000,000	120,000,000	8,453,163	84,531,631	Share swap with United World Bank	
2003/1	None	12,000,000	120,000,000	8,307,489	83,074,891	De-capitalization due to cancellation of treasury stocks Tai-Cai-Bao-Zi No. 0920005950 (February 24, 2003)	
2005/2	54.15	12,000,000	120,000,000	8,318,644	83,186,447	Corporate bond conversion	
2005/4	54.15	12,000,000	120,000,000	8,474,933	84,749,335	Corporate bond conversion	
2005/8	51.94	12,000,000	120,000,000	8,482,094	84,820,937	Corporate bond conversion	
2005/10	51.94	12,000,000	120,000,000	8,524,223	85,242,234	Corporate bond conversion	
2006/4	51.94	12,000,000	120,000,000	8,526,886	85,268,865	Corporate bond conversion	
2006/8	50.84	12,000,000	120,000,000	9,072,936	90,729,366	Corporate bond conversion and capitalization of retained earnings FSC, Jin-Guan-Yin-(VI)-Zi No.09500406660 (September 21, 2006), Share swap with The Lucky Bank	
2006/10	48.43	12,000,000	120,000,000	9,092,588	90,925,878	Corporate bond conversion	
2007/2	48.43	12,000,000	120,000,000	9,224,080	92,240,796	Corporate bond conversion	
2007/4	48.43	12,000,000	120,000,000	9,277,019	92,770,192	Corporate bond conversion	
2008/8	None	12,000,000	120,000,000	9,737,537	97,375,372	Capitalization of retained earnings FSC, Jin-Guan-Yin-(VI)-Zi No.09700330020 (August 27, 2008)	
2009/10	None	12,000,000	120,000,000	9,670,877	96,708,774	De-capitalization through cancellation of treasury shares FSC, Jin-Guan-Yin-Kong-Zi No.09800513790 (October 28, 2009)	
2010/9	None	12,000,000	120,000,000	10,154,421	101,544,213	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.09900344130 (September 14, 2010)	
2011/8	None	12,000,000	120,000,000	10,357,510	103,575,097	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10000293110 (August 25, 2011)	
2012/9	None	12,000,000	120,000,000	10,865,385	108,653,850	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10100291270 (September 12, 2012)	
2013/9	36	12,000,000	120,000,000	11,218,385	112,183,850	Cash capital increase by issuance of common stock FSC, Jin-Guan-Yin-Kong-Zi No. 10200271410 (September 26, 2013)	
2013/11	None	12,000,000	120,000,000	11,964,962	119,649,620	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10200327950 (November 29, 2013)	
2014/8	None	18,000,000	180,000,000	12,563,210	125,632,101	Capitalization of retained earnings FSC, Jin-Guan-Yin-Kong-Zi No.10300240490 (August 20, 2014)	

Date	Issue price	Registered Capital		Total Paid-in Capital		Remarks	
		Number of shares	Amount	Number of shares	Amount	Capital Source	Others
2016/12	60	18,000,000	180,000,000	13,396,510	133,965,101	Cash capital increase by issuance of Series A Preferred Share FSC, Jin-Guan-Zheng-Fa-Zi No.1050041628 (October 25, 2016)	
2018/6	60	18,000,000	180,000,000	14,096,510	140,965,101	Cash capital increase by issuance of Series B Preferred Share FSC, Jin-Guan-Zheng-Fa-Zi No.1070313814 (May 10, 2018)	
2019/12	35	18,000,000	180,000,000	14,702,510	147,025,101	Cash capital increase by issuance of common stock FSC, in-Guan-Zheng-Fa-Zi No. 1080331065 (September 24, 2019)	

Note: Data as of the publication date of annual report.

Unit: thousand shares

Share Type	Registered Capital			Remarks
	Outstanding shares	Un-issued shares	Total	Outstanding shares
Common stock	13,169,210	3,297,490	18,000,000	Listed stocks
Series A Preferred Share	833,300			
Series B Preferred Share	700,000			

## (II) Shareholder structure (Table 7)

### 1. Common stock

April 13, 2021

Shareholder structure \ Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	21	177	1,674	447,408	1,757	451,037
Number of shares held	722,254,882	662,634,650	5,607,092,945	3,347,183,438	2,830,044,213	13,169,210,128
Ratio of shareholding (%)	5.48	5.03	42.58	25.42	21.49	100

### 2. Series A Preferred Share

April 13, 2021

Shareholder structure \ Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	4	37	147	24,967	38	25,193
Number of shares held	61,087,000	600,049,524	128,418,194	43,341,066	404,216	833,300,000
Ratio of shareholding (%)	7.33	72.01	15.41	5.21	0.04	100

### 3. Series B Preferred Share

April 13, 2021

Shareholder structure Quantity	Government authorities	Financial institutions	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of employees	6	34	164	26,416	37	26,657
Number of shares held	188,352,465	346,279,120	121,390,760	38,279,753	5,697,902	700,000,000
Ratio of shareholding (%)	26.91	49.47	17.34	5.47	0.81	100

### (III) Fact of equity scattering (Table 8)

#### 1. Common stock

At NT\$10 par value

April 13, 2021

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding (%)
1 to 999	157,397	35,503,388	0.27
1,000 to 5,000	194,698	415,748,622	3.16
5,001 to 10,000	44,622	324,217,485	2.46
10,001 to 15,000	18,254	222,136,296	1.69
15,001 to 20,000	9,027	160,319,168	1.22
20,001 to 30,000	9,515	232,175,946	1.76
30,001 to 50,000	7,447	288,100,767	2.18
50,001 to 100,000	5,384	375,136,004	2.85
100,001 to 200,000	2,374	323,232,862	2.45
200,001 to 400,000	1,091	300,077,022	2.28
400,001 to 600,000	309	152,517,304	1.16
600,001 to 800,000	184	127,726,451	0.97
800,001 to 1,000,000	119	106,434,644	0.81
Over 1,000,001	616	10,105,884,169	76.74
Total	451,037	13,169,210,128	100



## 2. Series A Preferred Share

At NT\$10 par value

April 13, 2021

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding (%)
1 to 999	18,136	3,147,823	0.38
1,000 to 5,000	5,822	10,581,998	1.27
5,001 to 10,000	596	4,478,756	0.54
10,001 to 15,000	171	2,208,060	0.27
15,001 to 20,000	110	1,993,887	0.24
20,001 to 30,000	116	2,872,527	0.34
30,001 to 50,000	68	2,785,313	0.33
50,001 to 100,000	52	3,941,777	0.47
100,001 to 200,000	28	3,973,144	0.48
200,001 to 400,000	24	7,128,000	0.86
400,001 to 600,000	9	4,531,582	0.54
600,001 to 800,000	6	4,206,000	0.50
800,001 to 1,000,000	6	5,323,000	0.64
Over 1,000,001	49	776,128,133	93.14
Total	25,193	833,300,000	100

## 3. Series B Preferred Share

At NT\$10 par value

April 13, 2021

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding (%)
1 to 999	18,730	2,862,621	0.41
1,000 to 5,000	7,226	10,765,005	1.54
5,001 to 10,000	312	2,245,821	0.32
10,001 to 15,000	117	1,477,691	0.21
15,001 to 20,000	48	873,621	0.13
20,001 to 30,000	41	1,030,506	0.15
30,001 to 50,000	44	1,688,208	0.24
50,001 to 100,000	42	3,161,400	0.45
100,001 to 200,000	16	2,610,437	0.37
200,001 to 400,000	21	5,999,133	0.86
400,001 to 600,000	8	3,808,992	0.54
600,001 to 800,000	2	1,421,672	0.20
800,001 to 1,000,000	7	5,797,984	0.83
Over 1,000,001	43	656,256,909	93.75
Total	26,657	700,000,000	100

**(IV) List of major shareholders (Table 9)**

Names of major shareholders	Shares	Number of shares held	Ratio of shareholding (%)
Wan Pao Development Co., Ltd.		2,309,617,689	15.71%
Lin Yuan Investment Co., Ltd.		2,016,949,426	13.72%
Labor Pension Fund		416,422,378	2.83%
Shin Kong Life Insurance Co., Ltd		291,719,422	1.98%
Labor Insurance Fund		212,132,412	1.44%
Nan Shan Life Insurance Company, Ltd.		193,582,000	1.32%
Trans Globe Life Insurance Inc.		191,084,309	1.30%
China Life Insurance Co., Ltd.		157,498,000	1.07%
Chang Gung Medical Foundation		155,452,594	1.06%
Wan Da Investment Co., Ltd.		146,843,670	0.99%

Note: Listing the names of top 10 shareholders (the calculation of shareholding ratio includes ordinary shares and preferred shares)

**(V) Per share information (including market price, book value, earnings, share dividend) from 2019 to 2020 (Table 10)**

Item	Year		2019	2020	As of March 30, 2021
	Market Share Price (Note 1)	Highest		47.25	43.15
	Lowest		38.85	33.80	39.90
	Average		42.46	39.85	43.06
Share Book Value (Note 2)	Before payout		51.62	60.83	(Note 9)
	After payout		49.36	(Note 8)	(Note 9)
Earnings Per Share	Weighted Average No of Shares		12,617,999 (thousand shares)	13,169,210 (thousand shares)	13,169,210 (thousand shares)
	Earnings Per Share (Note 3)	Before Adjustment	4.76	5.41	(Note 9)
		After Adjustment	4.76	5.41	(Note 9)
Per Share Dividend	Cash Dividend		2	(Note 8)	(Note 9)
	Stock Dividend	From Retained Earnings	0	(Note 8)	(Note 9)
		From Special Reserve	0	(Note 8)	(Note 9)
	Accumulated Unpaid Dividend (Note 4)		0	0	(Note 9)
ROI Analysis	Price/Earnings Ratio (Note 5)		8.92	7.37	(Note 9)
	Price/Dividend Ratio (Note 6)		21.23	(Note 8)	(Note 9)
	Cash Dividend Yield (Note 7)		4.71	(Note 8)	(Note 9)

Note1: Please list the market share prices, including the highest, lowest and average for the year. Average market share price should be calculated by applying the turnover value and the total turnover volume for the year.

Note2: Please use the number of the issuing shares in the year end as the base with the distribution decision resolved at the shareholders' meeting held in the following year.

Note3: For retroactive adjustment made for stock dividends, both before and adjustments earnings per share should be disclosed.

Note4: For securities issued with terms that entitle the holder to accumulate the unpaid dividend during the current year, for receiving in an earning-generating fiscal year, the accumulated unpaid amount shall also be disclosed.

Note5: Price/Earnings Ratio = average share market price / earnings per share.

Note6: Price/Dividend Ratio = average market price / cash dividends per share.

Note7: Cash Dividend Yield = cash dividends per share / average share market price.

Note8: Distribution for earnings in 2019 had not yet been resolved by the shareholder's meeting.

Note9: Not applicable.

## **(VI) Dividend Policy and Implementation**

### 1. Dividend policies set under the Articles of Incorporation

- (1) In order to continue the business expansion and to enhance the profit earning capability, as well as to reserve the capital needed based on the long-term financial planning for perpetual operation and stabilized development, the Company has adopted a residual dividend policy.
- (2) Surpluses concluded from a financial year are first subject to taxation and reimbursement of previous losses, followed by provision for legal reserve, provision/reversal of special reserve, and distribution of preferred dividends. The remaining balance (referred to as "Current Year Earnings" below) plus undistributed earnings carried from previous periods are available for distribution, for which the board of directors will present an earnings appropriation proposal based on the Company's operational plans and submit for approval during shareholder meeting. Dividends should be primarily paid in shares to preserve liquidity, whereas the remainder can be paid in cash; however, the sum of dividends paid shall not be less than 30% of Current Year Earnings, and the cash portion shall not be less than 10% of total dividends.

2. Distribution of dividend proposed in the current shareholders' meeting: At NT\$2.5 per share as cash dividend.

## **(VII) Impact to -Business Performance and EPS Resulting from the Proposal of Stock Dividend Distribution Made at the Recent Shareholders' Meeting**

Per the Letter of Tai-Cai-Zheng-(I)-Zi No. 00371 (February 1, 2000), the Company need not disclose the impact as no 2020 financial forecast was provided.

## **(VIII) Remuneration of Employees, Directors and Supervisors**

1. The percentage or range of remuneration to the employees, directors and supervisors are delineated under the Articles of Incorporation:  
0.01% to 0.05% of profit of the current year is distributable as employees' compensation and no higher than 0.05% of profit of the current year is distributable as remuneration to directors. However, the company's accumulated losses shall have been covered.
2. The basis for estimating the amount of employee and director remuneration, shall take into account the number of shares to be distributed as stock bonuses, and the accounting treatment of any discrepancy between the actual distributed amount and the estimated figure for the current period:  
Employee remuneration was estimated based on the average amount paid in the last 3 years, the current year's profitability and the percentages outlined in the Articles of Incorporation, and accrued on a monthly basis. Meanwhile, director remuneration was estimated based on "Cathay Financial Holdings Co., Ltd., Regulations Governing Remuneration Paid to the Directors" (no provision is made in the case of after-tax loss). The estimated figure shall be accounted as an operation expense

for the current fiscal year. Accounting treatment for any discrepancy between the final approved figures from the shareholders' meeting and the estimated figures shall follow the principles under the Statements of Financial Accounting Standards.

3. Remuneration distribution approved by the Board:

(1) The remuneration amount of employees and directors distributed in cash or shares. If there are any discrepancies between the proposed value of the employee cash/stock bonuses, and director/supervisor compensation approved by the board of directors, in relation to the estimated figures in the period where the expenses are recognized, the discrepant value, its reasons, and its status shall be disclosed: As estimated for the current term, the cash remuneration to employees would come to NT\$7,712,810 (the Company had a total of 524 employees, with NT\$ 14,719 distributed to each and every employee) and NT\$2,700,000 as remuneration to directors.

(2) The remuneration amount of employees distributed in shares and the ratio of such amount accounting for the combined number of individual finance report net income and the total remuneration amount of employees: no remuneration of employees will be distributed in shares this fiscal year.

4. The actual distribution of employee and director/supervisor remuneration for the previous fiscal year (with an indication of the number, value and stock price of the shares distributed) shall be declared. If there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor compensation, the discrepancy, its cause, and its status must also be listed:

(1) Employee remuneration: NT\$6,269,997, which tallies with the original proposal from the board meeting.

(2) Board remuneration: NT\$2,700,000, which tallies with the original proposal from the board meeting.

**(IX) Share Buyback by the Financial Holdings Company**

Our company did not buy back shares of our own company in recent years.

## II. Issuance of Corporate Bonds

### (I) Corporate bonds outstanding or pending issuance:

Corporate bond type (Note 2)	First unsecured corporate bond for term 2019-1 (Note 6)	Second unsecured corporate bond for term 2019-1 (Note 6)	Third unsecured corporate bond for term 2019-1 (Note 6)
Issuing (transaction) date	May 8, 2019		
Face value	NT\$1 million		
Place of issuance and exchange (Note 3)	R.O.C.		
Issue price	100% issuance by denomination		
Total	NT\$4 billion	NT\$4 billion	NT\$12 billion
Interest rate	Fixed interest rate per annum: 0.83%	Fixed interest rate per annum: 0.93%	Fixed interest rate per annum: 1.04%
Duration	5 years (Expiration date: May 8, 2024)	7 years (Expiration date: May 8, 2026)	10 years (Expiration date: May 8, 2029)
Priority of repayment	Senior		
Guaranteeing institution	None		
Trustee	Mega International Commercial Bank Co., Ltd.		
Underwriting institution	Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd., Yuanta Securities		
Certifying attorney	Baker & McKenzie		
Certifying CPA (Note 4)	Ernst & Young		
Repayment method	Repayment of principal on due date		
Outstanding principal balance	NT\$4 billion	NT\$4 billion	NT\$12 billion
Terms for redemption or early repayment	None		
Restriction Clause (Note 5)	None		
Whether included in qualifying capital	No		
Name of credit rating organization, rating date, bond rating results	Taiwan Ratings, March 24, 2021, twAA		
Other rights of bond holders	Amount of common shares, global depository receipts, or other securities converted (exchanged or subscribed) up till the publication date of annual report	None	
	Issuance and conversion (traded or subscribed) regulations	None	
Possible dilution of equity and impact on equity of existing shareholders due to issuance or conversion, or due to subscription or issuance terms	None		
Custodian of exchanged assets	None		

Corporate bond type (Note 2)	First unsecured corporate bond for term 2020-1 (Note 6)	Second unsecured corporate bond for term 2020-1 (Note 6)	Third unsecured corporate bond for term 2020-1 (Note 6)
Issuing (transaction) date	June 23, 2020		
Face value	NT\$1 million		
Place of issuance and exchange (Note 3)	R.O.C.		
Issue price	100% issuance by denomination		
Total	NT\$1.9 billion	NT\$6.5 billion	NT\$0.5 billion
Interest rate	Fixed interest rate per annum: 0.59%	Fixed interest rate per annum: 0.64%	Fixed interest rate per annum: 0.67%
Duration	5 years Expiration date: June 23, 2025	7 years Expiration date: June 23, 2027	10 years Expiration date: June 23, 2030
Priority of repayment	Senior		
Guaranteeing institution	None		
Trustee	Mega International Commercial Bank Co., Ltd.		
Underwriting institution	Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd., KGI Securities Co., Ltd.		
Certifying attorney	Baker & Mckenzie		
Certifying CPA (Note 4)	Deloitte Taiwan		
Repayment method	Repayment of principal on due date		
Outstanding principal balance	NT\$1.9 billion	NT\$6.5 billion	NT\$0.5 billion
Terms for redemption or early repayment	None		
Restriction Clause (Note 5)	None		
Whether included in qualifying capital	No		
Name of credit rating organization, rating date, bond rating results	Taiwan Ratings, March 24, 2021, twAA		
Other rights of bond holders	Amount of common shares, global depository receipts, or other securities converted (exchanged or subscribed) up till the publication date of annual report	None	
	Issuance and conversion (traded or subscribed) regulations	None	
Possible dilution of equity and impact on equity of existing shareholders due to issuance or conversion, or due to subscription or issuance terms	None		
Custodian of exchanged assets	None		

Corporate bond type (Note 2)	First unsecured corporate bond for term 2020-2 (Note 6)	Second unsecured corporate bond for term 2020-2 (Note 6)	Third unsecured corporate bond for term 2020-2 (Note 6)	Fourth unsecured corporate bond for term 2020-2 (Note 6)
Issuing (transaction) date	September 8, 2020			
Face value	NT\$1 million			
Place of issuance and exchange (Note 3)	R.O.C.			
Issue price	100% issuance by denomination			
Total	NT\$2.4 billion	NT\$7.8 billion	NT\$2.5 billion	NT\$8.4 billion
Interest rate	Fixed interest rate per annum: 0.61%	Fixed interest rate per annum: 0.64%	Fixed interest rate per annum: 0.66%	Fixed interest rate: 0.70%
Duration	5 years Expiration date: September 8, 2025	6 years Expiration date: September 8, 2026	7 years Expiration date: September 8, 2027	10 years Expiration date: September 8, 2030
Priority of repayment	Senior			
Guaranteeing institution	None			
Trustee	Mega International Commercial Bank Co., Ltd.			
Underwriting institution	Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd., KGI Securities Co., Ltd.			
Certifying attorney	Baker & Mckenzie			
Certifying CPA (Note 4)	Deloitte Taiwan			
Repayment method	Repayment of principal on due date			
Outstanding principal balance	NT\$2.4 billion	NT\$7.8 billion	NT\$2.5 billion	NT\$8.4 billion
Terms for redemption or early repayment	None			
Restriction Clause (Note 5)	None			
Whether included in qualifying capital	No			
Name of credit rating organization, rating date, bond rating results	Taiwan Ratings, March 24, 2021, twAA			
Other rights of bond holders	Amount of common shares, global depository receipts, or other securities converted (exchanged or subscribed) up till the publication date of annual report	None		
	Issuance and conversion (traded or subscribed) regulations	None		
Possible dilution of equity and impact on equity of existing shareholders due to issuance or conversion, or due to subscription or issuance terms	None			
Custodian of exchanged assets	None			

Note1: Corporate bond handling includes publicly offered and privately raised corporate bonds. Publicly offered corporate bonds undertaken refers to those already taken effect (approved by the board); privately raised corporate bond refer to those that have passed a board resolution.

Note2: The number of columns are subject to adjustment based on the number of actual undertakings or applications for approval.

Note3: To be filled for those falling under overseas corporate bonds.

Note4: Refers to the corporate bond issuance in accordance with the relevant laws and regulations and verification by a CPA that there are no CPAs involved in events listed in related regulations.

Note5: Such as restrictions on the distribution of cash dividends, external investments, or requirement to maintain a specific asset ratio.

Note6: If a private offering, please indicate prominently.

Note7: Those falling under conversion of corporate bonds, exchange of corporate bonds, general declaration of corporate bond issuance, or bonds with attached warrant shall disclose in tabulated form conversion corporate bond data, exchange corporate bond data, general declaration of corporate bond issuance, and bonds with attached warrant.

Note8: The balance of the corporate bonds outstanding period (terms) shall be summarized in accordance with the same approval number of the competent authority.

(II) Corporate bonds maturing within one year: None.

(III) Issuance of convertible bonds, exchangeable bonds or bonds with warrant that are convertible/exchangeable into common shares, global depository receipts or other securities: None.

(IV) Offering and issuance of ordinary corporate bonds subject to aggregate reporting: None.

(V) Private placement of corporate bonds in the last 3 years: None.



### III. Issuance of Preferred Shares (Table 13)

Item		Issuing (transaction) date	
		January 17, 2017 (Publicly Offered Series A Preferred Share) (Note 3)	
Face value		NT\$10	
Issue price		At NT\$60 par value	
Number of shares		833,300 thousand shares	
Total		NT\$49,998,000,000	
Rights and obligations	Distribution of dividends and bonuses	Annual Interest rate of 3.8% (7-year IRS rate 1.06%+2.74%, non-accumulated)	
	Distribution of the residual property	Preferred shareholders are entitled to a more senior claim over the Company's residual property than common shareholders, up to the issuance amount. All series of preferred shares issued by the Company carry the same level of seniority, which is subordinate to general creditors.	
	Exercise of voting rights	Shareholders of preferred shares do not have the right to vote and to be elected, but they have the right to vote in the shareholders' meeting for preferred shares or in the shareholders' meeting that involves with the rights and obligations of shareholders of preferred shares.	
	Others	<p>1. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the decision.</p> <p>2. 7-year IRS interest rate will be reset on the next day of maturity and in every seven years. The interest rate reset pricing base date is the business day of Taipei financial industry two days prior to the reset date. The interest rate index for 7-year IRS is the arithmetic mean of the 7-year interest rate exchange pricing provided by "PYTWDFIX" and "COSMOS3" of Reuter at 11:00 a.m. of the Taipei financial industry business day of the interest rate pricing base date. If the said pricing is not available on the pricing base date, the issuance institutions may determine the pricing based of the principles of good faith and reasonable market price.</p> <p>3. Where the Company issues new shares for cash, shareholders of preferred stocks and common shares enjoy equal pre-emptive rights.</p>	
Outstanding preferred shares	The number recovered or converted shares	0	
	The balance of not recovered or not converted shares	NT\$49,998,000,000	
	Terms for recovery or conversion	The Company may recover all or some preferred shares with the original issuance price on the date after the date of seven full years of issuance.	
Market Share Price	2020	Highest	NT\$ 64.90
		Lowest	NT\$ 59.20
		Average	NT\$ 62.97
Market Share Price	As of March 30, 2021 (Note 4)	Highest	NT\$ 62.10
		Lowest	NT\$ 61.70
		Average	NT\$ 61.90
Other rights of bondholders	Converted or optioned amount as of the publishing date of the annual report	Not applicable	
	Regulations Governing Issuance, Conversion or Option of Shares	Please refer to the Articles of Incorporation of the Company.	
The impact of issuance terms on the equities of shareholders of preferred shares, the possible dilution of equities, and the impact on the equities of current shareholders		None	

Issuing (transaction) date		August 8, 2018 (Publicly Offered Series A Preferred Share) (Note 3)	
Face value		NT\$10	
Issue price		At NT\$60 par value	
Number of shares		700,000 thousand shares	
Total		NT\$42,000,000,000	
Rights and obligations	Distribution of dividends and bonuses	Annual Interest rate of 3.55% (7-year IRS rate 1.1675%+2.3825%, non-accumulated)	
	Distribution of the residual property	Preferred shareholders are entitled to a more senior claim over the Company's residual property than common shareholders, up to the issuance amount. All series of preferred shares issued by the Company carry the same level of seniority, which is subordinate to general creditors.	
	Exercise of voting rights	Shareholders of preferred shares do not have the right to vote and to be elected, but they have the right to vote in the shareholders' meeting for preferred shares or in the shareholders' meeting that involves with the rights and obligations of shareholders of preferred shares.	
	Others	<p>1. The Company has discretion over the dividend distribution of preferred shares. The Company may decide not to distribute dividends of preferred shares if there are no earnings in the annual accounts or the earnings are insufficient to distribute dividends of preferred shares, or the distribution of dividends of preferred shares will cause the capital adequacy ratio to be lower than the minimum requirement by laws or competent authority or other necessary consideration. The shareholders of preferred shares may not object to the decision. Series B Preferred Share is non-cumulative, which means that undeclared or under-declared dividends are not accumulated and will not be deferred until the year the Company makes profit.</p> <p>2. 7-year IRS interest rate will be reset on the next day of maturity and in every seven years. The interest rate reset pricing base date is the business day of Taipei financial industry two days prior to the reset date. The interest rate index for 7-year IRS is the arithmetic mean of the 7-year interest rate exchange pricing provided by "TAIFXIRS" and "COSMOS3" of Reuter at 11:00 a.m. of the Taipei financial industry business day of the interest rate pricing base date. If the said pricing is not available on the pricing base date, the issuance institutions may determine the pricing based of the principles of good faith and reasonable market price.</p> <p>3. Where the Company issues new shares for cash, shareholders of preferred stocks and common shares enjoy equal pre-emptive rights.</p>	
Outstanding preferred shares	The number recovered or converted shares	0	
	The balance of not recovered or not converted shares	NT\$42,000,000,000	
	Terms for recovery or conversion	The Company may recover all or some preferred shares with the original issuance price on the date after the date of seven full years of issuance.	
Market Share Price	2020	Highest	NT\$ 64.80
		Lowest	NT\$ 59.90
		Average	NT\$ 63.17
Market Share Price	As of March 30, 2021 (Note 4)	Highest	NT\$ 62.70
		Lowest	NT\$ 62.00
		Average	NT\$ 62.32
Other rights of bondholders	Converted or optioned amount as of the publishing date of the annual report	Not applicable	
	Regulations Governing Issuance, Conversion or Option of Shares	Please refer to the Articles of Incorporation of the Company.	
The impact of issuance terms on the equities of shareholders of preferred shares, the possible dilution of equities, and the impact on the equities of current shareholders		None	

Note 1: Status of corporate bonds, including undergoing public offering and private placement of preferred shares. The publicly offered preferred shares are those entered into effect (approved) by Financial Supervisory Commission; the privately offered preferred shares are those approved by the Board.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: If a private offering, please indicate prominently.

Note 4: Data as of the publication date of annual report.

## IV. Issuance of Global Depositary Receipts (Table 14)

Item	Issuing (transaction) date	July 29, 2003 (Initial Issuance) (Note 3)	November 9, 2004 (Seasonal Issuance) (Note 3)	Year 2005 to April 30, 2009 (Through ECB conversion) (Note 3)
Place of issuance and exchange	Issuance: Europe, Asia, and the U.S.A. Listing: Luxembourg Stock Exchange			
Total Amount		US\$521,605,500	US\$494,528,116	The calculation of the number of units is based on the conversion price, ECB exchange rate, and the GDR unit converted from the ECB
Issue Price Per GDR		US\$11.63	US\$19.4	Based on the conversion price and exchange rate of the ECB
Units Issued		44,850,000 units	25,491,140 units	3,216,324 units
Underlying Securities		Common and treasury shares held by Cathay Life Insurance	Treasury shares of the Company	New common shares issued by the Company
Common Shares Represented		448,500,000 shares	254,911,400 shares	32,163,240 shares
Rights & Obligations of GDR Holders	Same as those of the common shareholders			
Trustee	The Bank of New York Mellon			
Depositary Bank	The Bank of New York Mellon			
Custodian Bank	Trust Department, Mega International Commercial Bank			
Outstanding Balance (Note 4)	3,760,388 units			
Apportionment of Expenses for Issuance & Maintenance		Issuing expenses are paid by Cathay Life Insurance and the Company. Expenses (including the listing fee, information disclosure and other fees) occurred during the listing period are covered by the Company in general.	Borne by the Company	
Terms and Conditions in the Deposit Agreement & Custody Agreement	Based on the relevant laws and regulations of the R.O.C., the GDR holders have the rights and responsibilities that are stipulated in the Deposit Agreement. The rights and responsibilities of the depository and custodian agencies are stipulated under the custody agreement.			
Closing Price Per GDR (Note 2)	2020	Highest	US \$15.04	
		Lowest	US \$11.17	
		Average	US \$13.56	
	As of March 30, 2021	Highest	US \$16.84	
		Lowest	US \$14.25	
		Average	US \$15.22	

Note 1: Corporate bonds include both public and private offerings. The publicly offered bonds are those approved by the Board. The privately offered bonds are those approved by the Board.

Note 2: Those who have issued Global Depositary Receipts, the market closing prices for the security in the current year and before the printout date of this Report should be listed. If listed in multiple exchanges, all bourses should be shown.

Note 3: If a private offering, please indicate prominently.

Note 4: Outstanding balance as of March 30, 2021.

## V. Issuance of Employee Stock Option Plan

None.

## VI. Issuance of New Restricted Employee Shares

None.

## VII. Merger and Acquisitions or Transfers of other Financial Institutions

### (I) Financial institutions merged or acquired in the last year:

None.

### (II) Mergers or acquisitions of other financial institutions in the last five years:

None.

### (III) Issuance of new shares for merger or acquisition of other financial institutions that the board of directors has approved in the last year, up to publication date of annual report:

None.

## VIII. Implementation of the Capital Utilization Plans

### (I) The Plan

#### ■ Issuance of Common Shares in 2019:

1. Planned use of capital: To invest into the 100%-owned subsidiary - Cathay Life and Cathay United Bank Private Equity.
2. Approval date and document: Jin-Guan-Zheng-Fa-Zi No. 1080331065 (September 24, 2019).
3. Total capital needed for the plan: NT\$20,000,000,000.
4. Source of capital: 606,000,000 new shares with face value of NT\$10 each were issued domestically for cash at the issuance price of NT\$35 per share, which raised NT\$21,210,000,000 of capital in total. Subsidiaries Cathay Life and Cathay United Bank were each allocated NT\$10,000,000,000 of new capital, whereas the remaining NT\$1,210,000,000 were retained as working capital. This capital utilization plan was completed in the fourth quarter of 2019.
5. Planned uses of capital and the planned schedule:

Unit: NT\$ thousand

Plan Item	Planned Completed Date	Total Capital Needed	Planned use of Capital
			2019 fourth quarter
To invest into common shares privately placed by 100%-owned subsidiary - Cathay Life	2019 fourth quarter	10,000,000	10,000,000
To invest into common shares privately placed by 100%-owned subsidiary - Cathay United Bank	2019 fourth quarter	10,000,000	10,000,000
Working capital (Note 2)	2019 fourth quarter	1,210,000	1,210,000
Total		21,210,000	21,210,000

Note 1: The new capital was intended to be used to subscribe to the issuance of common shares for cash capital increase executed by Cathay Life and Cathay United Bank.

Note 2: The extra NT\$1,210,000,000 from over subscription will be retained as working capital.

6. Effects:

- (1) The issuance of common shares for NT\$21,210,000,000 is expected to strengthen the Company's capital and financial position upon completion. Based on the Company's financial figures at 2019 Q2, the additional capital, once received in 2019 Q4, should increase group capital adequacy ratio from 129.45% to 133.46%, while at the same time lower the double leverage ratio from 110.97% to 110.64% and debt-to-equity ratio from 13.55% to 13.14%.
- (2) The additional capital will be entirely used to subscribe to the issuance of common shares for capital increase executed by 100% owned subsidiaries Cathay Life and Cathay United Bank (referred to as Private Common Share Placement below), which has the benefit of increasing eligible capital and capital adequacy ratio for both Cathay Life and Cathay United Bank. Based on Cathay Life's and Cathay United Bank's capital adequacy ratios of 332.67% and 14.32% in 2019 Q2, injection of additional capital amounting to NT\$10,000,000,000 in each of the two companies should increase capital adequacy ratios to 338.89% and 14.90%, respectively. The extra NT\$1,210,000,000 from over subscription will be retained for working capital, and based on the company's current average borrowing rate of 0.68%, the additional capital is expected to save NT\$686,000 in interest expense in 2019, and NT\$8,228,000 per year starting from 2020.

**(II) Implementation Status**

The NT\$21.21 billion of the issuance of common shares for capital increase of the Company was completed on November 29, 2019, the capital had been used to subscribe to the common shares of private placement of subsidiaries Cathay Life and Cathay United Bank totaling NT\$10 billion each, whereas the remaining NT\$1.21 billion was retained as working capital. Execution of the capital plan is explained below:

Plan Item	Implementation Status		As of February 29, 2020	Remarks
Subscription to private placement of common shares of Cathay Life	Amount used (NT\$ thousand)	Planned	10,000,000	The NT\$10-billion common share private placement by Cathay Life has been fully subscribed as planned, representing a 100.00% completion rate.
		Actual	10,000,000	
	Implementation Status	Planned	100.00%	
		Actual	100.00%	
Subscription to private placement of common shares of Cathay United Bank	Amount used (NT\$ thousand)	Planned	10,000,000	The NT\$10-billion common share private placement by Cathay United Bank has been fully subscribed as planned, representing a 100.00% completion rate.
		Actual	10,000,000	
	Implementation Status	Planned	100.00%	
		Actual	100.00%	
Working capital	Amount used (NT\$ thousand)	Planned	1,210,000	NT\$1.21 billion of working capital was retained as planned, representing a 100.00% completion rate.
		Actual	1,210,000	
	Implementation Status	Planned	100.00%	
		Actual	100.00%	

## Five. Overview of Operations

### I. The content of business

#### (I) The scope of business

##### ■ Cathay Financial Holding Co., Ltd.

##### 1. The content of principal business:

The Company is a financial holding company and the scope of its business is limited to investment in and management of enterprises in which it has invested under the Financial Holdings Company Act. Financial holding companies may invest in the following business:

- (1) Financial holdings company
- (2) Banking
- (3) Bills finance
- (4) Credit cards
- (5) Trust
- (6) Insurance
- (7) Securities
- (8) Futures
- (9) Venture capital investment
- (10) Investment in foreign financial institutions at the approval of the competent authority
- (11) Other banking related business as recognized by the competent authority

##### 2. Proportion:

Revenues in 2020		Amount (NT\$ thousand)	Proportion (%)
Return on investment recognized under equity method	Cathay Life Insurance	50,123,631	64
	Cathay United Bank	21,865,103	28
	Cathay Century Insurance	2,174,153	3
	Cathay Securities Corporation	1,467,387	2
	Cathay Venture	282,862	—
	Cathay Securities Investment Trust	857,519	1
	Conning Asia Pacific Limited	16,398	—
	Subtotal	76,787,053	98
Other revenues		2,480,733	3
Other expenses and loss		(511,379)	(1)
Total net revenues		78,756,407	100

##### 3. New financial products and services under planning

The main business of the Company is investment and management of investees. For information of the development of new financial products and services, please refer to the following parts of the subsidiaries.

■ **Cathay Life Insurance Co., Ltd.**

1. The content of principal business:

Cathay Life Insurance Co., Ltd. is a life insurer and is engaged in the sales of life insurance policies and related products.

2. Proportion:

Business type	Proportion (%)
Life insurance	68.1
Accidental injury insurance	2.4
Health insurance	14.2
Annuity	0.0
Investment-linked insurance	15.3
Total	100.0

3. New financial products and services under planning:

- (1) Product innovation: An aging population combined with longer life expectancy means that more people are living in an unhealthy state for extended periods of time. In an attempt to encourage self-motivated health management, the subsidiary continued taking steps to optimize its health promotion ecosystem in 2021, offering a broad range of health promotion incentives and usage-based products that provided the public with stronger motives to participate. These efforts help people improve their health conditions and eventually reduce the amount of medical spending to the mutual benefit of the public, the Company and society.
- (2) Customer segment management: By expanding internal and external database, the subsidiary strives to develop better understanding of customers' preference and apply a three-stage process of "knowing," "growing," and "referring" customers to improve customers' loyalty and conversion rate. Through integration of resources across the ecosystem, the subsidiary hopes to interact with customers on multiple dimensions so that suitable products can be developed and distributed through the most appropriate channels. Using the incremental precision marketing approach, the subsidiary aims to develop the most efficient marketing model as Cathay's unique added value.
- (3) Digital development: Inspired by the vision of "Cathay as a Service" (CaaS), the subsidiary will transition into a business model that focuses on customer experience, and collaborate with new partners by leveraging its digital data capabilities and financial expertise to create new scenarios for digital customers. This insurance ecosystem comprising participants from different industries will bring a greater level of convenience to customers' lifestyles.

■ **Cathay United Bank Co., Ltd.**

1. The content of principal business:

- (1) Consumer banking
- (2) Corporate banking
- (3) Wealth management
- (4) Trust
- (5) Credit card
- (6) Automatic Channel Business
- (7) Digital banking services

- (8) International banking
- (9) Overseas operations
- (10) Investment and treasury marketing

2. Proportion:

Business type	Proportion (%)
Corporate banking	21
Consumer banking	49
Wealth management	28
Investment and other	2
Total	100

3. New financial products and services under planning:

- (1) Enforce capital management, maintain balanced risk and return, create refined and specialized offices for corporate lending services, and make better use of existing channels and resources to reduce customer acquisition cost. Use digital tools and affiliated cash flow networks to explore opportunities and issues within customers.
- (2) Utilize Group resources and market studies for the development of new investment products, provide private placement or customized financial products to high-asset customers, convert financial advisors into financial consultants, and disseminate timely and accurate market information as well as investment advice through digital channels to meet customers' investment needs, thereby enhancing the value of the Bank's wealth management service.
- (3) Continue exploration of new banking applications and scenarios to complement the mobile payment ecosystem, and introduce suitable financial applications depending on the characteristics of specific channels, so that channel users may access other financial services offered by the Bank through the ecosystem.
- (4) Continue design and development of digital, innovative financial products and strengthen relationship with digital users, incorporate the Bank's financial services seamlessly into daily business scenarios, transform progressively into a digital consultant for businesses, and replicate successful experiences in Taiwan to other overseas locations.
- (5) Continue offering private banking customized portfolio management service and a diverse range of financial products; leverage the Bank's professional wealth transfer consultancy services, external partners, and the trust 2.0 program to further complete the "Cathay as a Service" (CaaS) service ecosystem; and take steps toward becoming a regional private banking service provider.

■ **Cathay Century Insurance Co., Ltd.**

1. The content of principal business:

Cathay Century Insurance is a property insurer that sells different types of insurance policies (including injury and health) and related products.

2. Proportion:

Business type	Proportion (%)
Automobile insurance	59
Fire insurance	18
Flood insurance	3



Business type	Proportion (%)
Injury health insurance	7
Casualty insurance	13
Total	100

3. New financial products and services under planning:

- (1) Personal insurance
- (2) Commercial insurance
- (3) Comprehensive insurance
- (4) Special channel insurance

■ **Cathay Securities Corporation**

1. Main business activities

- (1) Securities underwriting
- (2) Dealing of securities on central exchange
- (3) Brokerage trading of securities on central exchange
- (4) Dealing of over-the-counter securities
- (5) Brokerage trading of over-the-counter securities
- (6) Margin financing and stock lending
- (7) Registrar and transfer services
- (8) Securities lending (except for book-entry central government bonds)
- (9) Wealth management - financial products advisory or sales services
- (10) Wealth management - conduct asset allocation for customers with trust method
- (11) Brokerage trading of foreign securities – sub-broker
- (12) Introducing futures brokering
- (13) Futures business
- (14) Securities-backed lending
- (15) Unrestricted purpose loans
- (16) Full fiduciary discretionary investment service through mandate
- (17) International securities service
- (18) Money trust, securities trust, non-discretionary money trust management, and special-purpose non-discretionary money trust management
- (19) Other securities-related business approved by the regulator

2. Proportion:

Business type	Proportion (%)
Brokerage	70
Proprietary trade	29
Underwriting	1
Total	100

3. New financial products and services under planning

- (1) Optimize current structure of institutional customers; provide foreign investors with reliable multi-product strategies and transaction services to strengthen the loyalty of institutional customers and establish the company's stature as leading researcher of certain industries.
- (2) Enhance online service experience through development of mobile App and digital

branch.

- (3) The Company aims to provide customers with broader diversity of products and services from unrestricted purpose loan, bilateral securities lending, asset management trust to structured instruments. Efforts will be committed to developing new financial products and services for broadened revenue source.
- (4) Launch customer service improvement measures in line with the group's service quality enhancement plan, and hence raise customers' satisfaction.

■ **Cathay Securities Investment Trust Co., Ltd.**

1. The content of principal business:

- (1) Securities Investment Trust
- (2) Discretionary investment
- (3) Securities investment consulting
- (4) Futures trust
- (5) Other business approved by Financial Supervisory Commission

2. Proportion:

Business type	Proportion (%)
Management fee income – mutual funds	70
Management fee income – private placement funds	1
Management fee income – private equity funds	1
Management fee income – discretionary investment	25
Sales commission incomes	2
Service fee incomes – discretion consulting contracts	1
Total	100

3. New financial products and services under planning:

- (1) ETF will be the main product that drives growth of investment trust businesses; therefore, the subsidiary will continue to expand its ETF product line and place emphasis on studying market trends and meeting customers' expectations for trendy investments, sustainability issues, high dividend payments, or high price volatility.
- (2) In light of the tremendous success of Cathay Retirement series funds, the needs of distribution channels and customers, and Cathay SITE's growth targets in Asia, the subsidiary will introduce active funds with focuses on retirement planning, dividend paying, insurance coverage linkage, and Asia exposure.
- (3) In light of FSC's upcoming deregulation on real estate investment trust (REITs), Cathay SITE will also invest in the research and development of related products.
- (4) The Cathay Retirement Platform will be continually improved to provide users with more information on retirement planning and investment; furthermore, online and offline campaigns will be organized to integrate Group resources into creating an all-purpose retirement platform.
- (5) Through segmentation and introduction of AI, optimize digital trust service sales platforms and channels to grow internal and external digital customers in size and transaction amount.

## ■ Cathay Venture Inc.

### 1. The content of principal business:

Cathay Venture is a venture capital investment firm that focuses on investing in unlisted companies with growth potential and works with its portfolio companies to help them realize their highest potential and value.

### 2. Proportion:

Operating income	Proportion (%)
Securities sales and investment income	99.8
Interest and other income	0.2
Total	100

## (II) Business plan of the year

### ■ Cathay Financial Holding Co., Ltd.

In 2019, major central banks worldwide adopted more relaxed monetary policies to create new market momentum and mitigate concerns regarding an economic slowdown. However, in 2020, the environment remains fraught with difficulties from the uncertainties in U.S.-China trade relations, the economic slump in the European Union and China, and the unknown impact of Brexit. Cathay FHC will continue to closely monitor market dynamics and stay committed to maximizing value for its shareholders, customers and employees, upholding its core values of “Integrity, Accountability, and Innovation”. Our business strategy will continue to respond to rapidly changing markets and intense competition. Going forward, we will continue to expand our regional operations, focus on digital transformation and business innovation, and optimize our asset/liability structure. Our 2020 business plan is outlined below:

#### **1. Continue to implement regional expansion and achieve the vision of becoming a leading financial institution in the Asia-Pacific region:**

Under the vision of becoming a leading financial institution in the Asia-Pacific region, Cathay FHC continues to connect Greater China and the ASEAN markets, deepen local operations by leveraging our experience in Taiwan and the resources of strategic partners, and provide a more comprehensive range of financial services and products for domestic and overseas Taiwanese customers, so as to develop opportunities that create operating value and better profits for our shareholders.

In order to develop our asset management business as the third pillar of growth for the group, Cathay FHC will continuously strengthen investment products and asset management capabilities, as well as expand our the asset management operations from a global perspective. We may seek additional acquisitions to create a more complete asset management platform and accelerate our growth.

#### **2. Promote digital transformation and build an ecosystem of digital financial services:**

To meet the impact of FinTech on the traditional financial industry, Cathay FHC established a dedicated team for the promotion of digital transformation, focusing on the attainment of both “timeliness” and “personalization”, building a data-driven ecosystem, and integrating online and offline, internal and external touchpoints to offer fast, convenient, and all-inclusive customer experiences.

In the future, Cathay Financial Holdings will aggressively develop market-leading technologies, continue to invest in innovative applications, and create a customer-centric

ecosystem of digital financial services by analyzing consumer habits, understanding market trends, and improving customer experience.

### **3. Continue to optimize asset/liability allocation and management, and create a solid foundation for sustainable operations:**

Cathay FHC faces challenges from increasingly stringent financial monitoring regulations and accounting systems. We will cautiously respond to the potential impact of global political and economic changes on financial markets by actively cultivating talent and strengthening our ability to perform market research and fundamental analysis, as well as continue to optimize asset/liability allocation and management to fortify the group's overall capital structure and lay a firm foundation for the sustainable operations of Cathay FHC.

#### **■ Cathay Life Insurance Co., Ltd.**

“Digital Innovation and Service Commitment” will be the main theme of the Company's operations in 2020.

Cathay Life embraces its mission as “Cathay Life, Sunshine in Your Life,” and values policyholders' interests as well as social responsibilities. By incorporating sustainability values into insurance service, the subsidiary aims to raise its brand value and influence to become a global pioneer in sustainable practices. Inspired by a new vision towards “Smart, Simple, and Safe through Insurtech,” Cathay Life adopts an innovative mindset and invests in data and IT infrastructures to provide more efficient support for business activities.

#### 1. Digital development

Convey the concept of “What if We Could” and adopt innovative financial technologies to create the ultimate digital insurance experience. Create a digital insurance ecosystem through innovation and cross-industry cooperation; aim to incorporate insurance services and products into consumers' digital lifestyle for more convenient and customized consumer experience.

#### 2. Business development

- (1) Having witnessed how marketing practices have changed rapidly in the digital era, the subsidiary takes the initiative in creating a data-empowered sales team, using new technologies and digital tools while offering technology training to the sales team to raise overall sales efficiency.
- (2) As the environment changes, the subsidiary will undergo adjustments and expand its part-time sales force to support organization growth.

#### 3. Customer service

- (1) Utilize customer service design and digital technology to improve cross-sector learning and service efficiency. Through review of service history, the Company will “gain insight into customers' needs and strive to provide customers with services that are needed by customers”, while at the same time improving service satisfaction and referral rate.
- (2) Promote consistent customer experience and enhance service quality through introduction of new data governance projects and sharing of information across channels.
- (3) Promote consistent customer experience and enhance service quality through introduction of new data governance projects and sharing of information across channels.

#### 4. Talent development

- (1) Internal: Adopt a “people-oriented” training philosophy and incorporate training strategies from different fields, professions, and countries to shape a culture of “learning, feedback, and sharing” that effectively transfer knowledge within the organization to help build a stronger talent base.
- (2) External: Advocate fair customer treatment as part of the insurance profession, convey sustainable values of insurance, and exert influence as a life insurance company.

#### 5. Internal control

- (1) Actions will be taken to enhance compliance, risk management, information security, and the internal audit/control system. These actions will help strengthen culture and enforce business continuity within the organization, which serves as a solid foundation for corporate governance and sustainability.
- (2) Actions will be taken to combine corporate risk management practices and incorporate environmental, social, and governance (ESG) values with the risk management process. Technologies such as automation and AI will be developed, adopted, and incorporated to further improve internal control, and thereby support effective risk management and business growth.

### ■ Cathay United Bank Co., Ltd.

#### 1. Consumer banking

The Bank continues to improve fundamental services to customers by adopting a needs-driven approach. With a comprehensive network of physical and digital channels available at disposal, the Bank is able to introduce integrated financial services and the ultimate one-stop shopping experience for customers of various profiles. The spread of COVID-19 subsided in Taiwan in the second half of 2020, and a low-interest environment combined with the return of Taiwanese enterprises increased demand for consumer banking solutions. The Bank had capitalized on this development by delivering good online borrowing experience.

#### 2. Corporate banking

Growth of corporate banking remained strong, and the Bank continued its strategy of industry segment management while offering integrated one-stop shopping to satisfy the needs of different customers. Meanwhile, support of group resources helped improve efficiency of business expansion efforts and maintain proper risk–return balance.

#### 3. Wealth management

- (1) Given the volume of misinformation circulating the financial market, the Bank provides customers with market analysis, investment strategy, product, and service recommendations that are suited to their needs, and exercises more rigorous risk monitoring over customers’ investment positions to help them reach their goals.
- (2) Differentiated products were offered to the investment needs of high net worth customers, and a team of professionals was assembled to provide tax and wealth transfer plans. Furthermore, the subsidiary made active use of financial technologies to improve service procedures for online, self-guided investors, and promoted insurance as a protection for improved service experience across all customers.

#### 4. Trust

AUM of real estate trusts totaled NT\$61.2 billion in 2020, up 15.93% from 2019, whereas AUM of personal and corporate trusts amounted to NT\$53.9 billion. Total assets under custody amounted to NT\$899.2 billion.

## 5. Foreign currency service

The Bank has been active in the establishment of correspondence banking relations in ASEAN and the Greater China region as a means to support international businesses and facilitate more efficient transfer of capital in Asia. In the presence of a strong correspondence banking network, the Bank is able to appeal to a larger number of customers by introducing competitive remittance solutions and trade financing products, and thereby secure the foundation of success in the foreign currency market.

## 6. Credit card

- (1) Continue working closely with industry leaders to develop innovative payment scenarios for mutual customer acquisition, and adopt differentiated marketing combined with shared membership points to increase cardholders' revenue contribution.
- (2) Consumers' spending patterns have changed as a result of the pandemic, and as a response, the Bank introduced new data-driven credit card privileges and discounts incorporating a broad variety of merchants to create and satisfy customers' needs. Through customized services, the subsidiary was able to turn crisis into opportunities and generate revenues with improved competitiveness.
- (3) Competition in the credit card market continues to intensify, whereas campaign and product rewards are undermining profitability. To counteract this trend, the Bank shared data with merchants so that customers can be acquired, managed, and cross-sold more efficiently for maximum yield, thereby securing competitiveness for the challenges ahead.

## 7. Automatic Channel Business

- (1) Prominent merchants:the Bank was able to expand its transaction acquisition network in 2020 to include Smile (gas station chain), Costco North Taichung Branch, and Taipei Metro. Several control measures were undertaken in response to the outbreak of COVID-19 in the first half of the year in order to secure debt entitlement over merchants; in the second half, the Bank completed phase 1 of its "acquisition automation" infrastructure. As of December 2020, the Bank had contracted with 72,345 merchants.
- (2) Mobile payment services:In 2020, in addition to PX Mart's PX PAY and Family Mart's My FamiPay, the Bank also worked with Taiwan's leading bookstore chain, eslite, and mass retailer Costco to introduce two new services– "eslite Pay" and "Costco Pay" to further expand mobile payment scenarios.
- (3) The Bank helped 7-ELEVEN expand applications of its OPEN Wallet to include 14 other channels of President Group such as Cosmed and Starbucks, thereby securing the Bank's leading advantage in new payment services.
- (4) A total of 15 million transactions were completed using ATM in 2020, representing a 10% growth; the Bank had 4,706 ATMs deployed nationwide, representing a 15% market share and ranking 2nd in the industry.

## 8. Digital banking services

- (1) Website: A dedicated section on digital products and services has been created to build up brand image by connecting users' lifestyle scenarios to the various products and services offered. Meanwhile, contents of the loan section have been updated with a mobile version that offers various features such as online application, consultation, and trial calculation. Visits to the mobile version increased 1.2 times in just one month after launch.

- (2) Online banking App: Through integration of online and offline services and by leveraging the advantages of digital channels, the Bank saw a 55% increase in active users compared to the previous year. The App consolidates cash flow, NTD/foreign currency account, and credit card information and account opening features in such a way that not only improves user experience and usability of banking services, but also creates opportunities for cross-selling. Other products such as smart investments and loans were added on a later date, and for enhanced security, the App allows facial recognition and video conferencing to be used for online application and login, whereas transaction alert was added to further distinguish from online-only banks.
- (3) KOKO APP: Having observed young customers' lifestyles, habits, and financial product needs, the Bank introduced new services including foreign currency account online opening and NTD account opening for underage applicants, and launched a new pet insurance called KOPet with the support of group resources. The App was the first in the industry to incorporate real-time communication service, which promotes better user experience, interaction, and attachment. For improved security, the KOKO App adopts world-class security standards – FIDO – and uses asymmetric key as a simpler and more secure method of authentication. Meanwhile, optimizations were made to existing functions to ensure smoother digital experience.

#### 9. Overseas operations

- (1) The Bank places significant emphasis on the Greater China Region and Southeast Asia markets, and invests actively to capitalize on growth and opportunities within Asia Pacific. In the Greater China market, the Bank's mainland subsidiary continued to enforce a localized business strategy and support top-performing Taiwanese enterprises. In addition, the Bank also actively promotes RMB-denominated financial products as a means to strengthen attachment with its target customers. The Hong Kong Branch remains focused on growing corporate banking, treasury, and private banking services through cross-border collaboration.
- (2) In Southeast Asia, the Bank currently has branch establishments in 9 countries including Vietnam, Cambodia, Singapore, Malaysia, the Philippines, Laos, Thailand, Myanmar, and Indonesia, making it the most widely established Taiwanese bank in Southeast Asia. The Yangon Office in Myanmar also received approval to convert into Yangon Branch in 2020, and opened for business on January 8, 2021.
- (3) The Bank currently has 2 wholly owned subsidiary banks, 1 joint venture bank, 7 branches, and 4 representative offices overseas. By creating a cross-border financial platform and banking network that spans across Taiwan, the Greater China Region, and ASEAN, the Bank is able to integrate group resources toward serving local customers and providing them with a more diverse, better quality, and more comprehensive range of financial services.

#### 10. Treasury service

Expansionary measures introduced by central banks around the world to mitigate impacts of COVID-19 combined with the strengthening of the NTD presented great challenges to business operation and increased demand for hedging solutions. The Bank had capitalized on this development by offering foreign currency hedging instruments and exploring commodity and interest rate hedges for customers in need. As for wealth management services, product offerings were adjusted in line with the low interest environment and the current market trend, thus increasing spread income by 15% in 2020.

## ■ Cathay Century Insurance Co., Ltd.

### 1. Business policy

- (1) The subsidiary has been promoting digitalized processes and personalized services for personal insurance, using new insurance technologies to create an insurance ecosystem for growth. The subsidiary prides itself on being able to consistently provide professional consultancy services and structure portfolios to customers' needs; it adopts the strategy of turning commercial risks into opportunities, and places balanced focus on small, medium, and large exposures across all insurance categories.
- (2) Make ongoing enhancements to the digital insurance platform, devise appropriate marketing strategies for specific channels, and develop scenario-based products that meet customers' needs and reach potential customers at greater precision.
- (3) Improve professional capacity of claims personnel, select profitable insurance products, and manage combined ratio for increased profitability of underwritten coverage.

### 2. Risk management and financial investment policy

- (1) Actively improve various business fundamental constructions, optimize internal control and legal compliance system. Continue to improve risk quantification technology, enhance company risk management system, in order to strength the risk monitoring function for all operation processes.
- (2) Maintain most appropriate RBC standard, improve the Company's financial risk structure, maintain excellent solvency level, and make appropriate reinsurance arrangements in order to achieve business solicitation and risk diversification at the same time.
- (3) Make reasonable adjustments to premium rates according to risk tolerance and market changes; maintain and stabilize underwriting profit while cater for competitiveness and solvency.

### 3. Insurance service policy

- (1) Adhere to the customer protection and fair customer treatment philosophy, refine operating procedures and enforce self-discipline and self-correction principles, plan business strategies in line with customers' needs, and utilize financial technology for service quality improvements and better protection for financial consumers.
- (2) Promote "damage prevention" as the main concept and continue promotion of all-age damage prevention and corporate damage prevention services as part of corporate social responsibilities, thereby gaining customers' recognition for the brand. Incorporate environmental, social, and governance (ESG) values into the Company's operational plans, and achieve corporate sustainability (CS).

### 4. International operations policy

- (1) Continue to develop the channel strategies for the market in Vietnam, continue to manage operation and business stably and expand the business organization, implement digital transformation plan thoroughly, and manage individual customers through digital process, thereby improving the overall competitiveness and profitability of the enterprise.
- (2) Cooperate with Ant Financial for entry into the Mainland insurance market, and continue to expand online insurance service in the Mainland.
- (3) Actively expand services of the offshore insurance unit (OIU), develop opportunities in international risk management, cultivate international management talents, and expand the business scale of non-life insurance and reinsurance.



## ■ Cathay Securities Corporation

1. Undergo digital transformation and reach potential customers through precision marketing using digital tools; redirect customers to the Cathay Securities platform for more rapid market expansion.
2. Improve the existing service platform and introduce better quality products for institutional and natural-person investors local and abroad.
3. Expand cross-border investments through the sub-brokerage service, and provide local and foreign customers with a more user-friendly and complete service platform.
4. Optimize core trading strategies and models for improved investment performance; develop multi-product, multi-market, and modularized trading strategies.
5. Integrate joint marketing platforms throughout the group to support large underwriting cases.
6. Implement law compliance and strengthen risk management mechanism.

## ■ Cathay Securities Investment Trust Co., Ltd.

1. Maintain a lead over investment trust peers in terms of total assets under management, and strive to claim 1st place in terms of mutual funds and ETFs under management.
2. Increase the size and performance of mutual fund, ETF, discretionary investment, and private equity fund.
3. Become Taiwan's industry leader and the best asset management expert in Asia Pacific.
4. Integrate the group's global asset management resources and expand service on an international scale.
5. Adopt innovative financial technologies and applications for improved customer experience and satisfaction.
6. Develop and make improvements to retirement products and services, and educate customers on pension investments.

## ■ Cathay Venture Inc.

1. Investment Strategy:
  - (1) Pursue investment gains:
    - A. Maintain adequate levels of accessible capital to respond to drastic changes in the financial market
    - B. Time exits according to market movements.
  - (2) Explore potentials of data-driven investment:
    - A. Leverage previous investment successes and relationships and continue making rigorous selections of high-quality investment instruments.
    - B. Invest in data-driven applications, such as financial or medical companies that adopt AI or IoT applications.
    - C. Leverage group resources and connections of the venture capital subsidiary to explore and invest into local Fintech companies or Taiwanese enterprises in Southeast Asia.
    - D. Implement D.D. communication until the pandemic subsides, and conduct inspections on overseas companies via video conferencing or with the help of overseas subsidiaries.

E. Continue recruitment of talents with adequate technical background for in-depth assessment.

2. Investment stage:

Discover quality companies with growth potentials highly recognized in capital markets in the seed stage, early stage, expansion stage and later stage, and gradually increase the amount of individual investments.

3. Investment region:

The Company will focus on potential businesses in Taiwan and Southeast Asia, while at the same time monitor Fintech and biomedicine trends and opportunities in the U.S.

### (III) Industry Overview

The outbreak of COVID-19 spreading rapidly in 2020 cause global economic slump. Fortunately, governments and central banks around the world took the initiative to introduce fiscal and monetary incentives at an unprecedented scale, which effectively mitigated the scope of recession and supported investors' confidence. Although the pandemic persists and uncertainties remain in 2021 with respect to the future economy, availability of vaccines combined with new reliefs in the U.S. and American and European central banks' commitments to maintain monetary supply should reduce downside risks. Review and outlook of the domestic life insurance and banking industries are presented as follows:

The level of pandemic control and business/consumer confidence pose a high degree of uncertainty to economic growth and undermine performance of the life insurance industry. Meanwhile, the standoff between China and the U.S.A. causes a shift in the global supply chain, whereas other geopolitical risks further affect prospects of trade, investment, and the financial market, which reflects negatively on investment returns of the life insurance industry. The Company will respond by monitoring market changes and directing attention towards asset quality, security, balance sheet management, and risk control.

With respect to the banking environment, the pandemic has put many countries into recession, forcing local authorities to respond with large scale fiscal and monetary incentives. This overwhelming supply of liquidity makes asset prices volatile, whereas the low-interest environment also tighten the spread which leave banks with less room to profit. Most banks have responded to increased asset risks with structural adjustments, refined risk control measures, and more efficient practices. In 2020, the performance of Taiwanese banks as a whole was negatively impacted, reporting return on assets of 0.59%, return on equity of 7.72%, and NPL ratio of 0.22%. In the future, factors such as disease control, government policy, changes in the financial supervisory system, financial innovation, and regulatory amendments will all affect performance of the banking industry.

### (IV) Research and Development

#### ■ Cathay Life Insurance Co., Ltd.

1. Research and development spending in the last two years and the results:

(1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2021 (Estimate)	2020	2019
Amount	394,387	277,498	248,741
Growth rate (%)	42.1%	11.6%	0.7%

(2) Results of research and development

A. Product innovation: The Company has been actively reacting to changes in social trends and market needs with innovative products and protections to meet the needs of different consumers. The Company's "Cognitive Dysfunction Term Health (In-kind Benefit

Insurance)” introduced in 2020 was the industry’s first attempt at providing protection for dementia, an issue of increasing concern. The policy provides complete protection for dementia from prevention to nursing care, and was the first in the industry to include cancer screening and vaccination as health promotion measures. The Company continues to secure its position as the market’s leading brand with its ongoing innovation, and is the only insurance company to win the “Excellence Award for Product Innovation” in “Taiwan Insurance Excellence Awards” for eight consecutive years.

- B. Customer relationship management: New financial technologies and market developments present opportunities for new customer segmentation. From interaction, brand identification to precision marketing, the new segmentation model uses data to find the most successful and efficient approach at raising customers' loyalty and conversion rate.
- C. Digital development: The Company has been undergoing transformations in line with its agile culture to adjust to the post-pandemic era. These transformations began with collaboration with new business startups, incorporating AI image identification into the underwriting process for more efficient review. The Company’s innovative initiatives were rewarded with more than 10 patents in 2020, which outperformed the year before.

## 2. Research and development plan in the future

- (1) Product innovation: An aging population combined with longer life expectancy means that more people are living in an unhealthy state for extended periods of time. In an attempt to encourage self-motivated health management, the subsidiary continued taking steps to optimize its health promotion ecosystem in 2021, offering a broad range of health promotion incentives and usage-based products that provided the public with stronger motives to participate. These efforts help people improve their health conditions and eventually reduce the amount of medical spending to the mutual benefit of the public, the Company and society.
- (2) Customer segment management: By expanding internal and external database, the subsidiary strives to develop better understanding of customers’ preference and apply a three-stage process of “knowing,” “growing,” and “referring” customers to improve customers’ loyalty and conversion rate. Through integration of resources across the ecosystem, the subsidiary hopes to interact with customers on multiple dimensions so that suitable products can be developed and distributed through the most appropriate channels. Using the incremental precision marketing approach, the subsidiary aims to develop the most efficient marketing model as Cathay’s unique added value.
- (3) Digital development: Inspired by the vision of “Cathay as a Service” (CaaS), the subsidiary will transition into a business model that focuses on customer experience, and collaborate with new partners by leveraging its digital data capabilities and financial expertise to create new scenarios for digital customers. This insurance ecosystem comprising participants from different industries will bring greater level of convenience to customers’ lifestyle.

■ Cathay United Bank Co., Ltd.

1. Research and development spending in the last two years and the results:

- (1) The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2021 (Estimate)	2020	2019
Amount	844,888	547,265	459,218
Growth rate (%)	54.38%	19.17%	21.90%

- (2) Research and development outcomes completed in 2020:

Unit: NT\$ thousand

Name of major project	Investment
Payment Hub	39,140
Summit system upgrade	24,345
Implementation of customer contribution system	21,669
Mobile corporate banking APP	15,412
Bank-wide upgrade of computer terminals	19,365
Upgrade of high usability network infrastructure at IT Center	30,870

2. Research and development plan in the future

Plan/project in the most recent year	Progress	Additional budget required (NT\$ thousand)	Estimated time of completion	Factors critical to the success of research and development
Introduction of group cloud banking application (CRC)	In progress (80% incomplete)	15,500	2021/6/30	System integration and optimization
Introduction and implementation of cloud platform/structure	Planning in progress	3,360	2021/12/31	System integration and optimization
A-A implementation of NTD core banking system (Bancs)	In progress (83% incomplete)	106,348	2022	System integration and optimization
A-A implementation of front-end banking platform	In progress (61% incomplete)	62,020	2021/6/30	System integration and optimization
Change Data Capture (CDC) for core banking system	In progress (66% incomplete)	24,200	2021/9/30	System integration and optimization
EAI implementation of the intermediary platform (TR)	In progress (81% incomplete)	5,520	2022/3/31	System integration and optimization
Implementation of integrated platform at branches	In progress (98% incomplete)	6,900	2022/12/31	Effective communication with the departments in need
Implementation of new private banking system for Singapore, Taiwan, and Hong Kong	In progress (80% incomplete)	386,786	2022	Effective communication with the departments in need
Application of fraud detection system	Planning in progress	76,910	2022/6/30	Effective communication with the departments in need

■ **Cathay Century Insurance Co., Ltd.**

1. Research and development spending in the last two years and the results:

(1) Research and development spending in the last two years:

Unit: NT\$ thousand

Year	2021 (Estimate)	2020	2019
Amount	3,883	2,612	3,243
Growth rate (%)	48.65%	-19.47%	12.25%

(2) Results of research and development

A. Digital aspect:

The Company has been actively developing digital channels and seeking collaborative opportunities with participants from different industries in recent years. In 2020, the Company engaged SOMPO, Costco, and Secom to bring insurance services to consumers. This “one-stop shopping/service solution” not only reduced customer acquisition costs, but also improved customers’ service experience overall. Furthermore, a new company website was launched in March 2020 to integrate functions of the old website, the online investment platform (BOBE), and the digital service platform. An online insurance platform called “BeSafe” was later introduced in December 2020; being the market’s first online insurance platform, BeSafe breaks down existing insurance packages into fragments that customers can choose and combine to structure insurance solutions according to their needs.

B. Damage prevention aspect:

The Company is dedicated to providing risk control and damage prevention, the two main purposes of an insurance company. Backed by a professional damage prevention team and an extensive database of past claims, the Company is able to conduct in-depth analysis to identify risks of different groups, and offer suitable recommendations and training to help improve the situation. To achieve this purpose, the Company introduced a “Cathay Safety Program” and adopted a “Full Identification, All Age, and Total Prevention” strategy, taking action plans such as Damage Prevention Conference, Accident-free Campus, Accident-free Rider, and Accident-free Cycling to raise the public’s risk awareness, reduce severity and frequency of accidents, and exert long-term influence.

C. Product aspect:

The Company submitted 187 new products for review in 2020. By introducing diverse and differentiated products in line with current affairs, the Company was able to market, package, and design accessory products (e.g. 6-in-1 automobile insurance, sea activities insurance, child home health management insurance, individual and corporate disease prevention insurance) to great success, and satisfy the needs of the public while creating marketing advantages.

D. Credit ratings and awards:

The Company continued to earn strong praise and recognition for its outstanding performance during the year, ranking top 20% in FSC’s “Fair Customer Treatment Evaluation” while claiming “Insurance Excellence Awards – Excellence as a Non-life Insurance Company,” “Trusted Brand Award – Gold Award as a Non-life Insurance Company,” and “Best Product” in the 17th “National Brand Yushan Award.” Furthermore, the Company’s robust financial structure was awarded with strong credit ratings of “A-” from S&P, “twAA+” from Taiwan Ratings, and “A2” from Moody’s.

## 2. Research and development plan in the future

- (1) Introduce data analysis as a means to transform into an insurance technology-oriented sales team, continue development of data infrastructures and implement digitalized processes for enhancement of the non-life insurance value chain, raise operating efficiency and optimize service quality to customers, and build up the Company's image as an innovative leader and a compassionate service provider.
- (2) Recruit data analysis and financial technology talents, focus on developing employees' abilities to plan and execute sales, and improve business capacity of the organization.

### ■ Cathay Securities Corporation

#### 1. Research and development spending in the last two years and the results:

- (1) Research and development spending in the last two years:

Unit: NT\$ thousand

Year	2021 (Estimate)	2020	2019
Amount	3,883	2,612	3,243
Growth rate (%)	48.65%	-19.47%	12.25%

#### (2) Results of research and development

- A. Infrastructure construction: installation of Banqiao server and upgrade of network structure
- B. Automated APP testing was introduced to the digital platform
- C. Development of App-based regular U.S. equity investment, and development of self-managed investment service with renowned financial website
- D. Added functionalities such as U.S. stock standing orders / strategic orders to the sub-brokerage APP; implemented API trade functions, and improved overall business competitiveness and service quality
- E. Launch of share financing mobile platform and express loan disbursement
- F. Development of brokerage system at the Hong Kong subsidiary (foreign share/bond trading and bookkeeping)
- G. Establishment of wealth management trust system
- H. Ongoing optimization of centralized phone order placement center
- I. Implementation of centralized account opening system for securities brokerage and sub-brokerage for more convenient online account opening, with ongoing system optimization.
- J. Implementation and ongoing optimization of AML and CRS systems in compliance with law
- K. Development of proprietary ELN and CBAS systems as needed for business development
- L. Changes made to accommodate TWSE's new trading system: Commissioning of the foreign currency ETF system, expansion of price fields, implementation of deal-by-deal matching, and odd-lot trading during trading hours
- M. Implementation of new systems for new trading rules of Taiwan Futures Exchange
- N. Development of e-trading service for sub-brokerage and small bond transactions
- O. Completed development of proprietary foreign futures trading platform and connected with multiple brokers

- P. Introduction of automated processes and bots for improved operating efficiency and accuracy
- Q. Development of algorithms and trading modules for corporate entities.
- R. Optimized functions of the paperless system
- S. System optimizations in line with TWSE; establishment of deal-by-deal matching system
- T. Consolidation of passwords across securities, futures and sub-brokerage systems
- U. Development of technical mid-office
- V. Development of group ChatBot

## 2. Research and development plan in the future

- (1) Account opening and other applications/services relating to the use of new ID cards will be developed according to the timeline projected by the Executive Yuan
- (2) Group resources will be integrated to continually improve the convenience of online account opening
- (3) Real-time quotations of local and foreign equity markets will be added to provide customers with more investment products to choose from
- (4) The mobile trading platform will have functionalities enhanced to incorporate other investment products
- (5) A new Taiwan equity trading desktop software with integrated features of other products will be launched
- (6) Mobile webpage authentication technology will be introduced and used with online services and new business activities
- (7) The ChatBot will be optimized further to cover a broader range of service.
- (8) A mid office will be added to the system structure to improve flexibility and responsiveness of the front end.
- (9) A user behavior analysis and insight system featuring a data-driven decision model will be implemented
- (10) Customer segment analysis and customer notification services will be integrated
- (11) Development of sub-brokerage margin trading/financing system, sub-brokerage small-sum offshore bond e-trading service, and , sub-brokerage B2B bond/share/fund order placement system to support future deregulations
- (12) Consolidation of passwords across securities, futures and sub-brokerage systems
- (13) Development of futures online account opening service in line with business growth.
- (14) Establishment of securities and futures account mid-office
- (15) Precision marketing algorithm and platform
- (16) Application for “Qualified Intermediary” (QI) has been submitted to raise competitiveness in sub-brokerage service; this qualification requires improvements to be made to related systems
- (17) Regular fixed-sum investment of U.S. equity will be developed to accommodate trends such as financial advisory bots and B2B service.
- (18) APIM and cross-industry cooperation.
- (19) Implementation of new core system for futures
- (20) Implementation and introduction of messaging platform

- (21) Introduction of multi-factor authentication
- (22) Development and performance enhancement of the regular fixed-sum system
- (23) Implementation of electronic order placement AP
- (24) Introduction and application of voice-based AI customer service group-wide.
- (25) Introduction of ISO 27001 – Information Security Management System

■ **Cathay Securities Investment Trust Co., Ltd.**

1. Research and development spending in the last two years and the results:

(1) Research and development spending in the last two years:

Unit: NT\$ thousand

Year	2021 (Estimate)	2020	2019
Amount	20,420	20,930	16,690
Growth rate (%)	-2.4%	25.4%	32.1%

(2) Results of research and development

- A. Implementation of new functions for Cathay Investment
- B. Enhancement of off-site backup
- C. Enhancement of overall information security protection
- D. Optimization of online account opening functions and processes
- E. Implementation of operational target management system

2. Research and development plan in the future

Plan/project in the most recent year	Progress	Additional budget required (NT\$ thousand)	Estimated time of completion	Factors critical to the success of research and development
Implementation of fund accounting system	In progress (5% completed)	1,350	2022/12	Integration of new system with investment assistance system, and automation of bookkeeping process to allow rapid and accurate completion of settlement process by accounting personnel
Development of investment assistance system	In progress (75% completed)	7,200	2021/6	Development of a new investment assistance system that incorporates new technology and is integrated and automated to enhance operating efficiency, security and service quality
Annual information security strengthening program	Planning in progress (0% completed)	9,370	2021/10	Centralized login system for network equipment, web application firewall (WAF), terminal antivirus protection etc.
Upgrade of Cathay e-Family	Planning in progress (0% completed)	2,500	2021/9	Redesign of transaction webpage and simplification of user processes for improved user experience and satisfaction



## (V) Long and Short-term business development plan

### ■ Cathay Life Insurance Co., Ltd.

#### 1. Short-term business development plan:

The insurance business environment currently faces a number of challenges including the COVID-19 pandemic, changes in accounting standards, regulatory environment, insurance technology, and demographics, for which the Company has responded with the following short-term business plans:

- (1) Enforce data governance; enhance preemptive internal control and asset & liability management (ALM) for strengthening of corporate health.
- (2) Adopt international standards (e.g. IFRS17, ICS2.0) and make ongoing adjustments to product structure and asset allocation for improved profits and financial structure.
- (3) Maintain corporate flexibility, develop innovative business models, integrate talents, and implement flexible work model to accommodate drastic environment changes.
- (4) Utilize group resources to create a value-adding channel that supports the Group's growth in size and quality.

#### 2. Long-term business development plan:

Cathay Life embraces its mission as “Cathay Life, Sunshine in Your Life,” and enforces its vision of “Smart, Simple, and Safe through InsurTech.” The four main strategies below have been proposed as means to accomplish the above:

##### (1) Creation of an insurance ecosystem

Coordinate resources across group affiliates and participants of different industries for collective customer management. By integrating resources and service scenarios throughout the Group, the Company will offer extended insurance solutions to facilitate interaction with customers and promote policyholders' health.

##### (2) Segmentation and precision marketing

Using statistical data, the company aims to gain insight into customers' needs for more efficient customer segmentation, product recommendation and overall business management.

##### (3) Consistent customer experience across channels

Integrate online and offline channels and enhance service process from customers' perspective, use data as the foundation and strive to deliver experience/service beyond customers' expectation.

##### (4) Smart Working

Create a work environment characterized by open communication, energy, flexibility, and competitiveness for improved work quality and productivity.

### ■ Cathay United Bank Co., Ltd.

#### 1. Short-term business development plan

##### (1) Consumer banking:

- A. Optimize the mortgage and personal credit process to support efficient services and digitalization.
- B. Apply big data analysis to identify target customers and trends for precision marketing.
- C. Continue coordinating joint marketing efforts between group subsidiaries and expand customer base. Utilize the cash flow network to provide integrated financial products and services and optimize synergy.

- D. Aim to expand customer base and revenue contribution particularly from high net worth individuals; introduce integrated solutions aimed at enhancing product attachment.
  - E. Optimize service interface and deliver good customer experience for enhanced relationship and performance.
  - F. Train financial advisors with the abilities to learn customers' needs, analyze financial market trends, and recommend suitable investments to customers; build an all-round financial consultation team that specializes in helping customers with asset allocation.
- (2) Corporate banking:
- Expand employee size and make fundamental adjustments such as business focus with sustainability in mind; solicit customers that offer good business potentials and grow relationship in terms of transaction volume and revenue contribution; make use of SME credit guarantee and financial assets for risk mitigation and introduce capital management practices that improve capital efficiency for the corporate banking segment; increase cross-selling efforts and integrate information and cash flow applications for reduction in customer acquisition cost, better control of business opportunities, and sustained profitability and growth.
- (3) Trust:
- A. Develop employee shareholding trust in line with upcoming deregulations and policy incentives as a service to corporate customers; cooperate with Cathay Life on the promotion of insurance trust and grow trust customers.
  - B. Combine trust service with investment products to satisfy customers' needs for family wealth transfer solutions.
- (4) Credit card:
- A. Enhance integration and profit management over credit card products, develop innovative combinations of product privilege and structure, and create a reward points ecosystem that generates synergies for the Bank.
  - B. Create a financial service ecosystem through sharing and exchange of resources with merchants. Begin small and expand collaborative scenarios upon successful testing; develop a mutually beneficial ecosystem that satisfies customers' diverse financial needs through sharing of data, technology, and marketing resources.
  - C. Develop collaborative models with merchants and optimize operating procedures; design a multi-privilege system through sharing of data and resources with merchants; create a reward points ecosystem that increases marketing yields and generates synergy for the entire bank.
- (5) Automatic Channel Business:
- A. Transaction acquisition service: Cooperate with a diverse range of payment service providers on the introduction of transaction acquisition service and payment tools; acquire customers through profit sharing in ways that help expand the Bank's transaction acquisition service.
  - B. New payment: Incorporate innovative payment services, thereby allowing the Bank to introduce broader financial applications into its channels.
  - C. Automated channels: Cooperate with channel partners to provide customers with more comprehensive and convenient financial services.
- (6) Digital banking services:
- Continue enhancement of online and offline service integration; promote users' awareness towards security of digital channels and deliver optimal digital experience.
- (7) International banking:

- A. Coordinate with offices in the Greater China Region and Southeast Asian regions for the development of localized services; expand product and service offerings (such as treasury marketing, corporate Internet banking, global transactions, project financing, digital banking, private banking etc.) to maximize yields from customer relationship.
- B. Raise productivity and financial health of overseas subsidiaries, and have Mainland subsidiaries participate actively in the local capital market and grow local businesses; continue performance enhancement and digital transformation across all branches under the Cambodia subsidiary.
- C. The Bank will aim to strengthen its financial position through ongoing balance sheet optimization and risk management, and increase the intensity of cross-selling efforts while maintaining proper balance between risk and profitability.

(8) Investment and treasury marketing:

- A. Enhance end-to-end sales coordination and grow potential customers.
- B. Grow derivative services online.
- C. Consolidate service capacity across channels toward improving service quality.
- D. Examine and refine business processes for efficiency improvement and cost reduction.

2. Long-term business development plan

(1) Consumer banking:

- A. Adhere to a customer-centric mindset and optimize customers' experience in the digital channel and when applying for personal loans, thereby ensuring quality customer experience across all channels.
- B. Utilize group resources and integrate marketing manpower, sales channels and product lines for synergy in business development.
- C. Adopt the optimal asset/liability structure for improved capital efficiency and profitability.
- D. Adhere to a customer-centric business approach and offer diverse financial services to accommodate customers' distinctive characteristics. Actively develop digital cash flow service for increased account utilization; aim to become customers' main banker and increase demand deposit balance.
- E. Utilize group resources and integrate marketing resources and sales channels to create synergy in loan service.
- F. Grow e-commerce service by integrating across devices, platforms and physical/virtual channels; provide digital cash flow service to bring banking service into customers' lifestyles and business operations, thereby expanding customer base and strengthening their attachment to the banking service.
- G. Apply big data analysis to establish detailed knowledge on target customers' investment requirements, product preferences, risk attributes, as well as potential needs for product cancellation or maturity cash inflow; offer appropriate and matching investments accordingly to complement customers' asset allocation.
- H. Apply "systematic post-investment management" practices on customers' investment positions; monitor changes in market trend and how they affect product return; track performance of products sold and apply micro risk management over customers' investment positions. Take the initiative to monitor the quality of customers' holding position and improve customers' wealth management experience with the Bank.
- I. Take initiative in growing wealth management relationship with high net worth customers; offer diverse range of customized products and services and strive to offer

robust asset allocation plans to the satisfaction of high net worth customers, thereby distinguishing from investment services offered by peers.

(2) Corporate banking:

Adhere to the corporate sustainability strategy and provide sustainable banking services by enforcing ESG; enhance operating efficiency and create synergy through hardware/software implementation, use of digital tools, optimization of customer experience across channels, streamlining of service process, and increasing product breadth and depth; adopt a flattened and lightened management structure to achieve medium- and long-term goals of the corporate banking segment.

(3) Trust

Offer value-creating services and develop products that are needed by customers; digitalize insurance services through introduction of financial technologies and grow the digital customer base.

(4) Credit card

- A. Adopt data-driven customer segment management and end-to-end optimizations; extend products and services that are competitive and viable; offer differentiated services to satisfy the lifestyles and consumption needs of different customers for improved brand value and loyalty.
- B. Accumulate digital trail of customers' activities and increase data capacity; analyze customers' potential needs and offer services in line with expectation. Develop internal digital capacity and engage strategic partners from other industries in exchange of information; generate credit card income through broader perspectives, scenarios, and channels; provide one-stop lifestyle banking services with a customer-centric focus.
- C. Connect merchants and customers through big data analysis and a flexible digital platform; create a lifestyle ecosystem where precision marketing can be applied to deliver differentiated services to customers of different segments and consumption needs, and thereby enhance brand value and loyalty.

(5) Automatic Channel Business:

- A. Transaction acquisition service: Aim to increase market share, gain control over customers' cash flow, and develop suitable financial products for profit.
- B. New payment: Combine resources from channels and the Bank to create a mutually beneficial financial ecosystem.
- C. Automated channels: Develop a robust financial service ecosystem featuring an innovative business model, and establish automated channels as the ideal frontline to offline services.

(6) Digital banking services:

Make the digital channel the primary means of transaction and service to customers, and evolve into a gateway for more advanced dealings with mass-market customers.

(7) International banking

- A. Connect branches and partner platforms local and abroad to grow trade financing and cash management services within the boundaries permitted by law. Offer convenient financial services to customers' needs while at the same time improve accessibility of capital in ways that make the Bank the preferred bank to maintain a cross-border operations account.
- B. Develop a fully featured digital channel for deposit service and optimize customers' experience in virtual and physical channels; strengthen banking relationship with customers for increased volume of foreign currency deposits and currency exchange.

- C. Leverage Cathay Group’s local and overseas offices and business partners into creating an integrated worldwide service platform; grow cross-border banking services in the Greater China Region and Southeast Asia through financial hubs such as Hong Kong and Singapore.
  - D. Continue integration of local and overseas systems in ways that support the Bank’s vision of becoming “the best financial institution in Asia Pacific”; help customers improve efficiency and availability of capital, and provide a more comprehensive range of financial services in line with needs.
  - E. Monitor digital banking trends; explore and adopt innovative financial service models; enforce risk management and sustainable practices while pursuing service innovation and financial/business growth.
- (8) Investment and financial products:
- A. Develop user-end product quotation system for enhanced service quality and efficiency.
  - B. Offer diverse product design services for improved sales and customer coverage.
  - C. Enhance the risk management platform for tightened control over the risk of products sold.

■ **Cathay Century Insurance Co., Ltd.**

1. Short-term business development plan

(1) Product strategies - Commercial insurance

- A. Advocate the concept of comprehensive protections and offer high quality insurance coverage; introduce and promote omnibus or specialized products (such as the 6-in-1 auto insurance, New Age 2.0 etc.)
- B. Increase the weight of new products offered; grow business opportunities through bancassurance and life insurance/brokerage/agency channels and by participating in large tender projects or fleet services; optimize processes and services of the digital insurance platform to capitalize on the online insurance movement.

(2) Product strategies - Commercial insurance

- A. Continue promotion of business omnibus insurance and teachers’ liability insurance in conjunction with quarterly incentives; increase penetration of liability insurance by exploring smaller cases.
- B. Pay constant attention to major commercial insurance opportunities; evaluate and underwrite insurance policies for the emerging wind power industry or related businesses of the industry chain (e.g. offshore wind power service providers and maintenance vessels), and thereby maintain quality insurance exposure.

(3) Distribution strategies - Physical channel

- A. Focus on “the neglected 1% in asset management” and apply proper training and guidance to shape the Company’s image as an all-round consultant of life and non-life insurance solutions.
- B. Coordinate with Cathay Life’s customer management efforts to explore customers’ protection needs in all dimension and direct customers’ attention to the three main categories of non-life insurance (e.g. 6-in-1 automobile insurance, life + non-life, and teachers/physicians liability).
- C. Capitalize on the distinctive characteristics of each insurance broker/agent; strengthen and grow relationship with existing channels and explore new business opportunities of high quality for growth.

#### (4) Distribution strategies - Digital channel

- A. Development of digital channels: Continue search for channel partners from different industries and offer insurance products/services through alternative scenarios; expand reach to outside business opportunities, apply precision marketing, and grow potential customers.
- B. Optimized service process: Make ongoing improvements to the internal digital platform and integrate external channels across business partners; improve digital service functions for stronger brand identity, customer utilization and conversion rate; create a one-stop shopping platform that satisfies all of customers' needs.
- C. Member/customer segment management: Develop knowledge on customers through data analysis and apply segmented marketing; develop connections with customers and offer differentiated services that establish the Company's reputation as customers' exclusive insurance consultant.

#### 2. Long-term business development plan

- (1) Grow existing markets in depth and breadth, and provide diverse service channels to satisfy insurance needs of all types of consumers.
- (2) Undertake transformations of the digital era and incorporate technology and data into improving organization efficiency and customer experience; apply precision marketing that targets customers' needs and realize Cathay Century Insurance's vision of becoming "the non-life insurance company that best understands customers' needs."
- (3) Expand businesses in line with government policies and group strategies, and take pragmatic steps toward becoming the best non-life insurance company in Asia Pacific.

### ■ Cathay Securities Corporation

#### 1. Short-term business development plan

- (1) Enforce the group's core value of "Integrity, Accountability and Innovation." Review service quality regularly for areas of improvement. Create a positive work environment and deliver performance targets.
- (2) Promote digital financial services and improve customer experience with a customer-centric focus.
- (3) Grow products/services in broader variety such as sub-brokerage, OSU, unrestricted purpose loan, regular fixed-sum equity investment, and structured instruments for more diversified revenue source.
- (4) Expand business to domestic and foreign institutional investors, provide integrated services of quality products, platform and activities to domestic and foreign investors to increase orders placed by institutional investors.
- (5) Exercise higher level of discretion when issuing options and aim to maximize profit under controlled risk. In terms of proprietary futures trading, the Company will improve arbitrage techniques to incorporate more markets, more instruments and promote product modularization for better returns.
- (6) In terms of sub-brokerage, the Company will escalate its intra-group cross-selling efforts and coordinate with other subsidiaries of the group to bring comprehensive services to institutional and high net worth customers.
- (7) The company will be working with group affiliates to promote underwriting of securities for listed companies, and gradually expand international underwriting with the support of group resources.

#### 2. Long-term business development plan:

- (1) Leverage group resources for cross-selling of securities, and achieve higher penetration rate

among customers.

- (2) Search for niche business opportunities to secure diverse revenue sources; make enhancements to securities financing service and the product platform.
- (3) Explore overseas business opportunities, and expand operations into Asian markets.

■ **Cathay Securities Investment Trust Co., Ltd.**

1. Short-term business development plan

- (1) Utilize available distribution channels and offer suitable funds based on customers' risk preference and investment horizon.
- (2) Continue promotion of regular fixed-sum and buy-low investment strategies to increase the amount of subscriptions and number of participants
- (3) Enhance service to corporate customers; promote ETF subscription among institutional and natural-person customers for market growth.
- (4) Continue making refinements to the digital marketing platform, and apply it to channels and customer service

2. Long-term business development plan

- (1) Leverage group resources and Cathay's investment management team to deliver consistent long-term returns in line with customers' expectation, and hence improve business performance
- (2) Expand internal and external distribution channels, and create synergy by making efficient use of group resources
- (3) Grow customer base and promote customer classification management; classify customers by level of contribution and offer differentiated services to increase purchases from high net worth customers
- (4) Continually market full fiduciary discretionary investment services to government funds and corporations
- (5) Optimize the digital user interface and improve customers' experience and satisfaction across all product/service categories

■ **Cathay Venture Inc.**

1. Short-term business development plan:

- (1) The company aims to establish relationship with customers and identify potential prospects at an early stage, and actively support investees with their growth by referring businesses from other investees and group customers. The company will also draw from the group's exceptional financial service capabilities to assist investees in their financial and business competitiveness.
- (2) Other than Taiwan, the Company will also direct attention to locations of advance financial technology, such as USA, Singapore, China, Hong Kong etc., for the latest trends and business opportunities.
- (3) Leverage group resources and connections of the venture capital subsidiary to explore and invest into financial technology companies in Southeast Asia.
- (4) Strength investment development and assessment team continuously, and work with top-performing VC/PE funds on sharing investment prospects and overseas investment opportunities.

2. Long-term business development plan:

- (1) Work alongside business partners (groups and companies) that the Company can form business alliance with on joint venture investments to the benefit of both parties. Actions will be taken to enhance investment assessment capabilities of the venture capital team, and

thereby enabling the Company to acquire investment prospects from a broader number of sources.

- (2) Further explore opportunities in ASEAN countries or regions where there is strong presence of Taiwanese enterprises.
- (3) Strengthen investment teams in terms of research capacity and efficiency across different industries and regions.

## II. Cross-business & Cross-selling Benefits

Cathay Financial Holdings has been actively consolidating resources across subsidiaries to reduce operating costs, raise capital efficiency, and enhance cross-selling efforts. In doing so, subsidiaries are able to share resources with each other, while the Company substantially enhances customer satisfaction and maximizes shareholder value. Cathay Financial Holdings and subsidiaries regard cross-selling as an important performance indicator. Take 2020 results as an example, 28% of Cathay Life Insurance's first-year-premium was generated from the sale of insurance products through Cathay United Bank. For credit card business, 13% of new cards issued by Cathay United Bank had come from applications submitted through Cathay Life Insurance. Moreover, Cathay Life Insurance and Cathay United Bank together contributed to 61% of Cathay Century Insurance's overall business for the period.

Cathay Financial Holdings will continuously lie in the business foundation of customer value and aim for seamless integration between channels and products to fulfill customers' personalized needs. In terms of product development, by observing and adopting changes in the financial industry and regulatory environment around the world, we develop and introduce suitable products to our customers. In terms of distribution, we strive to create a more gratifying one-stop shopping experience for our customers through integration of marketing information and optimization of service processes. Given the trend of financial service toward scenario patterns, the company will continue working with partners of different industries to explore third-party applications and develop everyday banking. By offering brand new service experience, we hope to tighten our long-term relationship with customers.

In summary, Cathay Financial Holdings will continuously base on customer orientation mindset to raise customer value by delivering the right product/service through the right channel at the right time depending on customers' needs and preferences. Through systematic and efficient cross-selling mechanism, we expect to make better use of group resources and create higher synergy.

## III. Industry and Market Overview

### (I) Locations where products (services) are mainly sold (provided)

Main financial products (services)	Regional base/office
Life Insurance (including life, endowment, health/medical, annuity, accident, group, etc.)	Taiwan, Mainland China and Vietnam
Banking (deposits, loans, credit cards, foreign exchange, trusts, etc.)	Taiwan, Hong Kong, Mainland China, Singapore, Vietnam, Cambodia, Laos, Malaysia and Philippines
Non-Life Insurance (automobile, fire, flood, engineering, health, casualty and others etc.)	Taiwan and Vietnam
Securities (brokerage, proprietary trading, underwriting, financial instrument)	Taiwan and Hong Kong
Securities Investment Trust and Consulting /Asset Management	Taiwan, Hong Kong, Mainland China, Europe, United States and Japan



## (II) Future market supply and demand

### ■ Life Insurance

#### 1. Supply

By adhering to the mindset of “What if We Could” and applying innovative financial technologies in digital marketing, the Company aims to optimize efficiency of its channels and bring smart services to policyholders, thereby delivering the ultimate digitalized insurance experience. While upgrading policyholder services, the Company will also expand its alliance with participants of other industries, bringing insurance services and products into every aspect of consumers’ digital lifestyle for better customized experience that meets their needs

#### 2. Demand

An aging population combined with longer life expectancy means that people increase demand for financial as well as health management solutions among the elderly population. In an attempt to encourage self-motivated health management, the Company will shift its product development focus towards health promotion and long-term care, while at the same time taking steps to develop a health promotion ecosystem that enhancing the concept of insurance “from compensation to prevention” to the mutual benefit of the public, the company, and the society.

#### 3. Future prospects

Cathay Life adheres to its core values of “integrity, accountability and innovation,” embraces its mission of providing “security in life” and enforces its vision of “Smart, Simple and Safe through InsurTech.” The four main strategies below have been proposed as a means to accomplish the above:

##### (1) Creation of an insurance ecosystem

By integrating resources from within and outside the Group, the Company aims to grow relationships with customers alongside its business partners, and extend insurance solutions to cover broader scenarios, facilitate customer interaction, and promote policyholders’ health.

##### (2) Segmentation and precision marketing

The Company will take the initiative to develop new data models that use data to explore the most successful and efficient approach at raising customers’ loyalty and conversion rate, from interaction, brand identification to precision marketing, and to introduce suitable products as well as the best channels to market them.

##### (3) Consistent customer experience across channels

Develop a smart insurance platform with AI and machine learning, and increase speed of service with the support of a strong mid/back office. Integrate virtual and physical channels and offer personalized service through a consumer-centric approach.

##### (4) Smart Working

Create a work environment characterized by open communication, flexibility, and competitive working environment for improved work quality and productivity.

### ■ Banking

#### 1. Supply

On top of the pandemic, domestic wealth management services are forced to undergo digital transformation due to the arrival of online-only banks, as they provide consumers with easier access to financial services without the constraint of time or space. Coupled with the fact that the domestic insurance market is intensively competitive with an oversupply of highly homogeneous products, the Company will place greater emphasis on delivering professional services in line with customers’ needs.

## 2. Demand

The global financial environment is still under the effect of the pandemic, it's expected that the low interest environment will persist for an extended time. As vaccines become available, the world will be looking forward to an economic recovery, and given the market's abundant liquidity supply, there has been a shift in preference towards risky assets. This increased demand for investments is favorable to the growth of wealth management services.

Due to restrictions of prevailing laws and the investment environment, the Company will focus on promoting the protective features of insurance. Meanwhile, customers' needs will have to be analyzed in greater detail and addressed with overall asset allocation solutions in order to increase customer stickiness, revenue contribution, and product penetration.

## 3. Future prospects

Faced with changes in local and overseas markets and challenges from online-only banks and other non-conventional financial institutions, the Bank will continue adhering to rules of the authority and explore ways to improve capital efficiency and yield. The Bank will also make better use of group resources to expand digital and data capacity and apply new technologies to the front, mid, and back offices to expand banking services scope and deliver higher value-adding services to customers, thereby accomplishing operational goals.

In order to support future growth and realize the vision of becoming "the top performer in Asia Pacific," the Company will continue making improvements to its organization, recruiting talents of various expertise and skills, and enforcing proper management, communication, and culture to inspire "Integrity, Accountability and Innovation" within employees, and provide the foundation and energy needed for transformation.

### ■ Non-life insurance

#### 1. Supply

- (1) In light of how digital channels of non-life insurance have flourished in recent years, the Company will be cooperating with partners from different industries to develop scenario-based insurance services, expand business reach, address customers' needs with greater precision, and maximize exposure to potential customers. Internally, the Company aims to integrate into an all-in-one digital platform for improved customer experience, and introduce automated procedures as well as full service features that increase brand identification, customer experience, service utilization, and conversion rate.
- (2) Cathay Century Insurance is an active advocate of preventive measures, and has been applying innovation and the latest technologies to develop a broad range of damage prevention services in line with current trends, including "Damage Prevention Conference," "Accident-free Workshop," "Accident-free Campus" and "Accident-free Rider." The Company offers various testing and analysis to reduce the frequency and severity of potential accidents, and delivers mutual benefit for both the insurance applicant and the beneficiary.

#### 2. Demand

The authority's active support for "Five Plus Two Industry Innovation Plan" has increased demand for commercial insurance in the green energy industry. Meanwhile, social changes and progression into a digital era give rise to new risks and needs for insurance coverage (such as pet insurance and mobile device insurance).

#### 3. Future prospects

Strong car sales caused by promotional activities and new offerings at the end of 2020 should carry over to 2021. Increasing percentage of imported cars combined with the growth of hybrid and electric vehicles driven by rising environment and sustainability awareness are all favorable to increasing premium revenues from auto insurance. Meanwhile, the government's "Five Plus Two Industry Innovation Plan" place great emphasis on the energy market, creating insurance demands for offshore wind power infrastructures and maintenance vessels that are expected to

benefit commercial insurance. As for travel insurance, COVID-19 will continue to affect the demand, forcing insurance companies to undergo digital transformation and introduce online insurance as a means to improve service efficiency and customer experience

## ■ Securities Business

### 1. Supply

Due to the rise of digital service channels, the number of securities branches has fallen continuously from 1,086 (peak) in 2011 to only 875 in 2020. Due to impacts of the pandemic, activities in Taiwan's primary equity market lessened, causing companies to postpone share offerings. A total of 29 IPO cases were completed in 2020, raising NT\$13.9 billion of capital; this represented a 10-year low both in terms of case counts and amount. The authority is currently encouraging businesses with critical technology and innovative capabilities to raise capital as a means to support the capital market.

### 2. Demand

Digital banking and new investments have emerged as trends of the future. In 2020, Taiwan equity market saw TAIEX rising to a record-high level while average daily trade volume rose from NT\$155.6 billion in 2019 to NT\$252.4 billion, and natural-person traders accounted for a higher percentage of total trade volume at 65.6%. Sub-brokerage trade volume grew from NT\$2.4 trillion in 2019 to NT\$3.8 trillion in 2020; ETF transactions increased from NT\$2.1 trillion in 2019 to NT\$2.8 trillion in 2020; and options trade volume fell from NT\$221.6 billion in 2019 to NT\$215.4 billion in 2020. With respect to regulations, the authority announced six major action plans in 2020 to support its goals toward financial resilience, financial innovation, sustainable finance, and financial inclusion, and the Company will grow future businesses in line with the authority's policies.

### 3. Future prospects

Cathay Securities will introduce new digital services to drive transaction activities and improve overall operating performance. The Company will continue promoting financial inclusion in the future with entry-level offerings such as regular fixed-sum investment of Taiwan/U.S. equity and small bonds investments to meet customers' diverse investment needs and raise satisfaction.

## ■ Investment Trust

### 1. Supply

Founded 20 years ago, Cathay Securities Investment Trust has grown to become the largest asset management company in Taiwan. Its exceptional performance has been well-recognized time and time again by domestic and foreign institutions; by the end of December 2020, the Company had won a total of 102 awards in regard to fund offering, investment research, asset management, and risk management. The diversity of our achievements is representative of our persistence in innovative research and development. Owing to the contribution of a professional and experienced team, Cathay Securities Investment Trust has been able to identify future trends correctly and develop and improve its products ahead of peers, bringing creative energy to what many would consider a matured industry to the satisfaction of institutional and individual investors alike.

Cathay Securities Investment Trust has consistently impressed investors with its exceptional performance, service quality and industry-leading asset management expertise. The Company is currently the largest in the industry with US\$28.6 billion of assets under management. The Company has been active in the promotion of ETF investments in the last four years, introducing products that replicate performance of prominent indices overseas to fulfill customers' needs for diverse asset allocation. The Company also launches products in line with industry movements to help investors capitalize on profit opportunities. The Company had issued more than US\$9,523 million of ETF at the end of 2020, making it the second largest ETF issuer in Taiwan. One of its offerings – Cathay Sustainability High Dividend ETF (00878) – had even set the record of achieving the largest and fastest increase of beneficiaries within one month after an ETF is founded. By the end of December 2020, the ETF had accumulated total 136,734

beneficiaries. Cathay Securities Investment Trust also acknowledges investors' increasing demand for retirement planning and responds with the introduction of "Cathay Retirement Series – Cathay Target Date 2029/2039/2049 Fund of Funds" in 2019 followed by online calculation platform that help customers learn their retirement funding gaps with simple explanations. The combination of knowledge and product offerings helps customers prepare for life for retirement.

## 2. Demand

ETF will be the main product that drives growth of investment trust businesses, combined with the fact that deregulations are underway for related services, Cathay Securities Investment Trust will continue to expand its ETF product line and place emphasis on studying market trends and meeting customers' expectations for market trends, sustainability issues, high dividend payments, or high price volatility, thereby providing customers with more investment selections. Furthermore, given the public's rising awareness towards retirement planning, the Company will continue introducing related services and products to help investors save early for retirement.

## 3. Future prospects

Given the increasing diversity and intensifying competition of ETFs in the market, we will continue paying close attention to industry trends and capitalize on investment opportunities for the benefit of investors. Efforts will also be made to enhance services to corporate customers and promote ETF subscription among institutional and natural-person investors for market growth. Furthermore, overwhelming demand for retirement products reflects the fact that retirement investment has emerged as a prominent issue nationwide. In response, the Company will be hosting long-term education programs on the topic of retirement planning and continually improve its Cathay Retirement Platform to provide customers with more information on retirement planning and investment; furthermore, online and offline campaigns will be organized to integrate the Group resources into creating an all-purpose retirement information platform. Meanwhile, as a response to an era of new technologies, the Company will be adopting new financial technologies for the launch of simple and easy-to-understand digital services targeted at solving for the pain points of young customers, which in turn improves customer satisfaction and loyalty.

### (III) The Business Objectives of Cathay Financial Holdings

The Company remains committed to its sustainability principles and its goal to maximize values for shareholders, customers and employees. Its future strategies will still revolve around three main focuses: **1. Making asset management business as the third profit engine with higher profit contribution; 2. Expand presence in Asia Pacific; and 3. More proactive adoption of financial technologies.** In doing so, we hope to improve our market competitiveness and become one of the best financial institutions in Asia Pacific. The Company's future operational targets are as follows:

#### **1. Making asset management business as the third profit engine with higher profit contribution:**

In addition to banking and insurance, Cathay Financial Holdings is actively developing asset management as the 3rd profit engine. A global asset management platform connecting Cathay Securities Investment Trust (Taiwan), Conning (USA), Octagon (USA) and Global Evolution (Denmark) will be established to provide asset management services that are centered around customers' needs. Through integration of banking, insurance and asset management services, the Company plans to satisfy customers' needs at various stages in life and under any market circumstances. By the end of 2020, the asset management platform had accumulated US\$190 billion of assets under management. In the future, the company will strive to improve financial performance and enhance profit contribution from the asset management platform.

#### **2. Expansion in Asia Pacific:**

In the Mainland market, the Company will continue working closely with its subsidiary and life/non-life insurance joint ventures to grow local businesses, and strengthen relationship with Mainland investment partners Lujiazui Financial Development Co., Ltd. and Ant Financial Services to expand insurance service. The Company has even founded a joint venture "Chongqing

Ant Consumer Finance Company” with Ant Financial Services to access the consumer finance market in the Mainland China. Meanwhile, the Company has been making progressive expansions into Southeast Asia in recent years through a combination of branch establishment and business acquisition. It currently has branches in 9 ASEAN countries and continues to enhance cooperation with strategic partners to grow distribution channels, local sales teams, as well as business opportunities in the Southeast Asian market.

### **3. More pro-active adoption of financial technologies:**

Adoption of new technology involves three aspects: infrastructure, commercial application, and talent training, for which the Company will continue recruiting talents and consolidating data within the Group, and assemble a solid data analysis team that is capable of implementing innovative financial technologies in real applications. Services such as “Fa” – the ChatBot, “Flexi-loan” – a digital lending service, “Shopee Delayed Payment Scheme” – a big data-assisted loan, “Cathay Smart Investment” – an AI-assisted investment services, “ezTravel Travel Insurance Regulatory Sandbox Experiment” – a one-stop service platform of travel insurance products, and “BeSafe” – an online platform of non-life insurance products, are all creative examples of what conventional financial institutions may offer with the help of financial technology. In the future, the Company will continue exploring market-leading technologies, using data as a service to support various scenarios and needs within the group and working with partners from different industries to introduce competitive business models. It is our ultimate goal to build an ecosystem around the idea of “Cathay as a Service” (CaaS), in which customers may have access to more convenient and distinctive financial service experience.

## **(IV) Future threats and opportunities**

### **■ Life Insurance**

#### **1. Opportunities**

- (1) Insurance technologies continued to be evolved in the last 5 years, driving digital transformation of the entire industry and enticing further deregulations from the authority. Empowered by new technologies, Cathay Life will continue using digital technologies to create a new insurance value chain where financial services are delivered and customers’ needs are satisfied at greater efficiency.
- (2) The pandemic has made people more aware of health management, and having observed consumers’ needs, Cathay Life will expand its health initiative by incorporating a wider range of services to create a health ecosystem where member-exclusive products are offered. New usage-based policies will also be developed to capitalize on the health trend. Meanwhile, the Company will design and promote its products by focusing on the protective features of insurance, advocating a value-oriented approach to ensure sustainable business growth.
- (3) Taiwan is expected to become a hyper-aged society in 2025, and an aging population combined with low fertility will increase demand for nursing and retirement planning. Insurance companies are expected to continue developing products and services that are targeted toward senior individuals with a focus on wealth accumulation and retirement needs. It is foreseeable for future commercial insurance to be designed closely in connection with social insurance.

#### **2. Threats**

- (1) The low interest environment will persist as a result of the pandemic and the fact that the Fed expects no significant interest hike before 2023. There are also concerns that governments may have run out of policy measures, which gives rise to a new risk to global economy. Meanwhile, China-United State trade war is forcing businesses to relocate and adjust production capacity, whereas economic and geopolitical risks continue to disturb stability of the global economy and financial markets, which in turn reduces spread and investment returns of life insurance companies.

- (2) As digital services increase in popularity, the insurance industry will be gathering and making use of data at increasing volume for a number of purposes from risk management to the design of new products and services. Uses of new technology and increased level of cross-industry collaboration give rise to information security risks, and the Company will enhance security protection not only for compliance with government policies, but also to ensure continuity of business activities.
- (3) Adoption of international standards such as International Financial Reporting Standards (IFRS) No. 17 and International Capital Standard (ICS) 2.0 will affect net worth calculation of the life insurance industry, causing substantial variation to reported profits while increasing compliance and administrative costs. The Company will take the initiative to adopt IFRS17- and ICS-compliant information systems, make ongoing adjustments to its operating strategies, and organize intensive training to prepare employees for upcoming changes.

## ■ Banking

### 1. Opportunities

- (1) The Bank has access to analytical talents and financial products both within and outside the Group, and has had great success delivering digital financial services to customers using modern technologies and a digital platform in recent years. The ongoing pandemic, extreme volatility of the financial market, and investors' shift towards online trading have presented the Bank with the opportunity to further improve customer relations and experience by: offering accurate and timely market information and investment advice, optimizing online trading functions, and delivering relevant, suitable, and useful financial services to customers.
- (2) In addition to the existing online insurance platform, the Bank will continue improving its digital security service to provide customers with exceptional digital experience and added value.
- (3) Electronic payment services from leading companies such as Shopee, PX Mart, and Family Mart are helpful to the growth of the credit card market as they represent additional payment application scenarios. Increasing percentage of non-cash payments works in favor of creating a payment ecosystem that benefits banks, merchants, and consumers, whereas development of a comprehensive consumption data model provides insight to customers' spending habits and creates opportunities for precision marketing to be applied to better fulfill customers' financial needs.
- (4) The credit card market continues to grow and consumers are already accustomed to paying with plastic currency. The spread of COVID-19 further compelled merchants to accept electronic payment and sell online, which creates opportunities of a stronger bond between banks, merchants, and consumers. Online transactions also provide abundant data that can be analyzed to explore customers' needs with greater precision.
- (5) Mobile payment activities continued to grow throughout Taiwan in 2020 due to new services introduced by electronic/third-party payment service providers and retail chains, which ultimately contribute to more matured business practices. Intensive competition among mobile payment service providers should persist in 2021, and through credit card/account linkage, the Bank expects to expand application and broaden the reach of its financial services.
- (6) The Bank operates a broad network of automated equipment with extensive customer coverage. Future deregulations will open up opportunities for financial service providers to grow.
- (7) Outlook of domestic consumption turns strong for 2021, and the central bank's expansionary monetary policy combined with relief and stimulus measures should provide adequate support for economic growth. However, conservative outlooks published by research institutions around the world coupled with uncertainties regarding the pandemic,

the slowdown in China's economic growth, and China-United State trade war, and geopolitical risks will all affect the strength of growth. The Bank continues to monitor credit risks and industry changes, and offers diverse financial services without compromising asset quality as a means to improve business performance.

## 2. Threats

- (1) Some banks are offering new cards packaged with high rewards or privileges in an attempt to maintain market share and retain cardholders, which increases competition of the banking service. Meanwhile, credit cards are now used mostly as payment tools, and low utilization of the credit function caused a decline in profits.
- (2) The market is saturated with payment solutions and competitors, and fast shifts in payment preference increases equipment modification cost.
- (3) Mobile payment services from competing platforms and incentives offered by payment service providers, financial institutions, and retail chains in an attempt to attract merchants and customers have made it more competitive and challenging to collaborate with payment service providers.
- (4) The financial market is already overwhelmed with mixed information and homogeneous business competition among peers; the arrival of online-only banks poses an even greater challenge to digital wealth management services.
- (5) The authorities have tightened supervision over guaranteed payment products and forced an increased in premiums that may adversely affect sales. It would be more challenging to develop new investment-linked products that meet customers' needs.
- (6) It is difficult for banks to enjoy excess profit margin due to saturation of the domestic financial market and the prevailing low-interest environment. Furthermore, given the rapid changes in financial products and the banking environment, banks have to constantly adjust and adapt, which presents major challenge to future operations.

## ■ Non-life insurance

### 1. Opportunities

- (1) Cathay Century Insurance has abundant support from the Group including strong brand image, nationwide network, and extensive sales force. It has the advantage to leverage the Group's highly integrated marketing efforts.
- (2) Cathay Century Insurance has been actively promoting digital transformation in recent years, taking actions to optimize online channels and service processes as a means to increase sale of personal insurance products. Meanwhile, more attention is being paid to acquire and manage relationship with customers, and therefore improve service quality and customer experience at the same time.
- (3) The green energy industry and online insurance present enormous market potentials following the government's new policies (e.g. offshore wind power, product fragmentation). These opportunities can be capitalized with the introduction of new commercial insurance policies and expansion of digital channels.

### 2. Threats

- (1) Hotai Insurance has gained significant advantage in building complete value chains of auto insurance industry since inception; its presence has disrupted the auto insurance market and intensified competition particularly with regard to auto insurance and bulk commercial insurance.
- (2) Peers been active in the consolidation of marketing resources, such as Nan Shan Life's acquisition of AIG and Fubon Insurance's successful cross-selling efforts may close in on Cathay Century Insurance's current cross-selling advantage.

## ■ Securities Business

### 1. Opportunities

- (1) The Company is a pioneer in digital service and fully supports the government's policies on financial technology and financial inclusion, both of which have emerged as trends of the future. In addition, given the fact that the digital pipeline has been effective, the scope of products and services offered on the digital platform will be broadened to meet the needs of different customers.
- (2) Demand for sub-brokerage service continues to grow as local customers become more demanding on both domestic and abroad financial products. Improving customer experience should help grow sub-brokerage services.
- (3) Cathay Securities is able to utilize resources of other group subsidiaries to serve securities customers and institutional investors, enhance product/service, and raise customer satisfaction.

### 2. Threats

- (1) Cross-industry collaboration has emerged as a new competitive practice. Competition from non-financial institutions in the financial service industry has been made possible by new business models and innovative technologies, which further intensifies competition within the industry.
- (2) Digital financial service forms a significant part of Cathay Securities' development strategy, which puts the Company in high demand for financial technology talents (the same can be said about financial peers), and competition for critical digital talents has intensified as a result.

## ■ Investment Trust

### 1. Opportunities:

- (1) The market is seeing an increasingly diverse range of investment products and intensifying competition from peers. However, Cathay Securities Investment Trust has the advantage to leverage group resources and Cathay's asset management platform and investment management team to deliver consistent long-term returns. It currently has a strong reputation and is highly trusted among investors.
- (2) "Retirement planning" has gained significance as an investment goal due to increased average lifespan in Taiwan. Cathay Securities Investment Trust has been following this trend for extended periods of time and responded with offerings such as "Cathay Retirement Series – Cathay Target Date 2029/2039/2049 Fund of Funds," an optimized digital platform, comprehensive information and services, education on retirement planning, and innovative debiting strategies. The Company places great emphasis on regular fixed-sum investment plans as a way of increasing investor commitment and market share, and has established its reputation as a retirement planning expert among investors.
- (3) Investors have become increasingly dependent upon digital services due to rapid technology development. A digital, AI-driven mobile investment platform has been created by Cathay Securities Investment Trust specifically for young customers and people approaching retirement, and ongoing improvements are being made to digital marketing to raise customers' satisfaction toward the products and services offered.

### 2. Threats:

- (1) Digital banking now accounts for such a significant percentage of total transactions that the Company is constantly in need of optimizing and refining both the desktop and mobile versions of its investment system, and enhancing security protections in order to provide investors with more secure digital environment and services.
- (2) The market is currently overwhelmed with ETF offerings; products are being developed and launched at such a fast speed that issuers are starting to experience increase of market-making costs, competitive pressure and difficulty in product development.
- (3) Markets may have stabilized but are still susceptible to the development of the pandemic situation.



## IV. Employee Profile

### ■ Cathay Financial Holding Co., Ltd.

- Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Managers	64	71	68
	General Staff	418	453	437
	Total	482	524	505
Avg. Age		35.55	35.82	36.02
Average years of services		5.65	5.58	5.79
Education	Doctorate	1.45%	1.15%	1.39%
	Master	57.26%	57.44%	57.23%
	Bachelor	40.46%	40.84%	40.78%
	High School	0.62%	0.38%	0.40%
	Below High School	0.21%	0.19%	0.20%
Professional Certifications or Qualifications Received by Employees		See chart below		

- Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Chartered Financial Analyst (CFA)	CFA Institute (AIMR)	1
Securities investment analyst	Securities and Futures Institute	4
Financial Risk Manager (FRM)	GARP	2
Certified Internal Auditors (CIA)	The Institute of Internal Auditors-Chinese Taiwan	2
Certified Public Accountant	The Examination Yuan of R.O.C.	2
Taiwan Bar Exam	Legal Affairs Dept	1
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists (ACAMS)	6
China Actuary	China Association of Actuaries	1
U.S. actuary exam	Society of Actuaries	6
Associate of Society of Actuaries (ASA)	Society of Actuaries	2
Actuarial assistant	Department of Insurance, Ministry of Finance	1
Administration personnel for life assurance of R.O.C.	Life Insurance Management Institute of the R.O.C.	9
Fellow of Life Management	Life Office Management Association	19

Certifications and Qualifications	Exam Administrator	Number of employees
Institute (FLMI) exam	(LOMA)	
Fellow of Life Management Institute (FLMI) certification	Life Office Management Association (LOMA)	6
Project Management Professional (PMP)	Project Management Institute	2
SAS forecast model establishment designer	SAS	1
OCPJWCD	ORACLE	1
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT)	1
Qualification Exam for Stock Affair Specialist	Securities and Futures Institute	7
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	94
Qualification Exam for Non-Investment Foreign Currency Insurance Products	The Life Insurance Association of the R.O.C.	17
Basic exam for Corporate Internal Control	Securities and Futures Institute	1
Test for Internal Control and Internal Audit of Banks	Taiwan Academy of Banking and Finance	4
Securities investment trust and consulting laws (including self-governance rules)	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	4
Investment trust and consulting specialist exam	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	1
Securities investment trust and consulting professional	Securities Investment Trust & Consulting Association of The R.O.C (SITCA)	1
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	16
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	2
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	2
Trust representative	Trust Association of R.O.C.	29
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the Republic of China	23

Certifications and Qualifications	Exam Administrator	Number of employees
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	11
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	1
Qualification Exam for Futures Specialist	Securities and Futures Institute	3
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	2
Qualification Exam for Securities Specialist	Taiwan Securities Association	5
Qualification Exam for Senior Securities Specialist	Taiwan Securities Association	5

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	3,427
Professional Courses	1,081
Auditor Continuing Training	123
2020 Total Training Expense	NTD\$ 5,758,458

■ **Cathay Life Insurance Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Back-Office Personnel	4,917	4,948	4,917
	Front-Office Personnel	28,292	28,435	28,151
	Total	33,209	33,383	33,068
Avg. Age		43.73	43.78	43.90
Average years of services		12.01	12.05	12.14
Education	Doctorate	0.04%	0.04%	0.05%
	Master	7.51%	7.94%	8.03%
	Bachelor	51.55%	52.79%	53.13%
	High School	38.09%	36.63%	36.30%
	Below High School	2.81%	2.60%	2.49%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Investment Analyst	Securities and Futures Institute	75
Qualification Exam for Securities Specialist	Securities and Futures Institute	138
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	169
Qualification Exam for Futures Specialist	Securities and Futures Institute	150
Futures Trading Analyst	Securities and Futures Institute	2
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	140
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	3,244
Qualification Exam for Stock Affair Specialist	Securities and Futures Institute	8
Professional Capacity of Bonds Specialist	Securities and Futures Institute	10
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	1,133
Basic exam for Corporate Internal Control	Securities and Futures Institute	23
Proficiency Test for Asset Securitization	Securities and Futures Institute	4
Proficiency Test for Financial Planning	Taiwan Academy of Banking and	1,030

Certifications and Qualifications	Exam Administrator	Number of employees
Personnel	Finance	
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	106
Proficiency Test for Advanced Operation Personnel	Taiwan Academy of Banking and Finance	3
Professional Competency Test on Trust Collateral Appraisal of Financial Personnel	Taiwan Academy of Banking and Finance	21
Professional Competency Test on Risk Management of Financial Personnel	Taiwan Academy of Banking and Finance	3
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	17
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	31
Test for Internal Control and Internal Audit of Banks	Taiwan Academy of Banking and Finance	439
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	27,779
Qualification Exam for Non-Investment Foreign Currency Insurance Products	The Life Insurance Association of the R.O.C.	27,645
Insurance Assessor for Life Insurance	Life Insurance Management Institute of the R.O.C.	737
Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	769
Qualification Exam for Non-Life Insurance Representative	The Non-Life Insurance Association of the R.O.C.	9,501
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	4,674
Qualification Exam for Bill Finance Specialists	R.O.C. Bills Finance Association	1
Qualification Exam for Investment-orientated Insurance Product Representative	Insurance Institute of the Republic of China	20,780
Insured service certification - life insurance	Insurance Institute of the Republic of China	1,774
Insured service certification - property insurance	Insurance Institute of the Republic of China	1
Certified Public Accountant	The Examination Yuan of R.O.C.	16
Architect	The Examination Yuan of R.O.C.	2
Fire Protection Engineer	The Examination Yuan of R.O.C.	1
Real Estate Appraiser	The Examination Yuan of R.O.C.	8
Taiwan Bar Exam	The Examination Yuan of R.O.C.	10
Scrivener	The Examination Yuan of R.O.C.	3
Intangible Asset Valuator	Ministry of Economic Affairs,R.O.C.	2

Certifications and Qualifications	Exam Administrator	Number of employees
Fellow, Life Management Institute (FLMI)	Life Office Management Association (LOMA)	121
Associate, Reinsurance Administration Program (ARA)	Life Office Management Association (LOMA)	1
Chartered Financial Analyst (CFA)	CFA Institute	17
Financial Risk Manager (FRM)	GARP	18
The Associate, Life and Health Claims (ALHC)	International Claim Association	5
Fellow of The Institute of Actuaries of Japan	The Institute of Actuaries of Japan	1
Fellow of the Society of Actuaries	Society of Actuaries	5
Associate of the Society of Actuaries	Society of Actuaries	35
Administration Personnel for Life Insurance	Life Insurance Management Institute R.O.C.	55
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	9
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	24
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA)	13
Certified Information Systems Auditor (CISA)	Information Systems Audit and Control Association (ISACA)	5
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT)	350
A member of Royal Institution of Chartered Surveyors (RICS)	RICS	19
Project Management Professional (PMP)	Project management institute	22
Certified Anti-Money Laundering Specialist (CAMS)	ACAMS	2
SAS basic programming designer	SAS Institute	4
SAS Certified Advanced Programmer	SAS Institute	2
Certified Commercial Investment Member (CCIM)	CCIM INSTITUTE	2
Red Hat Certified Engineer (RHCE)	RED HAT	1
Oracle Certified Professional, Java EE 5 Web Component Developer(OCPJWCD)	ORACLE	31
Certified Information System Security Professional (ISC) 2 (CISSP)	CISCO	2
IBM Certified System Administrator –AIX6.1 series and above (CSA)	IBM	12
IBM Certified Application Developer–DB2 Universal Database V8.1 series and above (CAD)	IBM	4
IBM Certified Advanced Database	IBM	3

Certifications and Qualifications	Exam Administrator	Number of employees
Administrator –DB2 Universal Database V8.1 series and above for Linux, Unix and Windows (CADA)		
Professional Scrum Master(PSM)	Scrum.org	15
CISM, Certified Information Security Manager	ISACA	1
Professional capacity test for debt collector	Taiwan Academy of Banking and Finance	8
Proficiency test for digital finance knowledge	Taiwan Academy of Banking and Finance	1
AML and CTF Specialist Exam	Taiwan Academy of Banking and Finance	552
PMI-ACP (Agile Certified Practitioner)	Scrum.org	2
Derivative sales personnel exam	Taiwan Academy of Banking and Finance	3

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	38,582
Professional Courses	276,834
Auditor Continuing Training	206
2020 Total Training Expense	NTD\$ 596,177,049

■ **Cathay United Bank Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Managers	725	779	780
	General Staff	9,860	9,737	9,731
	Total	10,585	10,516	10,511
Avg. Age		37.98	38.52	38.65
Average years of services		9.24	9.71	9.78
Education	Doctorate	0.13%	0.14%	0.15%
	Master	19.12%	20.20%	20.32%
	Bachelor	76.63%	75.56%	75.23%
	High School	4.10%	4.09%	4.29%
	Below High School	0.02%	0.01%	0.01%
Professional Certifications or Qualifications Received by Employees		See chart below		

Note: Includes domestic permanent personnel, marketing specialists and locally hired overseas employees.

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance \ The Life Insurance Association of the R.O.C. \ Insurance Institute of the Republic of China \ Others	1,657
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance \ The Life Insurance Association of the R.O.C. \ Taiwan Securities Association \ Securities and Futures Institute \ Others	3,516
Basic Proficiency Test for Bank Internal Controls	Taiwan Academy of Banking and Finance \ The Life Insurance Association of the R.O.C. \ Trust Association of R.O.C. \ Taiwan Securities Association \ Securities and Futures Institute \ Insurance Institute of the Republic of China \ Others	6,954
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance \ The Life Insurance	2,936



Certifications and Qualifications	Exam Administrator	Number of employees
	Association of the R.O.C. \ Others	
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C. \ Trust Association of R.O.C. \ The Non-Life Insurance Association of the R.O.C \ Securities and Futures Institute \ Taiwan Academy of Banking and Finance \ Insurance Institute of the Republic of China \ Others	6,475
Qualification Exam for Non-Life Insurance Representative	The Life Insurance Association of the R.O.C. \ The Non-Life Insurance Association of the R.O.C. \ Taiwan Academy of Banking and Finance \ Insurance Institute of the Republic of China \ Others	6,527
Proficiency Test for Trust Operations Personnel	Taiwan Academy of Banking and Finance \ The Life Insurance Association of the R.O.C. \ Chinese National Futures Association (CNFA) \ Trust Association of R.O.C. \ Taiwan Securities Association \ Securities Investment Trust & Consulting Association of The R.O.C \ Others	6,304
Qualification Exam for Investment-orientated Insurance Product Representative	Taiwan Academy of Banking and Finance \ The Life Insurance Association of the R.O.C \ The Non-Life Insurance Association of the R.O.C. \ Trust Association of R.O.C. \ Taiwan Securities Association \ Securities Investment Trust & Consulting Association of The R.O.C \ Insurance Institute of the Republic of China \ Others	3252
Real Estate Appraiser	Ministry of the Interior (MOI) \ Others	2
Taiwan Bar Exam	Ministry of Justice \ Examination Yuan \ Others	2
Certified Public Accountant	Financial Supervisory Commission, Executive Yuan \ American Institute	7

Certifications and Qualifications	Exam Administrator	Number of employees
	of Certified Public Accountants \ Ministry of Examination \ Others	
Certified Internal Auditors (CIA)	Institute of Internal Auditors (IIA) \ Others	13
Financial Risk Manager (FRM)	Operational Risk, Culture & Governance Community \ Others	26
Chartered Financial Analyst (CFA)	Association for Investment Management and Research (AIMR) \ Others	22
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists\Others	37
Certified Financial Service Auditor(CFSA)	The Institute of Internal Auditors\ Others	8
Project Management Professional (PMP)	Project Management Institute \ Others	62
Certified Financial Planner (CFP)	Financial Planning Association of Taiwan (FPAT) \ Others	203
Certified Information Systems Auditor (CISA)	Information Systems Audit and Control Association (ISACA) \ Others	5

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	1,821
Professional Courses	21,159
Auditor Continuing Training	66
2020 Total Training Expense	NTD\$ 65,519,744

■ **Cathay Century Insurance Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Back-Office Personnel	1,791	1,843	1,830
	Front-Office Personnel	369	342	343
	Total	2,160	2,185	2,173
Avg. Age		39.17	39.50	39.67
Average years of services		9.83	10.30	10.44
Education	Doctorate	0.05%	0.05%	0.00%
	Master	13.43%	14.55%	14.59%
	Bachelor	77.82%	77.30%	77.31%
	High School	8.56%	7.96%	7.96%
	Below High School	0.14%	0.14%	0.14%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Chartered Financial Analyst (CFA)	CFA Institute	3
Financial Risk Manager (FRM)	GARP	1
Investment-linked product exam	Insurance Institute of the Republic of China	56
Insured service certification - life insurance	Insurance Institute of the Republic of China	2
Insured service certification - property insurance	Insurance Institute of the Republic of China	154
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	111
Associate of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	7
Fellow of The Actuarial Institute of R.O.C.	The Actuarial Institute of the R.O.C.	5
Non-life actuaries of China	China Association of Actuaries	1
Associate actuary of casualty insurance in the US	Society of Actuaries	4
Associate actuary of life insurance in the US	Society of Actuaries	3
Fellow of Life Management Institute (FLMI) exam	Life Office Management Association (LOMA)	2
Project Management Professional (PMP)	Project management institute	9

Certifications and Qualifications	Exam Administrator	Number of employees
Certified Anti-Money Laundering Specialist (CAMS)	Association of Certified Money Laundering Specialists (ACAMS)	3
Administration personnel for life assurance of R.O.C.	Life Insurance Management Institute of the R.O.C.	1
Insurance Assessor for Life Insurance	Life Insurance Management Institute of the R.O.C.	34
Claim Adjuster for Life Insurance	Life Insurance Management Institute of the R.O.C.	29
Non-life insurance underwriter/claims adjuster exam	The Non-Life Underwriters Society of The Republic of China	590
Chartered Property & Casualty Underwriters (CPCU)	CPCU Taiwan	2
Basic Proficiency Test for Foreign Exchange Personnel	Taiwan Academy of Banking and Finance	4
Basic Proficiency Test for Junior Credit Personnel	Taiwan Academy of Banking and Finance	23
Proficiency Test for Financial Planning Personnel	Taiwan Academy of Banking and Finance	35
Qualification Test for Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	8
Qualification Exam for Non-Life Insurance Representative	The Life Insurance Association of the R.O.C.	1,976
Qualification Exam for Personal Insurance Representative	The Life Insurance Association of the R.O.C.	1,722
Basic exam for Corporate Internal Control	Securities and Futures Institute	1
Sales Personnel of Futures Trust Fund Distributor	Securities and Futures Institute	2
Structural Engineer	The Examination Yuan of R.O.C.	1
Hydraulic Engineer	The Examination Yuan of R.O.C.	1
Civil Engineer	The Examination Yuan of R.O.C.	3
Certified Public Accountant	The Examination Yuan of R.O.C.	1
Taiwan Bar Exam	Legal Affairs Dept	2

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	383
Professional Courses	26,116
Auditor Continuing Training	61
2020 Total Training Expense	NTD\$ 3,857,214

■ **Cathay Securities Corporation**

**1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report**

Year		2019	2020	As of 03/30/2021
Employees	Managers	54	50	53
	General Staff	623	715	718
	Total	677	765	771
Avg. Age		40.92	40.93	40.99
Average years of services		5.16	5.21	5.28
Education	Doctorate	0.15%	0.13%	0.13%
	Master	26.14%	26.14%	26.98%
	Bachelor	69.28%	70.07%	69.26%
	High School	4.43%	3.66%	3.63%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

**2. Certifications and Qualifications Received by Employees**

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Specialist	Securities and Futures Institute	155
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	440
Qualification Exam for Futures Specialist	Securities and Futures Institute	338

**3. Continuing Professional Training Received by Employees**

Item	Number of Training Received by Employees
General Management	104
Professional Courses	1,770
Auditor Continuing Training	100
2020 Total Training Expense	NTD\$ 10,285,377

■ **Cathay Securities Investment Trust Co., Ltd.**

1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Managers	43	46	46
	General Staff	250	261	266
	Total	293	307	312
Avg. Age		40.72	42.18	41.7
Average years of services		7.36	8.05	7.8
Education	Doctorate	0.34%	0.32%	0.32%
	Master	52.9%	52.26%	51.44%
	Bachelor	45.73%	46.37%	47.28%
	High School	1.03%	1.05%	0.96%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Senior Securities Specialist	Securities and Futures Institute	173
Qualification Exam for Securities Specialist	Securities and Futures Institute	69
Qualification Exam for Securities Investment Trust and Consulting Professional	Securities and Futures Institute	160
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	85
Proficiency Test for Trust Operations Personnel	Taiwan Academy of Banking and Finance	170
Qualification Exam for Futures Specialist	Securities and Futures Institute	163
Futures Trading Analyst	Securities and Futures Institute	7
Securities investment analyst	Securities and Futures Institute	19
Chartered Financial Analyst (CFA)	Association for Investment Management and Research (AIMR)	12
Certified Financial Planner (CFP)	Taiwan Academy of Banking and Finance	1
Certified Internal Auditor, R.O.C.	The Institute of Internal	1

Certifications and Qualifications	Exam Administrator	Number of employees
(CIA)	Auditors-Chinese Taiwan	
Financial Risk Manager (FRM)	Global Association Of Risk Professionals (GARP)	3
Financial Knowledge and Ethics Exam	Securities and Futures Institute	192
Certified Public Accountant	American Institute of Certified Public Accountants	1

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	86
Professional Courses	771
Auditor Continuing Training	36
2020 Total Training Expense	NTD\$ 4,426,214

## ■ Cathay Venture Inc.

### 1. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2019	2020	As of 03/30/2021
Employees	Managers	5	5	4
	General Staff	11	14	14
	Total	16	19	18
Avg. Age		41.76	41.62	41.26
Average years of services		6.19	5.91	6.59
Education	Doctorate	0.00%	0.00%	0.00%
	Master	81.25%	84.22%	83.33%
	Bachelor	18.75%	15.78%	16.67%
	High School	0.00%	0.00%	0.00%
	Below High School	0.00%	0.00%	0.00%
Professional Certifications or Qualifications Received by Employees		See chart below		

### 2. Certifications and Qualifications Received by Employees

Certifications and Qualifications	Exam Administrator	Number of employees
Certified Public Accountant	The Examination Yuan of R.O.C.	1
Securities investment analyst	Securities and Futures Institute	1
Securities Specialist	Securities and Futures Institute	3
Senior Securities Specialist	Securities and Futures Institute	6
Securities Investment Trust and Consulting Professional	Securities and Futures Institute	3

Certifications and Qualifications	Exam Administrator	Number of employees
Qualification Exam for Securities Investment Trust and Consulting Regulations	Securities and Futures Institute	3
Basic exam for Corporate Internal Control	Securities and Futures Institute	1
Professional Capacity of Bonds Specialist	Securities and Futures Institute	1
Qualification Exam for Futures Specialist	Securities and Futures Institute	2
Proficiency Test for Trust Operations Personnel	Trust Association of R.O.C.	1
Administration Personnel for Life Insurance	Life Insurance Management Institute of the R.O.C.	1
Personal Insurance Representative	The Life Insurance Association of the R.O.C.	2
Financial Planning Personnel	Taiwan Academy of Banking and Finance	3
Sales Personnel of Structured Products	Taiwan Academy of Banking and Finance	1
Fellow, Life Management Institute (FLMI)	Life Office Management Association (LOMA)	2

### 3. Continuing Professional Training Received by Employees

Item	Number of Training Received by Employees
General Management	75
Auditor Continuing Training	2
2020 Total Training Expense	NTD\$ 2,512



## V. Corporate responsibility and moral conduct

### ■ Cathay Life Insurance Co., Ltd.

Cathay Life encourages employees to apply their “people value” not only to provide insurance service, but to resolve social and environmental problems as well. The Company fulfills its social responsibilities by envisioning itself as the force that stabilizes society and protects homes:

#### (I) Arts and culture:

1. The Company has been sponsoring Cloud Gate in outdoor, community, and campus performances for more than 25 years for a total of 64 outdoor public performances, 200 campus/community performances, and 115 performances in the Mainland. More than 2.35 million people have participated to date.
2. The Company organized a series of events titled “Lin Yuan Life Plaza”. 109 volunteers and 2,600 participants engaged in 8 sessions totally.
3. The Company organized “Nationwide Children’s Drawing Contest”, which received more than 96,000 entries.

#### (II) Sports promotion:

1. To actively promote basketball sport, the Company organized 6 events in collaboration with the NBA that attracted attention from nearly 100,000 people, sponsored basketball courts at 4 tertiary institutions, and sponsored 12 school campuses in organizing basketball games in addition to the improvement of fields and equipment, and more than 8,000 people participated in such events.
2. For the support of baseball, the Company sponsored Wei-Yin Chen and Tzi-Wei Lin as well as the Baseball Camp, and organized 7 events with a total of more than 3,000 participants in such events.

#### (III) Care for new immigrant families:

As offspring of new immigrants grow, the Company continues working with Eden Social Welfare Foundation on the introduction of the “New Immigrant Offspring Training Program” to help immigrant offspring learn and develop their dual-culture advantage as well as self-confidence.

#### (IV) Children’s care:

1. The Company organized the 7th “Cathay Children’s Dream Come True Program” in which 24 remotely located elementary schools were selected to receive more than NT\$3.5 million in donations, thereby helping passionate teachers inspire their students to embrace their dreams. A Dream Come True Documentary Award was organized to encourage teachers to document their efforts.
2. The Company supported “Teach for Taiwan” in training multi-talented young instructors who are passionate about teaching in schools located in remote areas in Hualien, Yunlin, Tainan and Pingtung, and thus creating a balanced education environment.
3. The Company subsidized “after-school care” programs of 6 schools located in Dongshan District, Tainan City, and Keliao Village, Houhu Township, Yunline County, and sponsored programs organized by Grass Book House in Sanxia, New Taipei City, and Wings of Love Association in Hualien County to make up for the shortage of learning and household resources. The program benefited nearly 400 junior high school and elementary school students.
4. DFC Nationwide Teachers Enhancement Program: This program gives teachers in remote

areas adequate access to complimentary and creative teaching resources, and eliminates some of their locational disadvantages. Through organization of local workshops, teachers were taught on the 4-step teaching approach of DFC, which they can apply to teach and lead students to greater effect and develop more localized, suitable, and relevant courses and materials to arouse students' interest in learning.

(V) Care for young students:

1. The Company organized "Cathay Scholarship" to provide support for top-performing high school/vocational high school students, students with exceptional contributions, and students involved in public projects or specialized research, who are from financially disadvantaged families. The scholarship amounted to a total of NT\$7.37 million and benefited a total of 88 winning teams.
2. The Company organized 9 events in relation to the "Student and Inmate Care Program," which extended care to nearly 4,000 high school/vocational school students and inmates.
3. The Company subsidized charity clubs from 60 nationwide colleges and universities and encouraged them to commit to community services in remote areas during summer and winter breaks.
4. The Company sponsored the anti-drug tour of "H.D.A". From Chungyu University of Film and Arts between September and October. The tour covered 5 junior and senior high schools located in New Taipei, and each performance received participation from more than 1,000 students.
5. The Company collaborated with K-12 Education Administration, Ministry of Education, to launch a "Sustainable Campus Program" where members of the student group insurance service team were assigned to elementary and junior high schools nationwide for anti-drug propaganda. Through a combination of online games and physical activities, the program has reached more than 100,000 students to date.

(VI) Promotion of micro insurance:

Cathay Life has been active in the promotion of micro insurance. By the end of 2020, Cathay Life had underwritten micro insurance and provided basic coverage to more than 230,000 disadvantaged people.

(VII) Other charity activities:

1. The Company organized a series of "Cathay Charity Coach" events, which brought magic performance to remote towns throughout Taiwan. Over a course of 6 sessions, a total of 180 volunteers were involved and 5,600 people participated.
2. The Company mobilized "Lin Yuan Volunteer Group" to visit, care for and subsidize 200 disadvantaged families, and paid approximately NT\$2.18 million of subsidies during the process. The volunteer group was also mobilized to support local charity events.
3. The Company held a "Summer Blood Donation" event and deployed 476 donation booths nationwide. Approximately 43,501 people responded to this campaign and donated 64,315 bags of blood.
4. The Company joined Eden Social Welfare Foundation, YMCA Taichung and YMCA Kaohsiung to organize three charity bazaars. More than 14,000 participants engaged and a sum of NT\$3.65 million was raised.
5. The Company organized the "Winter Warmth Program" event where employees' donations were turned into winter wear and distributed by Cathay Volunteers to 97 remotely located elementary schools nationwide to benefit more than 7,000 children.
6. Cathay Volunteers collaborated with local community and non-profit organizations to organize 3 tree plantation and bitter vine removal events in Tainan Taipei and Yilan.

7. Elderly care: The Company held 73 elderly care events as part of its community initiative, one of which involved the construction of Cathay Farm. The Company also organized 66 anti-scam board game sessions at community centers. More than 1,800 people have benefited from the series of events.

■ **Cathay United Bank Co., Ltd.**

(I) The Bank was the first in the industry to contribute to the field of art, starting with the establishment of Cathay United Bank Foundation in 1980 followed by the founding of Cathay United Art Center in 2000. Driven by its mission to “give back to society,” the Bank has since been active in charitable causes including offering of study aid, charity sponsorship, cultural/arts performance, and consignment charity. The Bank is highly committed in fulfilling corporate social responsibilities. It organizes charity events through Cathay United Bank Foundation, and a list of major events organized by the Foundation in 2020 is presented as follows:

**1. “Elevated Tree Program— Grow A Big Tree From A Shoot” series:**

(1) Elevated Tree Program Scholarship:

In April and October, the Foundation made 2 donations under the Elevated Tree Program a total of NT\$10 million. These donations were intended to cover tuition fees for students from financially disadvantaged families and those who fell victim to tragic events. Donations were made to 963 elementary and junior high schools in Miaoli County, Yunlin County, Chiayi County, Pingtung County, Taitung County, and Yilan County to a total of 7,432 beneficiaries.

(2) Donation of “charity coats” in collaboration with business:

Chairman Jinzhu Shen of Ever Shine Y&F and Chairman Shu-Li Yeh of Ever Shine I&F have always been valuable customers to Cathay United Bank and supported the Elevated Tree Program each year through action. In 2020, they donated 4,000 new winter coats to students in remote areas.

(3) Love Without Barriers:

In order to fully preserve knowledge conveyed in “Elevated Tree Seminars,” the Bank published the 8th volume of “Love Without Barriers,” which features a collection of knowledge verbally communicated by experts and scholars of parental education. The 2020 publication was made solely in digital form as part of the Group’s paperless movement.

**2. Art and cultural events:**

(1) Art exhibitions at Cathay United Art Center:

Cathay United Art Center supports local arts development and hosts exhibitions of different themes each year where Taiwanese artists are free to create. The art center relocated to a new address in Xinyi District at the end of the 2019. The new venue offers more than 330 square meters of floor space, thereby allowing visitors to approach and admire the beauty of art comfortably up close. While many exhibitions were postponed in 2020 due to the pandemic, Cathay United Art Center still organized 9 exhibitions of varying themes including oil painting, calligraphy, and sculpture, and three “Elevated Tree Program – Philanthropist Artists Exhibitions” where artists were invited to donate artworks and raise money for charity. Using art as a trigger for charitable actions, the art center hopes to inspire kindness and beauty in everyone.

(2) “Art Talk Lectures” held at Cathay United Art Center:

Driven by the mission to promote art education, Cathay United Art Center has been hosting free sessions of “Art Talk Lecture” at night. The number of sessions organized this year was reduced to 3 due to the pandemic, and during these three sessions, Director Chun-Lan Liu of Taoyuan Museum of Fine Arts was invited to speak on “The Three Lessons of Visual Art.” Through these free seminars, the art center hopes to provide the public with the opportunity to learn about arts and attract more people to art and cultural exhibitions.

(3) Charity auction of specially designed calendar:

In 2020, Cathay United Art Center created a calendar that comprised artworks of 10 artists, including Hsien-Fa Su. With this calendar, the art center hoped to bring art into people’s lives and promote a sense of joy and care. The art center also introduced merchandise such as albums and cushions to go with its “Elevated Tree Program – Philanthropist Artists Exhibitions,” and donated all sales proceeds to underprivileged students as study aid.

**3. Sponsored events:**

“83rd Tai-Yang Arts Exhibition” by Tai-Yang Art Association; “44th Oil Painting Competition and Exhibition” by Republic of China Oil Painting Association; 2020 “Graduation Trip to Chiameing Lake” by Padan Village Elementary School; “Down Town Walks” by Down Syndrome Foundation of the R.O.C.; financial aid to Bunun Cultural and Education Foundation, and thereby maintain park operations for tourism income and employment opportunities for the Bunun people; a “Mid-autumn Charity Auction” with UBS to mobilize acts of decency and generate income for charity organizations, during which members of Down Syndrome Foundation of the R.O.C. and Yu-cheng Social Welfare Foundation were invited; and financial aid for Happy Mount.

**4. Charity events co-sponsored with group affiliates:**

The Bank participated in “Cathay Scholarship,” “Teach For Taiwan (TFT),” “New Immigrant Offspring After-school Care,” “Giving Winter Warmth” and “Eden Charity Auction.” and was involved in the preparation of Cathay Charity Group annual report.

- (II) The Bank has been donating impaired computer equipment (servers, monitors, laptops etc.) to ASUS Foundation since 2017 for refurbishment and distribution to the socially disadvantaged and people living in remote areas. By 2020, 8,053 pieces of equipment had been donated through this arrangement.
- (III) In 2020, the Bank organized three coastal clean-up events at Yilan Zhuan Estuary and New Taipei City Bali Left Bank, during which a total of 320 Cathay volunteers and family members participated and cleared out 480kg of ocean waste. In addition, environmental education events were held at Lanyang Museum to educate participants on ocean waste, making handicraft from ocean waste, reusing plastics.
- (IV) The Bank organized a parental event at Good Times Farm in 2020, during which a total of 120 employees and family members participated. Through a series of fun games, employees engaged their family members in parental activities and indulged themselves in nature.
- (V) In 2020, 15% of electricity expenses saved during the power conservation competition were donated to help The First Social Welfare Foundation, an institution that cares specifically for people with mental disability, install new LED lights. By transferring energy conservation

benefits to charity organizations, the Bank hoped to inspire a cycle of decency.

(VI) Below is a summary of main health promotion events the Bank had organized in 2020:

1. Cathay Financial Group organized a “Weight Loss Program” to promote healthy lifestyles, proper exercise habits, and healthy diet, and thereby improve health and energy of its employees. The Bank’s employees achieved a total weight loss of 5.8 tonnes, for which the financial holding company made a donation of NT\$2 million to charity causes. The Bank will continue working with group affiliates to promote health of its employees in the future.
2. Considering that many employees were forced to stay indoors due to the pandemic, this year’s “Cathay Kid’s Soccer” was adjusted to the theme of “outdoor activities,” in which a team of professionals was engaged to design a series of parental activities and competitions involving soccer. The event closed with prized quizzes on the topic of disease prevention to promote proper disease awareness among employees and children. The event saw total participants of approximately 600, and had been effective at relieving parental stress and promoting a friendly work environment.
3. The Bank organized its “2020 Blood Donation” event and invited participation from employees, customers and the general public. In addition to the health benefits (such as increased metabolism), donors also received exquisite concessions prepared by the Bank. A total of 5 sessions were held in northern, central and southern Taiwan, all of which received overwhelming responses from the local community, and resulted in 1,052 bags of donated blood. This event not only brought businesses closer to the people, but also raised the public's awareness toward health and social engagement.
4. The Bank held four group dating events in 2020 in Northern, Central, and Southern Taiwan to help single employees expand their social life and enforce Cathay Group’s mission of providing a “happy workplace.” This year’s event was expanded to include single employees outside Cathay United Bank, and was organized with the hope of increasing the marriage rate and fertility rate as part of the Company’s corporate social responsibilities.
5. The Bank has been organizing a Working Mother Protection Program since June 2016 to support maternal health. The program not only offers employees the benefit to apply for childcare concessions, but also uses questionnaires to evaluate employees’ childcare needs and provide relevant assistance. A total of 200 pregnant employees applied for maternal concessions, while 184 female employees applied for post-labor concessions and 58 male employees applied for parental concessions in 2020.

(VII) With the construction of the branches’ automatic service areas and online banking facility, the automatic service experience of customers is improved, which also provides guidance to customers in the application and use of digital functions. In addition, the objective of customers’ use of digital instruments is improved, such that paper use quantity is reduced, and the carbon emission due to transportation necessary for customers to travel to the counter for transaction in person can be reduced, thereby achieving contributions to the mitigation of SDG climate change.

(VIII) The selection of relocation subject matter of the Bank and the planning of decoration of branches are required to comply with fire control and building related laws and regulations, and such selection and planning are made based on the consideration of avoiding social concerns, cultural asset or world heritage sites and monuments or any disputable and sensitive subject matters. In response to the “2030 Bilingual National Policy Development Blueprint,” the Bank is currently in the process of creating a friendly bilingual financial service environment. By the end of 2020, the business halls of 4 branches have completed the installation of bilingual signs and labels, and in 2021, 50 more branches will also be equipped with bilingual signs and labels, such that the Bank is heading toward the goal of bilingual environment signs and labels by 2030.

(IX) Charity trust

1. Assistance has been given to owners of TWSE/TPEX listed companies and contributing members of the society to establish charity and education trusts, and thereby directing care to socially disadvantaged organizations and individuals in a timely manner. The Bank duly fulfills its role as a wealth manager. At the end of 2020, the Bank managed NT\$37.52 billion of charity trust, ranking first in the industry.
2. The Bank has been coordinating with Taiwan Professional Baseball Players Association, CPBL and teams for the introduction of professional baseball players trust since 2009 as an assurance to players and the fans. The Bank was the first to enforce such a vision and currently has the largest number of players under trust. These funds only demonstrate the athletes' determination in anti-gambling to the general public but also serves as the fund for athletes' second life fund for business and family care after their retirement from the teams. Up to the present day, the Bank has been sponsoring the "Feedback" program organized by CPBL Players Development Association for the 8th consecutive year, and its main purpose is to promote young baseball talents and to convey healthy exercise to the general public.

(X) The Bank continually encourages credit card holders to receive statements and terms and conditions in electronic form as part of the Bank's movement toward paperless process for the protection of the environment. The Bank also organizes donation campaigns as a way to fulfill its social responsibilities. The following is a summary of main credit card campaigns organized in 2020:

1. Apply credit card online: Online approval for instant inquiry on the Cathay Life insured value as the financial support data, and after completion of the external verification, applicants are able to apply the Combo card immediately and the automatic payment deduction function. Accordingly, the written applications are expected to be decreased in number. Up to the end of December 2020, the number of digital applications had reached 533,334 applications, increased by 40% from 2019.
2. Digital invoice: The Bank issues credit cards that have the capacity to store digital invoices, and notifies customers if any of their purchases win the invoice lottery. This credit card feature represents the Bank's ongoing effort to support the government's cloud invoice solution for customers' convenience and protection of the environment. More than 100,000 e-mail and SMS notifications were sent in 2020 as of December.
3. Online e-statement application: Using OTP instead of printed forms, customers are able to request for e-statements online, and the simplified process saved approximately 19.58 million sheets of A4 paper in 2020.
4. Credit card online donation: Cardholders can make donations to 43 partnered charity organizations using credit card. The ability to make credit card donations online without leaving home serves as a great incentive, and a total of NT\$380 million were donated to the Bank's partnered charity organizations via credit card in 2020.
5. Reward point online donation: The Bank currently works with 10 charity organizations to accept online donations in the form of credit card reward points. Cardholders may specify to donate NT\$60 for every 1,000 reward points held from the website of the charity organization they choose. Up to 100% of the current reward point balance can be redeemed to offset the amount of donation specified (balance after redemption of reward point can be charged to the

Bank credit card). In 2020, cardholders made 456 donations for a sum of NT\$696,000, including 3.44 million reward points (equivalent to NT\$207,000) and NT\$489,000 in credit card spending.

6. Reward point fax donation: The Bank currently works with 28 charity organizations to accept reward point donation over fax. In 2020, a total of 158 reward point donations were made over fax for a sum of 1.422 million points (equivalent to NT\$88,000).
7. Cooperation with organic food merchants/electric scooter platform: By offering credit card discount at organic food merchants, the Bank encourages cardholders to support environmental protection through action; by offering credit card privileges on scooter sharing platform, the Bank took steps to promote use of green transportation. A sum of NT\$349,438 thousand were charged to credit cards in relation to the above in 2020.

#### ■ Cathay Century Insurance Co., Ltd.

- (I) The company works with Cathay Financial Group in charity and makes donations as part of its citizen duty. Its efforts included:
  1. Arts and culture: Cloud Gate Dance Theatre, Nation-wide children’s drawing contest and New Century Potential Painting Exhibition.
  2. Sport events: Jeremy Lin Basketball Camp, Anti-drug PaGamO Tournament, welcoming of Tzu-Wei Lin, welcoming of Taiwanese professional baseball stars playing overseas, and Wei Yin Chen Baseball Camp.
- (II) The company’s devotion to loss prevention services has also received recognition and good responses from the society. Its efforts included:
  1. Damage prevention conferences for corporate customers, invitation of experts and scholars to speak on relevant topics, and promotion of damage prevention awareness among businesses.
  2. The company promotes safety awareness at campus. Using challenges and games, students are taught on the subject of campus safety. Its effort to prevent accidents at campus has been well-received.
  3. The Company held its “Accident-free Biker” event where employees visited elementary schools to promote safe cycling using pictorial presentations as well as AR technology to simulate real dangers on the road. Games and challenges were designed to promote students’ safety awareness when cycling, and members of Cathay Century Insurance’s cycling team were invited to teach students on how to fix common bicycle problems.
  4. The company has established a Zero Accident Academy website and introduced the nation’s first online driver education system, using a “driver knowledge test” to evaluate the subject’s mental capacity, response, and awareness to traffic safety. The test uses a “behavior diagnosis test”, a “hazard perception test”, and a “driving knowledge test” to educate the subject on defensive driving and safety.
  5. The company has also been hosting the “Accident-free Rider” program to promote motorcycle safety at colleges. Using an interactive online “Hazard Perception test”, the program provided students with new perspectives on traffic safety. Meanwhile, the company also engaged “Hsinchu Safety-Educational Center” to correct student’s driving habits.
  6. By combining VR technology with its expertise, the company introduced its proprietary “Virtual Reality Hazard Perception test”, an edutainment tool that helped test subjects evaluate their driving behaviors and ability to identify potential traffic dangers.
  7. The Company created a “campus risk map” that highlighted the traffic conflict hot spots of each campus, and suggested defensive driving techniques to help students avoid danger at these hot spots. Through collaboration with local county and municipal governments, the

Company hopes to promote the campus risk map to a broader audience.

(III) The Company has launched various publications and Apps for the purpose of raising public awareness towards insurance and safety, such as vehicle safety knowledge App, brochures on fire prevention and evacuation, and store safety checklists.

(IV) The company continued its sponsorship to “Cathay Century Insurance Triathlon Team” as a means to develop young triathlon athletes in Taiwan, while convey proper sports knowledge and promote healthy sporting habits.

#### ■ Cathay Securities Corporation

(I) The Company has responded to Cathay Financial Holdings’ call for “Corporate Sustainability” and organized various types of charity events, including:

1. Environment and sustainability: The Company joined the Group in hosting the “Cathay Sustainable Finance and Climate Change Summit” and contributed its part to sustainable finance.
2. Sports: As a support for sports development in Taiwan, the Company sponsored basketball court maintenance and games for National Taiwan University, Tunghai University, Kaohsiung Medical University and National Cheng Kung University.
3. Arts and culture: The Company sponsored “Cloud Gate Free Outdoor Show” as a means to promote culture and art awareness within the local community. “Nation-wide Children’s Painting Contest” was held to develop cultural awareness among the new generation.

(II) Social care

1. The company supports the group's “Cathay Charity Star Program” by organizing volunteer activities on a regular basis. Employees are also given “volunteer leaves” as an encouragement for engaging in volunteer service. Despite the ongoing COVID-19 pandemic, the Company still saw a doubling of volunteer service hours to nearly 900 hours during the year.
2. The Company organized the first “Cathay Securities x Cathay Futures Coastal Clean-up” event and invited nearly 200 employees and family members to clean up Dingliao Beach, Linkou District, New Taipei City, as part of the organization’s responsibilities as a corporate citizen. 659kg of ocean waste was removed from the beach. Through the coastal clean-up event, employees and family members were able to witness up close the environment around us, and appreciate the reality that “environmental protection begins with waste reduction.”
3. Continuing the Christmas tradition of helping the underprivileged in remote areas, employees of Cathay Securities and Cathay Futures donated 40 cartons of used items during Christmas time 2020 over the “GIVE543” website, so that they could be distributed to the children in need.
4. The Company sponsored the “2020 Charity Program” of Anue.com, and made donations to the far corners of society including the “Red Heart Association,” “Angel Heart Family Social Welfare Foundation,” “Federation for the Welfare of the Elderly,” and “Family of Joy Social Welfare Foundation.”

(III) Employees' wellbeing and care

The Company organized its first “2020 Cathay Securities Dream Factory,” during which employees were encouraged to raise proposals and take steps toward accomplishing their dreams. The program sourced proposals from a total of nine categories such as social care, self-fulfillment, cultural and arts creations, and knowledge and learning.



#### (IV) Youth training

The company sponsored the “2020 NTPU Securities Camp” to promote securities investment knowledge among college students.

#### ■ Cathay Securities Investment Trust Co., Ltd.

##### (I) Financial Health Seminar:

1. In light of the public’s increasing demand for investment, Cathay Securities Investment Trust organized 7 small-scale investment seminars aimed at general investors on the topics of “retirement planning” and “ETF” in 2020 to introduce to the public diverse ways to invest as well as the importance of planning for retirement at an early age. These seminars received 292 participants in total, averaging an attendance rate of more than 90% per session.
2. The Company took part in 5 investment seminars that Taiwan Depository and Clearing Corporation had organized to help develop financial awareness among military personnel. The Company also cooperated with Chunghwa Telecom in hosting 4 corporate investment seminars that aimed to convey the importance of retirement planning and educate the audience on ways to plan for retirement.

##### (II) Youth development:

1. In 2020, Cathay Securities Investment Trust made its first attempt at hosting “Investment Lessons for the Young,” a series of investment seminars aimed at college students, in collaboration with commerce-related departments of universities. Seminars were held in collaboration with National Chengchi University College of Commerce and National Central University Department of Business Administration to help students develop proper financial knowledge and introduce them to various tools that they can use to begin financial planning of their own. The 2 seminars averaged a participant size of 90, representing 110% of the planned capacity.
2. The Company places great emphasis on talent development, and has long been hosting corporate mentorship and summer internship programs to tighten the connection between theory and practice. For 2 consecutive years, the Company has worked with National Chengchi University Department of Money and Banking to offer an “Asset Management Strategy and Application” course, in which students were divided into teams and encouraged to apply creativity and compete in a simulated ETF investment. Instructors from the investment trust company were invited to teach students on how the industry works and grows, so that they may have a clearer idea of what to expect from their future career. More than 100 students have participated in the program for the last 2 years.

##### (III) Volunteer service:

Through volunteer service and donations, the Company joins “Jing Chuan Child Safety Foundation,” “Down Syndrome Foundation of the R.O.C.,” “Taiwan Digital Talking Book Association,” “The Mustard Seed Mission,” “World Vision Taiwan,” “Eden Social Welfare Foundation,” and “Taiwan Fund for Children and Families” in charity activities. The Company also invited employees and family members to join the “Guanyin Mountain Treetop Walkway Clean-up” event, where they can experience the satisfaction of volunteer service and contribute to the preservation of nature.

##### (IV) Donation:

Each year, the company participates in charity activities organized by Taipei Foundation of Finance and makes fixed donations to medical transportation equipment used at remote medical facilities, such as ambulance and mobile clinic, in an attempt to rectify the disproportional allocation of medical resources between urban and suburban areas. In 2020, donations were made to “St. Joseph's Hospital”.

## VI. No. of full-time non-managerial employees, mean and median salary of full-time non-managerial employee, and differences from the previous year

Item	2019	2020	Difference	Growth rate
No. of full-time non-managerial employees (persons)	19,924	20,226	302	1.52%
Mean salary of full-time non-managerial employees (NT\$1,000)	1,350	1,350	0.41	0.03%
Median salary of full-time non-managerial employees (NT\$1,000)	1,045	1,074	29.38	2.81%

Note: 2018 median salary was calculated according to “Notes on Reporting of Full-time Non-managerial Employees Salary Information” and “FAQ” published by Taiwan Stock Exchange Corporation.

## VII. Information System

### ■ Cathay Life Insurance Co., Ltd.

#### (I) Key information system setup and maintenance:

##### 1. Intel x86 Server:

- (1) Hardware: Multi-core servers including the IBM X series, DELL R series, and HPE DL series
- (2) Software: Microsoft Windows, Red Hat Enterprise Linux, JBoss

##### 2. IBM Power Host:

- (1) Hardware: P822(L)
- (2) Software: IBM AIX, WebSphere, DB2 and RHEL

#### (II) Future Development and procurement plan:

##### 1. Fintech and innovation:

- (1) Introduction of medical digital imaging and AI-assisted diagnosis
- (2) Research and implementation of RPA
- (3) Implementation of facial recognition technology
- (4) Implementation of voice recognition technology

##### 2. Private cloud - cloud computing

Planning and implementation of virtual desktop infrastructure (VDI)

##### 3. Intel x86 Server:

- (1) Group file exchange platform
- (2) Implementation of employee real-time communication platform

##### 4. Database management

Planning and establishment of the data governance platform

##### 5. Network:

- (1) Full-scale network upgrade and optimization
- (2) Planning and implementation of remote working

##### 6. Information security:

- (1) Upgrade of application firewall
- (2) Enhancement of terminal defense mechanism

#### (III) Information security protection and reporting measures:

1. The Company has made a full upgrade of its application firewall and plans to introduce AI-assisted monitoring to protect against new threats such as ransomware and credential

stuffing attack.

2. According to the “Financial Information Security Action Plan” announced by the Financial Supervisory Commission in August 2020, financial institutions are required to establish a security operations center (SOC) and related operating standards within 2 years. The Company already completed the integration of information security monitoring systems across 7 subsidiaries of the financial group in October 2020, thereby enabling defense resources to be pooled and intelligence to be shared across subsidiaries for better response. In addition to having industry’s most advanced centralized monitoring and reporting system, the Company has also examined current resource allocation and organizational structure, and reinforced areas of weakness. Starting with single-point protection, these points are connected through carefully designed procedures to form defense lines and ultimately walls against threats. An SOC not only maximizes yield on information security software and hardware investments, but also enhances the duration of protection, reduces losses, and maximizes synergy from resource utilization.

#### ■ Cathay United Bank Co., Ltd.

##### (I) Key information system setup and maintenance:

###### 1. Host:

- (1) Core banking system hardware: models of IBM Power System E980, S922 and S822
- (2) Core banking system software: IBM AIX as the operating system, Oracle DB and IBM DB2 for database
- (3) Credit card system hardware: IBM 2965-N01
- (4) Software of credit card server: IBM Z/OS, CICS TS, VTAM/NCP
- (5) Foreign exchange system hardware: IBM Power System E980 and S922
- (6) Foreign exchange software: IBM OS/400 and DB2/400

###### 2. Open system Windows and Linux platform host:

###### (1) Hardware:

A. Windows and Linux-based open-system servers run on multi-core servers manufactured by IBM, HP, LENOVO and DELL

B. Storage: EMC and HDS (Hitachi Data Systems) storage

###### (2) Software:

A. OS : Windows Server 、 Red Hat Enterprise Linux

B. DB : MSSQL DB 、 Oracle DB 、 Hadoop 、 IBM DB2 、 Teradata

##### (II) Future Development and procurement plan:

###### 1. Host and server:

- (1) Upgrade to Windows 2012 operating system Windows 2019
- (2) Consolidation and upgrade of MS SQL database
- (3) Disk drive expansion

###### 2. Network:

- (1) IT Center network capacity expansion
- (2) Enhancement to network monitoring system, improvement of network and telephone service

###### 3. End equipments:

- (1) Introduction of client cloud virtualization
- (2) Distribution of laptop to mobile users by segment

4. Information security:
    - (1) Introduction of EDR terminal detection and response system
    - (2) Upgrade of web application firewall (WAF).
    - (3) Replacement of the intrusion prevention system (IPS)
    - (4) Replacement of gateway data leakage protection system
    - (5) Enhancement of overseas IT maintenance and security framework
  5. Introduction of server room smart monitoring for business units bank-wide:
    - (1) Recommendations have been made to apply tier-based management for server rooms/server racks used by the Bank (including branches, overseas subsidiaries, overseas branches and offices), and to outline specific practices for internal compliance.
    - (2) Planning and implementation of automated server rack monitoring
- (III) Emergency backup and security:
1. Emergency disaster recovery Measures:
    - (1) Host:
 

Use EMC SRDF and IBM PPRC remote DR solution; through the high-speed optical fiber de-multiplexer and DWDM, disk drive synchronizes local transaction data to remote DR center to ensure there is no data inconsistency.
    - (2) Open system Windows and Linux platform host:
 

Storage Area Network (SAN) is being used for key servers to ensure in-time remote data backup and prevent disruption of key processes of the Bank.
    - (3) Network:
 

For Internet system's DR, important routers and exchangers adopt center Load-Balance approach for implementation and are connected to remote DR center via DWDM to ensure client's connection quality.

2. Safety protection measures:

In terms of security protection, all external systems, application mainframes, terminal and network equipment are being guarded by a tiered information security protection system that incorporates measures such as: Advanced network firewall, network system firewall, intrusion detection, APT protection etc. DDoS defense and ISP clean pipe service have also been adopted to protect against malicious attacks. Combined with the use of intelligent and automated information security monitoring system, the Bank is able to effectively protect and monitor its systems and networks against threats. Furthermore, the Bank constantly reviews the security framework of its computer system, and assesses weaknesses on all aspects from information security, network administration, anti-virus, anti-hack to the recovery plan. We hope to enhance information security measures in a way that caters for security and convenience at the same time, while reducing the risk of data leakage and threat of malicious intrusion from the outside. By enhancing security over the Bank's computer system and network, we are able to assure the quality of service delivered to customers.

■ **Cathay Century Insurance Co., Ltd.**

- (I) Key information system setup and maintenance:
  1. Core information system:
    - (1) Hardware: IBM S822, S924, S922
    - (2) Software: AIX, RHEL, DB2, WebSphere, Jboss, Imperva DAM and backup software (TSM, CommVault).
    - (3) Storage: IBM DS8870, EMC PowerMax 2000, EMC Unity 550F, EMC Unity 300
    - (4) Primary applications: all insurance quotes, claim handling, premium, financial, accounting, business process management, and image system, etc.

2. x86 open systems:
    - (1) Hardware: DELL R740, HP DL380, IBM X3650 M4
    - (2) Software: Windows Server, RHEL, Jboss, MS SQL Server and IBM DB2
    - (3) Storage: EMC Unity 550F, EMC Unity 300
    - (4) Primary uses: internal file transfer, employee attendance, corporate website, e-commerce, and B2B information exchange between bank channels and insurance agent companies
- (II) Future Development and procurement plan:
1. Planning and introduction of automated processes and bots
  2. Planning and development of digital transformation microservice platform
  3. Planning and development of AI-driven image recognition applications
  4. Planning and development of blockchain applications
  5. Planning and development of cloud-based core system and active-active mode
  6. Advanced storage equipment upgrade
  7. Planning and implementation of Virtual Tape Library
  8. Development of dual-center network infrastructure
  9. Information security:
    - (1) Implementation of securities monitoring center (SOC)
    - (2) Introduction of ISO 27701 certification
- (III) Emergency backup and security:
1. The company has incorporated live partition mobility (LPM) into the IBM RS/6000 mainframe. The company has also implemented off-site backup to prevent disruption of business and service activity.
  2. Using the virtual server technology, the Company is able to achieve fast relocation in the event of system malfunction. The Company has established backups for critical servers at the backup data center and synchronizes data with the main site.
  3. Solutions including firewall, vulnerability scanning, intrusion protection, web application firewall (WAF), SSL VPN, Security Information and Event Management (SIEM), along with anti-virus software and Trojan remover, have been acquired and installed.
  4. Gateway network data loss prevention (NDLP) and VES file control have been implemented to lower the risk of personal information leakage.
  5. Security program development process management, source code examination, infiltration test, and vulnerability scan for enhanced system security.
  6. APT protection measures have been established on mails, gateways and terminals to prevent malicious software from intruding the company's computers.
  7. Ongoing ISO 27001 information system safety certification for improved information security.
  8. Introduced DDOS defense to protect against malicious attacks from the outside.
  9. Mobile device management (MDM) and mobile application management (MAM) for enhanced management over the use of mobile devices.
  10. PCI DSS checks are performed regularly to ensure information security of online transactions.

## ■ Cathay Securities Corporation

- (I) Key information system setup and maintenance:
  1. Large servers:
    - (1) Hardware: IBM S822, P740, ODA-x7 and Exadata-x7 etc.
    - (2) Software: AIX V7.1, IBM AS/400, Oracle Linux 6.10, Oracle Linux 7.6

- (3) Storage equipment: IBM DS5300, V7000, V5030
- 2. xServer:
  - (1) Hardware:
    - Lenovo M4/M5/M6, HS22 blade server, HPE Synergy 12000 blade server, HPE DL360, DELL R740
  - (2) Software:
    - A. Operating system: Windows Server/Redhat for the servers.
    - B. Database: Microsoft SQL, Oracle database systems, DB2 and MYSQL
    - C. WWW: Websites are divided into external and internal types. All external sites are set at the Demilitarized Zone (DMZ) of the firewall
  - (3) Storage equipment: EMC 5300/5400, IBM DS3524, IBM DS3512, HPE 3PAR 8400
- 3. Network:
  - (1) Hardware:
    - A. Router: Internet connection is handled using Cisco4451 and Cisco2801
    - B. Switch: LAN connection is handled using Cisco 3850, including implementation of CISCO APIC SDN
    - C. Firewall: The company uses Palo Alto firewall with automatic backup connection
  - (2) Software:
    - A. Riverbed and WhatsUp are used for network flow analysis
    - B. Forcepoint is used to control and protect browsing activities
    - C. The company uses Symantec as the anti-virus software for servers.

(II) Future Development and procurement plan:

- 1. Storage equipment consolidation – Neihu server
- 2. Implementation of new core system for futures
- 3. Implementation and introduction of messaging platform
- 4. Introduction of multi-factor authentication
- 5. Development and performance enhancement of the regular fixed-sum system
- 6. Implementation of electronic order placement AP
- 7. Introduction and application of voice-based AI customer service group-wide.
- 8. Introduction of tiered automation for various systems, and construction of cloud platform
- 9. Implementation of monitoring system at the logic layer
- 10. Development of sub-brokerage margin trading/financing system and sub-brokerage small-sum offshore bond e-trading service to support future deregulations.
- 11. Sub-brokerage B2B bond/share/fund order placement system.
- 12. Consolidation of passwords across securities, futures and sub-brokerage systems
- 13. Development of futures online account opening service in line with business growth.
- 14. Establishment of securities and futures account mid-office
- 15. Functionality enhancements to the mobile service platform
- 16. Precision marketing algorithm and platform
- 17. Application for “Qualified Intermediary” (QI) has been submitted to raise competitiveness in sub-brokerage service; this qualification requires improvements to be made to related systems
- 18. Regular fixed-sum investment of U.S. equity will be developed to accommodate trends such as financial advisory bots and B2B service

19. Construction of technical mid-office and introduction of relevant technologies and employee training
  20. APIM and cross-industry cooperation
  21. Introduction and application of AI-driven customer service group-wide
  22. Data analysis and customer segmentation`
- (III) Emergency backup and security:
1. Host: Core trading mainframe on-site HA backup and remote backup currently in place.
  2. Network:
    - (1) For network backup, employ high availability (HA) design for important routers and switches with dedicated connecting to the remote backup data center. Also, alternate connection lines are installed in the remote backup data center and available to all business locations to ensure minimum interruption for important operation procedures.
    - (2) For Internet security: The company uses next-generation firewalls with network management and anti-virus programs for comprehensive network security management, and thereby ensure effective protection of network, systems and customer service quality.

■ **Cathay Securities Investment Trust Co., Ltd.**

- (I) Key information system setup and maintenance:
1. Open system setup:
    - (1) Hardware
      - A. DELL R740, HP DL380, IBMx3650 server.
      - B. Storage equipment: VSAN, NetApp FAS2240-2, EonNAS
    - (2) Software
      - A. Operating system: Windows Server, Redhat
      - B. Database: MS SQL Server
  2. Network and information security:
    - (1) Network: Two E1 lease lines with Load-Balance design are used to connect the head office and each branch directly. Internet connection is supported by load balancer with 1 lease line and 3 fiber lines as the backup.
    - (2) Firewall: The Company uses dual redundant NG firewall to control all Internet communication, and has set up Demilitarized Zone (DMZ) for public websites. The dual redundant NG firewall separates Intranet from the Internet. Additional firewall is used to control connections with subsidiaries of the financial holding group.
    - (3) Network security: The Company uses proxy servers to manage Internet browsing activities, and adopts APT protection and terminal virus protection.
    - (4) NDLP is adopted to control transmission of sensitive information
    - (5) DDoS defense
    - (6) Website load balance and fault tolerance
    - (7) Intrusion prevention system (IPS)
    - (8) Network APT packet analysis system
    - (9) Terminal privilege account management system
- (II) Future Development and procurement plan:
1. Development of investment assistance system
  2. Implementation of fund accounting system
  3. Implementation of firewall for WAF
  4. Website version update

5. Upgrade of Cathay e-Family
6. Implementation of terminal APT and network access control (NAC)
7. Dual-factor authentication and PIM for high privilege accounts
8. Mobile office planning

(III) Emergency backup and security:

1. The system is supported by a same-site, high-availability VSAN storage that uses database log copying to back up data to the off-site. Database recovery drills are conducted regularly on the off-site server to ensure integrity of customers' data and continuity of computer services in the event of a major disaster.
2. In addition to basic firewall defense, HA structure, Internet access management, APT gateway protection, and automated virus protection, the Company also adopts enhanced security protections in line with its information security roadmap. By escalating the level of information security, the Company not only protects the organization's assets, but also protects customers' interests and ensures sustainability of the business.



## VIII. Industrial Relations

### **(I) Employee benefit programs, retirement system, related agreements and rights protection:**

In addition to the labor and health insurance coverage as required by the government, benefits such as group insurance, various subsidies, festival allowances, hiking activities, internal training, exam-taking reimbursements, etc. are part of our employees' benefits. In terms of retirement system, all benefits are provided in accordance with the Labor Standards Act and Labor Pension Act.

To protect the rights of employees, companies clearly defined the following according to laws and regulations, collective bargaining agreement and management needs, in the work rules: wage payment standard, working hours, vacation, leave of absence, attendance, reward and punishment, transfer, dismissal & retirement, and pension. After approved by regulators, these rules are disclosed to the public. To provide a workplace without sexual harassment and with gender-equality, procedures and disciplinary measures to handle such complaints were established. In addition, a sexual harassment appeal processing committee was also set up to process matters on sexual harassment complaints, investigation, and resolution.

To ensure a workplace that guarantees employees' safety, the following Group measures are created:

1. First-aid personnel are required to take related professional training. First-aid kits and AEDs are provided in all working locations.
2. Regular testing for illumination and the level of carbon dioxide in the working environment.
3. Health checkups and pre-job safety and health training for new hires.
4. Health checkups and safety and health training for employees on a regular basis.
5. Arrange physicians and nursing personnel to provide on-site labor health services.

### **(II) Losses arising as a result of employment disputes in the last year up till the publication date of this annual report (including violations against Labor Standards Act found during a labor inspection; explain the date of penalty, reference number, the laws violated, the violating action, and the nature of penalty). Please quantify the estimated losses and state any countermeasures, and state reasons if losses cannot be reasonably estimated:**

None.

### **(III) Employee Code of Service:**

All employees are required to follow the codes below as a part of their contributions to the Company's future development and to the common welfare of the entire employee population.

1. All employees must abide by applicable government laws, rules and regulations, and the Company's regulations and policies. Team spirit is highly encouraged within the Company but behavior relating to disturbances in the working environment or common welfare, such as being opinionated, agitating, quarreling, fighting physically, misleading others, etc. are strictly prohibited.
2. All work should be carried out in accordance with the instructions given, if no such instruction is available, a request for related guidance from the upper managers should be sought before further execution.
3. Instructions given by the working supervisors shall be implemented, any refusal, dodging or disagreement should be forward to the department/divisional supervisor for resolution.
4. Unless approved by the Company, no outside employment is allowed. Activities relating to jobbery will not be tolerated.
5. Other than serving for his/her departments, employees are expected to assist in the work of others when necessary and as requested by the direct supervisors. Buck passing is not allowed in this situation.
6. Unless for Company holidays or other holidays as designated by the central government, employees are

required to arrive at work on time for working days. Absences without prior notice or leaving early/arriving late are disallowed.

7. All duties, unless otherwise specified, should be completed during the day without delay.
8. Absence without permission during working hours is prohibited.
9. Employees must comply with whatever job transfers or arrangements made by the company.
10. All work settings should be kept in good order. Riotous activities or disturbing others or any forms of misconduct are prohibited.
11. No going through other's data including statements, documents, phone calling history, and computer files (including any storage). No document is to be taken outside or revealed to others without the supervisor's permission.
12. Company customers should be treated with kindness and respect. Attitudes associated with negligence or arrogance are strictly prohibited. All customer requests should be served with full effort without delay. Explanations should be made patiently when misunderstood. Inquiries should be answered or transferred to the suitable personnel, whether in charge or not. An answer of "I do not know" is not acceptable.
13. Business intelligence and commercial data should be kept confidential and not disclosed to others.
14. Employees are not permitted to guarantee a loan or contract for others in the name of the Company or the job position.
15. All Company facilities or supplies should be used with care and without waste. Wanton damage and misappropriation for personal use outside of the Company is not allowed.
16. Avoid bad addictions, such as gambling and excessive business entertainment.
17. Contraband or hazardous goods are banned from all the office areas. No safekeeping of personal belongings in the warehouses. No smoking or leaving ignitable goods in the file rooms.
18. Under unusual circumstances, all important documents, statements, commercial bills, cash and computer files (including any storage) should be placed and handled properly. And notice should be sent to the nearby supervising units as soon as possible.
19. Supervising responsibility should be divided into various layers according to the nature of the transaction. Managers in all levels should properly look after the business under his/her supervision.
20. Employee must maintain confidentiality of their job grade, salary and bonus they receive, and cannot reveal such information to others or ask others for such information.
21. There shall not be extramarital affairs, sexual harassment or gender discrimination in words or in action at the workplace.

## IX. Important contracts and commitments

### ■ Cathay Life Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Major reinsurers and reinsurance contracts	Central Reinsurance Corporation	1970/9/30~	Reinsurance contracts for life and casualty policies	None
	Swiss Reinsurance Company Ltd	1970/9/30~	Reinsurance contracts for life and health insurance policies	
	Munich Reinsurance Company	1975/4/1~	Reinsurance contracts for life, health and casualty insurance policies	
	RGA Reinsurance Company	1998/9/1~	Reinsurance contracts for life and health insurance policies	
	SCOR SE	1998/1/1~	Reinsurance contracts for life, health and casualty insurance policies	
	Hannover Rück SE	2003/1/1~	Reinsurance contracts for life, health and casualty insurance policies	

Note: If both parties of the rein contracts of life and health insurance are in consent, the contracts will be automatically renewed. Other contracts are one-year contracts.

### ■ Cathay United Bank Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
The assignment of performing lending assets	Chong Hing Bank Limited	2020/1/8	Total amount US\$ 25,000,000.00	None
	Bank SinoPac Co., Ltd.	2020/1/17	Total amount US\$ 50,000,000.00	
	Taiwan Cooperative Bank Manila Offshore Banking Branch	2020/01/20	Total amount EUR\$ 11,000,000	
	Yuanta Commercial Bank / Union Bank of Taiwan	2020/2/10	Total amount USD\$ 25,000,000/ USD\$ 17,000,000	
	Industrial and Commercial Bank of China, Hong Kong Branch	2020/2/17	Total amount USD\$ 30,000,000	
	Taishin International Bank Co. Ltd. HK Branch	2020/3/2	Total amount USD\$ 20,000,000	
	E.SUN Commercial Bank, Ltd. HK Branch	2020/3/23	Total amount USD\$ 24,189,189.19	
	Taishin International Bank	2020/3/23	Total amount USD\$ 24,189,189.19	
	Hongkong and Shanghai Banking Corporation Limited	2020/6/29	Total amount USD\$ 24,725,723.81	
	Bank Sinopac	2020/7/6	Total amount USD\$ 10,947,420	
	Chaileasee Finance Co., Ltd.	2020/9/22	Total amount NTD\$ 300,000,000	
	Bank of Panhsin, Co., Ltd.	2020/10/29	Total amount USD\$ 10,000,000	
	Bank of Panhsin, Co., Ltd.	2020/11/26	Total amount USD\$ 10,000,000	

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
	Natixis	2020/12/23	Total amount USD\$ 10,000,000	
Investment agreement	Chongqing Ant Consumer Finance Limited Company (Tentatively named)	2020/3/11	1. Volume: 10% of the shareholdings 2. Total monetary amount: RMB\$ 800 Million 3. Subsequent relevant procedures will be undertaken upon the approvals by the competent authorities.	

■ Cathay Century Insurance Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Reinsurance Contracts (Domestic)	Central Reinsurance Corporation	1993/8/19~	Reinsurance contracts for fire, single risk/event, engineering & construction, casualty, marine, and personal accident insurance policies	Special exclusions and coverage limitation listed under the reinsurance contracts
Reinsurance Contracts (International)	EVEREST REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for single risk/event, engineering & construction, casualty, and personal accident insurance policies	
	KOREAN REINSURANCE COMPANY	2002/1/1~	Reinsurance contracts for fire, single risk/event, casualty, marine, engineering & construction, and personal accident insurance policies	
	SWISS REINSURANCE COMPANY	1993/8/19~	Reinsurance contracts for single risk/event, engineering & construction and marine insurance policies	
	TRANSATLANTIC REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for fire, marine, engineering & construction and casualty insurance policies	
	TOA REINSURANCE COMPANY	2001/1/1~	Reinsurance contracts for event, engineering & construction, casualty and personal accident insurance policies	

■ Cathay Securities Corporation

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Program Maintenance	Sysjust Co., Ltd.	2020/01/01~ 2020/12/31	Maintenance Agreement for the Taiwan Stock Market Trading System(Web Version).	None
Program Maintenance	Sysjust Co., Ltd.	2020/01/01~ 2020/12/31	Data License Agreement	
Software Writing Service	Easyuse Digital Technology Co., Ltd.	2019/08/01~ 2020/07/31	BillHunter/MailHunter Ultimate Electronic statement and marketing E-mail system	
Program Maintenance	Da Cho Digital Co., Ltd.	2018/11/09~ 2021/11/08	Securities brokerage business, proprietary (securities, futures, warrant) application system	
Program Maintenance	Yi Tung Digital Technology	2019/09/01~ 2021/08/31	Maintenance agreement for Speedy_securities system	
Program Maintenance	K Way Information Corp.	2020/01/01~ 2020/12/31	HTS ASP application software system maintenance contract	
Program Maintenance	Mitake Information Corp.	2020/01/01~ 2020/12/31	Maintenance agreement for Mitake mobile trading system	

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Program Maintenance	Cmoney Technology Co., Ltd.	2020/01/01~ 2020/12/31	CMoney System Rental Contract CMoney Cloud Subscription System Rental Contract	
Software Writing Service	Systex Corporation.	2020/01/01~ 2020/12/31	Wealth management financial products platform	
Software Writing Service	Systemweb Technology Co., Ltd.	2017/8/17~ 2019/7/10 (Warranty to 2020/7/9)	Discretionary Accounting Management System	
Software and Hardware construction Contract	Changing Information Technology Inc.	2017/01/20~ 2021/5/25	Contract and Seal Management System for New-opened Accounts	
Hardware equipment procurement contracts	Dimerco Data System Corp.	2020/10/15~ (One-year warranty at the completion)	Purchase Agreement	
Software License contract	KPMG Advisory Services Co., Ltd.	2020/1/1~ 2020/12/31	UiPath RPA Software License Agreement	

■ Cathay Securities Investment Trust Co., Ltd.

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Fund Custodian	Hua Nan Bank	1994/3/9~	Cathay Dragon Fund	None
	Taipei Fubon Bank	2000/6/23~	Cathay Cathay Fund	
	Taipei Fubon Bank	2000/8/7~	Cathay Taiwan Money Market Fund	
	Taipei Fubon Bank	2001/1/10~	Cathay Small & Medium Cap Fund	
	Chang Hwa Bank	2002/1/31~	Cathay Greater China Fund	
	Taipei Fubon Bank	2002/7/18~	Cathay Technology Fund	
	Taipei Fubon Bank	2005/12/15~	Cathay Global Aggressive Fund of Fund	
	Hua Nan Bank	2008/3/14~	Cathay Global Ecology Fund	
	Bank SinoPac	2006/12/27~	Cathay Global Infrastructure Fund	
	Mega International Commercial Bank	2009/11/30~	Cathay Mandarin Fund	
	Chinatrust Bank	2010/5/6~	Cathay High Income Fund of Funds	
	Bank of Taiwan	2010/8/19~	Cathay Emerging Markets fund	
	Taipei Fubon Bank	2010/12/20~	Cathay Global Resources Fund	
	E.Sun Bank	2011/6/23~	Cathay China Domestic Demand Growth Fund	
E.Sun Bank	2011/9/9~	Cathay Emerging Market High Yield Fund		

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
	Hua Nan Bank	2012/4/30~	Cathay China Emerging Industries Fund	
	Chinatrust Bank	2013/10/24~	Cathay New Zealand Dollar 8-Years Principal Protec	
	E.Sun Bank	2013/12/3~	Cathay RMB Money Market Fund	
	Chinatrust Bank	2013/12/3~	Cathay Emerging China Bond Fund	
	Shanghai Commercial Bank	2014/8/6~	Cathay Global Multiple Income Balanced Fund	
	E.Sun Bank	2014/8/6~	Cathay New Zealand Dollar 2021 Principal Protected Fund	
	Hua Nan Bank	2014/12/18~	Cathay Asian Growth Fund	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Leveraged 2X ETF	
	E.Sun Bank	2015/10/29 ~	Cathay FTSE China A50 Daily Inversed ETF	
Fund Custodian	HSBC Bank (Taiwan) Limited	2015/3/20 ~	Cathay FTSE China A50 ETF	None
	E.Sun Bank	2015/12/25 ~	Cathay Asia-Pacific Income Balanced Fund	
	Hua Nan Bank	2016/4/25~	Cathay Nikkei 225 Currency-hedged ETF Fund	
	Hua Nan Bank	2016/8/4~	Cathay Global High Dividend Fund	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Leveraged 2X ETF	
	E.Sun Bank	2016/7/1~	Cathay TAIEX Daily Inversed ETF	
	Taishin International Bank	2016/10/3~	Cathay Dow Jones Industrial Average ETF	
	Taishin International Bank	2016/10/3~	Cathay Dow Jones Industrial Average Daily Inversed	
	E.Sun Bank	2017/3/15~	Cathay Smart ETF Conservative Fund of ETFs	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR ETF	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR Lev 2X ETF	
	E.Sun Bank	2017/4/6~	Cathay US Treasury 20+ YR Inv 1X ETF	
	E.Sun Bank	2017/8/9	Cathay TIP TAIEX+Low Volatility Select 30 ETF	
	E.Sun Bank	2017/8/9	Cathay S&P 500 Low Volatility High Dividend ETF	
	E.Sun Bank	2018/1/29	Cathay BBB Corporate 10Y+ ETF	
	Chinatrust Bank	2018/1/29	Cathay EM USD Investment Grade ex China Coupon 5.5%5Yrplus 10% Country Capped ETF	
E.Sun Bank	2018/1/29	Cathay High Yield 1-5Y ETF		
Chang Hwa Bank	2018/5/4	Cathay Senior Secured High Yield Bond Fund		

<b>Contract Type</b>	<b>Contracting Party</b>	<b>Valid Period</b>	<b>Purpose</b>	<b>Restriction Clause</b>
	E.Sun Bank	2018/5/4	Cathay FTSE Chinese Government and Policy Bank Bond 0-1	
	E.Sun Bank	2018/5/29	Cathay FTSE Emerging Markets ETF	
	E.Sun Bank	2018/5/29	Cathay Nasdaq CTA Artificial Intelligence and Robotics ETF	
	E.Sun Bank	2018/5/29	Cathay Korea/Taiwan IT Premier ETF	
	Chinatrust Bank	2018/7/25	Cathay China New Era Balanced Fund	
	Chinatrust Bank	2018/7/25	Cathay Securities Investment Trust Fund - Cathay FTSE China A150 ETF	
	Hua Nan Bank	2018/7/25	Cathay FTSE Chinese Policy Bank Bond 5+ Years ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
	E.Sun Bank	2018/11/20	Cathay Bloomberg Barclays US Corporate A-and Above 10+ Years Liquid ETF	
	E.Sun Bank	2019/1/22	Cathay North American Technology ETF	
	Chinatrust Bank	2019/2/25	Cathay 7-10 Yr Banking Bond ETF	
	Citi bank	2019/2/25	Cathay 15+ Yr Technology Bond ETF	
	E.Sun Bank	2019/2/25	Cathay 15+ Yr Utility Bond ETF	
	E.Sun Bank	2019/4/23	Cathay PHLX Semiconductor ETF	
Fund Custodian	Chinatrust Bank	2019/4/23	Cathay 15+ Yr Healthcare Bond ETF	None
	Sinopac bank	2019/4/26	Cathay Six-Year Ladder Maturity EM Bond Fund	
	E.Sun Bank	2019/7/25	Cathay Target Date 2029 Fund of Funds	
	E.Sun Bank	2019/7/25	Cathay Target Date 2039 Fund of Funds	
	E.Sun Bank	2019/7/25	Cathay Target Date 2049 Fund of Funds	
	Chinatrust Bank	2019/7/30	Cathay 2025 Maturity Emerging Markets Bond Fund	
	Chinatrust Bank	2019/8/15	Cathay DJIA Daily Leveraged 2X ETF	
	Chinatrust Bank	2019/11/15	Cathay US Multi-Income Balanced Fund	
	Chinatrust Bank	2019/11/15	Cathay Bloomberg Barclays US Short Term Treasury ETF	
	Chinatrust Bank	2019/11/15	Cathay Bloomberg Barclays US Short Term Treasury ETF	

<b>Contract Type</b>	<b>Contracting Party</b>	<b>Valid Period</b>	<b>Purpose</b>	<b>Restriction Clause</b>
	Chang Hwa Bank	2020/3/23	Cathay Cyber Security ETF	
	Taishin International Bank	2020/7/10	Cathay High Dividend Taiwan Equity Fund	
	Taishin International Bank	2020/7/10	Cathay MSCI Taiwan ESG Sustainability High	
	E.Sun Bank	2020/10/20	Cathay Asian High Yield Bond Fund	
	First Commercial Bank	2020/12/1	Cathay Taiwan 5G PIUS ETF	

Note: The contract effective date is the fund establishment date, and the contracting party refers to the custodian bank for such fund.



## Six. Financial Report

### I. Five Year Condensed Balance Sheet and Income Statement Summary (Table 20)

#### (I) Condensed Balance Sheet of Cathay Financial Holdings and Subsidiaries

Unit: NT\$ thousand

Item \ Year	2016	2017	2018	2019	2020	Financial Information as of March 30, 2021
Cash and cash equivalents, due from Central Bank and call loans to other banks	267,854,460	370,518,548	310,799,369	524,350,564	666,220,179	
Financial assets at fair value through profit or loss	244,529,264	365,808,158	1,428,824,049	1,653,983,453	1,748,081,143	
Financial assets available for sale	1,591,359,657	1,681,125,738	0	0	0	
Financial assets at fair value through other comprehensive income	0	0	1,127,810,270	1,182,534,102	1,562,998,457	
Investment in debt instruments measured at amortized cost	0	0	2,688,221,788	3,068,838,014	3,161,044,538	
Derivative financial assets for hedging	232,269	246,444	216,611	548,075	146,959	
Securities purchased under resell agreements	50,160,342	99,703,578	59,212,899	43,586,931	67,264,342	
Receivable - net	154,212,060	169,202,260	161,216,190	185,049,532	191,916,164	
Income tax assets - current period	4,215,323	4,362,608	6,438,062	4,853,833	4,689,275	
Available-for-sale assets - net	0	0	0	0	0	
Discount and loan - net	2,045,532,795	2,038,528,190	2,176,775,907	2,066,761,296	2,141,276,205	
Reinsurance contract assets, net	8,767,841	7,237,144	7,623,707	8,458,658	9,646,628	(Note 3)
Held to maturity financial assets	81,826,739	98,759,110	0	0	0	
Investments accounted for using the equity method, net	35,209,790	37,355,653	44,932,006	48,145,672	33,036,282	
Assets subject to restriction	0	0	0	0	0	
Other financial assets - net	3,036,381,213	3,347,907,301	555,740,531	615,117,482	660,547,975	
Property and equipment - net	164,114,231	165,095,690	166,458,327	101,855,371	98,405,132	
Investment property - net	311,014,127	318,106,325	319,222,554	408,696,108	419,476,228	
Intangible assets - net	58,597,243	55,802,976	53,826,467	51,270,972	54,002,407	
Deferred tax assets - net	14,729,993	31,243,778	40,806,934	40,595,612	61,507,384	
Right-of-use asset	0	0	0	3,908,913	4,138,543	
Other assets	66,400,120	50,506,788	76,357,835	56,924,753	66,074,603	
<b>Total assets</b>	<b>8,135,137,467</b>	<b>8,841,510,289</b>	<b>9,224,483,506</b>	<b>10,065,479,341</b>	<b>10,950,472,444</b>	
Due to the central bank and other banks	77,493,795	90,417,859	81,432,233	84,108,128	66,131,059	
Funds borrowed from the central bank and other banks	0	0	0	0	1,076,000	

Year Item	2016	2017	2018	2019	2020	Financial Information as of March 30, 2021	
Financial liabilities at fair value through profit or loss	115,014,826	90,514,268	129,698,896	111,526,387	140,778,098		
Financial liabilities for hedging	0	0	0	30,894	139,858		
Notes and bonds sold under RP agreements	59,139,059	112,643,582	59,307,037	50,278,533	12,299,564		
Commercial paper payable	41,578,838	51,468,158	62,989,367	54,018,845	39,519,918		
Payables	55,295,781	57,943,815	66,727,399	66,934,725	68,696,694		
Current tax liabilities	3,512,350	8,879,563	2,543,689	3,274,828	20,628,900		
Liabilities directly related to assets pending for sale	0	0	0	0	0		
Deposit and remittances	1,999,943,172	2,062,953,012	2,187,203,086	2,303,443,816	2,615,799,063		
Bonds payable	51,900,000	98,350,000	90,600,000	118,900,000	148,800,000		
Other borrowings	87,229	441,199	336,381	2,201,364	1,657,576		
Other financial liabilities	561,224,829	623,527,312	627,815,178	676,972,179	692,760,284		
Lease liability	0	0	0	12,720,337	13,011,637		
Provisions	4,596,525,084	4,972,427,256	5,341,935,726	5,713,778,385	6,117,073,219		
Deferred tax liabilities	26,362,443	34,828,440	27,091,143	55,144,257	67,823,378		
Other liabilities	17,236,040	28,645,282	17,514,376	30,119,484	39,501,515		
Total Liabilities	Before distribution	7,605,313,446	8,233,039,746	8,695,194,511	9,283,452,162	10,045,696,763	(Note 3)
	After distribution	7,630,564,451	8,266,347,695	8,716,707,217	9,313,181,506	(Note 4)	
Equity attributable to owners of the company		523,324,572	599,067,071	519,731,330	771,747,365	893,061,216	
Share capital	Before distribution	133,965,102	133,965,102	140,965,102	147,025,102	147,025,102	
	After distribution	133,965,102	133,965,102	140,965,102	147,025,102	(Note 4)	
Capital surplus	Before distribution	130,448,697	130,452,105	165,449,364	177,256,976	177,256,053	
	After distribution	130,448,697	130,452,105	161,680,401	177,256,976	(Note 4)	
Retained earnings	Before distribution	252,687,821	283,743,551	285,875,616	326,282,407	371,468,940	
	After distribution	227,436,816	250,435,602	268,131,873	296,553,063	(Note 4)	
Other equity		6,222,952	50,906,313	(72,558,752)	121,182,880	197,311,121	
Treasury stock		0	0	0	0	0	
Non-controlling interests		6,499,449	9,403,472	9,557,665	10,279,814	11,714,465	
Total equity	Before distribution	529,824,021	608,470,543	529,288,995	782,027,179	904,775,681	
	After distribution	504,573,016	575,162,594	507,776,289	752,297,835	(Note 4)	

Note 1: Financial statements of the Company in 2016 to 2020 were audited.

Note 2: The Company did not conduct any revaluation of assets in 2016 to 2020.

Note 3: As of the publication date of this annual report, no financial information of 2021 had been audited or reviewed by CPAs.

Note 4: Distribution for earnings in 2020 had not yet been resolved by the shareholder's meeting.

**(II) Condensed Consolidated Income Statement of Cathay Financial Holdings and Subsidiaries**

Unit: NT\$ thousand

Item	Year					Financial Information as of March 30, 2021
	2016	2017	2018	2019	2020	
Interest income	168,883,110	186,087,791	202,714,029	220,258,661	208,249,264	(Note 2)
Less: Interest expenses	(15,405,207)	(17,627,041)	(22,085,810)	(23,892,156)	(17,319,732)	
Net interest income	153,477,903	168,460,750	180,628,219	196,366,505	190,929,532	
Net income and gains other than interest income	385,759,498	415,992,524	292,683,668	359,520,693	438,984,953	
Profit from operations	539,237,401	584,453,274	473,311,887	555,887,198	629,914,485	
Provision for bad debt, commitments and guaranteed liability reserve	(5,231,676)	(3,459,544)	(4,599,086)	(2,205,393)	(3,177,875)	
Net changes in insurance liability reserve	(408,613,955)	(445,832,540)	(334,121,938)	(394,074,197)	(462,094,141)	
Operating expenses	(75,207,265)	(75,525,573)	(78,992,089)	(89,050,434)	(83,026,688)	
Income before income tax from continuing operations	50,184,505	59,635,617	55,598,774	70,557,174	81,615,781	
Income tax (expense) benefit	(2,145,305)	(2,962,393)	(3,776,518)	(6,697,870)	(5,657,558)	
Net income from continuing operations	48,039,200	56,673,224	51,822,256	63,859,304	75,958,223	
Net income from discontinuing operations	0	0	0	0	0	
Net income	48,039,200	56,673,224	51,822,256	63,859,304	75,958,223	
Total other comprehensive income for the period, net of income tax	(4,652,382)	44,354,346	(175,183,163)	189,381,909	80,238,491	
Total comprehensive income	43,386,818	101,027,570	(123,360,907)	253,241,213	156,196,714	
Net income attributable to owners of the company	47,618,813	56,306,735	51,467,243	62,757,286	74,579,460	
Net income attributable to non-controlling interests	420,387	366,489	355,013	1,102,018	1,378,763	
Total comprehensive income attributable to owners of the company	43,393,475	100,990,096	(123,867,466)	251,892,166	154,988,421	
Total comprehensive income attributable to non-controlling interests	(6,657)	37,474	506,559	1,349,047	1,208,293	
Earnings Per Share	3.79	4.47	3.95	4.76	5.41	

Note 1: Financial statements of the Company in 2016 to 2020 were audited.

Note 2: As of the publication date of this annual report, no financial information of 2020 had been audited or reviewed by CPAs.

Note 3: Business units whose operations have been discontinued are disclosed with their net amounts after income tax.

**(III) Names of external auditors and audit opinions in recent years**

Year	Names of Auditors	Audit opinions of Auditors
2016	Certified Public Accountant: Bob Chang, James Wang	Audit Report with unqualified opinion
2017	Certified Public Accountant: Bob Chang, James Huang	Audit Report with unqualified opinion
2018	Certified Public Accountant: Bob Chang, James Huang	Emphasis paragraph on unqualified opinion (Note 1)
2019	Certified Public Accountant: Cheng-Hung Kuo, Li-Chi Chen	Unqualified opinion with the addition of “Other Issues” paragraph (Note 2)
2020	Certified Public Accountant: Cheng-Hung Kuo, Shu-Wan Lin	Audit Report with unqualified opinion

Note 1: The Applicability of Focus Item Section-New Accounting Criteria: The Company and subsidiaries have adopted IFRS 9 - “Financial Instruments” and IFRS 15 - “Revenue from Contracts with Customers” since January 1, 2018, and chose not to restate consolidated financial statements for the comparative periods. The CPAs did not modify their audit opinions in response to this decision.

Note 2: 2018 consolidated financial statements of Cathay Financial Group were audited by other CPAs, for which they had issued an unqualified opinion with emphasis of matters paragraph on March 21, 2019.

## II. Five Year Financial Analysis (Table 21)

### (I) Financial analyses (2016-2020)

Title(Note 2)		Year	2016	2017	2018	2019	2020	Financial Information as of March 30, 2021
Operational ability	Total assets turnover (times)	0.07	0.07	0.05	0.06	0.06		Note 4
	Deposit to loan ratio of subsidiary bank (%)	70.62	68.42	71.34	66.58	62.94		
	NPL ratio of subsidiary bank (%)	0.15	0.21	0.16	0.15	0.14		
	Average revenues per employee (group)	10,542	11,517	8,828	10,011	10,984		
	Average earnings per employee (group)	939	1,117	967	1,150	1,324		
Profitability	ROA (%)	0.77	0.84	0.77	0.86	0.85		
	ROE (%)	9.70	9.96	8.83	9.74	9.01		
	Net profit margin (%)	8.91	9.70	10.95	11.49	12.06		
	Earnings Per Share (NTD)	3.79	4.47	3.95	4.76	5.41		
Ability to repay debts and financial structure	Liabilities to assets ratio (%)	93.49	93.12	94.26	92.23	91.74		
	Liabilities to net worth ratio (%)	1,435.44	1,353.07	1,642.81	1,187.10	1,110.30		
	Financial holding double leverage ratio (%)	104.85	107.88	112.41	109.67	110.81		
	Financial ratios of financial holding pursuant to Article 41 of the Financial Holding Company Act (%)	None	None	None	None	None		
Leverage	Operation leverage	9.35	8.62	7.19	6.72	6.79		
	Financial holding company financial leverage	1.31	1.30	1.40	1.34	1.21		
Growth rate	Asset growth rate (%)	7.48	8.68	4.33	9.12	8.79		
	Profitability growth rate (%)	(25.25)	18.83	(6.77)	26.90	15.67		
Cash flows	Cash flow ratio (%)	(Note 5)	32.11	(Note 5)	51.87	63.26		
	Cash flow adequacy (%)	74.18	35.48	(Note 5)	(Note 5)	173.50		
	Cash flow coverage ratio (%)	(Note 5)	(Note 5)	(Note 5)	15,882.85	(Note 5)		
Scale of operation	Market share of asset (%)	16.92	16.84	16.57	16.74	16.64		
	Market share of net worth (%)	15.82	16.38	14.36	17.59	18.46		
	Market share of the deposit at subsidiary bank (%)	5.14	5.02	5.33	5.35	5.35		
	Market share of lending at subsidiary bank (%)	5.80	5.41	5.85	5.45	5.45		

Title(Note 2)		Year	2016	2017	2018	2019	2020	Financial Information as of March 30, 2021
		Capital adequacy ratio	Capital adequacy ratio set forth by respective subsidiaries at industry standard (%)	Cathay Life	304.78	309.48	291.70	346.05
Cathay United Bank	14.19			15.89	14.99	15.09	16.91	
Cathay Century Insurance	384.82			391.85	369.75	339.24	323.21	
Cathay Securities	430.48			323.93	377.41	448.75	325.43	
Cathay Securities Investment Trust	84.74			83.33	85.49	77.39	78.00	
Cathay Venture	99.79			98.91	98.24	98.96	99.29	
Qualified capital of respective subsidiaries	Cathay Life		427,858,678	454,450,732	488,752,735	565,404,020	621,219,356	
	Cathay United Bank		214,610,255	245,474,892	247,142,545	261,880,481	276,800,810	
	Cathay Century Insurance		9,385,177	10,065,445	9,831,977	11,211,227	12,179,533	
	Cathay Securities		5,042,620	5,224,350	5,208,773	6,061,167	8,712,584	
	Cathay Securities Investment Trust		2,141,926	2,328,954	2,559,779	2,697,854	2,924,161	
	Cathay Venture		3,728,806	3,548,009	3,735,531	4,208,591	4,491,451	
Net qualified capital of the group (NTD\$1,000)			616,686,804	632,278,757	646,964,204	728,880,802	785,491,898	
Capital adequacy ratio	Mandatory capital requirements of respective subsidiaries	Cathay Life	280,769,853	293,686,834	335,101,600	326,777,835	344,994,185	
		Cathay United Bank	130,408,330	142,872,941	162,837,923	182,170,074	171,889,293	
		Cathay Century Insurance	4,877,648	5,137,390	5,318,228	6,609,567	7,536,668	
		Cathay Securities	1,757,108	2,419,203	2,070,194	2,025,997	4,015,849	
		Cathay Securities Investment Trust	1,263,804	1,397,407	1,497,116	1,742,915	1,874,420	
		Cathay Venture	1,868,265	1,793,578	1,901,290	2,126,349	2,261,794	
	Mandatory total capital requirements of the whole group (NTD\$1,000)		421,598,447	447,969,067	509,166,798	524,439,669	540,779,019	
	Capital adequacy ratio of the group (%)		146.27	141.14	127.06	138.98	145.25	
Balance of Financial Holding Company and Subsidiaries with Counterparties Defined in Paragraph 1, Article 46 of the Financial Holding Company Act for Transactions Regulated in Paragraph 2 (NT\$1 million).		5,425,050	5,993,625	6,855,496	7,722,722	6,919,385		
Specify the reasons that caused the changes in the financial ratios in the last two years (Analysis is not required for changes of less than 20%):								
<ol style="list-style-type: none"> <li>Profit growth decreased mainly due to the relatively low profits reported in 2018, which resulted in higher profit growth in 2019 by comparison</li> <li>Cash flow ratio increased mainly due to increased cash flow from operating activities.</li> </ol>								

Note 1: Financial holding companies that have their stocks listed in the exchange or traded in the OTC market shall include the financial information as stated in the financial statement covering the period to the quarter prior to the date the financial report was printed in the financial analysis.

Note 2: The equations for calculation are shown below:

1. Operational ability

- (1) Total assets turnover = net profit/average total assets
- (2) Deposit to loan ratio = subsidiary bank total loans/total deposits
- (3) Subsidiary bank NPL ratio = subsidiary bank total overdue loans/total loans
- (4) Average revenues per employee = net income/total number of employees
- (5) Average earnings per employee = corporate earnings/total number of employees

2. Profitability

- (1) Return on Assets (ROA) = [corporate earnings + interest expenses  $\times$  (1 – tax rate)]/average total assets
- (2) Return on shareholders' equity = corporate earnings/average net shareholders' equity
- (3) Net profit margin = corporate earnings/net income
- (4) Earnings per share (EPS) = (attributable to shareholders' equity of the parent – preferred stock dividends)/weighed average quantity of outstanding shares (Note 3)

3. Ability to repay debts and financial structure

- (1) Liabilities to assets ratio = total liabilities/total assets
- (2) Liabilities to net worth ratio = total liabilities/net worth
- (3) Financial holding company double leverage ratio = equity investment under paragraph 2 of Article 36 and Article 37 of this law/net worth

4. Leverage

- (1) Operation leverage ratio = (net income – variable expenses)/earnings before taxation
- (2) Financial holding company financial leverage = (earnings before taxation + interest expenses)/earnings before taxation

5. Growth rate

- (1) Asset growth rate = (total assets in current period – total assets in previous period)/total assets in previous period
- (2) Profitability growth rate = (earnings before taxation in current period – earnings before taxation in previous period)/earnings before taxation in previous period

6. Cash flows

- (1) Cash flow ratio = net cash flow from operation/(call loans and overdrafts from banks and financial institutions + payable commercial papers + financial liabilities at fair value through income statement + R/P bonds and bills liabilities + payables due in one year)
- (2) Net cash flow adequacy ratio = net cash flows from operating activities in the last 5 years/(capital expenditure + cash dividend) in the last 5 years
- (3) Cash flow coverage ratio = net cash flow from operation /net cash flow from investment

7. Scale of operation

- (1) Market shares of assets = total assets/total assets of the whole financial holding company
- (2) Market share of net worth = net worth/total net worth of the whole financial holding company
- (3) Market share of the deposit at subsidiary bank = total deposits/total deposits at financial institutions entitled to engage in lending and deposits business
- (4) Market share of the loans at subsidiary bank = total loans/total loans at financial institutions entitled to engage in lending and deposits business

8. Capital adequacy ratio

- (1) Net qualified capital of the group = qualified capital of the financial holding company + (proportion of shareholding by financial holding company  $\times$  the qualified capital of respective subsidiaries) – required deductible items
- (2) Total statutory capital requirement of the group = statutory capital requirement of the financial holding company + proportion of shareholding by financial holding company  $\times$  statutory capital requirement of respective subsidiaries
- (3) Capital adequacy ratio of the group = net qualified capital of the group/statutory capital requirement of the group

Note 3: Attention to the following is required when the aforementioned equations for the calculation of EPS are applied to assessment:

1. The weighted average quantity of outstanding common shares shall be used as the standard, not the quantity of outstanding shares at the end of the year.
2. In case of raising capital through issuing new shares or transactions of treasury stocks, calculate also the weighted average quantity of outstanding shares in the period of circulation.
3. In case of capitalization of retained earnings or capitalization of capital surplus into new shares, adjustment shall be made in retrospect to the size of capitalization for each instance when calculating the earnings per shares annually or semi-annually. The time of issuance can be neglected.
4. If the preferred shares are non-convertible accumulated preferred shares, the dividend declared in current period (whether paid or unpaid) shall be deducted from corporate earnings or as addition to earnings after taxation. If the accumulated preferred shares are not accumulative in nature, dividend for preferred shares shall be deducted from corporate earnings, if any. In case of loss, no adjustment shall be made.

Note 4: As of the publication date of this annual report, no financial information of 2021 had been audited or reviewed by CPAs.

Note 5: Ratio was not disclosed due to negative net cash flow.

Note 6: Group capital adequacy ratio and double leverage ratio - financial holding company are key performance indicators for the Company.

### III. Audit Report from the Auditing Committee on the Latest Financial Statements

#### Audit Report from the Auditing Committee

The Company's 2020 business report, financial statements (including consolidated financial statements), and earnings distribution plan were prepared by the Board of Directors, in which the financial statements (including consolidated financial statements) have been audited and certified by Cheng-Hung Kuo, CPA and Shu-Wan Lin, CPA of Deloitte Taiwan, to which the firm issued an independent auditor's report.

Said reports and statements prepared by the Board of Directors have been audited by the Committee, and the Committee found them to be in compliance with regulatory requirements. The Committee hereby issues this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please review it accordingly.

To:

2021 Annual General Shareholders' Meeting of Cathay Financial Holdings

Auditing Committee  
Edward Yung Do Way, Convener

April 28, 2021



**IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year**

Refer to Appendix I.

**V. In case of insolvency of the financial holding company and its subsidiaries in the most recent year to the date this report was printed, specify the effect on the financial position of the Company:**

None.

# Seven. Review and analysis of financial status and financial performance and risk management

## I. Analysis of Financial Status

Unit: NT\$ thousand

Year	2019	2020	Change in amount	Change in proportion (%)
Cash and cash equivalents	84,693	915,274	830,581	981
Financial assets at fair value through profit or loss	35,269,500	36,445,500	1,176,000	3
Financial assets at fair value through other comprehensive income	106,704	116,200	9,496	9
Notes and bonds purchased under resale agreements	310,000	0	(310,000)	—
Receivable - net	2,388,041	7,739,321	5,351,280	224
Income tax assets - current period	4,853,833	4,650,365	(203,468)	(4)
Investments accounted for using the equity method, net	810,998,796	953,059,879	142,061,083	18
Property and equipment	54,192	58,912	4,720	9
Intangible assets	0	0	—	—
Deferred tax assets	262,855	25,397	(237,458)	(90)
Right-of-use asset	54,891	249,272	194,381	354
Other assets	73,104	43,105	(29,999)	(41)
<b>Total assets</b>	<b>854,456,609</b>	<b>1,003,303,225</b>	<b>148,846,616</b>	<b>17</b>
Payables	59,146,489	38,946,079	(20,200,410)	(34)
Current tax liabilities	2,243,784	19,849,285	17,605,501	785
Bonds payable	20,000,000	50,000,000	30,000,000	150
Provisions	832,997	766,414	(66,583)	(8)
Deferred tax liabilities	266,714	266,714	—	—
Lease liability	55,369	249,631	194,262	351
Other liabilities	163,891	163,886	(5)	—
<b>Total liabilities</b>	<b>82,709,244</b>	<b>110,242,009</b>	<b>27,532,765</b>	<b>33</b>
Ordinary shares	131,692,102	131,692,102	—	—
Preference shares	15,333,000	15,333,000	—	—
Capital surplus	177,256,976	177,256,053	(923)	—
Legal reserve	46,122,845	51,967,688	5,844,843	13
Special reserve	221,977,672	149,894,910	(72,082,762)	(32)
Unappropriated earnings	58,181,890	169,606,342	111,424,452	192
Exchange differences on translation of the financial statements of foreign operations	(13,319,620)	(15,464,009)	(2,144,389)	16
Gain (loss) on hedging instruments	331,930	347,871	15,941	5
Unrealized gains/losses on financial assets at fair value through other comprehensive income	68,319,953	106,207,840	37,887,887	55
Other comprehensive income (loss) on reclassification using overlay approach	57,968,675	102,511,617	44,542,942	77

Item \ Year	2019	2020	Change in amount	Change in proportion (%)
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(1,850,508)	(1,478,705)	371,803	(20)
Remeasurement of defined benefit plans	(1,507,864)	(1,966,279)	(458,415)	30
Property revaluation surplus	11,240,314	11,097,089	(143,225)	(1)
Other equity-Others	0	(3,944,303)	(3,944,303)	—
Total equity	771,747,365	893,061,216	121,313,851	16

Changes in the ratios of the analysis:

- Variation in cash and cash equivalents was mainly attributed to issuance of corporate bonds in the current year.
- Variation in accounts receivable was mainly attributed to the consolidated tax system.
- Variation in right-of-use assets and lease liabilities was mainly attributed to new lease agreements signed in the current year.
- Variation in deferred tax assets was mainly attributed to claim the deduction of losses in the current year.
- Variation in payable was mainly attributed to partial repayment of short-term bills payable and the consolidated tax system.
- Variation in current tax liabilities was mainly attributed to increased business income tax payable.
- Variation in bonds payable was mainly attributed to issuance of a NT\$30 billion corporate bond.
- Variation in unappropriated earnings was mainly attributed to increased net income and reversal of special reserves in the current year.
- Variation in unrealized gain (loss) on financial assets at fair value through other comprehensive income and other comprehensive income (loss) on reclassification using overlay approach was mainly attributed to changes in valuation of financial assets held by subsidiaries.
- Variation in credit risk effect of financial liabilities measured at fair value was mainly attributed to credit risk changes and valuation changes in USD bonds issued by subsidiaries.
- Variation in emeasurement of defined benefit plans was mainly attributed to changes in discount rate.
- Variation in other equity-others was mainly due to the negotiation with the original shareholders on the repurchase of shares held during the merger of the subsidiary.

## II. Analysis of Financial Performance

Unit: NT\$ thousand

Item \ Year	2019	2020	Change in amount	Change in proportion (%)
Net revenue	64,059,203	78,756,407	14,697,204	22.94
Operating expenses	(1,368,200)	(1,638,721)	(270,521)	19.77
Income before tax	62,691,003	77,117,686	14,426,683	23.01
Net income	62,757,286	74,579,460	11,822,174	18.84

## III. Cash flows

### (I) Liquidity Analysis in 2019 and 2020

Unit: %

Item \ Year	2019	2020	Increase (decrease) in proportion (%)
Cash flow ratio (%)	0.61	Note	—
Cash flow adequacy (%)	Note	Note	—
Cash flow adequacy ratio (%)	Note	Note	—

Note: Ratio was not disclosed due to negative numerator or denominator in the net cash flow formula

**(II) Cash flow analysis of the year ahead**

Unit: NT\$ thousand

Cash balance at beginning ①	Projected net cash flow from operating activities in current period ②	Projected cash outflow in current period ②	Projected amount of cash surplus (deficit) ① + ② - ③	Remedy for cash deficit	
				Investment plan	Financing plan
915,274	20,281,331	38,857,468	(17,660,863)	None	Issue corporate bonds and commercial paper

**IV. Major capital expenditures in the most recent year**

None.

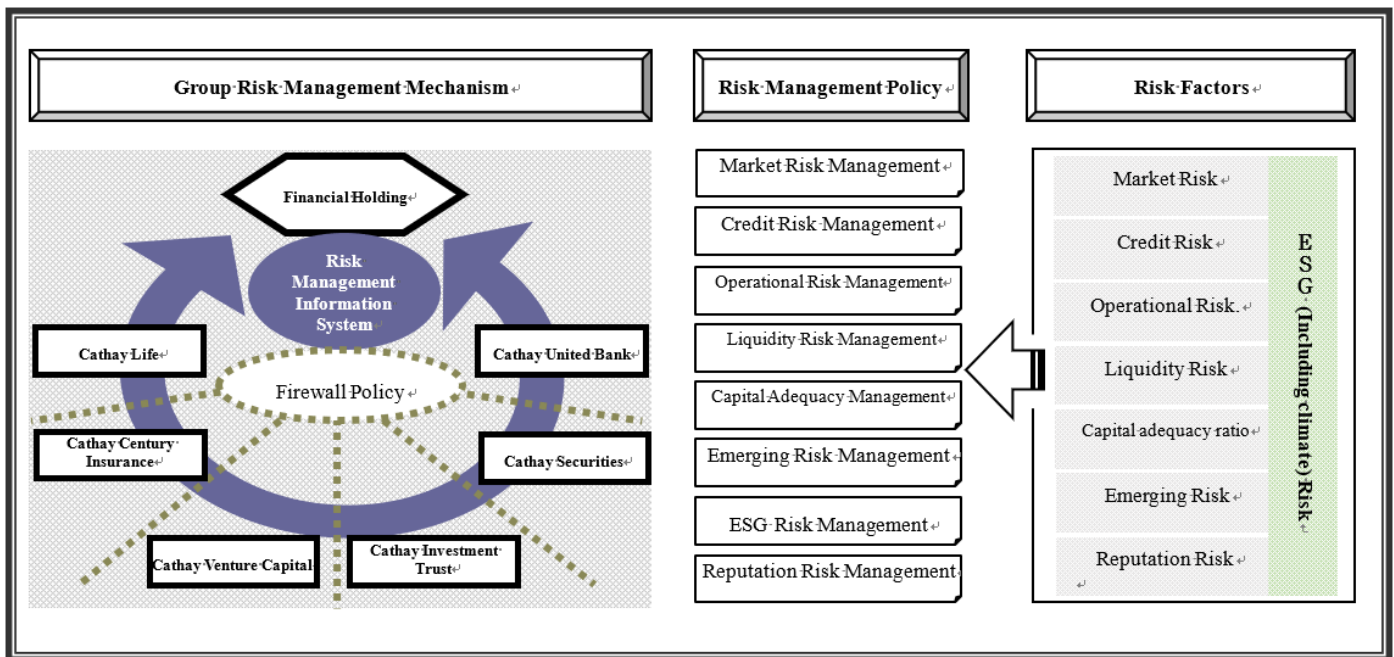
**V. The investment Strategy in the most recent year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year**

For details of investments made in the last year, please refer to Page 151 - "VIII. Implementation of the Capital Utilization Plans."

In the past, Cathay Financial Holdings initiated the twin-engine of the insurance and banking service, which yielded excellent complementary effects. Many in the industry learned from the Company and launched similar products. Cathay Financial Holdings decided to make its asset management operation as the third engine for further development of the twin-engine of insurance and banking for providing full-range financial services and further enhance brand value. In the future, the business policy will be focused in the development in other countries with the triple-engine of "insurance + banking + asset management" as the core strategy for development. With its base in Asia-Pacific and the triple-engine as its strategy, Cathay Financial Holdings is dedicated to be the best financial institution in Asia.

## VI. The analysis and assessment of risk management in the most recent year to the date this report was printed by the analysis of the overall financial position and operation.

### (I) Risk management framework and policies of the financial holding company and its subsidiaries



#### 1. Risk Management Governance Structure:

The Company has set up an independent Risk Management Division to implement governance and control the comprehensive risks. The division is responsible for establishing the related policies and guidelines and also for executing risk management practices.

Each subsidiary has set up its risk management unit based on the regulatory laws or business nature to carry on the establishment and execution of the risk control mechanism for its operation as well as the making of related policies and guidelines according to the business features and the Company's risk management policy.

In addition, risk management committees are formed in both the Company and the major subsidiaries to oversee the Group's risk exposure and ensure normal operation of the risk control activities.

#### 2. Risk Management Policy:

The risk management policy and the related guidelines are all approved by the Board of Directors and clearly delineate the responsibilities of risk management activities. Our employees are required to follow the policies and the guidelines, especially for the transactions related to investment and loan business.

- (1) The Company's main risk sources can be categorized into market risk, credit risk, operational risk, liquidity risk, capital adequacy, emerging risk, ESG risk, and reputation risk. The Risk Management Division is responsible for developing management guidelines, rules, and compliance policies for each risk type of risk concerned. The subsidiaries also set the criteria based on the policies set by the Company and authority for risk management activities.
- (2) To monitor the concentrations of credit exposure by loans, investment and related transactions, we have established the guidance to manage the concentrations.

(3) To enhance the management of credit and operational risk events, we apply the information system for monitoring those events among the Company and the subsidiaries.

## **(II) Methods adopted by the financial holding company and subsidiaries for the assessment and control of risks, and disclosure of quantified risk exposures**

### **■ General disclosures**

#### 1. Risk Management Policies, Procedures and Reporting

##### (1) Risk Management Policies and Procedure

- A. Market risk management: The Company and its subsidiaries have established robust investment decision making procedures and implemented position limits, stop-loss limits, VaR limits, market risk factor limits, market risk stress VaR limits, and exceptions management procedures to guide employees' decisions. Risk factor monitoring, risk assessments, sensitivity analyses and stress tests are performed regularly on the exposure to enforce market risk management.
- B. Credit risk management: The Company and its subsidiaries have implemented robust credit policies, credit assessment procedures and guidelines on the handling of collaterals, overdue loans, asset valuation, and provisioning. Concentration limits for borrower groups, industries, specific industries and countries have also been implemented to ensure diversification of credit risk.
- C. Liquidity risk management: We maintain liquidity reserve to meet regulatory requirements. To measure liquidity risk, we use several quantitative analysis methods, including liquidity gap and cash flow analysis. In addition, each subsidiary maintains contingency funding plans that outline our potential responses to liquidity stress events at various levels of severity.
- D. Operational risk management: We accomplish operational risk management by dividing all operations into front, middle, and back desks based on their functions. Each subsidiaries applies timely and accurate information system for their operation procedures. Operational risk is properly monitored through internal control system, internal and external audits and legal compliance tasks with regulatory requirements.
- E. Capital adequacy: Currently the Company and the subsidiaries all maintain a capital adequacy ratio superior to the regulation requirement. In addition, non-scheduled calculation will be held to test the impact of the ratio based on future merger & acquisition plans or expansion investment from the Group to ensure the ratio stays above an appropriate level, and in the meantime, to provide references for funding plans in the future.
- F. Emerging risk management: In view of the impacts of the COVID--19 pandemic in 2020 and various new issues of technology development and aging population, and more frequent occurrences of risk events involving technological advancement, extreme climate and aging Technology Development population, the Company and its key subsidiaries have adopted various practices to prepare annual risk maps, perform regular identification and assessment of emerging risks, and introduce risk responses and controls. For the two major new emerging risks mainly concerned in 2020 already identified, please refer to page 258 "VIII. Other Major Events" for details.
- G. ESG and climate risk management: The Company sources information from within and outside the organization to evaluate the ESG risks of its investments/loan cases, and is therefore able to enforce corporate sustainability and mitigate impacts of

extreme climate on business development. The Company and subsidiaries have policies that prohibit investment and lending to undesirable parties, and follow the TCFD framework to evaluate how climate change affects the Company financially.

H. Reputation risk management: In the occurrence of a major risk event, employees are required to follow internal policies and take steps to prevent negative perception from customers, counterparties, shareholders, investors, the authority, and stakeholders.

(2) Risk Management Reporting

A. All risk management units are required to submit reports to the authoritative supervisors on a regular basis to disclose risk exposures and risk management implementation status. Major risk events will be summarized and reported to supervisors to reinforce risk management practices.

B. Risk management reporting should be based on quantitative risk assessments. Risks that cannot be quantified will require special disclosure in the report.

C. The financial holding company and subsidiaries regularly report the progress of their risk management tasks to the Risk Management Committee and board of directors. All subsidiaries are also required to report to the financial holding company's Risk Management Division.

(3) Regular convention of Risk Management Committee meeting

The Company and the subsidiaries hold risk management committee meetings periodically to ensure all risk control systems are working properly and review the consequence of the risk control. Impromptu meetings are called for emergency events.

(4) Exception Management Process

When subsidiaries deviate from the risk management policies, subsidiaries should make the exception report which disclose the reasons, the related rules and following procedures. In addition, the report should forward to the Company after approved by subsidiaries' supervisor.

2. Risk Management System, Range and Characteristics

The Company and its subsidiaries have established or implemented a number of risk management information systems including: VaR system, credit grading system, credit risk reporting system, group credit and investment limit system, and operational risk incident reporting system to comply with government regulations and for centralized monitoring of subsidiaries' exposure.

3. Risk Hedging/Reduction Policy

Please refer to "h. Financial risk management objectives and policies" in Appendix I on page 494.

■ **Information on the methods of risk management at all subsidiaries and quantifying risk exposure**

**Life and property/casualty insurance subsidiaries:**

1. Risks that life and property/casualty insurance subsidiaries face and the method of controlling them are as follows:

(1) Market Risk

A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.

B. The method of controlling:

a. Monitoring market risk metrics.

- b. Foreign exchange risk management.
- c. Stop loss.
- d. Scenario analysis; stress test.
- e. Price deviation management.
- f. Derivatives management.

(2) Credit Risk

- A. Definition: Risks in the loss of claims of the company because the counterparties or the debtors do not fulfill their contractual obligations.
- B. The method of controlling:
  - a. Evaluating transaction counterparty, issuer, and guaranty institutions before a transaction and verifying the legality of transactions.
  - b. Follow-up on positions after the investment.
  - c. Monitoring credit risk metrics.
  - d. Issuer credit and investment limit.
  - e. Controlling the concentration of transaction counterparties.
  - f. Controlling the limit of high-risk instruments.
  - g. Controlling the limit of high-risk industries
  - h. Scenario analysis; stress test.
  - i. Report on credit risk emergencies.
  - j. Evaluating the risk of lending operation and risk management operation.

(3) Country risk

- A. Definition: Refers to the risk of devaluation to the Company's assets caused by political or economic instability in countries where the Company maintains loan portfolio, treasury investment or long-term equity investment positions, which results in market price fluctuation or renders securities issuer/debtor unable to repay debt obligations.
- B. The method of controlling:
  - a. Defining country risk grades, limits and surveillance.
  - b. Regular inspection of country risk condition.

(4) Liquidity Risk

- A. Definition: It is classified as "fund liquidity risk" and "market liquidity risk". "Fund liquidity risk" refers to the risk with which the company cannot turn assets into cash or acquire enough funds and therefore cannot fulfill obligations that are due. "Market liquidity risk" refers to the risk of significant changes in market prices when it disposes of or offsets the positions it holds because there is not sufficient depth in the market or the market is in chaos.
- B. The method of controlling:
  - a. Fund reporting.
  - b. Cash flow analysis.
  - c. Managing the maturity date of funds.
  - d. Monitoring fund liquidity risk assessment indicators and scenario analysis.
  - e. Evaluating and selecting the liquidity of investments.



- f. Liquidity Risk Assessment.
- g. Emergency response mechanism.

(5) Operational Risk.

- A. Definition: Losses caused by errors or malfunctions of internal operation, personnel, and system, or losses caused by external incidents. It includes legal risks but does not include strategic risks and reputation risks.
- B. The method of controlling:
  - a. Internal control and internal audit.
  - b. Legal risk management mechanism.
  - c. Reporting operational risk incidents.
  - d. Crisis management for emergencies.
  - e. Money laundering prevention operating procedures.
  - f. Data security and personal data management.
  - g. Business continuity management.

(6) Insurance risk

- A. Definition: It refers to the risk that the company assumes from the insured after collecting a premium in operating the insurance business. It refers to the risk of loss caused by unexpected changes when the company pays indemnity and associated expenses.
- B. The method of controlling:
  - a. Product design and pricing risk – occurrence studies, evaluation of new products, periodic review of product premium, after-sale experience tracking, and product analysis.
  - b. Underwriting risk – establishment of robust underwriting systems, procedures, manuals or guidelines, and monthly monitoring of underwriting indicators.
  - c. Reinsurance risk – creating reinsurance risk management plans, tracking the credit rating condition of the reinsurer.
  - d. Catastrophe risk – periodically evaluating the loss when a catastrophe occurs, arranging reinsurance, and properly diversifying company risk.
  - e. Claim risk – detecting claim risk, reporting exceptions, management by the hierarchy such as reporting along the hierarchy.
  - f. Reserve risk - provision of adequate reserves for the products involved, and regular analysis and review of reserve adequacy.

(7) Risk in matching assets and liabilities

- A. Definition: It refers to the risk caused by the disparity in the change in value of assets and liabilities due to reasons in the external environment of an insurer.
- B. The method of controlling:
  - a. Cash flow test and monitoring of duration.
  - b. Analyses for defined scenarios and random scenarios.
  - c. Analysis of liability fair value and contract value.

(8) Capital adequacy

A. Definition:

- a. Capital adequacy ratio refers to the ratio of total adjusted net capital to risk-based capital defined in the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies.
- b. Net worth ratio is calculated by dividing owners' equity with total assets excluding investment-linked insurance asset account, as shown in audited (or auditor-reviewed) financial reports. This excludes circumstances where the authority has regulated otherwise.

B. The method of controlling:

- a. Regular monitoring of capital adequacy ratio and net worth ratio.
- b. Assessment of capital adequacy ratio and net worth ratio impacts and responses caused by specific investments or business activities.
- c. Assessment of capital adequacy ratio and net worth impacts and responses caused by major events (e.g. change of regulation).

(9) Operational Risk

A. Definition: Direct or indirect possible losses caused by all factors of operation of an insurer.

B. The method of controlling:

- a. Notes on Major Incidents and the operational risk incident reporting system.
- b. Strong internal audit and internal control.
- c. Independent directors and supervisors.
- d. Adequate compliance regulations (transmission of information on the change in laws, periodic execution of compliance review and report, regular training for compliance staff, and so on).

(10) Data security and personal data risk.

A. Definition: Refers to an event capable of compromising the confidentiality, accuracy and usability of the company's information assets, or result in the theft, alteration, corruption, loss, or leakage of personal information.

B. The method of controlling: Information security and personal information are managed according to the following cycle:

- a. Planning and establishment - An information security and personal information management system is established based on the company's overall strategies and goals.
- b. Implementation and execution - Control measures are created or adjusted according to the outcome of assessment.
- c. Supervision and audit - Execution of the information security and personal information management is supervised and audited to ensure effectiveness.
- d. Maintenance and improvement - The system is constantly maintained and improved upon based on findings and recommendations of the audit/supervision.

2. Quantitative information on risk exposure

- (1) The company defines risk appetite each year and defines all types of risk limits and risk levels based on risk appetite. The company calculates and monitors all types of risk monitoring indicators and plans response measures when specific risk levels are reached.

- (2) The company calculates capital adequacy ratio based on risk-based capital (RBC) to comply with the minimum requirements of statutory regulations.
- (3) Regular calculation of reserve-weighted interest rate, value of new business and liability figures for decision-making.

■ **Cathay United Bank:**

1. Cathay United Bank subsidiaries face and the method of controlling them are as follows:

(1) Credit Risk

A. Designing organization principle:

- a. The company has a Risk Management Division that functions independently from business departments. The division oversees a Risk Management Department and a Review Department, whose responsibilities are to review and monitor credit risk tolerance, analyze industrial/economic trends, and control quality of the credit portfolio.
- b. Units that execute risk control: They are the units that provide all kinds of lending services, investment services, and all kinds of financial instruments or contracts.

B. Risk management process:

- a. The company prudently evaluates the risks of customers based on credit investigation and credit extension regulations to implement Know Your Customer (KYC) policies.
- b. After a loan is granted, the company performs periodic review and account monitoring measures based on management policies during the life of the loan to improve overall asset quality.

C. Measurement and control principle:

- a. The principle is complying with the internal-rankings based regulations of the new Basel Accord.
- b. The principles cover the creation of various regulations and systems. These include the creation of systems and regulations such as credit granting procedures; limit management, information on the levels of credit rating, information on collaterals, periodic review, and subsequent management.

(2) Market Risk

A. Designing organization principle:

- a. For Cathay United Bank, market risks are monitored by the board of directors, the Asset and Liability Management Committee and the Risk Management Committee. The Bank also has an independent unit responsible for the management and monitoring of market risks associated with various transactions.
- b. The market risk management department is a unit that controls market risk. It is responsible for authorization guidelines, monitoring the risk of funds and trading positions, the valuation of derivatives, and managing positions.

B. Risk management process:

- a. When the business unit executes market risk management measures, they perform the procedures based on their roles in the hierarchy responsibility table.
- b. The company periodically provides management information and statements to supervisors with appropriate authority.

C. Measurement and control principle:

- a. Market risk identification, assessment, and control measures are duly enforced within Cathay United Bank, whereas the correctness and rationality of principles, tools and market data used in valuation, including the basis of valuation and the fairness of information obtained, are verified on a regular basis.
- b. Develop a quantitative market risk management model that conforms to international practices.

### (3) Operational Risk.

#### A. Designing organization principle:

- a. The Board is the unit with the ultimate responsibility and authority and has three lines of defense, which are the risk-assuming units, the risk management department, and the internal audit office. They control, monitor, and audit the process and management structure of operational risks.
- b. Unit that executes risk control: All units of the bank.

#### B. Risk management process:

- a. The company executes the goals of identifying, evaluating, monitoring, and controlling/offsetting operational risks with substantive policies and implementation procedures.
- b. All units ensure the appropriateness of the delineation of authority and responsibility and reporting procedure based on the hierarchical responsibility table, and reporting procedure and mechanisms.

#### C. Measurement and control principle:

- a. The company creates measurement and control mechanisms for dimensions such as core products, operational activities, operation procedures, and IT system pursuant to the new Basel Accord.
- b. Their scope covers the refinement of systems for managing operational risk, designing routine monitoring statements, preparing emergency response procedures, and related measures.

### (4) Liquidity Risk

#### A. Designing organization principle:

- a. The board of directors holds the ultimate decision-making authority, whereas the Asset and Liability Management Committee is responsible for strategic planning and supervision of liquidity management. An independent Accounting Department has been assigned to the reporting and monitoring of liquidity risks.
- b. The Treasury Department is responsible for the execution of day-to-day funding. If the department discovers or expects major changes in the Bank's liquidity position, it shall coordinate with the Accounting Department and the Market Risk Management Department to analyze the situation, undertake appropriate measures, and report to the board of directors in a timely manner.

#### B. Risk management process:

- a. Part of the Treasury Department's responsibilities is to adjust liquidity gaps and maintain adequate liquid capital based on daily capital flow and changes in market condition.
- b. The Accounting Department adopts a quantitative management approach and prepares monthly reports to the Asset and Liability Management Committee for monitoring of changes in liquidity risks.

C. Measurement and control principle:

- a. The Bank adopts various systems including liquidity indicators, limit controls, reporting procedures, monitoring systems, and stress testing.
- b. The company develops liquidity risk management indicators and creates warning limits to monitor the condition at all times. The company analyzes factors that are detrimental to liquidity and take immediate measures to neutralize their impacts.

(5) Capital adequacy

A. Designing organization principle:

- a. Establish a specialized unit to conduct capital adequacy management and ensure proper capital adequacy ratio in order to defend the risk derived from undertaking business ventures.
- b. The specialized unit performs calculation, monitoring, disclosure and management of capital adequacy ratio in accordance with the authority's instructions and internal policies, and responds to any breaches of capital adequacy ratio.

B. Risk management process:

- a. Capital adequacy ratio is regularly calculated, reported, disclosed and managed according to internal and external rules, with proper actions taken in response to breaches.
- b. The evaluation and responses for the effect of specific investments or services on capital adequacy ratio.

C. Measurement and control principle:

The principle complies with the internal-rankings-based regulations of the new Basel Accord and capital adequacy management regulations.

2. Quantitative information on risk exposure

The company periodically calculates all types of quantitative risk exposure information and discloses them pursuant to applicable laws. Such information covers capital adequacy, loan asset quality, profitability, and sensitivity analysis to comply with regulations.

■ **Cathay Securities:**

1. Cathay Securities subsidiaries face and the method of controlling them are as follows:

The subsidiary has already formed an independent risk management unit and codified risk management policies and management guidelines on market risk, credit risk, operational risk, liquidity risk, and capital adequacy. These policies and guidelines clearly define the control mechanism on all sources of risks so that the company can implement risk management regulations. The execution of the risk management policy and risk measurement standards is as follows:

(1) Market Risk

- A. Definition: The risk of loss in investment positions of the company (including stocks, bonds, and derivatives) caused by price fluctuations of financial instruments that affect the value of financial assets held by the company.

B. The method of controlling:

Codifying trading regulations based on the nature of products and departments and the actual operation. Clearly defining the authorization limit, risk limit, stop loss, and over-the-limit process methods; effectively implementing control mechanisms with middle office risk control personnel in the sales department and real-time monitoring system. Additionally, providing risk management reports, including market price evaluation, the amounts of over-hedging and under-hedging, Value at Risk (VaR),

model back testing. The subsidiary performs stress tests based on different extreme scenarios and sensitivity factors to effectively control the risks assumed by the company and manage overall risk.

## (2) Credit Risk

A. Definition: Risks of loss on receivables of the company because the counterparty of the trade or the debtor does not fulfill the contractual obligation.

B. The method of controlling:

Implementing the evaluation on the credit standing of the counterparty before the trade, intraday control and risk exposure management after the trade. Controlling risks that may arise from securities trading according to credit valuation models.

Defining trading limit on investment positions or derivatives based on the credit rating of the counterparty (TCRI, Taiwan Ratings, S&P, Moody's, Fitch) and performing examinations on investment risk concentration and risk exposure on a regular basis. In addition, periodically inspecting clients in the high risk zone of margin trade maintenance ratio of their entire accounts, and the stocks whose margin balances were over a certain level of the margin balance in the market. Creating a credit risk emergency reporting mechanism along with the financial holding company.

## (3) Operational Risk.

A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events. Such risk includes legal risks but does not include strategic risk or reputation risk.

B. The method of controlling:

Creating authorization and segregation of duties and rights on the operating processes in the front office, middle office, and back office. Documents for trading, trade confirmation, delivery, and accounting shall be filed for review. Establish stringent operation procedures. Prevent inappropriate human error and frauds. Strictly requiring all departments to create and implement internal audit and internal control measures. Creating an operational risk loss incident reporting mechanism and loss database as well as the system error improvement schedule tracking system to have an in-depth understanding of the reason behind the loss caused by the system or personnel. Additionally, the company has an internal audit office that reports to the Board and performs audits on routine operations so that the company can implement effective internal audit and internal control and compile audit reports on a regular basis. The company seeks to lower the loss from all operating errors.

## (4) Liquidity Risk

A. Definition: Fund liquidity refers to the realization capacity that a company acquires funds to maintain its operational needs and the capacity to fully cover asset growth and repay liabilities; market liquidity is to avoid and manage the risk of losses resulted from the fluctuations of market price when disposing or offsetting positions held in the situation of insufficient market depth or market disorder.

B. The method of controlling:

Defining liquidity risk indicators and compile fund liquidity risk management statements to review fund conditions and maturity date gaps for assets and liabilities. The preparation of structure analysis table of asset and liability maturity dates serves as a basis of fund planning. Also, we periodically perform fund liquidity simulations to ensure that we have response mechanisms under extreme conditions to meet fund gaps. We also acquire short-term financing credit from other financial institutions and manage fund inflow and outflow from such short-term financing to maintain proper liquidity and ensure the payment capabilities of the company. The investment unit

shall conduct market liquidity risk control during the purchase in accordance with the market liquidity management indicators and regulations.

(5) Legal risk

A. Definition: The risk that arises because of defects in the contract or the eligibility of the counterparty that void the contracts or cause breaches of contracts.

B. The method of controlling:

We define the process of drafting and reviewing legal documents. Documents related to contracts are all signed-off at the legal department and reviewed by external attorneys as necessary.

(6) Capital Adequacy Management

A. Definition: Capital adequacy management is the foundation of the company's capital management. We maintain proper capital adequacy ratio, ensure the integrity of our capital structure, and produce steady growth of our business.

B. The method of controlling:

We define capital adequacy measurement indicators and compile capital adequacy management statements on a regular basis to evaluate the appropriateness of the company's capital adequacy ratio and the integrity of our capital structure. When allocating risk-based capital, we also conduct allocations aiming at maximizing the profits under the premise of ensuring that the capital adequacy ratio meeting the internal standard.

(7) Reputation Risk and Strategic risk

A. Definition: Reputation risk is the risk that may result in a shrinking customer base, decline in revenue, a burden of enormous litigation fee, or other possible losses, due to negative matters in the company's operation, whether the matter is real or alleged. Strategy risk is the risk of immediate or future possible loss to revenue or capital because of wrong business decision, or poor execution of decision, or the lack of proper response to competitors, or the lack of proper response to changes in the industry.

B. The method of controlling:

We draft internal mitigation guidelines for significant events such as reputation risk or strategic risk to reduce the loss due to risk when significant events happen.

We codify risk management policies and guidelines for the aforementioned sources of risks. We clearly define the management mechanism for all sources of risks and create risk limit indicators and periodically review the appropriateness of these indicators. Additionally, every six months, we present risk management execution reports to the Risk Management Committee and the Board and notify the Risk Management Division of the Financial Holding with our clarification on the company's assumption of risks and the appropriateness of current risk management regulations.

2. Quantitative information on risk exposure:

(1) On a regular basis, we produce quantitative statements, including: market risk value, risk value to risk value limit (the indicator is one day risk value at 99% confidence interval in the low risk interval that does not exceed 2.8% of the net asset of the company over the entire year); all types of sensitivity and stress scenario analysis; investment and loan concentration management and country limit management; overall foreign currency liquidity review; asset and liability gap control and inspection for all periods; authorization, risk, and gain or loss of derivatives. The subsidiary presents the statements to top management to form the basis of decision making.

(2) Liquidity risk management reports are prepared on a regular basis to facilitate the monitoring of the maturity gap of assets and liabilities. Judging by the sum of cumulative

gap plus available banking facilities (including overdraft), the Company exhibited no liquidity shortage in any maturity interval throughout 2020; furthermore, liquidity ratios for foreign currencies were maintained above 100% throughout 2020.

- (3) Calculating net adjusted capital adequacy ratio according to regulations on securities brokers and rules from regulators. In 2020, the capital adequacy ratio figures were between 289% and 368%, meaning that they were all above the internal risk control indicator of 220%.

#### ■ Cathay Venture Capital:

1. Cathay Venture Capital subsidiaries face and the method of controlling them are as follows:

##### (1) Market Risk

A. Definition: Risks arising from price changes in financial market instruments that cause losses in the value of financial assets of the company.

B. The method of controlling:

- a. Holding investment management meetings on a regular basis.
- b. Decisions on investments in or disposal of assets are approved over an escalation of hierarchy according to the internal stratified responsibility table.
- c. Providing post-investment management reports periodically.
- d. Risk management execution report.

##### (2) Liquidity Risk

A. Definition: Liquidity refers to the ability of a company in acquiring funds to maintain the liquidity it needs and to fully pay for the growth in assets and settle liabilities.

B. The method of controlling:

- a. Asset allocation analysis.
- b. Cash flow analysis.
- c. Inspecting long- and short-term debt ratio on a regular basis.

##### (3) Operational Risk

A. Definition: Direct or indirect possible losses due to various operational factors.

B. The method of controlling:

- a. Particulars on processing significant events and reporting mechanism for operational risk loss incidents.
- b. Robust internal audit, internal control and compliance systems.
- c. Conveying the information of changes in regulation; performing legal compliance review and report on a regular basis; regular training and education for the legal compliance personnel.

2. Quantitative information on risk exposure

Disclosing worldwide investment exposure to regulators pursuant to applicable laws and declaring the amount of investment exposure pursuant to categories such as the group investment limit, high risk industry, and strategic developing nations defined by the Financial Holding.

#### ■ Cathay Investment Trust:

1. Cathay Investment Trust subsidiaries face and the method of controlling them are as follows:



## (1) Market Risk

A. Definition: Market risk refers to the risk that fluctuations in the value of financial assets due to uncertainties in market price in a certain period of time could cause impairments to the net value of portfolios of funds or managed accounts. For example, fluctuations may be changes in the interest rates, exchange rates, and prices of equity securities and commodities.

B. The method of controlling:

Market risk management focuses on regulating the company as a whole, and the portfolios of mutual funds and managed accounts based on investment objectives, investment characteristics, and investment restrictions. Its details include disclosure of market risk, restrictions on the range of investment trading, investment limit authorization level, and over-the-limit procedures.

## (2) Credit Risk

A. Definition: Credit risk refers to the risk of bad credit record from financial forecasts, statements, important messages of the issuing company of the investment, and the risk of failure to settle and deliver by the counterparties of the trade, such as securities brokers, futures brokers; bills finance firms, and banks.

B. The method of controlling:

Credit risk management is mostly performed with the screening mechanism that reduces the credit risk of the investment. The screening mechanism includes reviews on financial indicators of investments and the change in management of securities issuers and external auditors. The Company uses external credit rating databases to evaluate the credit risk of counterparties in the trades and adjusts our own credit rating on counterparties in the trades to effectively control the credit risk of our investments.

## (3) Liquidity Risk

A. Definition: liquidity risk refers to the investment risk caused by an over-concentrated portfolio or plummeted trade volume, which are difficult to realize in a short period of time, and which further affects the redemption payment or position adjustment.

B. The method of controlling:

The control of liquidity risk focuses on monitoring quantitative indicators, such as the quantity of stocks in portfolios, concentration of stock holding, concentration of sectors, asset liquidity, and liquidity reserve ratios.

## (4) Operational Risk.

A. Definition: Operational risks refer to losses caused by inappropriate action or mistakes in internal operation, personnel, or system; or by external events.

B. The method of controlling:

The management of operational risk mostly depends on executing controls based on the operating procedures and focuses defined by internal control processes of the company. We should also create proper control mechanisms through the information system against operational risks in business and trading processes to reduce human error.

## (5) Other Risk

A. Definition: Other risks include legal risks, reputation risks, and strategic risks, which are significant risks that are not quantifiable.

B. The method of controlling:

The major process mechanism is initiating the risk management mechanism. The Risk Management Department manager notifies the Risk Management Committee to hold

risk management meetings from time to time to propose emergency response measures. Based on their duties, members of the Risk Management Committee can also convene meetings on their own initiative.

2. Quantitative Information on Risk Exposure

- (1) We create management mechanism on quantifiable risks, such as market risk and credit risk, from our information system. We create quantitative models on market risk with the risk control system and disclose risk values.
- (2) We perform evaluations on the operational effectiveness of risk management. The components of the evaluation include whether the practices are in line with the expectations of the Board, whether risk management is independent, whether the execution of risk management is thorough, and whether the overall risk management infrastructure is complete. We present reports to the Board on a regular basis.

**(III) Financial impacts and response measures in the event of changes in local and foreign regulations**

<b>Regulatory changes and major policies</b>	<b>Response measures</b>
The Financial Supervisory Commission introduced a “Financial Information Security Action Plan” in 2020 as a means to strengthen the financial industry’s protection against security threats, while at the same time ensure the security, convenience, and continuity of services rendered.	The Company and all regulated subsidiaries have complied with and implemented relevant processes, and are monitoring execution on a regular basis.
The Financial Supervisory Commission announced the “Corporate Governance 3.0 – ESG Roadmap” in 2020 as a means to improve global competitiveness of Taiwan’s capital market. The Roadmap also lays out plans for ESG to become a key factor in corporate governance.	The Company has begun assessing the impact of a sustainability roadmap and made plans accordingly.

**(IV) Major impact on the Cathay Financial Holdings financial position caused by changes in technology and industry and remedial action**

In response to technological changes, Cathay FHC will continue leveraging its three main advantages in “data,” “digitalization,” and “technology” and adopt a “What if We Could” mindset to explore digital transformation in the realm of scenario-based financial services, using new data-driven solutions to create the ultimate user experience. Through enhanced product innovation, research, and development and improved customer service efficiency, the Company hopes to create a digital banking environment driven by the latest financial technologies and customer-centric services. Furthermore, Cathay Financial Holdings has always valued stability as part of its operations, and places equal emphasis on risk management and asset quality while pursuing business success and profit performance.

**(V) Impact on the company brought by a change in the image Cathay FHC and its subsidiaries and remedial actions taken**

Cathay FHC promotes the philosophy of “Happiness is giving happiness,” and has devised charity plans that leverage our core financial services competencies to respond to society’s needs. It is our hope to become a force that creates happiness within society.

Cathay FHC has established a “Cathay Financial Holdings and Subsidiaries Media Information Disclosure Policy” that outlines the procedures to follow and practices to adhere to in the case of media interviews, emergency press releases, and when replying to media queries. Cathay FHC

has also taken the initiative to monitor media coverage, survey brand awareness, and track brand image in the market. Cathay FHC has procedures in place to serve as guidance on how to handle and respond to the media in the case of an emergency or crisis, and actively investigates any event that has the potential to affect our corporate image.

**(VI) Potential effects and risks associated with mergers and acquisitions and remedial action**

- Acquisition/investment  
None.
- Expected benefits of the acquisition  
None.
- Possible risks and response measures  
None.

**(VII) Risks associated with concentration of business activities**

To lower the concentration risk, we leverage our comprehensive platform to provide a broad range of financial products and services – life insurance, property and casualty insurance, banking, securities and asset management – to individual and corporate customers in Taiwan and abroad.

**(VIII) Impact and risks brought by significant shareholdings transfer by the Directors, Supervisors, or shareholders with more than 1% ownership, and the remedial actions**

Currently there is no massive shareholdings transfer or change from our directors or supervisors. Any share disposition from shareholders with more than 1% ownership shall not bring impacts or risks to us.

**(IX) Impacts, risks and response measures associated with a change to the management of the financial holding company:**

The Company's operating concession is stable with no significant change.

**(X) Litigations or non-contentious matters: List the directors, supervisors, general managers, the persons in charge, and major shareholders with more than 1% of shareholding of the Financial Holding Company and its subsidiaries; major lawsuits, non-contentious matters or administrative procedures involving the subsidiaries with a determined court ruling or that are still pending, that may significantly affect the shareholders' equity or the stock price of the Financial Holding Company. Disclose the factual accounts of the cases, the amount involved, the date of the commencement of judiciary proceeding, the parties concerned, and the status of the cases as of the date this report was printed.**

1. As of March 30 2021, Cathay Life Insurance Co., Ltd. (hereinafter, "Cathay Life") was involved in two major lawsuits which are still unsettled due to normal business relations. The details are elaborated below:

- (1) For the pursuit of its investment objective in the period of 2003 to 2007, Cathay Life subscribed to shares from Fairfield Sentry Limited, and redeemed the shares as agreed for USD 24,496,798.58. Bernard L. Madoff Investment Securities LLC (Madoff's asset management company), and investee of Fairfield Sentry Limited, was allegedly involved in a Ponzi Scheme, and is in liquidation procedures at BVI (Madoff's asset management company is also in liquidation procedures). The liquidator of Fairfield Sentry Limited and the official receiver of Madoff's asset management company filed a lawsuit against

Cathay Life at the United States Bankruptcy Court of New York State in March 2011 and December 2011, respectively. They claimed that Cathay Life must return the proceeds from the redemption of shares to the liquidation panel. In addition, a lawsuit against Cathay Life and Bernard L. Madoff Investment Securities LLC was raised in US bankruptcy court. Cathay Life has already retained lawyers to defend the charges. Both cases are still under process, Cathay Life and the attorneys hold that these cases will not cause significant impact on the financial position of Cathay Life.

- (2) In October of 2003, Global Life Insurance Co., Ltd (hereinafter, "Global Life") purchased from Taipei District Court by way of auction, the following real estates : (1) the second, third , fourth, fifth, and sixth floor of No.50, Sec.1, Zhongxiao West Road, Zhongzheng District, Taipei City, and (2) fifty parking spaces located on the fourth and fifth floor underground in the same building (collectively, the "Real Estate"). The bid was submitted in the name of Chou, Tsai-Fa (the "Defendant" ), special assistant of Global Life's then chairman. Subsequent transfer and registration as owner of the Real Estate were all completed in the name of the Defendant. The Defendant subsequently embezzled the Real Estate, which led to Global Life's claiming for the return of the Real Estate and relating rents.

On the 30th of April, 2013, Taipei District Court has rendered its judgment in favor of Global Life, to the effect that Global Life is entitled to NTD 1,461,616,737, the proceed from auctioning the Real Estate. The judgment is overruled by the Taiwan High Court on the 30th of June, 2015. The Supreme Court has thereafter, on the 21st of April, 2016, overruled the 30th of June, 2015 Taiwan High Court judgement, and remanded the case to the Taiwan High Court. The case is currently attached to the Taiwan High Court. On June 27 2018, Taiwan High Court has rendered remand first instance judgement. Cathay Life is entitled to not only NTD 1,461,616,737, the auction price of Real Estate, but also a claim of NTD 37,007,940. The Supreme Court overruled the June 27 2018 Taiwan High Court judgement on June 21, 2019, and remanded the case to the Taiwan High Court. The case is currently attached to the Taiwan High Court. Cathay Life and the attorneys hold that this cases will not cause significant impact on the financial position of Cathay Life.

2. As of March 30 2021, the wholly-owned subsidiary, Cathay United Bank Co., Ltd. (hereinafter, "Cathay United Bank"), is subject to a major ongoing lawsuit arising in the normal course of business. The details are elaborated below:

Lee & Li, Attorneys-at-Law (hereinafter, "Lee & Li") alleged that the embezzlement case of Liu Wei-Chieh (a former employee of Lee & Li), which occurred in October 2003, was caused by the negligence of Cathay United Bank, and Lee & Li claimed damages from Cathay United Bank in the amount of approximately NT\$991.002 million. The case was brought to the court since July 2007, and Cathay United Bank won favorable decisions in both first instance and second instances. At present, the original second-instance judgment was reversed by the Supreme Court. Now the case is remanded to the Taiwan High Court for further review. Cathay United Bank and its attorneys hold that this case will not have material adverse effect on the financial position of Cathay United Bank.

## **(XI) Other material risks and corresponding measures**

Development of emerging technologies and FinTech are commonly associated with new security threats and risks. Cathay Financial Holdings are committed to strengthen the capability

to maintain information security of its associate subsidiaries throughout the financial group by promoting the plans and measures of risk controls consistently:

1. Follow Financial Supervisory Commission's "Financial Information Security Action Plan" and take continuous steps to strengthen its defense against security threats, thereby ensuring the security, convenience, and continuity of services rendered.
2. Plan and make ongoing refinements to the financial group's information security blueprint, so that all members of Cathay Financial Group adopt uniform information security standards, including the scopes of security governance, security operation, perimeter protection, internal network and application server. This roadmap will be reviewed and fine-tuned regularly to serve as the ultimate guideline for information security protection.
3. Continue enforcing Cathay Financial Group's information security incident reporting and response mechanism – The incident reporting and response procedures enable timely monitoring and resolution of information security incidents within the financial holding company and subsidiaries, and allow resources to be integrated throughout the financial group for the formation of an emergency response team. By leveraging the expertise of external consultants and drawing experience from previous information security incidents, the financial group shall be able to provide the response team with appropriate and professional advice as well as emergency support.
4. Continue promotion of Cathay financial Group's Security Operation Center – The Security Operation Center (SOC) will be further enhanced to ensure timely and uninterrupted monitoring and response to information security risk with 24/7.
5. Elevation of employees' information security awareness – Information security training, awareness program, social engineering drills, and information security incident response drills will be conducted regularly to improve employees' vigilance and response to information security incidents.

## **VII. Special Event Management**

### **(I) Major Event Control**

1. The Company has an "Incident Resolution Policy" in place that outlines the reporting and response procedures the financial holding company and subsidiaries shall follow in the case of major incident. This policy reduces the impact of major incidents while enabling the Company and subsidiaries to react to various situations.
2. When a major event occurs, the subject unit should immediately report to its direct supervisor and then notify the Company, in addition to taking timely and appropriate actions.
3. If the major events are special and required preventive actions from all business units, the Risk management Division should provide solutions.

### **(II) Credit Event Control**

1. To refine our risk management and minimize adversity caused by sudden credit events among our debtors or investees, we have developed "the Credit Emergency Reporting Guideline" for appropriate reporting procedures.
2. Reporting items: warning event reporting and major event reporting.
3. Reporting procedure: The business unit should report to both the subsidiary's risk management department and the Company's risk management division immediately when warning, major event, or reportable event occurs among debtors or investees. The Risk Management Division should aggregate the Group's exposure amount and provide solution, when needed.

## VIII. Other Major Events

The group's emerging risks in 2020 include FinTech, climate-related, information security, and law amendments. We assessed the impact of the risks on our operations and established response measures. We disclosed the evaluation of the impact of the top two emerging risks on operations and response measures:

Risk Description	Category	Impact on operations	Response Measures
<p><b>Risk of communicable diseases:</b></p> <p>Communicable diseases refer to diseases for which the number of cases exceeded the expected number or form cluster infections within specific areas and specific periods (e.g., COVID-19 mutations after 2020). If the Nipah Virus or other new forms of communicable diseases spread over a large area again in the next 3 to 5 years, we may face possible quarantines of employees or community quarantines, which would impact economic activities such as tourism, entertainment, and consumption. In severe cases, they may cause lockdowns or suspension of industrial production, which would impact the global financial market and increase operational risks.</p>	<p><b>Societal</b></p>	<p>The spread of new forms of communicable diseases in the future will affect employees' health management. Employees are the Company's crucial foundations for continuous operations. The continuous spread of an epidemic would reduce the quality of financial services and cause business or service interruption risks. It would also affect the Company's profitability and bring about the significant negative impacts on the Company's investment and loan positions.</p>	<p>When a spread of emerging communicable diseases occurs in the future, we will establish the prevention task force. The task force will immediately implement business continuity management and processes and response measures. Personnel health management, supplies assistance, and related backup mechanisms are as follows:</p> <ol style="list-style-type: none"> <li>1.Established a business continuity management (BCM) plan, considered complex scenarios, stress test results, and conducted drills.</li> <li>2.Established backup plans with backup personnel, equipments, and data at a sufficient distance from the original workplace, and implemented split operations (or work from home), using video conferencing and internal operation tools.</li> <li>3.Periodically examined the loss ratio of products, and made timely adjustments to rates and the underwriting policy.</li> <li>4.Added a communicable disease exclusion clause to all commercial insurance products, and changed to self-insured retention if insurance must be provided to special cases.</li> </ol>

Risk Description	Category	Impact on operations	Response Measures
<p><b>FinTech risks:</b></p> <p>The global FinTech development and adoption of smart phones will impact the Company's business model. The relaxation of regulations for the creation and cross-industry collaboration of Internet-only banks in Taiwan and its innovative business model will impact the Company's digital services and brick-and-mortar branches. We need to change our business model and our operating procedures and focus more on personalized services. For example, need design of product and service interfaces and provide high-quality intelligent customer services. Brick-and-mortar branches must also be transformed to improve the customer experience for digital financial services. However, this transformation will incur significant expenditures. The development of emerging technologies will cause a shortage of talent in FinTech and interdisciplinary digital applications. The changes in the business model will require us to pay closer attention to related regulations for FinTech business.</p>	<p><b>Technological</b></p>	<p>Cathay is the largest finance institution in Taiwan and half of the population in Taiwan are Cathay's customers. With the rise of Internet-only banks, if we continue to focus on only products instead of also taking customer requirements into account, we may lose customers among the young generation and potential customer groups that have not yet obtained financial services. Such a failure would also affect the user experience and lead to a loss of existing customers. The results would reduce market share, which would affect the Company's financial performance. When making adjustments of business models, we will face more regulatory restrictions and risk management issues which may cause significant losses for the Company. In addition, if we fail to cultivate interdisciplinary professional talent and change the organizational operation model, we would not be able to overcome the challenges created by the innovative model and provide customers with a brand-new digital experience.</p>	<p>Cathay FHC established the Digital, Data &amp; Technology (DDT) Center to compile the digitalization requirements within the Group. We periodically evaluate the feasibility of innovative FinTech, so as to step up innovation in digital financial services.</p> <ol style="list-style-type: none"> <li>1.Planned digital platforms and strategies for further improve the customer experience. We also created the Group's data ecosystem through new business models to increase competitiveness.</li> <li>2.Maintained data structure and data warehouse for better application of big data. We reviewed the business logic for products of our subsidiaries, and further reduce the operating cost.</li> <li>3.Valued the cultivation of interdisciplinary digital finance talent to face the changes in new business model. We adopted a bi-modal approach to transformation to improve our overall performance.</li> <li>4.Collected information on changes in regulations on FinTech businesses and comply to ensure the security and compliance of the management procedures.</li> </ol>

## **Eight. Special Disclosure**

### **I. Information on Affiliates**

#### **(I) Consolidated business reports**

Refer to Appendix II.

#### **(II) Consolidated financial statements of the subsidiaries**

Refer to Appendix I.

#### **(III) Affiliation report**

Refer to Appendix III.

### **II. Any private placement of securities in the recent years up to the publication of this annual report.**

None.

### **III. The shares in the Financial Holding Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report:**

None.

### **IV. Other important supplementary information:**

None.

### **V. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to subparagraph 2, paragraph 3, article 36 of the Securities and Exchange Act**

None.



## **Appendix 1**

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

**Consolidated Financial Statements for the  
Years Ended December 31, 2020 and 2019 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, its consolidated financial performance and its consolidated cash flows for the years then ended 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 Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2020 are as follows:

#### Valuation of Policy Reserve and Liability Adequacy Test

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

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

1. We understood the internal controls related to management's valuation of policy reserves and liability adequacy test as well as evaluated the operating effectiveness of these internal controls.
2. We obtained the actuarial report issued by the contracted actuary which was used as the basis for the management's valuation of policy reserves and liability adequacy test, and evaluated the contracted actuary's professional competence and capability.
3. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the valuation of the policy reserve. The actuarial specialist:
  - a. Randomly sampled the insurance products to examine whether the calculations of the policy reserve were made in accordance with the requirements.
  - b. Evaluated the actuarial model and significant assumptions used in its valuation of policy reserve based on the sampled insurance policies and verified the recognized amount of the policy reserve.
  - c. Performed profiling tests on long-term insurance policies as of December 31, 2020 to identify any abnormalities on the recognized amounts of policy reserve on each individual insurance policy.
  - d. Assessed the reasonableness of the amount of provision for the policy reserve by considering the amount of policy reserve as of the end of the prior year and the business development for the year ended December 31, 2020.

4. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the liability adequacy test. The actuarial specialist:
  - a. Tested on a sample basis the correctness of classification of the newly issued insurance products for the year ended December 31, 2020.
  - b. Sampled the significant assumptions provided by the management for our audits in order to examine whether the assumptions were consistent with the requirements and the important built-in assumptions in the information system.
  - c. Tested and assessed the actuarial model and its significant assumptions used by the management in its liability adequacy test on a sample basis and performed recalculations on the individual insurance policies.
  - d. Assessed the reasonableness of the calculation results of the liability adequacy test as a whole based on a comparative analysis of the previous year's results and taking into consideration the business development for the year ended December 31, 2020.

#### Assessment of the Fair Values of Investment Properties

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

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

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

#### Impairment Assessment on Loans

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Hung Kuo and Shu-Wan Lin.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 10, 2021

Notice to Readers

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

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

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28)	\$ 536,716,255	5	\$ 413,405,471	4
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS	129,503,924	1	110,945,093	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7, 28 and 29)	1,748,081,143	16	1,653,983,453	16
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8 and 29)	1,562,998,457	14	1,182,534,102	12
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 4, 5, 9 and 29)	3,161,044,538	29	3,068,838,014	31
FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5)	146,959	-	548,075	-
SECURITIES PURCHASED UNDER RESALE AGREEMENTS (Note 4)	67,264,342	1	43,586,931	-
RECEIVABLES, NET (Notes 4, 5, 10 and 28)	191,916,164	2	185,049,532	2
CURRENT TAX ASSETS	4,689,275	-	4,853,833	-
DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28)	2,141,276,205	19	2,066,761,296	21
REINSURANCE CONTRACT ASSETS, NET	9,646,628	-	8,458,658	-
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28)	33,036,282	-	48,145,672	-
OTHER FINANCIAL ASSETS, NET (Notes 4 and 23)	660,547,975	6	615,117,482	6
INVESTMENT PROPERTIES, NET (Notes 4, 5, 14, 28 and 29)	419,476,228	4	408,696,108	4
PROPERTY AND EQUIPMENT, NET (Notes 4 and 15)	98,405,132	1	101,855,371	1
RIGHT-OF-USE ASSETS, NET (Notes 4, 16 and 28)	4,138,543	-	3,908,913	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	54,002,407	-	51,270,972	1
DEFERRED TAX ASSETS (Notes 4 and 26)	61,507,384	1	40,595,612	-
OTHER ASSETS, NET (Notes 28 and 29)	<u>66,074,603</u>	<u>1</u>	<u>56,924,753</u>	<u>1</u>
<b>TOTAL</b>	<b><u>\$ 10,950,472,444</u></b>	<b><u>100</u></b>	<b><u>\$ 10,065,479,341</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND EQUITY</b>				
DUE TO THE CENTRAL BANK AND OTHER BANKS	\$ 66,131,059	1	\$ 84,108,128	1
FUNDS BORROWED FROM THE CENTRAL BANK AND OTHER BANKS	1,076,000	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7)	140,778,098	1	111,526,387	1
FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5)	139,858	-	30,894	-
NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4)	12,299,564	-	50,278,533	-
COMMERCIAL PAPER PAYABLE, NET (Note 18)	39,519,918	1	54,018,845	-
PAYABLES (Note 28)	68,696,694	1	66,934,725	1
CURRENT TAX LIABILITIES (Note 4)	20,628,900	-	3,274,828	-
DEPOSITS AND REMITTANCES (Notes 19 and 28)	2,615,799,063	24	2,303,443,816	23
BONDS PAYABLE (Note 20)	148,800,000	1	118,900,000	1
OTHER BORROWINGS	1,657,576	-	2,201,364	-
PROVISIONS (Notes 4, 21 and 22)	6,117,073,219	56	5,713,778,385	57
OTHER FINANCIAL LIABILITIES (Notes 4 and 23)	692,760,284	6	676,972,179	7
LEASE LIABILITIES (Notes 4, 16 and 28)	13,011,637	-	12,720,337	-
DEFERRED TAX LIABILITIES (Notes 4 and 26)	67,823,378	1	55,144,257	1
OTHER LIABILITIES (Note 28)	<u>39,501,515</u>	<u>-</u>	<u>30,119,484</u>	<u>-</u>
Total liabilities	<u>10,045,696,763</u>	<u>92</u>	<u>9,283,452,162</u>	<u>92</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24)</b>				
Share capital				
Ordinary shares	131,692,102	1	131,692,102	2
Preference shares	15,333,000	-	15,333,000	-
Capital surplus	177,256,053	2	177,256,976	2
Retained earnings				
Legal reserve	51,967,688	-	46,122,845	-
Special reserve	149,894,910	1	221,977,672	2
Unappropriated earnings	169,606,342	2	58,181,890	1
Other equity	<u>197,311,121</u>	<u>2</u>	<u>121,182,880</u>	<u>1</u>
Total equity attributable to owners of the Company	893,061,216	8	771,747,365	8
NON-CONTROLLING INTERESTS (Notes 4 and 24)	<u>11,714,465</u>	<u>-</u>	<u>10,279,814</u>	<u>-</u>
Total equity	<u>904,775,681</u>	<u>8</u>	<u>782,027,179</u>	<u>8</u>
<b>TOTAL</b>	<b><u>\$ 10,950,472,444</u></b>	<b><u>100</u></b>	<b><u>\$ 10,065,479,341</u></b>	<b><u>100</u></b>

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

(With Deloitte & Touche auditors' report dated March 10, 2021)



# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	2020		2019	
	Amount	%	Amount	%
INTEREST INCOME (Notes 4 and 28)	\$ 208,249,264	33	\$ 220,258,661	39
INTEREST EXPENSE (Notes 4 and 28)	<u>(17,319,732)</u>	<u>(3)</u>	<u>(23,892,156)</u>	<u>(4)</u>
NET INTEREST INCOME	<u>190,929,532</u>	<u>30</u>	<u>196,366,505</u>	<u>35</u>
NET INCOME AND GAINS OTHER THAN INTEREST INCOME				
Net gain on service fee and commission fee (Notes 4, 23, 25 and 28)	7,244,068	1	2,345,518	1
Net income on insurance operations (Notes 4, 25 and 28)	312,998,311	50	265,817,609	48
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7)	216,970,443	35	209,449,191	38
Gain on investment properties (Notes 4, 14 and 28)	13,234,433	2	12,315,717	2
Realized gain on financial assets at fair value through other comprehensive income (Note 4)	32,746,487	5	29,895,962	5
Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9)	39,123,029	6	9,887,622	2
Foreign exchange loss (Note 4)	(126,717,214)	(20)	(52,147,418)	(9)
(Impairment loss) reversal of impairment loss on assets (Note 4)	(1,860,502)	-	1,232,835	-
Share of (loss) gain of associates and joint ventures accounted for using the equity method (Notes 4 and 13)	(12,084,664)	(2)	1,149,021	-
Loss on reclassification using the overlay approach (Notes 4 and 7)	(49,149,740)	(8)	(120,836,755)	(22)
Net other non-interest gain (Note 28)	<u>6,480,302</u>	<u>1</u>	<u>411,391</u>	<u>-</u>
PROFIT FROM OPERATIONS	<u>629,914,485</u>	<u>100</u>	<u>555,887,198</u>	<u>100</u>
NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25)	<u>(462,094,141)</u>	<u>(73)</u>	<u>(394,074,197)</u>	<u>(71)</u>
PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEED LIABILITY RESERVE	<u>(3,177,875)</u>	<u>(1)</u>	<u>(2,205,393)</u>	<u>-</u>
OPERATING EXPENSES (Notes 25 and 28)				
Employee benefit expenses	(52,661,132)	(8)	(57,070,200)	(10)
Depreciation and amortization expenses	(7,358,416)	(1)	(7,098,010)	(1)
Other general and administrative expenses	<u>(23,007,140)</u>	<u>(4)</u>	<u>(24,882,224)</u>	<u>(5)</u>
Total operating expenses	<u>(83,026,688)</u>	<u>(13)</u>	<u>(89,050,434)</u>	<u>(16)</u>

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 81,615,781	13	\$ 70,557,174	13
INCOME TAX EXPENSE (Notes 4 and 26)	<u>(5,657,558)</u>	<u>(1)</u>	<u>(6,697,870)</u>	<u>(1)</u>
NET INCOME	<u>75,958,223</u>	<u>12</u>	<u>63,859,304</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME (Notes 4 and 24)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(617,081)	-	(3,998)	-
Property revaluation surplus	-	-	926,919	-
gain on equity instruments at fair value through other comprehensive income	3,822,815	1	10,470,705	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	464,755	-	(3,280,741)	(1)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity the method for items that will not be reclassified subsequently to profit or loss	317,967	-	(159,190)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26)	265,474	-	(359,323)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	(2,219,050)	-	(1,661,389)	-
gain on hedging instruments	13,263	-	206,220	-
Gain on debt instruments at fair value through other comprehensive income	40,470,410	6	89,900,568	16
Share of other comprehensive (loss) income of associates and joint ventures accounted for using the equity method for items that may be reclassified subsequently to profit or loss	(162,146)	-	158,778	-

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Other comprehensive income (loss) reclassified using the overlay approach	\$ 49,149,740	8	\$ 120,836,755	22
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26)	<u>(11,267,656)</u>	<u>(2)</u>	<u>(27,653,395)</u>	<u>(5)</u>
Total other comprehensive income for the period, net of income tax	<u>80,238,491</u>	<u>13</u>	<u>189,381,909</u>	<u>34</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 156,196,714</u>	<u>25</u>	<u>\$ 253,241,213</u>	<u>46</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 74,579,460	12	\$ 62,757,286	12
Non-controlling interests	<u>1,378,763</u>	<u>-</u>	<u>1,102,018</u>	<u>-</u>
	<u>\$ 75,958,223</u>	<u>12</u>	<u>\$ 63,859,304</u>	<u>12</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 154,988,421	25	\$ 251,892,166	46
Non-controlling interests	<u>1,208,293</u>	<u>-</u>	<u>1,349,047</u>	<u>-</u>
	<u>\$ 156,196,714</u>	<u>25</u>	<u>\$ 253,241,213</u>	<u>46</u>
EARNINGS PER SHARE (Note 27)				
Basic earnings per share	<u>\$ 5.41</u>		<u>\$ 4.76</u>	

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

(With Deloitte & Touche auditors' report dated March 10, 2021)

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company															Non-controlling Interest	Total Equity
	Retained Earnings						Other Equity										
	Share Capital		Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on the Translation of Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Gain (Loss) on Hedging Instruments	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit Or Loss	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) Reclassified Using the Overlay Approach	Other	Total		
Ordinary Shares	Preferred Shares																
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	-	-	-	-	-	(72,631,553)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	72,631,553	(15,075,852)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	-	(2,667,891)	-	-	-	-	-	-	-	-	(15,075,852)	-	(15,075,852)
Cash dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(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	-	-	138,891	-	-	-	-	-	-	-	-	-	-	-	138,891	-	138,891
Net income for the year ended December 31, 2019	-	-	-	-	-	62,757,286	-	-	-	-	-	-	-	-	62,757,286	1,102,018	63,859,304
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	(1,169,749)	81,300,147	158,641	(2,624,592)	(186,726)	872,403	110,784,756	-	189,134,880	247,029	189,381,909
Total comprehensive income (loss) for year ended December 31, 2019	-	-	-	-	-	62,757,286	(1,169,749)	81,300,147	158,641	(2,624,592)	(186,726)	872,403	110,784,756	-	251,892,166	1,349,047	253,241,213
Issuance of ordinary shares for cash	6,060,000	-	15,150,000	-	-	-	-	-	-	-	-	-	-	-	21,210,000	-	21,210,000
Share-based payment transactions	-	-	287,684	-	-	-	-	-	-	-	-	-	-	-	287,684	-	287,684
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(4,606,752)	-	4,606,752	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(626,898)	(626,898)
BALANCE, AT DECEMBER 31, 2019	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	-	-	-	-	-	(71,928,090)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(26,338,420)	-	-	-	-	-	-	-	-	(26,338,420)	-	(26,338,420)
Cash dividends on ordinary shares	-	-	-	-	-	(3,390,924)	-	-	-	-	-	-	-	-	(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	-	-	(923)	-	-	-	-	-	-	-	-	-	-	-	(923)	-	(923)
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,944,303)	(3,944,303)	-	(3,944,303)
Net income for the year ended December 31, 2020	-	-	-	-	-	74,579,460	-	-	-	-	-	-	-	-	74,579,460	1,378,763	75,958,223
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	-	(2,144,389)	38,081,079	15,941	371,803	(458,415)	-	44,542,942	-	80,408,961	(170,470)	80,238,491
Total comprehensive income (loss) for year ended December 31, 2020	-	-	-	-	-	74,579,460	(2,144,389)	38,081,079	15,941	371,803	(458,415)	-	44,542,942	-	154,988,421	1,208,293	156,196,714
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	193,192	-	(193,192)	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	226,358	226,358
BALANCE, AT DECEMBER 31, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,256,053	\$ 51,967,688	\$ 149,894,910	\$ 169,606,342	\$ (15,464,009)	\$ 106,207,840	\$ 347,871	\$ (1,478,705)	\$ (1,966,279)	\$ 11,097,089	\$ 102,511,617	\$ (3,944,303)	\$ 893,061,216	\$ 11,714,465	\$ 904,775,681

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

(With Deloitte & Touche auditors' report dated March 10, 2021)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 81,615,781	\$ 70,557,174
Adjustments for:		
Depreciation expense	4,026,580	3,927,527
Amortization expense	3,331,836	3,170,483
Bad debt expense	3,177,875	2,205,393
Gain on financial assets and liabilities at fair value through profit or loss	(200,901,199)	(186,470,119)
Interest expense	17,319,732	23,892,156
Gain on derecognition of financial assets measured at amortized cost	(39,123,029)	(9,887,622)
Interest income	(208,249,264)	(220,258,661)
Dividend income	(19,409,573)	(26,412,505)
Net changes in insurance liabilities	406,251,525	370,212,741
Net changes in other provisions	(3,180,012)	925,588
Compensation costs of share-based payments	-	287,684
Share of loss (profit) of associates and joint ventures accounted for using the equity method	12,084,664	(1,149,021)
Loss on reclassification using the overlay approach	49,149,740	120,836,755
Loss on disposal and retirement of property and equipment	71,249	1,656
Loss (gain) on disposal of investment properties	474,481	(11,304)
Loss on disposal of intangible assets	6,260	-
(Gain) loss on disposal of investment accounted for using the equity method	(1,786,696)	32,107
Gain on disposal of investments	(28,739,603)	(27,175,192)
Impairment loss (reversal of impairment loss) recognized on financial assets	1,860,502	(1,241,464)
Impairment loss recognized on non-financial assets	-	8,629
Gain on changes in fair value of investment properties	(2,113,979)	(842,186)
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and call loans to other banks	(10,914,208)	(5,546,911)
Decrease in financial assets at fair value through profit or loss	258,808,341	104,014,156
(Increase) decrease in financial assets at fair value through other comprehensive income	(307,748,117)	71,643,705
Increase in investments in debt instruments at amortized cost	(54,562,318)	(369,710,354)
Decrease (increase) in financial assets for hedging	93,292	(93,567)
Increase in receivables	(7,129,465)	(23,744,060)
(Increase) decrease in loans	(77,416,828)	107,983,071
Increase in reinsurance assets	(918,046)	(506,849)
(Increase) decrease in other financial assets	(10,988,359)	1,201,820
Increase in other assets	(8,061,537)	(2,139,370)
(Decrease) increase in due to the Central Bank and other banks	(17,977,069)	2,675,895
Decrease in financial liabilities at fair value through profit or loss	(109,613,264)	(165,438,628)
Decrease in securities sold under repurchase agreements	(37,978,969)	(9,028,504)
Increase (decrease) in payables	4,136,883	(964,134)
Increase in deposits and remittances	312,355,247	116,240,730

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Decrease in reserve for employee benefits liabilities	\$ 109,114	\$ 250,167
(Decrease) increase in provisions	(151,034)	126,061
Decrease in other financial liabilities	(18,354,330)	(11,422,393)
Increase in other liabilities	<u>2,627,333</u>	<u>10,768,698</u>
Cash used in operations	(7,816,464)	(51,080,648)
Interest received	210,196,945	224,071,626
Dividends received	20,203,784	26,940,617
Interest paid	(19,518,618)	(25,061,546)
Income tax paid	<u>(7,309,251)</u>	<u>(4,024,068)</u>
Net cash generated from operating activities	<u>195,756,396</u>	<u>170,845,981</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through other comprehensive income	(34,845,034)	(34,784,719)
Proceeds from disposal of financial assets at fair value through other comprehensive income	34,711,067	36,118,998
Acquisition of financial assets at fair value through profit or loss	(1,040,985)	(878,542)
Proceeds from disposal of financial assets at fair value through profit or loss	662,239	417,993
Acquisition of investments accounted for using the equity method	(495,185)	(470,918)
Proceeds from disposal of investments accounted for using the equity method	-	87,107
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	245,904	5,166
Payments for property and equipment	(2,371,706)	(2,447,794)
Proceeds from disposal of property and equipment	11,977	43,484
Payments for intangible assets	(510,889)	(765,439)
Payments for investment properties	(7,130,742)	(14,507,120)
Proceeds from disposal of investment properties	422,925	945,923
(Increase) decrease in other assets	(4,762,543)	17,210,853
Dividends received	<u>89,620</u>	<u>91,342</u>
Net cash (used in) generated from investing activities	<u>(15,165,853)</u>	<u>1,075,663</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in other borrowings	(480,337)	1,911,436
Decrease in commercial paper payable	(14,500,000)	(8,970,000)
Increase in funds borrowed from the Central Bank and other banks	1,076,000	-
Proceeds from issuance of bonds payable	30,000,000	30,000,000
Repayment of financial debentures	(100,000)	(1,700,000)

(Continued)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Decrease in financial liabilities designated as at fair value through profit or loss	\$ (11,289,165)	\$ -
Repayment of the principal portion of lease liabilities	(1,589,482)	(1,658,298)
Increase in other liabilities	2,139,275	1,800,424
Proceeds from issuance of ordinary shares	-	21,210,000
Dividends paid	(29,729,344)	(21,512,706)
Changes in non-controlling interests	<u>(1,188,663)</u>	<u>(626,898)</u>
Net cash (used in) generated from financing activities	<u>(25,661,716)</u>	<u>20,453,958</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(318,495)</u>	<u>40,200</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	154,610,332	192,415,802
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>503,214,148</u>	<u>310,798,346</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 657,824,480</u>	<u>\$ 503,214,148</u>
Reconciliation of cash and cash equivalents:		
	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents presented in the consolidated balance sheets	\$ 536,716,255	\$ 413,405,471
Due from the Central Bank and call loans to other banks qualified for cash and cash equivalents under the definition of IAS 7	53,843,883	46,221,746
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>67,264,342</u>	<u>43,586,931</u>
Cash and cash equivalents at the end of the years	<u>\$ 657,824,480</u>	<u>\$ 503,214,148</u>

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

(With Deloitte & Touche auditors' report dated March 10, 2021)

(Concluded)

# CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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 March 10, 2021.



### 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. The IFRSs endorsed by the FSC for application starting from 2021

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”

“Interest Rate Benchmark Reform - Phase 2” primarily amends IFRS 9, IFRS 7 and IFRS 16 to provide practical relief from the impact of the interest rate benchmark reform.

Changes in the basis for determining contractual cash flows as a result of interest rate benchmark reform

The changes in the basis for determining contractual cash flows of financial assets, financial liabilities or lease liabilities are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis.

The amendments provide the following temporary exceptions to hedging relationships that are subject to the reform:

- 1) The changes to the hedging relationship that are needed to reflect changes required by the reform are treated as a continuation of the existing hedging relationship, and do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship.
- 2) If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.
- 3) After a cash flow hedging relationship is amended, the amount accumulated in the gain/(loss) on hedging instruments of cash flow hedge is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- 4) An entity should allocate the hedged items of a group hedge that is subject to the reform to subgroups based on whether the hedged items have been changed to reference an alternative benchmark rate, and should designate the hedged benchmark rate separately.

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“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 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, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 4)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 5)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 6)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 7)

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 annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 5: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 6: 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 7: 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 year 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 year, 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 IFRSs as endorsed and issued into effect by the FSC.

### **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 year 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 year 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 year 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 year. 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 year in which they arise.

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

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

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

### **Goodwill**

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

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

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

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

## **Intangible Assets**

### a. Intangible assets acquired separately

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

### b. Intangible assets acquired in a business combination

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

### c. Derecognition of intangible assets

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

## **Impairment of Property and Equipment, Right-of-use Assets and Intangible Assets Other Than Goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets 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

Gains and losses 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 gains and losses 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 year 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 year 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 rereasurement) 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 year in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets, is recognized in other comprehensive income in the year 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.

## **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**

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, 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 year 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 year in which the estimates are revised if the revisions affect only that period or in the year 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**

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Cash on hand	\$ 18,412,103	\$ 24,024,132
Cash in banks	166,785,873	154,204,645
Time deposits	252,042,783	174,190,896
Checks for clearing	2,628,849	2,930,797
Cash equivalents	46,599,213	31,733,983
Due from banks	50,269,827	26,325,206
Less: Loss allowance	<u>(22,393)</u>	<u>(4,188)</u>
	<u>\$ 536,716,255</u>	<u>\$ 413,405,471</u>

**7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Stocks	\$ 538,241,070	\$ 495,159,801
Funds and beneficiary certificates	681,814,769	579,735,647
Government bonds	35,857,067	41,962,807
Corporate bonds	8,251,384	7,871,304
Financial debentures	20,556,752	23,968,427
Overseas bonds	148,917,957	231,492,155
Short-term notes	195,725,296	189,983,788
Futures trading margin	1,329,790	1,115,968
Structured time deposits	18,027,331	4,011,973
Derivative instruments	<u>99,359,727</u>	<u>78,681,583</u>
	<u>\$ 1,748,081,143</u>	<u>\$ 1,653,983,453</u>
<u>Financial liabilities at FVTPL</u>		
Designated as at FVTPL		
Bonds	\$ 44,204,582	\$ 57,604,294
Held for trading		
Derivative instruments	81,426,781	51,411,974
Security lending payable (non-hedging)	14,909,925	2,327,231
Security lending payable (hedging)	<u>236,810</u>	<u>182,888</u>
	<u>\$ 140,778,098</u>	<u>\$ 111,526,387</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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Stocks	\$ 523,742,759	\$ 482,377,169
Funds and beneficiary certificates	635,702,636	543,218,427
Financial debentures	10,675,230	15,243,512
Overseas bonds	147,576,634	229,427,152
Structured time deposits	<u>18,027,331</u>	<u>4,011,973</u>
	<u>\$ 1,335,724,590</u>	<u>\$ 1,274,278,233</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the years ended December 31, 2020 and 2019 are as below:

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Gain due to application of IFRS 9 to profit or loss	\$ 163,356,742	\$ 205,480,995
Gain if applying IAS 39 to profit or loss	<u>(114,207,002)</u>	<u>(84,644,240)</u>
Loss reclassified due to application of overlay approach	<u>\$ 49,149,740</u>	<u>\$ 120,836,755</u>

Due to application of overlay approach, the amounts of gain on financial assets and liabilities at FVTPL for the years ended December 31, 2020 and 2019 decreased from \$216,970,443 thousand to \$167,820,703 thousand, and decreased from \$209,449,191 thousand to \$88,612,436 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 years ended December 31, 2020 and 2019, such interest rate swaps were valued at a net gain of \$1,921,169 thousand and \$4,094,478 thousand, respectively.

- c. As of December 31, 2020 and 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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Equity instruments	\$ 123,365,677	\$ 62,877,916
Stocks		
Debt instruments	121,984,303	115,618,878
Government bonds	104,379,875	47,939,633
Corporate bonds	82,202,742	80,267,723
Financial debentures	1,078,517,070	778,747,472
Overseas bonds	14,299,523	27,942,654
Asset-backed securities	39,411,018	70,253,313
Negotiable certificates of deposits	(46,761)	(45,748)
Less: Litigation deposits	<u>(1,114,990)</u>	<u>(1,067,739)</u>
Less: Deposits in the Central Bank	<u>1,439,632,780</u>	<u>1,119,656,186</u>
	<u>\$ 1,562,998,457</u>	<u>\$ 1,182,534,102</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 years ended December 31, 2020 and 2019 were \$4,026,443 thousand and \$2,744,750 thousand, respectively. Those related to the amounts of investment derecognized for the years ended December 31, 2020 and 2019 were \$204,065 thousand and \$1,120,993 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instrument investments at FVTOCI which had fair value of \$39,292,343 thousand and \$50,433,053 thousand at the time of sale, and transferred unrealized gain of \$193,192 thousand and unrealized loss of \$4,606,752 thousand from other equity to retained earnings for the years ended December 31, 2020 and 2019, respectively.
- d. As of December 31, 2020 and 2019, certain financial assets at FVTOCI of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$9,074,539 thousand and \$35,649,054 thousand, respectively. The proceeds amounting to \$9,175,931 thousand and \$35,456,986 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$9,189,593 thousand and \$35,556,515 thousand before the end of June 2021 and 2020, respectively.



- e. As of December 31, 2020 and 2019, Cathay Securities and its subsidiaries sold certain debt instrument investments at FVTOCI under repurchase agreements with notional amounts of \$2,200,000 thousand and \$2,050,000 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. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Time deposits	\$ 2,553,632	\$ 1,776,929
Financial debentures	52,527,979	68,190,012
Corporate bonds	43,041,834	27,508,670
Government bonds	50,605,910	42,403,554
Overseas bonds	2,555,705,009	2,515,522,370
Financial asset beneficiary certificates	445,000	1,189,350
Structured bonds	-	3,436,962
Asset-backed securities	32,298,469	38,850,385
Short-term notes	436,402,937	380,904,061
Less: Litigation deposits	(1,353,429)	(1,343,931)
Less: Deposits in the Central Bank	(8,546,113)	(8,371,801)
Less: Loss allowance (Note)	<u>(2,636,690)</u>	<u>(1,228,547)</u>
	<b><u>\$ 3,161,044,538</u></b>	<b><u>\$ 3,068,838,014</u></b>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of December 31, 2020 and 2019, the amounts were \$1,258 thousand and \$891 thousand, respectively.

- a. For the years ended December 31, 2020 and 2019, the Group disposed of bonds before maturity due to increase in credit risk, which resulted in losses on disposal of \$277,023 thousand and \$3,071,753 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 \$38,149,433 thousand and \$11,598,209 thousand, respectively; disposal of bonds due to other situations such as repayments at maturities resulted in gains on disposal of \$1,616,634 thousand and \$1,361,166 thousand, respectively.
- b. As of December 31, 2020 and 2019, certain financial assets measured at amortized cost of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$1,095,769 thousand and \$16,010,521 thousand, respectively. The proceeds amounting to \$916,127 thousand and \$12,723,466 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$915,796 thousand and \$12,731,800 thousand before the end of January 2021 and March 2020, 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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Notes receivable	\$ 448,479	\$ 472,015
Accounts receivable	107,627,139	108,126,390
Interest receivables	53,277,785	53,456,596
Acceptances	1,074,796	896,898
Factoring receivables	4,924,287	3,137,119
Others	<u>27,171,566</u>	<u>21,496,994</u>
	194,524,052	187,586,012
Less: Loss allowance	<u>(2,607,888)</u>	<u>(2,536,480)</u>
	<u>\$ 191,916,164</u>	<u>\$ 185,049,532</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 year ended December 31, 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
Balance at the beginning of the year	\$ 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 year						
Transferred to Lifetime ECLs	(3,266)	82,897	(2,541)	77,090	-	77,090
Transferred to credit-impaired financial assets	(424)	(1,960)	137,286	134,902	-	134,902
Transferred to 12-month ECLs	2,410	(60,040)	(4,923)	(62,553)	-	(62,553)
Derecognition of financial assets in current year	(172,285)	(75,138)	(50,415)	(297,838)	-	(297,838)
New financial assets purchased or originated	108,021	79,293	366,959	554,273	-	554,273
Difference from impairment charged in accordance with applicable laws and regulations	-	-	-	-	9,790	9,790
Written off as bad debt expense	-	-	(507,788)	(507,788)	-	(507,788)
Effects of exchange rate changes and others	<u>21,504</u>	<u>23,118</u>	<u>132,779</u>	<u>177,401</u>	<u>175</u>	<u>177,576</u>
Balance at the end of the year	<u>\$ 465,842</u>	<u>\$ 202,476</u>	<u>\$ 1,731,461</u>	<u>\$ 2,399,779</u>	<u>\$ 62,941</u>	<u>\$ 2,462,720</u>

For the year ended December 31, 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
Balance at the beginning of the year	\$ 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 year						
Transferred to Lifetime ECLs	(2,703)	81,754	(3,647)	75,404	-	75,404
Transferred to credit-impaired financial assets	(448)	(1,989)	75,808	73,371	-	73,371
Transferred to 12-month ECLs	2,030	(45,301)	(3,207)	(46,478)	-	(46,478)
Derecognition of financial assets in current year	(90,495)	(56,968)	(231,366)	(378,829)	-	(378,829)
New financial assets purchased or originated	463,375	70,146	530,049	1,063,570	-	1,063,570
Difference from impairment charged in accordance with applicable laws and regulations	-	-	-	-	2,501	2,501
Written off as bad debt expense	-	-	(485,265)	(485,265)	-	(485,265)
Effects of exchange rate changes and others	12,101	(10,301)	9,240	11,040	5	11,045
Balance at the end of the year	<u>\$ 509,882</u>	<u>\$ 154,306</u>	<u>\$ 1,660,104</u>	<u>\$ 2,324,292</u>	<u>\$ 52,976</u>	<u>\$ 2,377,268</u>

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

	For the Years Ended December 31	
	2020	2019
Beginning balance	\$ 159,212	\$ 282,516
Provision (reversal) for the year	5,980	(77,170)
Amounts written off	(20,360)	(46,134)
Foreign exchange difference	336	-
Ending balance	<u>\$ 145,168</u>	<u>\$ 159,212</u>

## 11. DISCOUNTS AND LOANS, NET

	December 31	
	2020	2019
Export negotiations	\$ 1,492,261	\$ 1,349,222
Loans	2,166,663,868	2,092,428,586
Overdrafts	1,557,418	1,695,073
Overdue loans	<u>4,546,927</u>	<u>3,528,482</u>
	2,174,260,474	2,099,001,363
Less: Loss allowance	<u>(32,984,269)</u>	<u>(32,240,067)</u>
	<u>\$ 2,141,276,205</u>	<u>\$ 2,066,761,296</u>

- a. As of December 31, 2020, the gross amount of domestic discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,510,492,015 thousand and \$25,514,807 thousand, respectively.
- b. For the year ended December 31, 2020, Cathay United Bank disposed credit assets in order to increase debt recovery, and recognized the loss arising from the derecognition of credit assets measured at amortised cost amounting to \$366,015 thousand.
- c. Refer to Note 36 for information relating to the credit risk management and impairment of discounts and loans.

## 12. SUBSIDIARIES

- a. Subsidiaries included in the consolidated financial statements

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		Notes
			December 31		
			2020	2019	
The Company	Cathay Life	Life Insurance	100.00	100.00	
The Company	Cathay United Bank	Banking	100.00	100.00	
The Company	Cathay Century	Property insurance	100.00	100.00	
The Company	Cathay Securities	Security	100.00	100.00	
The Company and Cathay Life	Cathay Venture	Venture capital	100.00	100.00	
The Company	Cathay Securities Investment Trust	Entrusted investments	100.00	100.00	
Cathay Life	Cathay Lujiazui Life	Life insurance	50.00	50.00	
Cathay Life	Cathay Life (Vietnam)	Life insurance	100.00	100.00	
Cathay Life	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office leasing	100.00	100.00	
Cathay Life	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	
Cathay Life	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	
Cathay Life	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	
Cathay Life	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	
Cathay Life	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00	
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00	
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00	
The Company and CHL	Conning Asia Pacific Ltd.	Asset management services	100.00	100.00	
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	
CHL	Global Evolution Holding ApS	Holding company	53.13	45.00	Note 1
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	
Conning Holdings Corp.	Conning & Company ("C&C")	Holding company	100.00	100.00	

(Continued)

Investors	Subsidiary	Nature of Business	Percentage of Ownership Interest (%)		Notes
			December 31		
			2020	2019	
C&C	Conning Inc.	Asset management services	100.00	100.00	
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00	
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00	
C&C	Octagon Credit Investors, LLC ("Octagon")	Asset management services	85.67	81.89	
Octagon	Octagon Credit Opportunities GP, LLC	Fund management services	100.00	100.00	
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	
Global Evolution Holding ApS	Global Evolution Financial ApS	Asset management services	99.72	-	
Global Evolution Financial ApS	Global Evolution Fondsmæglerselskab 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 Fondsmæglerselskab A/S	Global Evolution USA, LLC	Asset management services	100.00	-	
Global Evolution Fondsmæglerselskab A/S	Global Evolution Fund Management Singapore Pte. Ltd.	Asset management services	100.00	-	
Cathay Century	Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Insurance (Vietnam)")	Property insurance services	100.00	100.00	
Cathay United Bank	Indovina Bank Limited ("Indovina Bank")	Banking	50.00	50.00	
Cathay United Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank")	Banking	100.00	100.00	
Cathay United Bank	Cathay United Bank (China) Co., Ltd. ("CUBCN Bank")	Banking	100.00	100.00	
Cathay Securities	Cathay Futures Co., Ltd. ("Cathay Futures")	Futures services	99.99	99.99	
Cathay Securities	Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)")	Securities services	100.00	100.00	
Cathay Securities (Hong Kong)	Cathay Capital (Asia) Limited ("Cathay Capital (Asia)")	Investment service	100.00	-	Note 2
Cathay Venture	Cathay Investment Inc. ("Cathay Investment")	Venture capital	100.00	100.00	Note 3
Cathay Securities Investment Trust	Cathay Private Equity Co., Ltd. ("Cathay Private Equity")	Private equity	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: It was established by Cathay Securities (Hong Kong) on February 24, 2020.

Note 3: 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
			December 31		
			2020	2019	
Cathay Life	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Security investment consulting services	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, NET

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Investments in unconsolidated subsidiaries	\$ 637,478	\$ 333,089
Investments in associates	<u>32,398,804</u>	<u>47,812,583</u>
	<u>\$ 33,036,282</u>	<u>\$ 48,145,672</u>

a. Investments in unconsolidated subsidiaries

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Cathay Securities Investment Consulting	<u>\$ 637,478</u>	<u>\$ 333,089</u>

b. Investments in associates

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Rizal Commercial Banking Corporation	\$ 16,447,489	\$ 15,893,473
Cathay Insurance Company Limited (China)	4,621,539	4,462,182
Dasheng Venture Capital Co., Ltd.	2,042,511	1,679,260
Taiwan Finance Corp.	1,765,602	1,675,881
PSS Co., Ltd.	911,004	833,568
Ding Teng Co., Ltd.	830,172	791,192
Dasheng IV Venture Capital Co., Ltd.	760,743	782,762
Cathay Sunrise Corporation	728,790	689,074
Neo Cathay Power Corp.	704,798	684,724
CMG International One Corp.	674,804	675,965
CMG International Two Corp.	671,916	674,106
Greenhealth Water Resources Co., Ltd.	455,862	469,726
CDBS Cathay Asset Management Co., Ltd.	407,101	421,059
Symphox Information Co., Ltd.	403,866	402,615
CM Energy Co., Ltd.	329,516	281,396
TaiYang Solar Power Co., Ltd.	147,430	-
Tien-Tai Optronics Corporation	141,287	136,988
Tiantai II Optoelectronics Co., Ltd.	135,982	-
Taiwan Real-estate Management Corp.	97,567	100,958
WK Technology Fund VI Co., Ltd.	58,499	69,162
Lin Yuan Property Management Co., Ltd.	56,461	-
Tien-Tai Management Consulting Co., Ltd.	5,865	4,985
RI-Zhao Energy Corp.	-	46,460
Dun-Yang Energy Corp.	-	43,810
Yong-Chang Energy Corp.	-	42,522
PT Bank Mayapada Internasional Tbk	-	14,176,087
Global Evolution Holding ApS	-	2,774,628
	<u>\$ 32,398,804</u>	<u>\$ 47,812,583</u>

Aggregate information of associates that are not individually material

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
The Group's share of:		
Net (loss) income	\$ (12,299,709)	\$ 992,462
Other comprehensive income (loss)	<u>154,936</u>	<u>(1,160)</u>
Total comprehensive (loss) income for the year	<u>\$ (12,144,773)</u>	<u>\$ 991,302</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 year ended December 31, 2020.

In 2020, in order to enhance the operational efficiency and competitiveness, RI-Zhao Energy Corp., Dun-Yang Energy Corp., and Yong-Chang Energy Corp. were integrated to Tiantai II Optoelectronics Co., Ltd., through a share swap at a swap rate of 1:1. After the conversion, Cathay Venture's holding percentage in Tiantai II Optoelectronics Co., Ltd. is 32.279%.

The investments in associates were not pledged.

#### 14. INVESTMENT PROPERTY

	<b>Land</b>	<b>Buildings</b>	<b>Investment Property Under Construction</b>	<b>Prepayments for Buildings and Land - Investments</b>	<b>Total</b>
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	-	-	3,959,386	10,547,734	14,507,120
Disposals	(837,820)	(96,799)	-	-	(934,619)
Other reclassification	63,015,062	14,044,668	(2,202,812)	(10,118,057)	64,738,861
Gain (loss) on changes in fair value of investment property	1,763,604	(921,418)	-	-	842,186
Changes in revaluation surplus	(1,096,163)	2,023,082	-	-	926,919
Foreign exchange difference	<u>212,020</u>	<u>167,032</u>	<u>-</u>	<u>-</u>	<u>379,052</u>
December 31, 2019	<u>\$ 298,205,802</u>	<u>\$ 104,791,226</u>	<u>\$ 4,546,717</u>	<u>\$ 1,152,363</u>	<u>\$ 408,696,108</u>

(Continued)

	Land	Buildings	Investment Property Under Construction	Prepayments for Buildings and Land - Investments	Total
January 1, 2020	\$ 298,205,802	\$ 104,791,226	\$ 4,546,717	\$ 1,152,363	\$ 408,696,108
Additions	-	-	3,024,854	4,105,888	7,130,742
Disposals	(313,539)	(583,867)	-	-	(897,406)
Other reclassification	5,049,551	6,075,901	(6,043,024)	(2,126,336)	2,956,092
Gain (loss) on changes in fair value of investment property	(544,903)	2,658,882	-	-	2,113,979
Foreign exchange difference	(215,169)	(308,118)	-	-	(523,287)
December 31, 2020	<u>\$ 302,181,742</u>	<u>\$ 112,634,024</u>	<u>\$ 1,528,547</u>	<u>\$ 3,131,915</u>	<u>\$ 419,476,228</u> (Concluded)

	For the Years Ended December 31	
	2020	2019
Rental income from investment property	\$ 11,594,935	\$ 11,315,269
Less: Direct operating expense from investment properties that generate rental income	(710,371)	(703,000)
Less: Direct operating expense from investment properties that do not generate rental income	<u>(151,083)</u>	<u>(137,975)</u>
	<u>\$ 10,733,481</u>	<u>\$ 10,474,294</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 December 31, 2020, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$377,583,061 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 December 31, 2020 and 2019, respectively.

Name of Appraiser Office	December 31, 2020	December 31, 2019
DTZ Real Estate Appraiser Firm	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu; Chia-ho, Tsai	Chang-da, Yang; Gen-yuan, Li
Savills plc Real Estate Appraiser Firm	Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Guang-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu	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
Shang-shang Real Estate Appraiser Firm Sinyi Real Estate Appraiser Firm	Hong-yuan, Wang Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Hong-yuan, Wang Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen; Yi-huei Luo	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi; Chih-wei, Li	Fu-xue, Shi; Chih-wei, Li

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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Direct capitalization rates (net)	0.84%-5.70%	0.62%-6.30%
Discount rates	2.15%-3.94%	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 December 31, 2020 and 2019, respectively.

<b>Name of Appraiser Office</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
REPro Knight Frank Real Estate Appraiser Firm	Hsiang-yi, Hsu; 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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Direct capitalization rates	1.93%-3.79%	1.98%-5.76%
Overall capital interest rate	0.67%-1.93%	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.
- f. Valuation on the investment property of Cathay Securities and its subsidiaries has been performed by the appraiser from Elite Real Estate Appraiser Firm (Yi-huei Luo and Yu-lin Chen), meeting R.O.C.'s qualification requirements for real estate appraiser, with valuation dates on December 31, 2020 and 2019.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Estimated future cash inflows	\$ 445,029	\$ 435,307
Estimated future cash outflows	<u>(14,672)</u>	<u>(16,601)</u>
Estimated net cash inflows	<u>\$ 430,357</u>	<u>\$ 418,706</u>
Discount rate	2.295%	2.045%
Direct capitalization rate	2.56%	2.56%

The market rentals ranged from \$4,000 to \$6,000 per pyeong in the areas where the investment property is located for the years ended December 31, 2020 and 2019, respectively.

The investment properties were entirely leased under operating leases, and generated rental income of \$7,049 thousand and \$7,160 thousand for the years ended December 31, 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 tax, property tax, and replacement allowance, which are estimated on the basis of current expenditures, adjustments to the future announced land value, and tax rates in accordance with the House Tax Act.

The discount rate is determined based on the interest rate on a 2-year time deposit of petty cash plus 5 and 3 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium, respectively.

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at the beginning of the year	\$ 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	2,113,979	842,186
Amount recognized in other comprehensive income		
Property revaluation surplus	-	926,919
Exchange differences resulting from translation of the financial statements of foreign operations	(523,287)	379,052
Disposals	(829,500)	(903,352)
Transfers to property and equipment	(62,631)	(2,104)
Transfers from property and equipment	-	64,755,575
Transfers from investment property under construction	6,043,024	2,187,474
Transfers from prepayment for buildings and land	804,488	716,272
Transfers from investment property measured at cost	-	<u>2,874,260</u>
Balance at the end of the year	<u>\$ 398,420,117</u>	<u>\$ 390,874,044</u>

The above amount excludes those measured at cost.

h. Refer to Table 4 for the acquisition of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital of the Group.

i. See Note 29 for information relating to investment properties pledged as collateral for short-term bank borrowings.

## 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
<b>Cost</b>									
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	-	-	977,752	-	45,580	10,599	420,062	993,801	2,447,794
Disposals	(12,249)	(20,320)	(547,194)	-	(1,439)	(12,545)	(460,261)	-	(1,054,008)
Reclassification	(52,598,050)	(11,917,520)	514,754	(276,135)	206,700	10,366	(71,545)	(1,149,473)	(65,280,903)
Exchange differences	(13,841)	(76,615)	(41,612)	-	(21,684)	(2,566)	(7,740)	(3,073)	(167,131)
Balance at December 31, 2019	<u>\$ 71,692,186</u>	<u>\$ 46,606,608</u>	<u>\$ 8,673,295</u>	<u>\$ -</u>	<u>\$ 1,098,481</u>	<u>\$ 127,383</u>	<u>\$ 12,503,689</u>	<u>\$ 791,729</u>	<u>\$ 141,493,371</u>
<b>Depreciation and impairment</b>									
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	-	979,629	783,488	-	101,598	8,837	675,588	-	2,549,140
Disposals	-	(12,897)	(538,021)	-	(1,353)	(12,193)	(444,404)	-	(1,008,868)
Reclassification	-	(659,220)	333,374	(275,960)	86,935	1,242	(422,212)	-	(935,841)
Exchange differences	-	(11,279)	(39,042)	-	4,226	(1,673)	(7,955)	-	(55,723)
Balance at December 31, 2019	<u>\$ 103,134</u>	<u>\$ 22,932,481</u>	<u>\$ 5,883,294</u>	<u>\$ -</u>	<u>\$ 685,957</u>	<u>\$ 86,835</u>	<u>\$ 9,946,299</u>	<u>\$ -</u>	<u>\$ 39,638,000</u>
Carrying amount at December 31, 2019	<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>
<b>Cost</b>									
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	-	114	807,046	-	110,426	6,022	442,335	1,010,498	2,376,441
Disposals	-	(101,999)	(409,982)	-	(761)	(5,607)	(608,227)	-	(1,126,576)
Others	(2,929,264)	(257,553)	187,843	-	31,889	2,631	413,135	(761,386)	(3,312,705)
Exchange differences	(30,237)	(625)	(69,205)	-	(12,248)	(6,190)	(17,998)	(1,170)	(137,673)
Balance at December 31, 2020	<u>\$ 68,732,685</u>	<u>\$ 46,246,545</u>	<u>\$ 9,188,997</u>	<u>\$ -</u>	<u>\$ 1,227,787</u>	<u>\$ 124,239</u>	<u>\$ 12,732,934</u>	<u>\$ 1,039,671</u>	<u>\$ 139,292,858</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
<i>Depreciation and impairment</i>									
Balance at January 1, 2020	\$ 103,134	\$ 22,932,481	\$ 5,883,294	\$ -	\$ 685,957	\$ 86,835	\$ 9,946,299	\$ -	\$ 39,638,000
Depreciation	-	915,617	849,559	-	108,587	10,657	688,012	-	2,572,432
Disposals	-	(42,500)	(405,408)	-	(761)	(5,491)	(589,190)	-	(1,043,350)
Others	-	(231,430)	10	-	3,507	-	1,476	-	(226,437)
Exchange differences	-	(3,258)	(28,684)	-	(3,002)	(4,228)	(13,747)	-	(52,919)
Balance at December 31, 2020	<u>\$ 103,134</u>	<u>\$ 23,570,910</u>	<u>\$ 6,298,771</u>	<u>\$ -</u>	<u>\$ 794,288</u>	<u>\$ 87,773</u>	<u>\$ 10,032,850</u>	<u>\$ -</u>	<u>\$ 40,887,726</u>
Carrying amount at December 31, 2020	<u>\$ 68,629,551</u>	<u>\$ 22,675,635</u>	<u>\$ 2,890,226</u>	<u>\$ -</u>	<u>\$ 433,499</u>	<u>\$ 36,466</u>	<u>\$ 2,700,084</u>	<u>\$ 1,039,671</u>	<u>\$ 98,405,132</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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Carrying amount</u>		
Buildings	\$ 4,042,404	\$ 3,807,403
Office equipment	13,109	14,247
Machine equipment	5,135	3,082
Transportation equipment	<u>77,895</u>	<u>84,181</u>
	<u>\$ 4,138,543</u>	<u>\$ 3,908,913</u>
The right-of-use assets presented as investment properties	<u>\$ 8,548,824</u>	<u>\$ 8,781,429</u>
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Additions to right-of-use assets	<u>\$ 1,789,366</u>	<u>\$ 1,306,612</u>
Depreciation expense for right-of-use assets		
Buildings	\$ 1,399,162	\$ 1,320,665
Office equipment	5,119	5,013
Machine equipment	1,657	1,364
Transportation equipment	<u>48,210</u>	<u>51,345</u>
	<u>\$ 1,454,148</u>	<u>\$ 1,378,387</u>

b. Lease liabilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Carrying amounts	<u>\$ 13,011,637</u>	<u>\$ 12,720,337</u>

Range of discount rates for lease liabilities is as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Buildings	0.33%-8.57%	0.35%-8.57%
Office equipment	0.42%-4.76%	0.71%-4.76%
Machine equipment	0.70%-4.15%	0.70%-4.15%
Transportation equipment	0.67%-4.43%	0.70%-5.38%
Investment property right of superficies	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	761,562	-	-	-	-	3,877	765,439
Disposal	(238,160)	-	-	-	(8,629)	-	(246,789)
Reclassification	101,369	-	-	-	-	(26,145)	75,224
Exchange differences	(23,911)	-	(8,225)	(73,902)	(161,265)	(4,256)	(271,559)
Balance at December 31, 2019	<u>\$ 5,796,439</u>	<u>\$ 37,659,600</u>	<u>\$ 394,961</u>	<u>\$ 3,548,412</u>	<u>\$ 18,924,948</u>	<u>\$ 211,890</u>	<u>\$ 66,536,250</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	671,049	2,079,383	-	400,501	-	19,550	3,170,483
Impairment loss	-	-	-	-	8,629	-	8,629
Disposal	(238,160)	-	-	-	(8,629)	-	(246,789)
Exchange differences	(15,989)	-	-	(34,746)	-	(3,778)	(54,513)
Balance at December 31, 2019	<u>\$ 4,147,171</u>	<u>\$ 9,357,224</u>	<u>\$ -</u>	<u>\$ 1,583,626</u>	<u>\$ -</u>	<u>\$ 177,257</u>	<u>\$ 15,265,278</u>
Carrying amount at December 31, 2019	<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>
<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	3,463,356	-	5,930,932
Addition - acquired separately	510,889	-	-	-	-	-	510,889
Disposal	(472,829)	-	-	-	-	-	(472,829)
Reclassification	381,797	-	-	-	-	-	381,797
Exchange differences	(9,636)	-	(20,965)	(284,187)	(545,524)	(11,217)	(871,529)
Balance at December 31, 2020	<u>\$ 6,206,660</u>	<u>\$ 37,659,600</u>	<u>\$ 373,996</u>	<u>\$ 5,731,801</u>	<u>\$ 21,842,780</u>	<u>\$ 200,673</u>	<u>\$ 72,015,510</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	747,891	2,079,383	-	485,836	-	18,726	3,331,836
Disposal	(466,569)	-	-	-	-	-	(466,569)
Exchange differences	(5,896)	-	-	(101,466)	-	(10,080)	(117,442)
Balance at December 31, 2020	<u>\$ 4,422,597</u>	<u>\$ 11,436,607</u>	<u>\$ -</u>	<u>\$ 1,967,996</u>	<u>\$ -</u>	<u>\$ 185,903</u>	<u>\$ 18,013,103</u>
Carrying amount at December 31, 2020	<u>\$ 1,784,063</u>	<u>\$ 26,222,993</u>	<u>\$ 373,996</u>	<u>\$ 3,763,805</u>	<u>\$ 21,842,780</u>	<u>\$ 14,770</u>	<u>\$ 54,002,407</u>

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

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

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

1) Cathay Life

As of December 31, 2020 and 2019, the carrying amounts of goodwill were \$13,278,169 thousand and \$10,343,445 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**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Nominal amount	\$ 39,520,000	\$ 54,020,000
Less: Discount on short-term bills payable	<u>(82)</u>	<u>(1,155)</u>
	<b><u>\$ 39,519,918</u></b>	<b><u>\$ 54,018,845</u></b>
Interest rate range	0.23%-0.35%	0.51%-0.69%

## 19. DEPOSITS AND REMITTANCES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Checking deposits	\$ 15,533,633	\$ 14,533,346
Demand deposits	694,644,715	505,115,127
Demand savings deposits	1,102,957,219	931,589,893
Time deposits	433,098,232	465,200,743
Time savings deposits	359,917,919	382,673,168
Negotiable certificates of deposit	7,516,122	2,931,000
Outward remittances and remittances payable	<u>2,131,223</u>	<u>1,400,539</u>
	<u>\$ 2,615,799,063</u>	<u>\$ 2,303,443,816</u>

## 20. BONDS PAYABLE

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

### a. Subordinated financial debentures

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
First issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: March 2021	\$ 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
First issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: June 2022	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
First issue of subordinated financial debentures in 2013; fixed rate at 1.55%; maturity: April 2020	-	100,000
First issue of subordinated financial debentures in 2013; fixed rate at 1.7%; maturity: April 2023	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
First issue of subordinated financial debentures in 2014; fixed rate at 1.85%; maturity: May 2024	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
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>\$ 53,800,000</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:
  - a) Issue amount: \$8,900,000 thousand, which is divided into A Note of \$1,900,000 thousand, B Note of \$6,500,000 thousand and C Note of \$500,000 thousand by issue periods.
  - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
  - c) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
  - d) Coupon rate: Fixed rate of 0.59% for A Note, 0.64% for B Note and 0.67% for C Note.
  - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
  - f) Form of bonds: Book-entry securities.
- 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:
  - a) 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.
  - 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 6 years, C Note is 7 years and D Note is 10 years.
  - d) 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.
  - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.

f) Form of bonds: Book-entry securities.

## 21. PROVISIONS

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Insurance liability		
Unearned premium reserve	\$ 32,513,604	\$ 30,569,073
Loss reserve	22,026,118	20,400,362
Policy reserve	5,999,277,822	5,592,979,146
Special reserve	13,706,823	13,982,681
Premium deficiency reserve	13,806,541	19,681,482
Reserve for insurance contracts with the nature of financial products	13,731,508	10,932,008
Reserve for foreign exchange valuation	14,820,865	18,000,877
Other reserves	<u>1,876,925</u>	<u>1,873,141</u>
	6,111,760,206	5,708,418,770
Provisions for employee benefits	4,051,931	3,947,500
Other reserves	<u>1,261,082</u>	<u>1,412,115</u>
	<u>\$ 6,117,073,219</u>	<u>\$ 5,713,778,385</u>

As of December 31, 2020, policy reserve belonging to Cathay Life amounted to \$5,961,980,645 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

	<b>December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 73,271	\$ -	\$ 73,271
Individual injury insurance	7,313,660	-	7,313,660
Individual health insurance	9,966,083	-	9,966,083
Group insurance	1,306,110	-	1,306,110
Investment-linked insurance	116,825	-	116,825
	<u>18,775,949</u>	<u>-</u>	<u>18,775,949</u>
Less ceded unearned premium reserve			
Individual life insurance	878,870	-	878,870
Individual injury insurance	25,638	-	25,638
Individual health insurance	208,531	-	208,531
	<u>1,113,039</u>	<u>-</u>	<u>1,113,039</u>
	<u>\$ 17,662,910</u>	<u>\$ -</u>	<u>\$ 17,662,910</u>

	<b>December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
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	<u>163,571</u>	-	<u>163,571</u>
	<u>894,878</u>	-	<u>894,878</u>
	<u>\$ 16,937,325</u>	<u>\$ -</u>	<u>\$ 16,937,325</u>

The changes in unearned premium reserve are summarized below:

	<b>For the Year Ended December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 17,832,203	\$ -	\$ 17,832,203
Provision	18,774,771	-	18,774,771
Recovery	(17,858,671)	-	(17,858,671)
Reclassification	25,878	-	25,878
Foreign exchange	<u>1,768</u>	-	<u>1,768</u>
Ending balance	<u>18,775,949</u>	-	<u>18,775,949</u>
Less ceded unearned premium reserve			
Beginning balance	894,878	-	894,878
Increase	<u>218,161</u>	-	<u>218,161</u>
Ending balance	<u>1,113,039</u>	-	<u>1,113,039</u>
Net ending balance	<u>\$ 17,662,910</u>	<u>\$ -</u>	<u>\$ 17,662,910</u>

**For the Year Ended December 31, 2019**

	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 16,752,317	\$ -	\$ 16,752,317
Provision	17,865,667	-	17,865,667
Recovery	(16,774,327)	-	(16,774,327)
Reclassification	-	-	-
Foreign exchange	(11,454)	-	(11,454)
Ending balance	<u>17,832,203</u>	<u>-</u>	<u>17,832,203</u>
Less ceded unearned premium reserve			
Beginning balance	624,337	-	624,337
Increase	270,541	-	270,541
Ending balance	<u>894,878</u>	<u>-</u>	<u>894,878</u>
Net ending balance	<u>\$ 16,937,325</u>	<u>\$ -</u>	<u>\$ 16,937,325</u>

2) Loss reserve

**December 31, 2020**

	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance			
Filed but not paid	\$ 3,002,905	\$ 35,590	\$ 3,038,495
Not yet filed	38,807	-	38,807
Individual injury insurance			
Filed but not paid	40,812	-	40,812
Not yet filed	1,952,214	-	1,952,214
Individual health insurance			
Filed but not paid	1,654,400	-	1,654,400
Not yet filed	3,284,612	-	3,284,612
Group insurance			
Filed but not paid	69,091	-	69,091
Not yet filed	1,863,008	-	1,863,008
Investment-linked insurance			
Filed but not paid	221,863	-	221,863
Not yet filed	551	-	551
	<u>12,128,263</u>	<u>35,590</u>	<u>12,163,853</u>
Less ceded loss reserve			
Individual life insurance	46,636	-	46,636
Individual injury insurance	29	-	29
Individual health insurance	21,914	-	21,914
Group insurance	3,144	-	3,144
	<u>71,723</u>	<u>-</u>	<u>71,723</u>
	<u>\$ 12,056,540</u>	<u>\$ 35,590</u>	<u>\$ 12,092,130</u>

	<b>December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance			
Filed but not paid	\$ 2,440,972	\$ 31,200	\$ 2,472,172
Not yet filed	42,394	-	42,394
Individual injury insurance			
Filed but not paid	40,780	-	40,780
Not yet filed	1,860,397	-	1,860,397
Individual health insurance			
Filed but not paid	1,292,145	-	1,292,145
Not yet filed	3,110,262	-	3,110,262
Group insurance			
Filed but not paid	68,608	-	68,608
Not yet filed	1,972,976	-	1,972,976
Investment-linked insurance			
Filed but not paid	182,401	-	182,401
Not yet filed	477	-	477
	<u>11,011,412</u>	<u>31,200</u>	<u>11,042,612</u>
Less ceded loss reserve			
Individual life insurance	3,737	-	3,737
Individual injury insurance	1,063	-	1,063
Individual health insurance	19,157	-	19,157
Group insurance	57	-	57
	<u>24,014</u>	<u>-</u>	<u>24,014</u>
	<u>\$ 10,987,398</u>	<u>\$ 31,200</u>	<u>\$ 11,018,598</u>

The changes in loss reserve are summarized below:

	<b>For the Year Ended December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 11,011,412	\$ 31,200	\$ 11,042,612
Provision	12,122,303	35,590	12,157,893
Recovery	(10,994,063)	(31,200)	(11,025,263)
Foreign exchange	<u>(11,389)</u>	<u>-</u>	<u>(11,389)</u>
Ending balance	<u>12,128,263</u>	<u>35,590</u>	<u>12,163,853</u>
Less ceded loss reserve			
Beginning balance	24,014	-	24,014
Increase	109,559	-	109,559
Decrease	(61,856)	-	(61,856)
Foreign exchange	<u>6</u>	<u>-</u>	<u>6</u>
Ending balance	<u>71,723</u>	<u>-</u>	<u>71,723</u>
Net ending balance	<u>\$ 12,056,540</u>	<u>\$ 35,590</u>	<u>\$ 12,092,130</u>

	<b>For the Year Ended December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 8,894,186	\$ 9,145	\$ 8,903,331
Provision	11,113,301	31,200	11,144,501
Recovery	(8,974,299)	(9,145)	(8,983,444)
Foreign exchange	<u>(21,776)</u>	<u>-</u>	<u>(21,776)</u>
Ending balance	<u>11,011,412</u>	<u>31,200</u>	<u>11,042,612</u>
Less ceded loss reserve			
Beginning balance	22,509	-	22,509
Increase	62,944	-	62,944
Decrease	(60,713)	-	(60,713)
Foreign exchange	<u>(726)</u>	<u>-</u>	<u>(726)</u>
Ending balance	<u>24,014</u>	<u>-</u>	<u>24,014</u>
Net ending balance	<u>\$ 10,987,398</u>	<u>\$ 31,200</u>	<u>\$ 11,018,598</u>

3) Policy reserve

	<b>December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Life insurance (Note 1)	\$ 5,178,748,267	\$ 3,810	\$ 5,178,752,077
Injury insurance	7,058,104	-	7,058,104
Health insurance	796,516,850	-	796,516,850
Annuity insurance	1,381,226	14,175,381	15,556,607
Investment-linked insurance	936,020	-	936,020
Total (Note 2)	<u>5,984,640,467</u>	<u>14,179,191</u>	<u>5,998,819,658</u>
Less ceded policy reserve			
Life insurance	406,053	-	406,053
Health insurance	19,465	-	19,465
	<u>425,518</u>	<u>-</u>	<u>425,518</u>
	<u>\$ 5,984,214,949</u>	<u>\$ 14,179,191</u>	<u>\$ 5,998,394,140</u>
	<b>December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
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	622,699	-	622,699
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>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>

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 \$5,999,277,703 thousand and \$5,592,979,067 thousand as of December 31, 2020 and 2019, respectively.



The changes in policy reserve are summarized below:

	<b>For the Year Ended December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 5,572,026,192	\$ 20,479,782	\$ 5,592,505,974
Provision	676,665,532	157,530	676,823,062
Recovery	(204,297,672)	(6,458,184)	(210,755,856)
Reclassification	92,400	-	92,400
Foreign exchange difference	(59,845,985)	63	(59,845,922)
Ending balance	<u>5,984,640,467</u>	<u>14,179,191</u>	<u>5,998,819,658</u>
Less ceded policy reserve			
Beginning balance	421,465	-	421,465
Increase	89,028	-	89,028
Decrease	(90,296)	-	(90,296)
Foreign exchange difference	5,321	-	5,321
Ending balance	<u>425,518</u>	<u>-</u>	<u>425,518</u>
Net ending balance	<u>\$ 5,984,214,949</u>	<u>\$ 14,179,191</u>	<u>\$ 5,998,394,140</u>

	<b>For the Year Ended December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 5,199,281,605	\$ 25,847,690	\$ 5,225,129,295
Provision	680,883,508	1,043,751	681,927,259
Recovery	(281,855,942)	(6,411,621)	(288,267,563)
Reclassification	-	-	-
Foreign exchange difference	(26,282,979)	(38)	(26,283,017)
Ending balance	<u>5,572,026,192</u>	<u>20,479,782</u>	<u>5,592,505,974</u>
Less ceded policy reserve			
Beginning balance	365,409	-	365,409
Increase	71,881	-	71,881
Decrease	-	-	-
Foreign exchange difference	(15,825)	-	(15,825)
Ending balance	<u>421,465</u>	<u>-</u>	<u>421,465</u>
Net ending balance	<u>\$ 5,571,604,727</u>	<u>\$ 20,479,782</u>	<u>\$ 5,592,084,509</u>

4) Special reserve

	<b>December 31, 2020</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Participating policies dividends reserve	\$ (53,476)	\$ -	\$ -	\$ (53,476)
Dividend risk reserve	54,928	-	-	54,928
Special reserve for revaluation increments of property	<u>-</u>	<u>-</u>	<u>11,083,324</u>	<u>11,083,324</u>
	<u>\$ 1,452</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,776</u>

	<b>December 31, 2019</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
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>

The changes in special reserve are summarized below:

	<b>For the Year Ended December 31, 2020</b>			
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Beginning balance	\$ 1,300	\$ -	\$ 11,083,324	\$ 11,084,624
Provision for participating policies dividends reserve	14,694	-	-	14,694
Recovery of participating policies dividends reserve	(11,270)	-	-	(11,270)
Recovery of dividend risk reserve	<u>(3,272)</u>	<u>-</u>	<u>-</u>	<u>(3,272)</u>
Ending balance	<u>\$ 1,452</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,776</u>

**For the Year Ended December 31, 2019**

	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Others</b>	<b>Total</b>
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Provision for participating policies dividends reserve	17,100	-	-	17,100
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)
Recovery of dividend risk reserve	(4,984)	-	-	(4,984)
Ending balance	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>

5) Premium deficiency reserve

**December 31, 2020**

	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Individual life insurance	\$ 12,569,742	\$ -	\$ 12,569,742
Individual injury insurance	934	-	934
Individual health insurance	1,225,954	-	1,225,954
Group insurance	<u>5,713</u>	<u>-</u>	<u>5,713</u>
	<u>\$ 13,802,343</u>	<u>\$ -</u>	<u>\$ 13,802,343</u>

**December 31, 2019**

	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
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>

The changes in premium deficiency reserve are summarized below:

	<b>For the Year Ended December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 19,679,457	\$ -	\$ 19,679,457
Provision	5,619	-	5,619
Recovery	(5,716,962)	-	(5,716,962)
Foreign exchange difference	<u>(165,771)</u>	<u>-</u>	<u>(165,771)</u>
Ending balance	<u>\$ 13,802,343</u>	<u>\$ -</u>	<u>\$ 13,802,343</u>

	<b>For the Year Ended December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	148,615	-	148,615
Recovery	(2,893,265)	-	(2,893,265)
Foreign exchange difference	<u>(124,197)</u>	<u>-</u>	<u>(124,197)</u>
Ending balance	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>

6) Other reserves

	<b>December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Others	<u>\$ 1,876,925</u>	<u>\$ -</u>	<u>\$ 1,876,925</u>

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

The changes in other reserves are summarized below:

	<b>For the Year Ended December 31, 2020</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,873,141	\$ -	\$ 1,873,141
Provision	3,784	-	3,784
Recovery	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,876,925</u>	<u>\$ -</u>	<u>\$ 1,876,925</u>

	<b>For the Year Ended December 31, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570
Provision	-	-	-
Recovery	<u>(21,429)</u>	<u>-</u>	<u>(21,429)</u>
Ending balance	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>

7) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Unearned premium reserve	\$ 18,775,949	\$ 17,832,203
Policy reserve	5,999,277,703	5,592,979,067
Premium deficiency reserve	13,802,343	19,679,457
Other reserves	<u>1,876,925</u>	<u>1,873,141</u>
Book value of insurance liabilities	<u>\$ 6,033,732,920</u>	<u>\$ 5,632,363,868</u>
Estimated present value of cash flows	<u>\$ 5,225,717,939</u>	<u>\$ 4,535,490,841</u>
Balance of liability adequacy reserve	<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:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	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.
b. Discount rate	Under the asset allocation situation on September 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.

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	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.
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.

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	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.
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.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Life insurance	\$ 12,793,432	\$ 10,005,021
Investment-linked insurance	<u>938,076</u>	<u>926,987</u>
	<u>\$ 13,731,508</u>	<u>\$ 10,932,008</u>
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 10,932,008	\$ 9,318,713
Premiums received	5,195,938	3,853,105
Claims and payments	(3,302,901)	(2,578,088)
Net provision of statutory reserve	787,429	698,222
Foreign exchange difference	<u>119,034</u>	<u>(359,944)</u>
Ending balance	<u>\$ 13,731,508</u>	<u>\$ 10,932,008</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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 18,000,877	\$ 17,075,289
Provision:		
Compulsory reserve	8,433,364	8,765,999
Additional reserve	<u>11,153,852</u>	<u>12,174,679</u>
	19,587,216	20,940,678
Recovery	<u>(22,767,228)</u>	<u>(20,015,090)</u>
Ending balance	<u>\$ 14,820,865</u>	<u>\$ 18,000,877</u>



The details of application filed by the Cathay Life to the FSC for approval to make provision for reserve for foreign exchange valuation from December 31, 2020 are as follows:

<b>Application Date</b>	<b>Approval Number</b>	<b>Amount</b>
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	2,000,000
December 2020	No. 1100410400	<u>3,000,000</u>
		<u>\$ 10,000,000</u>

c) Effects due to reserve for foreign exchange valuation

<b>Item</b>	<b>For the Year Ended December 31, 2020</b>		
	<b>Inapplicable Amount (1)</b>	<b>Applicable Amount (2)</b>	<b>Effects (3)=(2)-(1)</b>
Net income attributable to owners of the Company	\$ 72,035,451	\$ 74,579,460	\$ 2,544,009
Earnings per share	5.21	5.41	0.20
Reserve for foreign exchange valuation	-	14,820,865	14,820,865
Equity attributable to owners of the Company	901,315,011	893,061,216	(8,253,795)
<b>Item</b>	<b>For the Year Ended December 31, 2019</b>		
	<b>Inapplicable Amount (1)</b>	<b>Applicable Amount (2)</b>	<b>Effects (3)=(2)-(1)</b>
Net income attributable to owners of the Company	\$ 63,497,756	\$ 62,757,286	\$ (740,470)
Earnings per share	4.82	4.76	(0.06)
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Equity attributable to owners of the Company	782,545,169	771,747,365	(10,797,804)

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	December 31, 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	\$ 1,841,551	\$ 182,263	\$ 1,008,169	\$ 1,015,645
Marine insurance	218,842	10,934	155,705	74,071
Land and air insurance	5,671,965	16,831	195,817	5,492,979
Liability insurance	852,796	1,833	269,694	584,935
Financial guarantee insurance	49,397	9,133	27,245	31,285
Other property insurance	1,303,665	41,314	925,174	419,805
Accident insurance	1,527,427	6,378	83,125	1,450,680
Health insurance	61,680	815	7	62,488
Policy-related residential earthquake insurance	225,463	26,857	225,463	26,857
Compulsory automobile liability insurance	<u>1,227,564</u>	<u>460,947</u>	<u>736,539</u>	<u>951,972</u>
	<u>\$ 12,980,350</u>	<u>\$ 757,305</u>	<u>\$ 3,626,938</u>	<u>\$ 10,110,717</u>

**December 31, 2019**

<b>Insurance by Type</b>	<b>Unearned Premium Reserve</b>		<b>Ceded Unearned Premium Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Fire insurance	\$ 1,599,388	\$ 114,896	
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
Policy-related residential earthquake insurance	210,635	25,439	210,635	25,439
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>

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

	<b>For the Year Ended December 31</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Unearned Premium Reserve</b>	<b>Ceded Unearned Premium Reserve</b>	<b>Unearned Premium Reserve</b>	<b>Ceded Unearned Premium Reserve</b>
Beginning balance	\$ 12,736,870	\$ 3,199,204	\$ 12,027,482	\$ 2,965,729
Provision	13,743,797	3,629,651	12,738,608	3,202,866
Recovery	(12,750,980)	(3,201,587)	(12,029,422)	(2,966,816)
Foreign exchange difference	<u>7,968</u>	<u>(330)</u>	<u>202</u>	<u>(2,575)</u>
Ending balance	<u>\$ 13,737,655</u>	<u>\$ 3,626,938</u>	<u>\$ 12,736,870</u>	<u>\$ 3,199,204</u>

2) Loss reserve

a) Loss reserve and ceded loss reserve

<b>December 31, 2020</b>				
<b>Items</b>	<b>Loss Reserve</b>		<b>Ceded Loss Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Underwriting Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Filed not yet paid	\$ 4,577,293	\$ 786,091	
Not yet filed	<u>4,043,812</u>	<u>455,069</u>	<u>1,238,524</u>	<u>3,260,357</u>
	<u>\$ 8,621,105</u>	<u>\$ 1,241,160</u>	<u>\$ 2,820,967</u>	<u>\$ 7,041,298</u>

<b>December 31, 2019</b>				
<b>Items</b>	<b>Loss Reserve</b>		<b>Ceded Loss Reserve</b>	<b>Retained Business (4)=(1)+(2)-(3)</b>
	<b>Direct Underwriting Business (1)</b>	<b>Reinsurance Inward Business (2)</b>	<b>Ceded Reinsurance Business (3)</b>	
	Filed not yet paid	\$ 4,097,036	\$ 680,547	
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>

b) Net changes in loss reserve and ceded loss reserve

For the year ended December 31, 2020

<b>Items</b>	<b>Direct Underwriting Business</b>		<b>Reinsurance Inward Business</b>		<b>Net Changes in Loss Reserve</b>
	<b>Provision (1)</b>	<b>Recovery (2)</b>	<b>Provision (3)</b>	<b>Recovery (4)</b>	<b>(5)=(1)-(2)+(3)-(4)</b>
Filed not yet paid	\$ 4,596,763	\$ 4,114,470	\$ 786,091	\$ 680,547	\$ 587,837
Not yet filed	<u>4,025,214</u>	<u>4,103,229</u>	<u>455,069</u>	<u>458,050</u>	<u>(80,996)</u>
	<u>\$ 8,621,977</u>	<u>\$ 8,217,699</u>	<u>\$ 1,241,160</u>	<u>\$ 1,138,597</u>	<u>\$ 506,841</u>

<b>Items</b>	<b>Ceded Reinsurance Business</b>		<b>Net Changes in Ceded Loss Reserve</b>
	<b>Provision (6)</b>	<b>Recovery (7)</b>	<b>(8)=(6)-(7)</b>
Filed not yet paid	\$ 1,592,425	\$ 1,250,248	\$ 342,177
Not yet filed	<u>1,229,150</u>	<u>1,199,002</u>	<u>30,148</u>
	<u>\$ 2,821,575</u>	<u>\$ 2,449,250</u>	<u>\$ 372,325</u>

For the year ended December 31, 2019

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Loss Reserve
	Provision	Recovery	Provision	Recovery	(5)=(1)-(2)+(3)-(4)
	(1)	(2)	(3)	(4)	(3)-(4)
Filed not yet paid	\$ 4,114,894	\$ 3,688,405	\$ 680,547	\$ 330,733	\$ 776,303
Not yet filed	<u>4,106,345</u>	<u>4,011,028</u>	<u>458,050</u>	<u>446,465</u>	<u>106,902</u>
	<u>\$ 8,221,239</u>	<u>\$ 7,699,433</u>	<u>\$ 1,138,597</u>	<u>\$ 777,198</u>	<u>\$ 883,205</u>

Items	Ceded Reinsurance Business		Net Changes in Ceded Loss Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
	Filed not yet paid	\$ 1,250,626	\$ 1,241,976
Not yet filed	<u>1,200,933</u>	<u>1,105,134</u>	<u>95,799</u>
	<u>\$ 2,451,559</u>	<u>\$ 2,347,110</u>	<u>\$ 104,449</u>

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

Insurance by Type	December 31, 2020		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,524,317	\$ 35,616	\$ 1,559,933
Marine insurance	293,296	100,993	394,289
Land and air insurance	1,685,167	1,305,013	2,990,180
Liability insurance	623,958	628,515	1,252,473
Financial guarantee insurance	71,574	32,880	104,454
Other property insurance	528,177	105,129	633,306
Accident insurance	116,574	512,901	629,475
Health insurance	3,117	31,063	34,180
Policy-related residential earthquake insurance	-	-	-
Compulsory automobile liability insurance	<u>517,204</u>	<u>1,746,771</u>	<u>2,263,975</u>
	<u>\$ 5,363,384</u>	<u>\$ 4,498,881</u>	<u>\$ 9,862,265</u>

Insurance by Type	December 31, 2019		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,154,369	\$ 22,971	\$ 1,177,340
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
Policy-related residential earthquake insurance	136	-	136
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>

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

Insurance by Type	December 31, 2020		
	Liability		
	Filed Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 518,834	\$ 7,832	\$ 526,666
Marine insurance	182,974	60,591	243,565
Land and air insurance	51,255	36,432	87,687
Liability insurance	352,700	241,410	594,110
Financial guarantee insurance	31,736	15,059	46,795
Other property insurance	260,734	43,816	304,550
Accident insurance	5,914	31,743	37,657
Health insurance	-	-	-
Policy-related residential earthquake insurance	-	-	-
Compulsory automobile liability insurance	<u>178,296</u>	<u>801,641</u>	<u>979,937</u>
	<u>\$ 1,582,443</u>	<u>\$ 1,238,524</u>	<u>\$ 2,820,967</u>

Insurance by Type	December 31, 2019		
	Liability		
	Filed	Not Yet	Total
	Paid	Filed	
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	-	-	-
Policy-related residential earthquake 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>

e) Reconciliation of loss reserve and ceded loss reserve

	For the Years Ended December 31			
	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	9,863,137	2,821,576	9,359,836	2,451,559
Recovery	(9,356,296)	(2,449,251)	(8,476,631)	(2,347,110)
Foreign exchange difference	<u>(2,326)</u>	<u>(1,430)</u>	<u>226</u>	<u>596</u>
Ending balance	<u>\$ 9,862,265</u>	<u>\$ 2,820,967</u>	<u>\$ 9,357,750</u>	<u>\$ 2,450,072</u>

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

	For the Years Ended December 31	
	2020	2019
Beginning balance	\$ 1,122,321	\$ 1,478,016
Provision	1,281	47,322
Recovery	<u>(258,564)</u>	<u>(403,017)</u>
Ending balance	<u>\$ 865,038</u>	<u>\$ 1,122,321</u>

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

	<b>For the Year Ended December 31, 2020</b>		
	<b>Liability</b>		
	<b>Catastrophic Event</b>	<b>Fluctuation of Risk</b>	<b>Total</b>
Beginning balance	\$ 430,719	\$ 1,345,017	\$ 1,775,736
Provision	-	-	-
Recovery	<u>(18,727)</u>	<u>-</u>	<u>(18,727)</u>
Ending balance	<u>\$ 411,992</u>	<u>\$ 1,345,017</u>	<u>\$ 1,757,009</u>

	<b>For the Year Ended December 31, 2019</b>		
	<b>Liability</b>		
	<b>Catastrophic Event</b>	<b>Fluctuation of Risk</b>	<b>Total</b>
Beginning balance	\$ 449,446	\$ 1,345,017	\$ 1,794,463
Provision	-	-	-
Recovery	<u>(18,727)</u>	<u>-</u>	<u>(18,727)</u>
Ending balance	<u>\$ 430,719</u>	<u>\$ 1,345,017</u>	<u>\$ 1,775,736</u>

If the notice for the improvement of the reserves of natural disaster insurance (commercial-business earthquake, typhoon and flood insurances) for property insurance enterprises, notice for enhancing the reserves of residential earthquake insurance pool members and regulations governing the reserves of nuclear energy insurance are not applied to the Group, there is impact on the Century Insurance and its subsidiaries' pre-tax income/loss and the special reserve under liabilities and equity would decrease by \$18,727 thousand and \$18,727 thousand, decrease by \$1,448,509 thousand and \$1,467,236 thousand and increase by \$371,511 thousand and \$441,141 thousand for the years ended December 31, 2020 and 2019, respectively. Earnings per share for the years ended December 31, 2020 and 2019 both decreased by \$0.06 when the notice was not applied to Century Insurance and its subsidiaries.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

<b>Insurance by Type</b>	<b>December 31, 2020</b>			
	<b>Premium Deficiency Reserve</b>		<b>Ceded Premium Deficiency Reserve</b>	
	<b>Direct</b>	<b>Reinsurance</b>	<b>Ceded</b>	<b>Retained</b>
	<b>Business (1)</b>	<b>Inward</b>	<b>Reinsurance</b>	<b>Business</b>
	<b>Business (1)</b>	<b>Business (2)</b>	<b>Business (3)</b>	<b>(4)=(1)+(2)-(3)</b>
Fire insurance	\$ -	\$ -	\$ -	\$ -
Marine insurance	3,082	916	-	3,998
Land and air insurance	118	82	-	200
Liability insurance	-	-	-	-

(Continued)



December 31, 2020				
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)	
	Financial guarantee insurance	\$ -	\$ -	
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Policy-related residential earthquake insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 3,200</u>	<u>\$ 998</u>	<u>\$ -</u>	<u>\$ 4,198</u> (Concluded)

December 31, 2019				
Insurance by Type	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Fire insurance	\$ -	\$ -	
Marine insurance	12	613	-	625
Land and air insurance	-	1,400	-	1,400
Liability insurance	-	-	-	-
Financial guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Policy-related residential earthquake insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 12</u>	<u>\$ 2,013</u>	<u>\$ -</u>	<u>\$ 2,025</u>

b) Net loss recognized for premium deficiency reserve

For the Year Ended December 31, 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	3,082	12	916	613	3,373	-	-	-	3,373
Land and air insurance	118	-	82	1,400	(1,200)	-	-	-	(1,200)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Policy-related residential earthquake insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 3,200</u>	<u>\$ 12</u>	<u>\$ 998</u>	<u>\$ 2,013</u>	<u>\$ 2,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,173</u>

For the Year Ended December 31, 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	12	2,253	613	714	(2,342)	-	-	-	(2,342)
Land and air insurance	-	7,512	1,400	868	(6,980)	-	-	-	(6,980)
Liability insurance	-	-	-	-	-	-	-	-	-
Financial guarantee insurance	-	-	-	-	-	-	-	-	-
Other property insurance	-	-	-	-	-	-	-	-	-
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Policy-related residential earthquake insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-
	<u>\$ 12</u>	<u>\$ 9,765</u>	<u>\$ 2,013</u>	<u>\$ 1,582</u>	<u>\$ (9,322)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,322)</u>

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

	For the Years Ended December 31			
	2020		2019	
	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve
Beginning balance	\$ 2,025	\$ -	\$ 11,347	\$ -
Provision	4,198	-	2,025	-
Recovery	(2,025)	-	(11,347)	-
Ending balance	<u>\$ 4,198</u>	<u>\$ -</u>	<u>\$ 2,025</u>	<u>\$ -</u>

5) Policy reserve

a) Details of policy reserve and ceded policy reserve

December 31, 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	\$ 119	\$ -	\$ -	\$ 119

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

b) Net changes in policy reserve and ceded policy reserve

For the year ended December 31, 2020

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Health insurance	\$ 81	\$ 41	\$ -	\$ -	\$ 40

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

For the year ended December 31, 2019

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Health insurance	\$ 69	\$ 38	\$ -	\$ -	\$ 31

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

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

The Company and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company and its domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Subsidiaries in mainland China and other foreign countries adopted pension plans which are defined contribution plans and make contributions in accordance with local government regulations.

### b. Defined benefit plans

The defined benefit plans adopted by the Company, Cathay Life, Cathay United Bank, Cathay Century, Cathay Securities, Cathay Futures, Cathay Securities Investment Trust and Cathay Venture in accordance with the Labor Standards Law are operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company and its subsidiaries in the ROC contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans are as follows:

	December 31	
	2020	2019
Present value of defined benefit obligation	\$ 20,530,826	\$ 20,564,339
Fair value of plan assets	<u>(23,345,747)</u>	<u>(23,663,947)</u>
Net defined benefit assets	\$ <u>(2,814,921)</u>	\$ <u>(3,099,608)</u>

Movements in net defined benefit liabilities (assets) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2019	\$ 19,952,668	\$ (22,543,674)	\$ (2,591,006)
Service cost			
Current service cost	491,089	-	491,089
Interest expense (income)	179,556	(203,746)	(24,190)
Recognized in profit or loss	<u>670,645</u>	<u>(203,746)</u>	<u>466,899</u>
Return on plan assets (excluding amounts included in net interest)	-	(1,224,675)	(1,224,675)
Actuarial loss (gain)			
Changes in demographic assumptions	(124)	-	(124)
Changes in financial assumptions	543,690	-	543,690
Experience adjustments	<u>590,785</u>	<u>-</u>	<u>590,785</u>
Recognized in other comprehensive income	<u>1,134,351</u>	<u>(1,224,675)</u>	<u>(90,324)</u>
Contributions from the employer	-	(885,728)	(885,728)
Contributions from the plan participants	3,818	-	3,818
Benefits paid	(1,197,159)	1,193,876	(3,283)
Exchange differences	<u>16</u>	<u>-</u>	<u>16</u>
Balance at December 31, 2019	<u>20,564,339</u>	<u>(23,663,947)</u>	<u>(3,099,608)</u>
Service cost			
Current service cost	492,390	-	492,390
Interest expense (income)	139,547	(163,224)	(23,677)
Recognized in profit or loss	<u>631,937</u>	<u>(163,224)</u>	<u>468,713</u>
Return on plan assets (excluding amounts included in net interest)	-	(501,266)	(501,266)
Actuarial loss (gain)			
Changes in demographic assumptions	(1,230)	-	(1,230)
Changes in financial assumptions	710,105	-	710,105
Experience adjustments	<u>375,838</u>	<u>-</u>	<u>375,838</u>
Recognized in other comprehensive income	<u>1,084,713</u>	<u>(501,266)</u>	<u>583,447</u>
Contributions from the employer	-	(764,003)	(764,003)
Benefits paid	(1,750,158)	1,746,693	(3,465)
Exchange differences	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Balance at December 31, 2020	<u>\$ 20,530,826</u>	<u>\$ (23,345,747)</u>	<u>\$ (2,814,921)</u>

Through the defined benefit plan under the labor standards law, the Group is exposed to the following risks:

- 1) Investment risk: The discount rate for determining the present value of the defined benefit obligation is based on the government bond yield. If the actual return on investment of the retirement fund assets is lower than the yield, the insufficiency of defined benefit liabilities will increase. The retirement fund assets which are managed by the Bureau of Labor Funds, Ministry of Labor are deposited in the labor retirement fund accounts, whose investment management and operations are all managed by the government. Therefore, the Company has no control over the investment of the retirement fund assets.
- 2) Interest rate risk: A decrease in the government bond yield will increase the present value of the defined benefit obligation. The interest rate risk is the main source of risk in the retirement benefit plan.

- 3) Longevity risk: In the calculation of the present value of the defined benefit obligation, the estimated mortality rate during the employee service period is based on 100% of the fifth life table (2011TSM) of the life insurance industry. If the actual mortality rate is lower than the estimated rate, the present value of the defined benefit obligation will increase.
- 4) Salary adjustment risk: In the calculation of the present value of the defined benefit obligation, the salary of an employee at the time of retirement is based on the assumed annual salary increase rate. If the actual adjustment to the employee's salary is higher than the assumed rate in the future, the present value of the defined benefit obligation will increase.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations are as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	0.31%-0.38%	0.69%-0.81%
Expected rate of salary increase	1.50%-3.00%	1.50%-3.00%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rate		
Increase (2020: 0.25%; 2019: 0.5%)	<u>\$ (471,216)</u>	<u>\$ (808,018)</u>
Decrease (2020: 0.25%; 2019: 0.5%)	<u>\$ 493,374</u>	<u>\$ 867,270</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 947,043</u>	<u>\$ 994,440</u>
0.5% decrease	<u>\$ (897,940)</u>	<u>\$ (930,714)</u>

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Expected contributions to the plans for the next year	<u>\$ 760,570</u>	<u>\$ 914,763</u>
Average duration of the defined benefit obligation	8.5-15.1 years	8.8-16 years

c. Employee preferential interest deposit plan

Cathay United Bank's obligations on preferential interest deposits for current employees and those retired employees and current employees after retirement are handled in accordance with Cathay United Bank's internal rules. Under the Regulations Governing the Preparation of Financial Reports by Public Banks, the excess interest generated from the post-employment preferential deposit interest rate over the market rate should be actuarially determined.

The amounts included in the consolidated balance sheets arising from Cathay United Bank's obligation on the post-employment preferential interest deposits plan were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 586,625	\$ 620,011
Fair value of plan assets	<u>-</u>	<u>-</u>
Net defined benefit liabilities	<u>\$ 586,625</u>	<u>\$ 620,011</u>

The changes in the present value of obligations on the post-employment preferential interest deposits were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>
Balance at January 1, 2019	\$ 595,751
Net interest expense (income)	<u>22,043</u>
Recognized in profit or loss	<u>22,043</u>
Remeasurement	
Experience adjustments	<u>94,322</u>
Recognized in other comprehensive income	<u>94,322</u>
Benefits paid	<u>(92,105)</u>
Balance at December 31, 2019	<u>620,011</u>
Net interest expense (income)	<u>22,921</u>
Recognized in profit or loss	<u>22,921</u>
Remeasurement	
Experience adjustments	111,362
Changes in financial assumptions	<u>(77,728)</u>
Recognized in other comprehensive income	<u>33,634</u>
Benefits paid	<u>(89,941)</u>
Balance at December 31, 2020	<u>\$ 586,625</u>

Under Order No. 10110000850 issued by the FSC, effective March 15, 2012, the actuarial assumptions used in the determination of the employee benefits expense of the post-employment preferential deposits were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	4.00%	4.00%
Return on deposit	2.00%	2.00%
Withdrawal rate of post-employment preferential deposits	1.00%	1.00%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of obligations on the post-employment preferential interest deposits would increase (decrease) as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rates		
0.5% increase	<u>\$ (28,158)</u>	<u>\$ (29,761)</u>
0.5% decrease	<u>\$ 30,505</u>	<u>\$ 32,241</u>
Mortality rates		
Adjusted to 105%	<u>\$ (5,866)</u>	<u>\$ (6,200)</u>
Adjusted to 95%	<u>\$ 6,453</u>	<u>\$ 6,200</u>
Excess interest rates of employee preferential interest deposits		
0.5% increase	<u>\$ 149,157</u>	<u>\$ 145,083</u>
0.5% decrease	<u>\$ (149,157)</u>	<u>\$ (145,083)</u>

The sensitivity analysis presented above shows the effect on the present value of obligations on the post-employment preferential interest deposits of a change in a single assumption while all other assumptions remain unchanged. The sensitivity analysis presented above might not be representative of the actual change in the present value of the obligations on the post-employment preferential interest deposits because it is unlikely that the change in assumptions would occur independently of each other as some of the assumptions might be correlated.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Expected contributions to the plan for the next year	<u>\$ 89,723</u>	<u>\$ 93,999</u>
Average duration of the defined benefit obligation	10.3 years	10.4 years

### 23. OTHER FINANCIAL ASSETS AND LIABILITIES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Other financial assets</u>		
Separate account insurance product assets	\$ 641,684,568	\$ 607,542,434
Others	<u>18,863,407</u>	<u>7,575,048</u>
	<u>\$ 660,547,975</u>	<u>\$ 615,117,482</u>
<u>Other financial liabilities</u>		
Separate account insurance product liabilities	\$ 641,684,568	\$ 607,542,434
Principal received from the sale of structured products	40,034,992	65,671,401
Others	<u>11,040,724</u>	<u>3,758,344</u>
	<u>\$ 692,760,284</u>	<u>\$ 676,972,179</u>



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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Separate account insurance product assets</u>		
Cash in bank	\$ 447,744	\$ 518,576
Financial assets at FVTPL	632,843,466	600,237,158
Other receivables	<u>8,264,484</u>	<u>6,668,998</u>
	<u>\$ 641,555,694</u>	<u>\$ 607,424,732</u>
<u>Separate account insurance product liabilities</u>		
Other payables	\$ 701,555	\$ 467,361
Reserve for separate accounts - insurance contracts	277,388,301	244,601,804
Reserve for separate accounts - investment contracts	<u>363,465,838</u>	<u>362,355,567</u>
	<u>\$ 641,555,694</u>	<u>\$ 607,424,732</u>
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Separate account insurance product income</u>		
Premium income	\$ 61,477,595	\$ 34,766,303
Interest income	1,558	1,593
Gains from financial assets at FVTPL	22,709,729	33,575,852
Foreign exchange losses	<u>(10,823,926)</u>	<u>(4,712,309)</u>
	<u>\$ 73,364,956</u>	<u>\$ 63,631,439</u>
<u>Separate account insurance product expenses</u>		
Claims and payments	\$ 8,933,740	\$ 9,064,676
Cash surrender value	26,526,902	26,020,768
Provision of separate account reserve	34,035,776	24,989,146
Administrative expenses	4,007,503	3,696,556
Non-operating income and expenses	<u>(138,965)</u>	<u>(139,707)</u>
	<u>\$ 73,364,956</u>	<u>\$ 63,631,439</u>

For the years ended December 31, 2020 and 2019, the rebates earned from counterparties due to the business of separate account insurance products were \$815,077 thousand and \$913,947 thousand, respectively, which were recorded under fee income.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Separate account insurance product assets</u>		
Cash in bank	\$ 4,845	\$ 5,231
Financial assets at FVTPL	123,985	112,315
Others	<u>44</u>	<u>156</u>
	<u>\$ 128,874</u>	<u>\$ 117,702</u>
<u>Separate account insurance product liabilities</u>		
Other payables	\$ 1,723	\$ (134)
Reserve for separate accounts - insurance contracts	<u>127,151</u>	<u>117,836</u>
	<u>\$ 128,874</u>	<u>\$ 117,702</u>
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Separate account insurance product income</u>		
Premium income	\$ 150	\$ 230
Gains from financial assets and liabilities at FVTPL	31,003	20,839
Interest income	<u>50</u>	<u>145</u>
	<u>\$ 31,203</u>	<u>\$ 21,214</u>
<u>Separate account insurance product expenses</u>		
Cash surrender value	\$ 19,729	\$ 9,846
Provision of separate account reserve	8,176	8,660
Administrative expenses	1,581	1,503
Tax expense	<u>1,717</u>	<u>1,205</u>
	<u>\$ 31,203</u>	<u>\$ 21,214</u>

## 24. EQUITY

- a. Share capital

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Number of shares authorized (in thousands)	<u>18,000,000</u>	<u>18,000,000</u>
Shares authorized	<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>
Preference shares	<u>1,533,300</u>	<u>1,533,300</u>
Shares issued	<u>\$ 147,025,102</u>	<u>\$ 147,025,102</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 (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
  - f) Holders of Series A Preference Shares shall have the same priority as holders of all subsequently issued preference shares in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.

- g) Holders of Series A Preference Shares have no voting rights at the annual shareholders' meeting, and cannot elect directors. However, holders of Series A Preference Shares have voting rights at the meeting of Series A Preference Shareholders, and at the annual shareholders' meeting on items relating to the rights of Series A Preference Shareholders.
  - h) Holders of Series A Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series A Preference Shares.
  - i) Through issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series A Preference Shares at the issue price. Rights and obligations of the unredeemed Series A Preference Shares shall remain the same as mentioned above.
- 2) On February 9, 2018, the board of directors resolved the capital raising through issuance of Series B Preference Shares. The Company issued 700,000 thousand preference shares, with a par value of \$10 per share and total amount of \$7,000,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC Jin Guan Zheng Fa No. 1070313814 on May 10, 2018. The base date of capital increase was June 27, 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preference Shares are as follows:
- a) 3.55% per annum for Series B Preference Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to the issue price per share. The interest rate per annum will be reset on the day after the 7th year from the issue date ("Issue Date") and the day after each subsequent 7-year period hereafter. The record date for interest reset shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, TAIFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei's financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
  - b) If there are retained earnings, before the issuer can distribute dividends for Series B Preference Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside statutory reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preference share dividend.
  - c) The Company has the sole discretion to distribute dividend of the Series B Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series B Preference Share dividends, or preference share dividend distribution would render the Company's CAR ratio below the level required by law or by the authorities. The Company's cancellation of preference share dividend distribution shall not be deemed an event of default. Series B Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
  - d) 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 (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from the profit or additional paid-in capital.

- 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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Additional paid-in capital	\$ 172,905,009	\$ 172,905,009
Treasury share transactions	2,539,377	2,539,377
Additional paid-in capital - employee stock options	497,629	497,629
Conversion of convertible bonds	1,144,486	1,144,486
Others	<u>169,552</u>	<u>170,475</u>
	<u>\$ 177,256,053</u>	<u>\$ 177,256,976</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:

	<b>Appropriation of Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
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: Cash dividends of ordinary shares for 2018 included \$15,075,852 thousand from retained earnings and \$3,768,963 thousand from capital surplus.

d. Special reserves

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Special reserve transferred from reserve for trading default and for trading loss (1)	\$ 333,598	\$ 333,598
Special reserve reclassified from liability (2)	3,744,467	3,744,467
Special reserve appropriated at the first-time adoption of IFRSs (3)	2,994,565	2,994,565
Special reserve appropriated at fair value of investment properties (4)	108,057,969	107,581,979
Special reserve transferred from insurance liabilities (5)	34,764,311	34,764,311
Special reserve appropriated following other equity's deduction (6)	-	<u>72,558,752</u>
	<u>\$ 149,894,910</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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	<u>\$ (13,319,620)</u>	<u>\$ (12,149,871)</u>
Recognized for the year	(2,051,478)	(1,375,643)
Share of associates accounted for using the equity method	(216,895)	120,377
Tax effects	<u>123,984</u>	<u>85,517</u>
Other comprehensive loss recognized for the year	<u>(2,144,389)</u>	<u>(1,169,749)</u>
Ending balance	<u>\$ (15,464,009)</u>	<u>\$ (13,319,620)</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 68,319,953	\$ (17,586,946)
Recognized for the year	72,893,158	127,364,821
Share of associates accounted for using the equity method	327,440	109,837
Reclassification adjustments		
Disposal of investments in debt instruments	(28,739,603)	(27,175,192)
Tax effects	<u>(6,399,916)</u>	<u>(18,999,319)</u>
Other comprehensive income recognized for the year	<u>38,081,079</u>	<u>81,300,147</u>
Cumulative unrealized (loss) gain of equity instruments transferred to retained earnings due to disposal	<u>(193,192)</u>	<u>4,606,752</u>
Ending balance	<u>\$ 106,207,840</u>	<u>\$ 68,319,953</u>

3) Gain (loss) on hedging instruments

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 331,930	\$ 173,289
Recognized for the year	82,834	272,121
Reclassification adjustments		
Hedged item that affects profit or loss	(69,571)	(65,901)
Tax effects	<u>2,678</u>	<u>(47,579)</u>
Other comprehensive income recognized for the year	<u>15,941</u>	<u>158,641</u>
Ending balance	<u>\$ 347,871</u>	<u>\$ 331,930</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ (1,850,508)	\$ 774,084
Recognized for the year	464,755	(3,280,741)
Tax effects	<u>(92,952)</u>	<u>656,149</u>
Other comprehensive income (loss) recognized for the year	<u>371,803</u>	<u>(2,624,592)</u>
Ending balance	<u>\$ (1,478,705)</u>	<u>\$ (1,850,508)</u>



5) Remeasurement of defined benefit plans

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ (1,507,864)	\$ (1,321,138)
Recognized for the year	(617,081)	(3,998)
Share of associate accounted for using the equity method	45,276	(230,626)
Tax effects	<u>113,390</u>	<u>47,898</u>
Other comprehensive loss recognized for the year	<u>(458,415)</u>	<u>(186,726)</u>
Ending balance	<u>\$ (1,966,279)</u>	<u>\$ (1,507,864)</u>

6) Property revaluation surplus

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 11,240,314	\$ 10,367,911
Recognized for the year	-	926,919
Tax effects	-	(54,516)
Other comprehensive income recognized for the year	<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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 57,968,675	\$ (52,816,081)
Recognized for the year		
Unrealized gain	124,052,903	157,934,001
Reclassification adjustments		
Disposal of investments in financial instruments	(74,760,595)	(37,448,377)
Tax effects	<u>(4,749,366)</u>	<u>(9,700,868)</u>
Other comprehensive income recognized for the year	<u>44,542,942</u>	<u>110,784,756</u>
Ending balance	<u>\$ 102,511,617</u>	<u>\$ 57,968,675</u>

8) Other equity - other

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ -	\$ -
Initial recognition of put options on subsidiaries' share	<u>(3,944,303)</u>	<u>-</u>
Ending balance	<u>\$ (3,944,303)</u>	<u>\$ -</u>

f. Non-controlling interests

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 10,279,814	\$ 9,557,665
Net income attributed to non-controlling interests		
Net profit for the year	1,378,763	1,102,018
Exchange differences on translation of the financial statements of foreign operations	(167,572)	(285,746)
Unrealized gain on financial assets at FVTOCI	139,670	181,644
Other comprehensive (loss) income on reclassification using the overlay approach	(142,568)	351,131
Acquisition of non-controlling interests in subsidiaries (Note 38)	1,415,021	-
Others	<u>(1,188,663)</u>	<u>(626,898)</u>
Ending balance	<u>\$ 11,714,465</u>	<u>\$ 10,279,814</u>

**25. NET PROFIT FOR THE YEAR**

a. Net gain on service fee and commission fee

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Service fee revenue	\$ 28,443,874	\$ 27,484,216
Commission fee revenue	<u>7,546,599</u>	<u>6,451,883</u>
	<u>35,990,473</u>	<u>33,936,099</u>
Service fee expense	(7,849,627)	(7,990,465)
Commission fee expense	<u>(20,896,778)</u>	<u>(23,600,116)</u>
	<u>(28,746,405)</u>	<u>(31,590,581)</u>
	<u>\$ 7,244,068</u>	<u>\$ 2,345,518</u>

b. Net income on insurance operations

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Retained premiums earned	\$ 597,956,518	\$ 626,508,216
Separate account insurance product income	<u>73,396,159</u>	<u>63,652,653</u>
	<u>671,352,677</u>	<u>690,160,869</u>
Claims and payments	(283,718,673)	(359,479,846)
Separate account insurance product expenses	<u>(73,396,159)</u>	<u>(63,652,653)</u>
Others	<u>(1,239,534)</u>	<u>(1,210,761)</u>
	<u>(358,354,366)</u>	<u>(424,343,260)</u>
	<u>\$ 312,998,311</u>	<u>\$ 265,817,609</u>

c. Net changes in insurance liability reserves

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Net change in loss reserve	\$ (1,219,443)	\$ (2,937,582)
Net change in policy reserve	(466,068,514)	(393,587,846)
Net change in premium deficiency reserve	5,709,171	2,753,972
Net change in special reserve	275,858	374,052
Net change in other reserves	(3,784)	21,429
Net change in reserve for insurance contracts with the nature of financial products	<u>(787,429)</u>	<u>(698,222)</u>
	<u><b>\$(462,094,141)</b></u>	<u><b>\$(394,074,197)</b></u>

d. Employee benefit expenses

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Short-term benefits		
Salaries	\$ 57,661,162	\$ 64,252,998
Labor and health insurance expenses	4,589,390	4,634,295
Post-employment benefits	2,357,726	2,267,591
Remuneration of directors	227,892	212,894
Others	<u>1,589,297</u>	<u>1,700,016</u>
	<u><b>\$ 66,425,467</b></u>	<u><b>\$ 73,067,794</b></u>
An analysis of employee benefit expenses by function		
Profit from operations	\$ 13,764,335	\$ 15,997,594
Operating expenses	<u>52,661,132</u>	<u>57,070,200</u>
	<u><b>\$ 66,425,467</b></u>	<u><b>\$ 73,067,794</b></u>

As of December 31, 2020 and 2019, the total number of employees in the Group was 57,848 and 56,764, respectively.

For the years ended December 31, 2020 and 2019, the average number of the Group's employees was 57,350 and 55,525, respectively, including 38 and 37 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 employees' compensation and remuneration of directors for 2020 and 2019 which were resolved by the Company's board of directors on March 10, 2021 and March 11, 2020, respectively, were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 7,713	\$ 6,270
Remuneration of directors	2,700	2,700

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.

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.

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Right-of-use assets	\$ 1,454,148	\$ 1,378,387
Property and equipment	2,572,432	2,549,140
Intangible assets	<u>3,331,836</u>	<u>3,170,483</u>
	<u>\$ 7,358,416</u>	<u>\$ 7,098,010</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 4,026,580</u>	<u>\$ 3,927,527</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 3,331,836</u>	<u>\$ 3,170,483</u>

## 26. INCOME TAXES

### a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
In respect of the current year	\$ 22,018,512	\$ 5,240,022
Adjustments for prior years	56,884	187,963
Others	343,682	1,757,891
Income tax on unappropriated earnings	2,624,086	-
Deferred tax		
In respect of the current year	(19,396,008)	(494,605)
Adjustments for prior years	<u>10,402</u>	<u>6,599</u>
Income tax expense recognized in profit or loss	<u>\$ 5,657,558</u>	<u>\$ 6,697,870</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit before tax	<u>\$ 81,615,781</u>	<u>\$ 70,557,174</u>
Income tax calculated at the Company's statutory rate (20%)	\$ 16,323,156	\$ 14,111,433
Tax-exempt income	(14,145,961)	(10,561,381)
Nondeductible expenses in determining taxable income	60,889	103,869
Effect of tax on investment properties measured at fair value	864,638	485,947
Additional income tax under the Alternative Minimum Tax Act	16,519	1,961,280
Effect of different tax rates of entities in the Group operating in other jurisdictions	80,955	70,924
Adjustments for prior years' tax	67,189	194,562
Income tax on unappropriated earnings	2,624,086	-
Others	<u>(233,913)</u>	<u>331,236</u>
Income tax expense recognized in profit or loss	<u>\$ 5,657,558</u>	<u>\$ 6,697,870</u>

b. Income tax recognized directly in equity

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
Derecognition of investments in equity instruments at FVTOCI	\$ 38,200	\$ 427,818
Deferred tax		
Capital surplus	-	(32,121)
Derecognition of investments in equity instruments at FVTOCI	<u>(38,200)</u>	<u>(427,818)</u>
Income tax recognized directly in equity	<u>\$ -</u>	<u>\$ (32,121)</u>

c. Income tax recognized in other comprehensive income

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Deferred tax</u>		
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL	\$ (92,952)	\$ 656,149
Exchange differences on the translation of financial statements of foreign operations	123,984	165,496
Unrealized gain on financial assets at FVTOCI	(6,415,178)	(18,998,090)
Gain (loss) on hedging instruments	2,678	(47,579)
Property revaluation surplus	-	(54,516)
Remeasurement of defined benefit plans	123,338	1,342
Shares of associates accounted for using the equity method	5,314	(34,652)
Other comprehensive income on reclassification using the overlay approach	<u>(4,749,366)</u>	<u>(9,700,868)</u>
Income tax expense recognized in other comprehensive income	<u>\$ (11,002,182)</u>	<u>\$ (28,012,718)</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Others	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Property and equipment	\$ 979,616	\$ (27,167)	\$ -	\$ -	\$ -	\$ 952,449
Investment properties	(23,071,382)	(2,095,941)	-	-	34,748	(25,132,575)
Financial assets at FVTPL	(5,632,667)	(98,338)	(92,952)	-	(195)	(5,824,152)
Financial assets at FVTPL reclassified using the overlay approach	(6,802,327)	-	(6,445,041)	-	-	(13,247,368)
Equity instruments at FVTOCI	(1,280,408)	-	187,418	(2,816)	-	(1,095,806)
Debt instruments at FVTOCI	(11,790,400)	68,080	(6,642,631)	-	-	(18,364,951)
Financial assets at amortized cost	(93,898)	7,553	-	-	-	(86,345)
Financial liabilities at FVTPL	572,859	1,745,678	-	-	-	2,318,537
Goodwill and franchises	(715,296)	(36,616)	-	-	-	(751,912)
Defined benefit assets	(615,878)	(61,208)	116,627	-	-	(560,459)
Preferential savings deposits	124,001	(13,404)	6,727	-	-	117,324
Investments accounted for using the equity method	(1,343,831)	2,659,647	38,237	-	1,692	1,355,745
Lease liabilities	1,839,673	(1,717,246)	-	-	-	122,427
Right-of-use assets	(1,790,340)	1,790,340	-	-	-	-
Unrealized foreign exchange losses (gains)	27,207,494	22,263,796	1,826,772	(35,384)	12	51,262,690
Allowance for doubtful accounts	1,641,107	439,434	-	-	-	2,080,541
Others	(123,418)	554,043	2,661	-	85,670	518,956
Unused benefit of tax loss	<u>6,346,450</u>	<u>(6,093,045)</u>	<u>-</u>	<u>-</u>	<u>(234,500)</u>	<u>18,905</u>
Net deferred tax assets (liabilities)	<u>\$ (14,548,645)</u>	<u>\$ 19,385,606</u>	<u>\$ (11,002,182)</u>	<u>\$ (38,200)</u>	<u>\$ (112,573)</u>	<u>\$ (6,315,994)</u>
Deferred tax assets	<u>\$ 40,595,612</u>					<u>\$ 61,507,384</u>
Deferred tax liabilities	<u>\$ (55,144,257)</u>					<u>\$ (67,823,378)</u>

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Others	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Property and equipment	\$ 905,786	\$ 73,830	\$ -	\$ -	\$ -	\$ 979,616
Investment properties	(22,069,356)	(961,593)	(54,516)	-	14,083	(23,071,382)
Financial assets at FVTPL	(1,740,313)	(4,548,503)	656,149	-	-	(5,632,667)
Financial assets at FVTPL reclassified using the overlay approach	4,423,650	-	(11,225,977)	-	-	(6,802,327)
Equity instruments at FVTOCI	115,909	-	(989,847)	(406,470)	-	(1,280,408)
Debt instruments at FVTOCI	6,227,976	(29,709)	(17,988,667)	-	-	(11,790,400)
Financial assets at amortized cost	(167,189)	73,291	-	-	-	(93,898)
Financial liabilities at FVTPL	5,480,945	(4,908,086)	-	-	-	572,859
Goodwill and franchises	(678,681)	(36,615)	-	-	-	(715,296)
Defined benefit assets	(513,954)	(84,419)	(17,505)	-	-	(615,878)
Preferential savings deposits	119,149	(14,013)	18,865	-	-	124,001
Investments accounted for using the equity method	(1,167,432)	(110,220)	(34,652)	(32,121)	594	(1,343,831)
Lease liabilities	-	1,839,673	-	-	-	1,839,673
Right-of-use assets	-	(1,790,340)	-	-	-	(1,790,340)
Unrealized foreign exchange losses (gains)	14,887,863	10,669,947	1,671,029	(21,348)	3	27,207,494
Allowance for doubtful accounts	1,168,201	472,906	-	-	-	1,641,107
Others	353,291	(226,253)	(47,597)	-	(202,859)	(123,418)
Unused benefit of tax loss	<u>6,369,946</u>	<u>68,110</u>	<u>-</u>	<u>-</u>	<u>(91,606)</u>	<u>6,346,450</u>
Net deferred tax assets (liabilities)	<u>\$ 13,715,791</u>	<u>\$ 488,006</u>	<u>\$ (28,012,718)</u>	<u>\$ (459,939)</u>	<u>\$ (279,785)</u>	<u>\$ (14,548,645)</u>
Deferred tax assets	<u>\$ 40,806,934</u>					<u>\$ 40,595,612</u>
Deferred tax liabilities	<u>\$ (27,091,143)</u>					<u>\$ (55,144,257)</u>

- e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Loss carryforwards		
Expiry in 2019	\$ -	\$ 15,129
Expiry in 2023	<u>-</u>	<u>1,908,009</u>
	<u>\$ -</u>	<u>\$ 1,923,138</u>
Deductible temporary differences	<u>\$ 2,679,802</u>	<u>\$ 3,731,189</u>
Investment credits		
Promotion of private participation in infrastructure projects	\$ -	\$ 124,952
Biotech and new pharmaceuticals industry	-	7,975
Research and development expenses	<u>-</u>	<u>1,156</u>
	<u>\$ -</u>	<u>\$ 134,083</u>

The unrecognized investment credits will expire starting from 2020 to 2022.

- f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2020 comprised:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 122	2027
2,173	2028
12,597	2029
<u>12,585</u>	2030
<u>\$ 27,477</u>	

- g. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2020 and 2019, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$2,298,804 thousand and \$1,930,898 thousand, respectively.



h. Income tax assessments

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

	<u>Year of Assessment</u>	<u>Note</u>
The Company	2014	-
Cathay Life	2014	-
Cathay United Bank	2014	Cathay United Bank was in the process of administrative remedy for 2014.
Cathay Century	2014	-
Cathay Securities	2014	Cathay Securities was in the process of administrative remedy from 2013 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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Basic earnings per share	<u>\$ 5.41</u>	<u>\$ 4.76</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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Net income for the period attributable to owners of the Company	\$ 74,579,460	\$ 62,757,286
Less: Dividends on preference shares	<u>(3,390,924)</u>	<u>(2,667,891)</u>
Earnings used in the computation of basic earnings per share	<u>\$ 71,188,536</u>	<u>\$ 60,089,395</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>13,169,210</u>	<u>12,617,999</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:

Related Party Name	Related Party Category
Cathay Life	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Securities Investment Trust	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Lujiazui Life	Subsidiary of the Company
Cathay Life (Vietnam)	Subsidiary of the Company
Conning Asia Pacific Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting	Subsidiary of the Company
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
Symphox Information Co., Ltd.	Associate
Neo Cathay Power Corp.	Associate
PSS Co., Ltd.	Associate
TaiYang Solar Power Co., Ltd.	Associate
CM Energy Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Cathay Sunrise Corporation	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

(Continued)

<u>Related Party Name</u>	<u>Related Party Category</u>
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
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
Cymlin Co., Ltd.	Other related party
Liang-Ting Co., Ltd.	Other related party
Retail Forest Co., Ltd.	Other related party
Sino Greenergy Group	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 Real Estate Development Employees' Welfare Committee	Other related party
Hsin Chung Co., Ltd.	Other related party
Tian-Ji Power Co., Ltd.	Other related party
Jinhua Realty Co., Ltd.	Other related party
Pai Hsing Investment Co., Ltd.	Other related party
Bannan Realty Co., Ltd.	Other related party
Tê Chin Co., Ltd.	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

	<u>For the Years Ended December 31</u>			
	<u>2020</u>		<u>2019</u>	
Name	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
<u>Due from commercial banks</u>				
Other related party				
Vietinbank	\$ 519,903	\$ 5,256	\$ 5,216,825	\$ 4,994
<u>Due to commercial banks</u>				
Other related party				
Vietinbank	20,040	(10,117)	5,265,818	(5,346)

As of December 31, 2020 and 2019, the book value at financial bonds issued by Vietinbank amounted to \$384,663 thousand and \$484,627 thousand, respectively. For the years ended December 31, 2020 and 2019, the amounts of interest income were \$31,156 thousand and \$37,756 thousand, respectively.

2) Shares issued by related parties

Name	December 31	
	2020	2019
Associate		
PSS Co., Ltd.	\$ 19,318	\$ 15,573
Other related party		
Cathay Real Estate Development Co., Ltd.	1,437,071	1,382,021
Cathay Healthcare Management Co., Ltd.	<u>145,035</u>	<u>229,103</u>
	<u>1,582,106</u>	<u>1,611,124</u>
	<u>\$ 1,601,424</u>	<u>\$ 1,626,697</u>

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

3) Receivable

Name	December 31	
	2020	2019
Other related party		
Fund managed by Cathay Securities Investment Trust	\$ 212,495	\$ 221,014
Cathay Hospitality Management Co., Ltd.	4,664	5,061
Tian-Ji Power Co., Ltd.	<u>3,687</u>	<u>-</u>
	<u>\$ 220,846</u>	<u>\$ 226,075</u>

4) Loans

Name	For the Years Ended December 31			
	2020		2019	
	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
Associate				
TaiYang Solar Power Co., Ltd.	\$ 65,244	\$ 1,409	\$ -	\$ -
Taiwan Real-estate Management Corp.	<u>33,000</u>	<u>533</u>	<u>33,000</u>	<u>588</u>
	<u>98,244</u>	<u>1,942</u>	<u>33,000</u>	<u>588</u>
Other related parties				
Sino Greenery Group	83,012	1,878	-	-
Cathay Real Estate Development Co., Ltd.	-	60	250,000	1,449
Yua-Yung Marketing (Taiwan) Co., Ltd.	-	103	10,000	108
Others	<u>2,980,147</u>	<u>39,028</u>	<u>2,764,157</u>	<u>43,174</u>
	<u>3,063,159</u>	<u>41,069</u>	<u>3,024,157</u>	<u>44,731</u>
	<u>\$ 3,161,403</u>	<u>\$ 43,011</u>	<u>\$ 3,057,157</u>	<u>\$ 45,319</u>

5) Deposits

Name	For the Years Ended December 31			
	2020		2019	
	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
Subsidiary of the Company				
Cathay Securities				
Investment Consulting	\$ 502,217	\$ 388	\$ 204,526	\$ 581
Associates				
Symphox Information Co., Ltd.	407,037	427	154,446	771
Lin Yuan Property Management Co., Ltd.	270,481	1,387	-	-
	<u>677,518</u>	<u>1,814</u>	<u>154,446</u>	<u>771</u>
Other related parties				
Cathay Life Insurance Employees' Welfare Committee	2,198,909	17,881	2,142,876	22,204
Cathay United Bank Employees' Welfare Committee	760,170	31,356	757,991	31,611
Tê Chin Co., Ltd.	636,153	31	-	-
Cathay United Bank Foundation	530,444	4,560	532,486	5,611
Cathay Real Estate Employees' Welfare Committees	413,825	3,560	397,367	4,232
Cathay Real Estate Development Co., Ltd.	370,758	18	257,587	64
Bannan Realty Co., Ltd.	338,238	16	-	-
Cathay Charity Foundation	274,178	2,026	273,982	2,541
Cathay Medical Care Corp.	210,060	42	175,513	128
Cathay Cultural Foundation	209,366	1,711	201,794	2,129
Cathay Hospitality Management Co., Ltd.	189,776	11	6,203	4
Pai Hsing Investment Co., Ltd.	177,062	743	-	-
Jinhua Realty Co., Ltd.	167,867	6	-	-
Ally Logistic Property Co., Ltd.	147,229	9	19,116	21
Yua-Yung Marketing (Taiwan) Co., Ltd.	140,277	291	123,044	343
Lin Yuan Property Management Co., Ltd.	-	-	250,272	1,769
Others	8,707,552	54,003	6,835,829	67,773
	<u>15,471,864</u>	<u>116,264</u>	<u>11,974,060</u>	<u>138,430</u>
	<u>\$ 16,651,599</u>	<u>\$ 118,466</u>	<u>\$ 12,333,032</u>	<u>\$ 139,782</u>

6) Property transactions

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

Name	For the Years Ended December 31			
	2020		2019	
	Items	Amount	Items	Amount
Subsidiary of associate				
Lin Yuan Property Management Co., Ltd.	International Building, etc.	\$ 6,645	-	\$ -
Other related parties				
Lin Yuan Property Management Co., Ltd.		-	Cathay Life Head Office Building, etc.	13,602
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	1,142,914	Yangmei Logistics Park, etc.	830,027
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,051,289	THSR Taoyuan Commercial Park, etc.	2,204,548
Cathay Real Estate Development Co., Ltd.		-	Minsheng Jingguo Building, etc.	306,419
		<u>2,194,203</u>		<u>3,354,596</u>
		<u>\$ 2,200,848</u>		<u>\$ 3,354,596</u>

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

The total amounts of contracted projects for real estate as of December 31, 2020 and 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$7,393,657 thousand and \$4,196,448 thousand, respectively.

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

Name	Rental Income	
	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay Securities Investment Consulting	\$ 9,728	\$ 9,245
Associates		
Symphox Information Co., Ltd.	38,409	49,833
Lin Yuan Property Management Co., Ltd.	19,411	-
Cathay Insurance Company Limited (China)	-	10,733
	<u>57,820</u>	<u>60,566</u>
Other related parties		
Ally Logistic Property Co., Ltd.	752,523	588,833
Cathay Medical Care Corp.	191,271	186,848
Cathay Hospitality Management Co., Ltd.	179,016	193,976
Cathay Hospitality Consulting Co., Ltd.	119,033	98,896
Cathay Healthcare Management Co., Ltd.	69,896	68,812
Hong-Sui Co., Ltd.	27,339	12,494
Yua-Yung Marketing (Taiwan) Co., Ltd.	22,003	15,002
Cathay Real Estate Development Co., Ltd.	19,008	18,097
Retail Forest Co., Ltd.	8,621	-
San Ching Engineering Co., Ltd.	5,908	5,658

(Continued)

Name	Rental Income	
	For the Years Ended	
	December 31	
	2020	2019
Cathay United Bank Foundation	\$ 5,249	\$ -
Hsin Chung Co., Ltd.	3,226	-
Liang-Ting Co., Ltd.	3,124	3,088
Lin Yuan Property Management Co., Ltd.	-	5,648
	<u>1,406,217</u>	<u>1,197,352</u>
	<u>\$ 1,473,765</u>	<u>\$ 1,267,163</u>

(Concluded)

Name	Guarantee Deposits Received	
	For the Years Ended	
	December 31	
	2020	2019
Associate		
Symphox Information Co., Ltd.	\$ 8,000	\$ 13,070
Other related parties		
Cathay Hospitality Management Co., Ltd.	186,584	184,944
Cathay Hospitality Consulting Co., Ltd.	180,473	108,145
Ally Logistic Property Co., Ltd.	142,869	123,085
Cathay Healthcare Management Co., Ltd.	20,384	16,505
Cathay Medical Care Corp.	11,435	11,393
Retail Forest Co., Ltd.	5,745	-
Hong-Sui Co., Ltd.	5,145	4,645
Cathay Real Estate Development Co., Ltd.	4,090	3,959
Cymlin Co., Ltd.	4,081	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	3,487	3,553
	<u>564,293</u>	<u>456,229</u>
	<u>\$ 572,293</u>	<u>\$ 469,299</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 Years Ended	
	December 31	
	2020	2019
Other related party		
Cathay Real Estate Development Co., Ltd.	\$ 21,585	\$ -
Name	Lease Liabilities	
	For the Years Ended	
	December 31	
	2020	2019
Other related party		
Cathay Real Estate Development Co., Ltd.	\$ 16,478	\$ 847

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

Name	For the Years Ended December 31	
	2020	2019
Other related party ThinkPower Information Co., Ltd.	\$ <u>4,625</u>	\$ <u>11,349</u>

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

Name	Rental Income For the Years Ended December 31	
	2020	2019
Other related party Cathay United Bank Foundation	\$ <u>-</u>	\$ <u>4,247</u>

f) Lease arrangements of Cathay United Bank and its subsidiaries

Name	Acquisition of Right-of-use Assets For the Years Ended December 31	
	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u>14,271</u>	\$ <u>25,777</u>

Name	Lease Liabilities December 31	
	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u>15,949</u>	\$ <u>20,954</u>

Name	Guarantee Deposits Paid December 31	
	2020	2019
Other related party Cathay Real Estate Development Co., Ltd.	\$ <u>4,446</u>	\$ <u>4,625</u>

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

Name	Disposal of Right-of-use Assets For the Years Ended December 31	
	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 Years Ended	
		December 31	
		2020	2019
Other related party Symphox Information Co., Ltd.	Intangible assets	\$ 4,997	\$ -

7) Guarantee deposits received

Name	December 31	
	2020	2019
Associate Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ -
Other related parties San Ching Engineering Co., Ltd.	979,284	453,225
Ally Logistic Property Co., Ltd.	293,285	151,275
Cathay Hospitality Management Co., Ltd.	-	51,000
Lin Yuan Property Management Co., Ltd.	-	5,000
	<u>1,272,569</u>	<u>660,500</u>
	<u>\$ 1,277,569</u>	<u>\$ 660,500</u>

8) Payables

Name	December 31	
	2020	2019
Subsidiary of the Company Cathay Securities Investment Consulting	\$ 30,788	\$ 30,164
Associate Symphox Information Co., Ltd.	90,869	136,661
Other related party Seaward Card Co., Ltd.	<u>35,533</u>	<u>37,704</u>
	<u>\$ 157,190</u>	<u>\$ 204,529</u>

9) Balance of bonds managed by related parties

Name	December 31	
	2020	2019
Other related party Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,006,641</u>	<u>\$ 5,334,030</u>

10) Balances of beneficiary certificates purchased from related parties

Name	December 31	
	2020	2019
Other related parties		
Fund managed by Cathay Securities Investment Trust	\$ 70,300,473	\$ 62,530,658
Funds managed by Global Evolution Holdings ApS	2,864,685	2,874,903
Private Equity Fund managed by Cathay Private Equity	1,055,921	497,760
Funds managed by Octagon Credit Investors, LLC	<u>870,939</u>	<u>670,292</u>
	<u>\$ 75,092,018</u>	<u>\$ 66,573,613</u>

11) Investment balances of related parties' discretionary accounts

Name	December 31	
	2020	2019
Other related parties		
Cathay Charity Foundation	\$ 110,045	\$ 87,128
Cathay Cultural Foundation	<u>58,230</u>	<u>55,667</u>
	<u>\$ 168,275</u>	<u>\$ 142,795</u>

12) Discretionary account balances managed by related parties

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

13) Service fee income

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay Securities Investment Consulting	\$ 18,610	\$ 15,492
Other related party		
Cathay Real Estate Development Co., Ltd.	<u>6,911</u>	<u>5,980</u>
	<u>\$ 25,521</u>	<u>\$ 21,472</u>

## 14) Premium income

Name	For the Years Ended December 31	
	2020	2019
Associate		
Symphox Information Co., Ltd.	\$ 2,207	\$ 3,459
Cathay Sunrise Corporation	8,266	8,002
Neo Cathay Power Corp.	8,120	-
Lin Yuan Property Management Co., Ltd.	<u>3,098</u>	<u>-</u>
	<u>21,691</u>	<u>11,461</u>
Other related parties		
Cathay Medical Care Corp.	55,128	49,359
San Ching Engineering Co., Ltd.	10,901	6,126
Cathay Real Estate Development Co., Ltd.	9,746	9,989
Cathay Hospitality Consulting Co., Ltd.	5,219	4,224
Cathay Hospitality Management Co., Ltd.	5,102	9,729
Hong-Sui Co., Ltd.	4,117	2,637
Tian-Ji Power Co., Ltd.	3,687	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	3,663	2,917
Lin Yuan Property Management Co., Ltd.	-	3,142
Others	<u>447,657</u>	<u>369,504</u>
	<u>545,220</u>	<u>457,627</u>
	<u>\$ 566,911</u>	<u>\$ 469,088</u>

## 15) Net other non-interest income

Name	For the Years Ended December 31	
	2020	2019
<u>Other non-interest income</u>		
Associate		
Symphox Information Co., Ltd.	\$ <u>2,834</u>	\$ <u>3,358</u>
Other related parties		
Fund managed by Cathay Securities Investment Trust	2,328,614	2,310,677
Private Equity Fund managed by Cathay Private Equity	43,272	16,045
Cathay Healthcare Management Co., Ltd.	5,537	5,554
Cathay Medical Care Corp.	3,719	3,719
Hsin Chung Co., Ltd.	<u>3,072</u>	<u>-</u>
	<u>2,384,214</u>	<u>2,335,995</u>
	<u>\$ 2,387,048</u>	<u>\$ 2,339,353</u>
<u>Other non-interest expense</u>		
Associate		
Global Evolution Holdings Aps	\$ <u>14,163</u>	\$ <u>5,219</u>

16) Operating expenses

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay Securities Investment Consulting	\$ 124,212	\$ 39,566
Associate		
Symphox Information Co., Ltd.	818,717	899,793
Lin Yuan Property Management Co., Ltd.	814,276	-
	<u>1,632,993</u>	<u>899,793</u>
Other related parties		
Seaward Card Co., Ltd.	302,416	311,445
Bowl Cut Entertainment Co., Ltd.	42,300	-
Cathay Healthcare Management Co., Ltd.	38,818	61,336
Cathay Real Estate Development Co., Ltd.	8,356	8,947
ThinkPower Information Co., Ltd.	8,920	8,315
San Ching Engineering Co., Ltd.	3,900	3,950
Lin Yuan Property Management Co., Ltd.	-	776,336
Cathay Charity Foundation	-	5,300
Cathay Medical Care Corp.	2,573	5,071
	<u>407,283</u>	<u>1,180,700</u>
	<u>\$ 2,164,488</u>	<u>\$ 2,120,059</u>

17) Acquisition of shares issued by related parties

Name	Nature of Transaction	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay Securities Investment Consulting	Ordinary shares	\$ 230,000	\$ -
Associates			
TaiYang Solar Power Co., Ltd.	Ordinary shares	118,150	-
Lin Yuan Property Management Co., Ltd.	Ordinary shares	50,649	-
PSS Co., Ltd.	Ordinary shares	51,386	-
CM Energy Co., Ltd.	Ordinary shares	45,000	-
Greenhealth Water Resources Co., Ltd.	Ordinary shares	-	470,916
		<u>265,185</u>	<u>470,916</u>
		<u>\$ 495,185</u>	<u>\$ 470,916</u>

18) Guarantees on duties and contracts

December 31, 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>\$ 54,673</u>	<u>\$ 28</u>	0.65%-0.8%	Demand deposits

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%	Demand deposits

19) Compensation of key management personnel

Name	For the Years Ended December 31	
	2020	2019
Short-term employee benefits	\$ 1,123,712	\$ 1,039,510
Post-employment benefits	21,757	22,545
Other long-term employee benefits	<u>92</u>	<u>621</u>
	<u>\$ 1,145,561</u>	<u>\$ 1,062,676</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	For the Years Ended December 31			
	2020		2019	
Amount	Interest Income (Expense)	Amount	Interest Income (Expense)	
Subsidiary of the Company Cathay United Bank	<u>\$ 209,849</u>	<u>\$ 144</u>	<u>\$ 79,099</u>	<u>\$ 906</u>

2) Receivables

Name	Items	December 31	
		2020	2019
Subsidiary of the Company			
Cathay Life	Consolidated income tax, etc.	\$ 6,206,423	\$ 65,589
Cathay United Bank	Consolidated income tax, etc.	771,804	1,703,104
Cathay Century	Consolidated income tax, etc.	356,009	362,812
Cathay Securities	Consolidated income tax	218,953	74,712
Cathay Securities Investment Trust	Consolidated income tax	<u>186,069</u>	<u>176,613</u>
		<u>\$ 7,739,258</u>	<u>\$ 2,382,830</u>

3) Guarantee deposits paid

Name	December 31	
	2020	2019
Subsidiary of the Company		
Cathay Life	<u>\$ 29,781</u>	<u>\$ 30,071</u>

4) Financial assets at FVTPL

Name	December 31	
	2020	2019
Subsidiary of the Company		
Cathay Life	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

5) Lease agreements

a) Acquisition of right-of-use assets

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay Life	<u>\$ 249,573</u>	<u>\$ -</u>

b) Lease liabilities

Name	December 31	
	2020	2019
Subsidiary of the Company		
Cathay Life	<u>\$ 239,100</u>	<u>\$ 47,191</u>

c) Lease expense

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay Life		\$ 65,325	\$ 46,311

6) Payables

	Name	Items	December 31	
			2020	2019
Subsidiary of the Company				
Cathay Life		Consolidated income tax, etc.	\$ -	\$ 10,147,500

7) Interest income

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay Life		\$ 1,260,000	\$ 1,260,000

8) Operating expenses

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay United Bank		\$ 28,487	\$ 10,524
Cathay Life		16,149	13,647
Cathay Securities		14,800	7,300
		<u>59,436</u>	<u>31,471</u>
Associate			
Symphox Information Co., Ltd.		7,243	1,343
Other related parties			
Seaward Card Co., Ltd.		7,129	5,980
Bowl Cut Entertainment Co., Ltd.		42,300	-
		<u>49,429</u>	<u>5,980</u>
		\$ 116,108	\$ 38,794

9) Operating income

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay United Bank	\$ 6,000	\$ 6,300
Cathay Life	5,400	5,700
Cathay Century	<u>4,500</u>	<u>4,475</u>
	<u>\$ 15,900</u>	<u>\$ 16,475</u>

10) Acquisition of shares issued by related parties

Name	Items	For the Years Ended December 31	
		2020	2019
Subsidiary			
Cathay Securities	Ordinary shares	\$ 1,200,000	\$ -
Cathay Life	Ordinary shares	-	10,000,000
Cathay United Bank	Ordinary shares	<u>-</u>	<u>10,000,000</u>
		<u>\$ 1,200,000</u>	<u>\$ 20,000,000</u>

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

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

1) Cathay Life and its subsidiaries

a) Property transactions

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

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

Name	For the Years Ended December 31			
	2020		2019	
	Items	Amount	Items	Amount
Other related parties				
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	\$ 1,142,914	Yangmei Logistics Park, etc.	\$ 830,027
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,051,289	THSR Taoyuan Commercial Park, etc.	2,204,548
Cathay Real Estate Development Co., Ltd.	-	-	Minsheng Jingguo Building, etc.	<u>306,419</u>
		<u>\$ 2,194,203</u>		<u>\$ 3,340,994</u>



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

The total amounts of contracted projects for real estate as of December 31, 2020 and 2019, between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$7,393,657 thousand and \$4,196,448 thousand, respectively.

ii. Real-estate rental income

Name	Rental Income	
	For the Years Ended December 31	
	2020	2019
The Company		
Cathay Financial Holdings	\$ 123,238	\$ 100,535
Subsidiary of the Company		
Cathay United Bank	726,237	651,615
Cathay Century	109,922	107,625
	<u>836,159</u>	<u>759,240</u>
Other related parties		
Ally Logistic Property Co., Ltd.	752,523	588,833
Cathay Medical Care Corp.	191,271	186,848
Cathay Hospitality Management Co., Ltd.	179,016	193,976
Cathay Hospitality Consulting Co., Ltd.	119,033	98,896
	<u>1,241,843</u>	<u>1,068,553</u>
	<u>\$ 2,201,240</u>	<u>\$ 1,928,328</u>
Name	Guarantee Deposits Received	
	December 31	
	2020	2019
Subsidiary of the Company		
Cathay United Bank	\$ 186,446	\$ 188,158
Other related parties		
Cathay Hospitality Management Co., Ltd.	186,584	184,944
Cathay Hospitality Consulting Co., Ltd.	180,473	108,145
Ally Logistic Property Co., Ltd.	142,869	123,085
	<u>509,926</u>	<u>416,174</u>
	<u>\$ 696,372</u>	<u>\$ 604,322</u>

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

b) Shares transactions

i. Issuance of shares for cash by Cathay Life

Name	Item	For the Years Ended December 31	
		2020	2019
The Company Cathay Financial Holdings	Ordinary shares	\$ <u>-</u>	\$ <u>10,000,000</u>

ii. Acquisition of shares issued by related parties

Name	Items	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company Cathay Securities Investment Consulting	Ordinary shares	\$ 230,000	\$ -
Cathay Venture Associates	Ordinary shares	-	1,567,574
TaiYang Solar Power Co., Ltd.	Ordinary shares	118,150	-
Greenhealth Water Resources Co., Ltd.	Ordinary shares	<u>-</u>	<u>470,916</u>
		\$ <u>348,150</u>	\$ <u>2,038,490</u>

c) Shares issued by the related parties

Name	Item	December 31	
		2020	2019
Other related parties Cathay Real Estate Development Co., Ltd.	Ordinary shares	\$ <u>1,436,792</u>	\$ <u>1,381,665</u>

d) Cash in banks

Name	Item	December 31	
		2020	2019
Subsidiary of the Company Cathay United Bank	Time deposits	\$ 1,068,004	\$ 864,340
	Demand deposits	23,114,154	23,881,382
	Checkable deposits	349,239	240,154
	Securities deposits	6	6
Indovina Bank	Time deposits	815,802	485,177
	Demand deposits	<u>19,863</u>	<u>12,042</u>
		\$ <u>25,367,068</u>	\$ <u>25,483,101</u>

e) Loans

Name	For the Years Ended December 31, 2020		
	Maximum Balance	Rate	Ending Balance
Other related party	<u>\$ 873,711</u>	0.75%-3.17%	<u>\$ 801,894</u>

Name	For the Years Ended December 31, 2019		
	Maximum Balance	Rate	Ending Balance
Other related party	<u>\$ 1,042,084</u>	1.03%-3.44%	<u>\$ 971,199</u>

f) Balance of bonds managed by related parties

Name	December 31	
	2020	2019
Other related party Bonds managed by Octagon Credit Investors, LLC	<u>\$ 5,006,641</u>	<u>\$ 5,334,030</u>

g) Balance of beneficiary certificates purchased from related parties

Item	Name	December 31	
		2020	2019
Other related party			
Funds managed by			
Octagon Credit Investors, LLC	Market value	<u>\$ 870,939</u>	<u>\$ 670,292</u>
	Cost	<u>\$ 894,337</u>	<u>\$ 679,795</u>
Funds managed by			
Global Evolution Holding ApS	Market value	<u>\$ 2,864,685</u>	<u>\$ 2,874,903</u>
	Cost	<u>\$ 2,606,653</u>	<u>\$ 2,642,230</u>
Funds managed by			
Cathay Securities Investment Trust	Market value	<u>\$ 68,737,375</u>	<u>\$ 61,234,575</u>
	Cost	<u>\$ 65,853,768</u>	<u>\$ 59,796,572</u>
Private Equity Funds			
managed by	Market value	<u>\$ 1,034,236</u>	<u>\$ 490,168</u>
Cathay Private Equity	Cost	<u>\$ 989,445</u>	<u>\$ 494,150</u>

h) Discretionary account management balance

Name	December 31	
	2020	2019
Subsidiary of the Company		
Cathay Securities Investment Trust	\$ 312,835,430	\$ 213,072,442
Associate		
Global Evolution Holding ApS	-	22,215,022
	<u>\$ 312,835,430</u>	<u>\$ 235,287,464</u>

i) Other receivables

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

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

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

Name	December 31	
	2020	2019
Subsidiary of the Company		
Cathay Futures Co., Ltd.	\$ <u>1,897,019</u>	\$ <u>3,078,757</u>

k) Guarantee deposits received and collaterals received

Name	December 31	
	2020	2019
Other related parties		
San Ching Engineering Co., Ltd.	\$ 979,284	\$ 453,225
Ally Logistic Property Co., Ltd.	<u>293,285</u>	<u>151,275</u>
	\$ <u>1,272,569</u>	\$ <u>604,500</u>

l) Other payables

Name	December 31	
	2020	2019
The Company		
Cathay Financial Holdings (Note)	\$ 6,206,423	\$ 65,589
Subsidiary of the Company		
Cathay United Bank	<u>350,640</u>	<u>43,208</u>
	\$ <u>6,557,063</u>	\$ <u>108,797</u>

Note: The payables are comprised of remuneration of directors and supervisors, accrued interests of bonds payable and income taxes payable under the integrated system.

m) Bonds payable

Name	December 31	
	2020	2019
The Company		
Cathay Financial Holdings	\$ <u>35,000,000</u>	\$ <u>35,000,000</u>

n) Premium income

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay United Bank		\$ 123,336	\$ 67,136
Other related party			
Others		<u>447,657</u>	<u>369,504</u>
		<u>\$ 570,993</u>	<u>\$ 436,640</u>

o) Premium expense

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay Century		<u>\$ 115,639</u>	<u>\$ 105,568</u>

p) Other operating income

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay Securities Investment Trust		<u>\$ 153,354</u>	<u>\$ 138,776</u>

q) Other operating costs

	Name	For the Years Ended December 31	
		2020	2019
Subsidiary of the Company			
Cathay United Bank		\$ 1,070,664	\$ 1,163,173
Cathay Securities Investment Trust		<u>288,106</u>	<u>182,830</u>
		<u>\$ 1,358,770</u>	<u>\$ 1,346,003</u>

r) Finance costs

	Name	For the Years Ended December 31	
		2020	2019
The Company			
Cathay Financial Holdings		<u>\$ 1,260,000</u>	<u>\$ 1,260,000</u>

Finance costs consist of interest expense of bonds payable.

s) Operating expenses

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay United Bank	\$ 5,483,924	\$ 6,178,311
Cathay Securities Investment Consulting	124,212	39,556
Associate		
Lin Yuan Property Management Co., Ltd.	798,050	-
Symphox Information Co., Ltd.	200,032	238,252
Other related party		
Lin Yuan Property Management Co., Ltd.	-	767,009
	<u>\$ 6,606,218</u>	<u>\$ 7,223,128</u>

t) Non-operating income

Name	For the Years Ended December 31	
	2020	2019
Subsidiary of the Company		
Cathay Century	\$ 671,489	\$ 677,314
Cathay United Bank	<u>185,220</u>	<u>168,589</u>
	<u>\$ 856,709</u>	<u>\$ 845,903</u>

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

u) Others

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

Name	December 31	
	2020	2019
SWAP	<u>US\$ 3,498,000</u>	<u>US\$ 2,615,000</u>

2) Cathay United Bank and its subsidiaries

a) Loans

December 31, 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	31	\$ 157,056	\$ 10,897	V	\$ -	None	None	\$ (14)	\$ 178
Self-used housing mortgage loans	278	2,414,396	2,127,714	V	-	Real estate, certificates of deposits and demand deposits	None	4,930	27,052
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

## Deposits

Name	For the Years Ended December 31			
	2020		2019	
	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
The Company				
Cathay Financial Holdings	\$ 209,849	\$ 144	\$ 79,099	\$ 906
Subsidiary of the Company				
Cathay Life	23,235,022	14,426	23,917,315	39,874
Cathay Century	2,010,221	4,195	2,474,304	8,305
Cathay Securities	3,913,465	2,948	2,034,207	4,520
Lin Yuan	1,221,708	33,087	990,004	24,426
Cathay Futures	1,138,851	4,857	1,429,607	7,784
Cathay Venture	103,380	4	25,405	11
Cathay Securities	167,389	85	143,714	167
Cathay Securities				
Investment Consulting	502,217	388	204,526	581
Cathay Life (Vietnam)	835,754	26,147	497,313	88,585
Cathay Century (Vietnam)	243,219	5,353	168,057	12,812
	<u>33,371,226</u>	<u>91,490</u>	<u>31,884,452</u>	<u>187,065</u>
Associate				
Symphox Information Co., Ltd.	407,037	427	154,446	771
Lin Yuan Property Management Co., Ltd.	270,481	1,387	-	-
	<u>677,518</u>	<u>1,814</u>	<u>154,446</u>	<u>771</u>
Other related parties				
Lin Yuan Property Management Co., Ltd.	-	-	250,272	1,769
Cathay Real Estate Development Co., Ltd.	370,758	18	257,587	64
Cathay Medical Care Corp.	210,060	42	175,513	128
Cathay Hospitality Management Co., Ltd.	189,776	11	6,203	4
Cathay United Bank Foundation	530,444	4,560	532,486	5,611
Cathay Charity Foundation	274,178	2,026	273,982	2,541
Cathay Cultural Foundation	209,366	1,711	201,794	2,129
Cathay United Bank Employees' Welfare Committee	760,170	31,356	757,991	31,611
Cathay Life Insurance Employees' Welfare Committee	2,198,909	17,881	2,142,876	22,204
Cathay Real Estate Employees' Welfare Committees	413,825	3,560	397,367	4,232
Jinhua Realty Co., Ltd.	167,867	6	-	-

(Continued)

Name	For the Years Ended December 31			
	2020		2019	
	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
Pai Hsing Investment Co., Ltd.	\$ 177,062	\$ 743	\$ -	\$ -
Bannan Realty Co., Ltd.	338,238	16	-	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	140,277	291	123,044	343
Tê Chin Co., Ltd.	636,153	31	-	-
Ally Logistic Property Co., Ltd.	147,229	9	19,116	21
	<u>8,707,552</u>	<u>54,003</u>	<u>6,835,829</u>	<u>67,773</u>
	<u>15,471,864</u>	<u>116,264</u>	<u>11,974,060</u>	<u>138,430</u>
	<u>\$ 49,730,457</u>	<u>\$ 209,712</u>	<u>\$ 44,092,057</u>	<u>\$ 327,172</u> (Concluded)

Name	For the Years Ended December 31			
	2020		2019	
	Amount	Interest Income (Expense)	Amount	Interest Income (Expense)
<u>Due from commercial banks</u>				
Other related party Vietinbank	\$ 519,903	\$ 5,256	\$ 5,216,825	\$ 4,994
<u>Due to commercial banks</u>				
Other related party Vietinbank	20,040	(10,117)	5,265,818	(5,346)

As of December 31, 2020 and 2019, the book value of financial bonds issued by Vietinbank amounted to \$384,663 thousand and \$484,627 thousand, respectively. For the years ended December 31, 2020 and 2019, the amounts of interest income were \$31,156 thousand and \$37,756 thousand, respectively.

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

b) Derivatives

December 31, 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)	2020.02.21-2021.12.09	\$ 99,720,984	\$ (707,642)	Valuation adjustment for financial assets at FVTPL	\$ 97,688
					Valuation adjustment for FVTPL financial liabilities	(2,315,173)
Cathay Century	SWAP - exchange between customers (USD)	2020.01.09-2021.11.17	2,713,962	55	Valuation adjustment for financial assets at FVTPL	1,025
					Valuation adjustment for FVTPL financial liabilities	(57,209)



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)

c) Lease agreements

	<u>Acquisition of Right-of-use Assets</u>		
	<u>December 31</u>		
	<u>2020</u>	<u>2019</u>	
Subsidiary of the Company			
Cathay Life	<u>\$ 565,589</u>	<u>\$ 151,494</u>	
	<u>Lease Liabilities</u>		
	<u>December 31</u>		
	<u>2020</u>	<u>2019</u>	
Subsidiary of the Company			
Cathay Life	<u>\$ 1,825,007</u>	<u>\$ 1,956,803</u>	
	<u>For the Years Ended</u>		
	<u>December 31</u>		
	<u>2020</u>	<u>2019</u>	<u>Payment Terms</u>
<u>Rental expense</u>			
Subsidiary of the Company			
Cathay Life	<u>\$ 16,483</u>	<u>\$ 204,573</u>	Monthly
	<u>Refundable Deposits Paid</u>		
	<u>December 31</u>		
	<u>2020</u>	<u>2019</u>	
Subsidiary of the Company			
Cathay Life	<u>\$ 186,446</u>	<u>\$ 188,158</u>	

d) Shares transactions-issuance of shares for cash

		<u>For the Years Ended</u>	
		<u>December 31</u>	
		<u>2020</u>	<u>2019</u>
The Company			
Cathay Financial Holdings	Ordinary shares	<u>\$ -</u>	<u>\$ 10,000,000</u>

e) Others

Name	For the Years Ended December 31	
	2020	2019
<u>Commission and handling fee income</u>		
Subsidiary of the Company		
Cathay Life	\$ 6,527,644	\$ 7,333,637
Cathay Century	143,411	154,046
Cathay Securities	167,851	80,628
<u>General expenses</u>		
Subsidiary of the Company		
Cathay Life	185,220	168,589
Associate		
Symphox Information Co., Ltd.	521,593	567,936
Other related party		
Seaward Card Co., Ltd.	219,953	224,726
<u>Payment of insurance expenses</u>		
Subsidiary of the Company		
Cathay Century	168,070	178,060
Cathay Life	123,336	67,136
Name	December 31	
	2020	2019
<u>Receivables from related-party for insurance commission</u>		
Subsidiary of the Company		
Cathay Life	\$ 350,640	\$ 43,208
<u>Guarantee deposits paid</u>		
Subsidiary of the Company		
Cathay Futures	267,303	508,694
<u>Accounts payable</u>		
Associate		
Symphox Information Co., Ltd.	84,494	123,346
<u>Related party payables from linked tax system</u>		
The Company		
Cathay Financial Holdings	765,804	1,703,104

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 Years Ended	
		December 31	
		2020	2019
Net premium income	Subsidiary of the Company		
	Cathay Life	\$ 168,070	\$ 178,060
	Cathay United Bank	115,639	105,568
Operating costs			
Marketing costs	Subsidiary of the Company		
	Cathay Life	658,336	667,546
Operating expenses	Subsidiary of the Company		
Marketing expenses	Cathay United Bank	113,825	123,796

b) Payables to related parties

Item	Name	December 31	
		2020	2019
Other payables	The Company		
	Cathay Financial Holdings	\$ 356,009	\$ 362,812
	(Note)		

Note: Including income tax payable under tax consolidation and remuneration of directors and supervisors.

c) Cash in bank

Item	Name	December 31	
		2020	2019
Checking deposits and demand deposits	Subsidiary of the Company		
	Cathay United Bank	\$ 1,845,214	\$ 1,906,704
	Indovina Bank	6,151	8,180
Time deposits	Subsidiary of the Company		
	Cathay United Bank	237,068	150,726
	Indovina Bank	<u>165,607</u>	<u>567,600</u>
		<u>\$ 2,254,040</u>	<u>\$ 2,633,210</u>

d) Financial assets at FVTPL (beneficiary certificate)

	December 31	
	2020	2019
Other related party		
Fund managed by Cathay Securities Investment Trust	<u>\$ 1,119,265</u>	<u>\$ 632,998</u>

e) Discretionary account management balance

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Securities Investment Trust	<u>\$ 1,357,146</u>	<u>\$ 1,081,258</u>

f) Lease agreements

	<b>Acquisition of Right-of-use Assets For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Life	<u>\$ 930</u>	<u>\$ 210,625</u>

	<b>Lease Liabilities For the Years Ended December 31</b>	
<b>Name</b>	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Life	<u>\$ 71,586</u>	<u>\$ 176,326</u>

g) SWAP

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

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

4) Cathay Securities and its subsidiaries

a) Cash in bank

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay United Bank	<u>\$ 4,108,990</u>	<u>\$ 2,399,307</u>

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

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

b) Customer's margin accounts

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company		
Cathay United Bank	<u>\$ 943,420</u>	<u>\$ 1,064,570</u>

c) Futures trader's equity

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company		
Cathay Life	\$ 1,897,019	\$ 3,078,757
Cathay Securities Investment Trust (Note)	1,491,081	1,218,446
Cathay United Bank	<u>267,303</u>	<u>508,694</u>
	<u>\$ 3,655,403</u>	<u>\$ 4,805,897</u>

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

d) Other payables

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
The Company		
Cathay Financial Holdings (Note)	<u>\$ 218,953</u>	<u>\$ 74,712</u>

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

e) Brokerage service fee income

	<b>For the Years Ended</b>	
	<b>December 31</b>	
<b>Name</b>	<b>2020</b>	<b>2019</b>
Subsidiary of the Company		
Cathay Life	<u>\$ 155,771</u>	<u>\$ 213,844</u>

f) Other operating expense

	<b>For the Years Ended</b>	
	<b>December 31</b>	
<b>Name</b>	<b>2020</b>	<b>2019</b>
Subsidiary of the Company		
Cathay United Bank	<u>\$ 167,851</u>	<u>\$ 80,628</u>

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay United Bank	<u>\$ 137,531</u>	<u>\$ 88,704</u>

b) Accounts receivable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Other related party Funds managed by Cathay Securities Investment Trust	<u>\$ 209,165</u>	<u>\$ 221,014</u>

c) Accounts payable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
The Company Cathay Financial Holdings (Note)	<u>\$ 186,069</u>	<u>\$ 176,613</u>

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

d) Discretionary account management balance

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Life	\$ 312,835,430	\$ 213,072,442
Cathay Century	<u>1,357,146</u>	<u>1,081,258</u>
	<u>\$ 314,192,576</u>	<u>\$ 214,153,700</u>

e) Operating income

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Life	\$ 288,106	\$ 182,830
Other related party Fund managed by Cathay Securities Investment Trust	<u>2,328,614</u>	<u>2,310,677</u>
	<u>\$ 2,616,720</u>	<u>\$ 2,493,507</u>

f) Consulting fee

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Subsidiary of the Company Conning Asia Pacific Ltd.	<u>\$ 136,618</u>	<u>\$ 128,022</u>

6) Cathay Venture

a) Cash and cash equivalents

Name	Items	<b>December 31, 2020</b>		<b>For the Year Ended December 31, 2020 Total Interest</b>
		<b>Amount</b>	<b>Interest Rate Range</b>	
Cathay United Bank	Cash in bank	<u>\$ 8,113</u>	0.001%-0.35%	<u>\$ 2</u>
	Security deposits	<u>\$ 96,645</u>	0.005%	<u>\$ 3</u>

Name	Items	<b>December 31, 2019</b>		<b>For the Year Ended December 31, 2019 Total Interest</b>
		<b>Amount</b>	<b>Interest Rate Range</b>	
Cathay United Bank	Cash in bank	<u>\$ 50,330</u>	0.001%-0.37%	<u>\$ 9</u>
	Security deposits	<u>\$ 10,021</u>	0.01%	<u>\$ 4</u>

b) Financial assets at FVTPL

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Other related party Fund managed by Cathay Securities Investment Trust	\$ 414,858	\$ 539,043
Cathay Healthcare Management Co., Ltd.	<u>145,035</u>	<u>229,103</u>
	<u>\$ 559,893</u>	<u>\$ 768,146</u>

c) Shares transactions-issuance of shares for cash

Name	Items	<b>For the Years Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Subsidiary of the Company Cathay Life	Ordinary shares	<u>\$ -</u>	<u>\$ 1,567,574</u>

## 29. PLEDGED ASSETS

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

Item	Description	December 31	
		2020	2019
Time deposits and guarantee deposits paid	Capital guarantee, serving as deposits paid, settlement accounts, overdraft guarantee, collateral for lease of real estate, collateral for court guarantees, provisions for business and collateral	\$ 15,410,561	\$ 14,879,748
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	3,273,608	1,190,059
Financial assets at FVTOCI	Provisions for business and collateral	12,006,501	10,006,563
Financial assets at amortized cost	Provisions for business and collateral	45,525,409	47,521,950
Investment properties	Short-term loans	<u>291,175</u>	<u>293,341</u>
		<u>\$ 82,507,254</u>	<u>\$ 73,891,661</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 December 31, 2020 and 2019, Cathay United Bank and its subsidiaries had the following material commitments for entrusted item and guarantees:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Trust and security held for safekeeping	\$ 781,995,797	\$ 720,298,578
Travelers checks for sale	-	257,286
Collection and payment on behalf of customers	33,483,521	36,708,754
Book-entry for government bonds and depository for short-term marketable securities under management	450,195,466	429,136,051
Entrusted financial management business	11,968,703	8,205,335
Guarantees on duties and contracts	17,071,951	12,957,304
Unused commercial letters of credit	6,914,811	5,254,667
Irrevocable loan commitments	191,900,154	191,118,192
Unused credit card lines commitments	662,041,965	624,179,881
Underwritten securities	-	1,350,000
Financial guarantee contracts	1,577,528	1,831,942

- c. As of December 31, 2020, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$1,003,600 thousand, US\$3,606,989 thousand, EUR467,845 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	December 31		LIABILITIES AND EQUITY	December 31	
	2020	2019		2020	2019
CASH AND CASH EQUIVALENTS	\$ 915,274	\$ 84,693	COMMERCIAL PAPER PAYABLE, NET	\$ 38,250,000	\$ 48,480,000
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	36,445,500	35,269,500	PAYABLES	696,079	10,666,489
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	116,200	106,704	CURRENT TAX LIABILITIES	19,849,285	2,243,784
NOTES AND BONDS PURCHASED UNDER RESALE AGREEMENTS	-	310,000	BONDS PAYABLE	50,000,000	20,000,000
RECEIVABLES, NET	7,739,321	2,388,041	PROVISIONS	766,414	832,997
CURRENT TAX ASSETS	4,650,365	4,853,833	LEASE LIABILITIES	249,631	55,369
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET	953,059,879	810,998,796	DEFERRED TAX LIABILITIES	266,714	266,714
PROPERTY AND EQUIPMENT, NET	58,912	54,192	OTHER LIABILITIES	<u>163,886</u>	<u>163,891</u>
RIGHT-OF-USE ASSETS	249,272	54,891	Total liabilities	<u>110,242,009</u>	<u>82,709,244</u>
DEFERRED TAX ASSETS	25,397	262,855	EQUITY		
OTHER ASSETS	<u>43,105</u>	<u>73,104</u>	Share capital		
			Ordinary shares	131,692,102	131,692,102
			Preference shares	15,333,000	15,333,000
			Capital surplus	177,256,053	177,256,976
			Retained earnings		
			Legal reserve	51,967,688	46,122,845
			Special reserve	149,894,910	221,977,672
			Unappropriated earnings	169,606,342	58,181,890
			Other equity	<u>197,311,121</u>	<u>121,182,880</u>
			Total equity	<u>893,061,216</u>	<u>771,747,365</u>
TOTAL	<u>\$ 1,003,303,225</u>	<u>\$ 854,456,609</u>	TOTAL	<u>\$ 1,003,303,225</u>	<u>\$ 854,456,609</u>

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

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>REVENUE</b>		
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 76,787,053	\$ 63,442,641
Other operating income	<u>2,480,733</u>	<u>1,284,585</u>
Total revenue	<u>79,267,786</u>	<u>64,727,226</u>
<b>EXPENSES AND LOSSES</b>		
Operating expenses	(1,638,721)	(1,368,200)
Other expenses and losses	<u>(511,379)</u>	<u>(668,023)</u>
Total expenses and losses	<u>(2,150,100)</u>	<u>(2,036,223)</u>
<b>INCOME BEFORE TAX</b>	77,117,686	62,691,003
<b>INCOME TAX (EXPENSE) BENEFIT</b>	<u>(2,538,226)</u>	<u>66,283</u>
<b>NET INCOME</b>	<u>74,579,460</u>	<u>62,757,286</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	(1,395)	715
Gain on equity instruments at fair value through other comprehensive income	9,496	4,400
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	4,245,540	7,589,382
Income tax relating to items that will not be reclassified subsequently to profit or loss	279	(143)
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>76,155,041</u>	<u>181,540,526</u>
Other comprehensive income for the period, net of income tax	<u>80,408,961</u>	<u>189,134,880</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 154,988,421</u>	<u>\$ 251,892,166</u>
<b>EARNINGS PER SHARE</b>		
Basic	<u>\$5.41</u>	<u>\$4.76</u>

Cathay Financial Holding Co., Ltd.

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

	Share Capital						Retained Earnings						Other Equity				Total Equity
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated 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	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	Gains on Property Revaluation	Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach	Other			
BALANCE AT JANUARY 1, 2019	\$ 125,632,102	\$ 15,333,000	\$ 165,449,364	\$ 40,976,121	\$ 149,346,119	\$ 95,553,376	\$ (12,149,871)	\$ (17,586,946)	\$ 173,289	\$ 774,084	\$ (1,321,138)	\$ 10,367,911	\$ (52,816,081)	\$ -	\$ 519,731,330		
Appropriation of 2018 earnings																	
Legal reserve	-	-	-	5,146,724	-	(5,146,724)	-	-	-	-	-	-	-	-	-		
Special reserve	-	-	-	-	72,631,553	(72,631,553)	-	-	-	-	-	-	-	-	-		
Cash dividends on ordinary shares	-	-	-	-	-	(15,075,852)	-	-	-	-	-	-	-	-	(15,075,852)		
Cash dividends on 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	-	-	138,891	-	-	-	-	-	-	-	-	-	-	-	138,891		
Net income for the year ended December 31, 2019	-	-	-	-	-	62,757,286	-	-	-	-	-	-	-	-	62,757,286		
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	(1,169,749)	81,300,147	158,641	(2,624,592)	(186,726)	872,403	110,784,756	-	189,134,880		
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	62,757,286	(1,169,749)	81,300,147	158,641	(2,624,592)	(186,726)	872,403	110,784,756	-	251,892,166		
Issuance of ordinary shares for cash	6,060,000	-	15,150,000	-	-	-	-	-	-	-	-	-	-	-	21,210,000		
Share-based payment transactions	-	-	287,684	-	-	-	-	-	-	-	-	-	-	-	287,684		
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	(4,606,752)	-	4,606,752	-	-	-	-	-	-	-		
BALANCE AT DECEMBER 31, 2019	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																	
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)		
Cash dividends on preferred shares	-	-	-	-	-	(3,390,924)	-	-	-	-	-	-	-	-	(3,390,924)		
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	(923)	-	-	-	-	-	-	-	-	-	-	-	(923)		
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,944,303)	(3,944,303)		
Net income for the year ended December 31, 2020	-	-	-	-	-	74,579,460	-	-	-	-	-	-	-	-	74,579,460		
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	-	(2,144,389)	38,081,079	15,941	371,803	(458,415)	-	44,542,942	-	80,408,961		
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	74,579,460	(2,144,389)	38,081,079	15,941	371,803	(458,415)	-	44,542,942	-	154,988,421		
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	-	193,192	-	(193,192)	-	-	-	-	-	-	-		
Other	-	-	-	-	(154,672)	297,897	-	-	-	-	-	(143,225)	-	-	-		
BALANCE AT DECEMBER 31, 2020	\$ 131,692,102	\$ 15,333,000	\$ 177,256,053	\$ 51,967,688	\$ 149,894,910	\$ 169,606,342	\$ (15,464,009)	\$ 106,207,840	\$ 347,871	\$ (1,478,705)	\$ (1,966,279)	\$ 11,097,089	\$ 102,511,617	\$ (3,944,303)	\$ 893,061,216		

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

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 77,117,686	\$ 62,691,003
Adjustments for:		
Depreciation expenses	72,436	64,610
Amortization expenses	-	1,330
(Gain) loss on of financial assets and liabilities at fair value through profit or loss	(1,176,000)	175,000
Interest income	(1,261,303)	(1,261,857)
Dividends income	(5,512)	(5,378)
Interest expenses	481,797	455,258
Compensation costs of share-based payments	-	3,856
Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method	(76,787,053)	(63,442,641)
Loss on disposal and retirement of property and equipment	103	11
Changes in operating assets and liabilities		
Receivables	(15,900)	-
Other assets	5,857	(6,154)
Payables	101,752	43,998
Provisions	4,894	11,144
Other liabilities	(5)	(178)
Cash used in operations	(1,461,248)	(1,269,998)
Interest received	1,261,320	1,261,860
Dividends received	5,512	5,378
Interest paid	(384,538)	(317,970)
Income tax refunded	-	818,169
Income tax paid	(45,357)	-
Net cash (used in) generated from operating activities	(624,311)	497,439
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for using equity the method	(1,200,000)	(20,000,000)
Acquisition of property and equipment	(15,961)	(74,061)
Proceeds from disposal of property and equipment	-	24,854
Decrease (increase) in other assets	289	(17,483)
Dividends received	12,381,325	10,658,658
Net cash flows generated from (used in) investing activities	11,165,653	(9,408,032)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in commercial paper payable	(10,230,000)	(10,780,000)
Issuance of corporate bonds	30,000,000	20,000,000
Repayments of the principal portion of lease liabilities	(61,417)	(57,361)
Issuance of ordinary shares for cash	-	21,210,000
Dividends paid	(29,729,344)	(21,512,706)
Net cash flows (used in) generated from financing activities	(10,020,761)	8,859,933

(Continued)

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ 520,581	\$ (50,660)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>394,693</u>	<u>445,353</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 915,274</u>	<u>\$ 394,693</u>

Reconciliation of cash and cash equivalents:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents presented in the balance sheets	\$ 915,274	\$ 84,693
Securities purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7	<u>-</u>	<u>310,000</u>
Cash and cash equivalents at the end of the years	<u>\$ 915,274</u>	<u>\$ 394,693</u>

(Concluded)

## 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	December 31	
	2020	2019
Cash and cash equivalents	\$ 504,040,612	\$ 392,341,567
Receivables	64,212,928	78,031,177
Financial assets at fair value through profit or loss	1,331,633,589	1,280,235,253
Financial assets at fair value through other comprehensive income	1,222,680,832	854,336,862
Financial assets measured at amortized cost	2,649,363,807	2,613,943,901
Financial assets for hedging	146,959	548,075
Investments accounted for using the equity method	89,577,714	103,774,796
Investment property	464,528,398	451,323,302
Loans	491,769,348	526,098,622
Reinsurance assets	2,087,931	1,677,797
Property and equipment	26,750,271	29,653,823
Right-of-use assets	524,444	465,801
Intangible assets	29,509,337	31,478,209
Deferred tax assets	56,453,457	36,056,344
Other assets	29,493,153	27,469,277
Separate account insurance product assets	<u>641,555,694</u>	<u>607,424,732</u>
Total	<u>\$ 7,604,328,474</u>	<u>\$ 7,034,859,538</u>
<b>Liabilities</b>		
Payables	\$ 24,648,142	\$ 25,554,039
Current tax liabilities	160,145	261,305
Financial liabilities at fair value through profit or loss	11,687,067	2,974,334
Financial liabilities for hedging	90,971	-
Bonds payable	80,000,000	80,000,000
Insurance liabilities	6,018,792,456	5,628,299,012
Reserve for insurance contracts with the nature of financial products	1,010,156	1,001,991
Reserve for foreign exchange valuation	14,820,865	18,000,877
Provisions	56,245	56,245
Lease liabilities	9,279,631	9,198,368
Deferred tax liabilities	67,447,866	54,951,648
Other liabilities	21,051,872	18,518,204
Separate account insurance product liabilities	<u>641,555,694</u>	<u>607,424,732</u>
Total liabilities	<u>6,890,601,110</u>	<u>6,446,240,755</u>
<b>Equity</b>		
Capital	58,515,274	58,515,274
Capital surplus	60,606,533	60,607,456
Retained earnings	416,092,528	364,423,657
Other equity	<u>178,513,029</u>	<u>105,072,396</u>
Total equity	<u>713,727,364</u>	<u>588,618,783</u>
Total	<u>\$ 7,604,328,474</u>	<u>\$ 7,034,859,538</u>

**Cathay Life Insurance Co., Ltd.**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 906,260,419	\$ 906,585,211
Operating costs	(837,328,341)	(846,503,873)
Operating expenses	<u>(20,564,071)</u>	<u>(22,141,294)</u>
Operating income	48,368,007	37,940,044
Non-operating income and expenses	<u>1,582,615</u>	<u>1,663,036</u>
Profit before income tax	49,950,622	39,603,080
Income tax benefit (expense)	<u>1,793,972</u>	<u>(1,757,127)</u>
Net income	51,744,594	37,845,953
Other comprehensive income	<u>77,309,213</u>	<u>183,858,590</u>
Total comprehensive income	<u>\$ 129,053,807</u>	<u>\$ 221,704,543</u>
Basic earnings per share	<u>\$8.84</u>	<u>\$6.60</u>



**Cathay Lujiazui Life Insurance Co., Ltd.**

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

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 2,329,605	\$ 3,107,701
Receivables	964,148	804,061
Financial assets at fair value through profit or loss	49,511,070	36,611,278
Financial assets measured at amortized cost	1,086,092	129,651
Loans	1,358,558	861,990
Reinsurance assets	112,760	66,135
Property and equipment	103,434	119,310
Right-of-use assets	254,266	283,100
Intangible assets	36,835	30,957
Other assets	2,663,475	2,642,612
Separate account insurance product assets	128,874	117,702
<b>Total</b>	<b>\$ 58,549,117</b>	<b>\$ 44,774,497</b>
<b>Liabilities</b>		
Payables	\$ 1,832,778	\$ 1,644,255
Current tax liabilities	23,981	78,150
Insurance liabilities	31,436,348	21,919,965
Reserve for insurance contracts with the nature of financial instruments	12,721,352	9,930,017
Lease liabilities	263,942	289,529
Other liabilities	109,553	80,636
Separate account insurance product liabilities	128,874	117,702
<b>Total liabilities</b>	<b>46,516,828</b>	<b>34,060,254</b>
<b>Equity</b>		
Capital	13,497,155	13,497,155
Retained earnings	(1,400,823)	(2,890,408)
Other equity	(64,043)	107,496
<b>Total equity</b>	<b>12,032,289</b>	<b>10,714,243</b>
<b>Total</b>	<b>\$ 58,549,117</b>	<b>\$ 44,774,497</b>

**Cathay Lujiazui Life Insurance Co., Ltd.**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 16,810,496	\$ 13,940,061
Operating costs	(13,363,144)	(11,371,423)
Operating expenses	(1,721,692)	(1,991,655)
Operating income	1,725,660	576,983
Non-operating income and expenses	1,279	43,505
Profit before income tax	1,726,939	620,488
Income tax expense	(237,354)	(7,937)
Net income	1,489,585	612,551
Other comprehensive (loss) income	(171,539)	318,995
 Total comprehensive income	 <b>\$ 1,318,046</b>	 <b>\$ 931,546</b>
 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)**

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 748,475	\$ 1,135,950
Receivables	585,819	608,253
Financial assets at fair value through profit or loss	15,074,158	13,125,255
Financial assets measured at amortized cost	1,336,764	220,181
Loans	92,258	65,804
Property and equipment	19,522	26,167
Right-of-use assets	106,662	112,826
Intangible assets	3,323	4,562
Other assets	85,727	81,391
<b>Total</b>	<b>\$ 18,052,708</b>	<b>\$ 15,380,389</b>
<b>Liabilities</b>		
Payables	\$ 214,666	\$ 170,964
Insurance liabilities	6,752,746	4,272,128
Lease liabilities	103,759	111,342
Other liabilities	-	62
<b>Total liabilities</b>	<b>7,071,171</b>	<b>4,554,496</b>
<b>Equity</b>		
Capital	9,090,730	9,090,730
Retained earnings	(937,479)	198,367
Other equity	2,828,286	1,536,796
<b>Total equity</b>	<b>10,981,537</b>	<b>10,825,893</b>
<b>Total</b>	<b>\$ 18,052,708</b>	<b>\$ 15,380,389</b>

**Cathay Life Insurance Company (Vietnam)**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 3,119,731	\$ 2,295,247
Operating costs	(3,316,372)	(1,498,381)
Operating expenses	(944,208)	(726,347)
Operating (loss) income	(1,140,849)	70,519
Non-operating income and expenses	5,818	3,354
(Loss) profit before income tax	(1,135,031)	73,873
Income tax expense	(815)	-
Net (loss) income	(1,135,846)	73,873
Other comprehensive income	1,291,490	1,186,770
 Total comprehensive income	 \$ 155,644	 \$ 1,260,643
 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)**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets	\$ 344,676	\$ 295,787
Financial assets measured at amortized cost	1,198,780	993,991
Investment property	7,039,316	6,992,510
Property and equipment	2	2
Other non-current assets	<u>-</u>	<u>908</u>
Total	<u>\$ 8,582,774</u>	<u>\$ 8,283,198</u>
<b>Liabilities</b>		
Current liabilities	\$ 2,631	\$ 1,617
Deferred tax liabilities	520,001	456,715
Other liabilities	<u>93,758</u>	<u>89,778</u>
Total liabilities	<u>616,390</u>	<u>548,110</u>
<b>Equity</b>		
Capital	7,223,435	7,223,435
Retained earnings	1,326,003	1,164,590
Other equity	<u>(583,054)</u>	<u>(652,937)</u>
Total equity	<u>7,966,384</u>	<u>7,735,088</u>
Total	<u>\$ 8,582,774</u>	<u>\$ 8,283,198</u>

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

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 278,814	\$ 381,097
Operating expenses	<u>(51,725)</u>	<u>(43,843)</u>
Operating income	227,089	337,254
Non-operating income and expenses	<u>-</u>	<u>-</u>
Profit before income tax	227,089	337,254
Income tax expense	<u>(65,676)</u>	<u>(62,934)</u>
Net income	161,413	274,320
Other comprehensive income (loss)	<u>69,883</u>	<u>(276,578)</u>
Total comprehensive income (loss)	<u>\$ 231,296</u>	<u>\$ (2,258)</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)

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 3,553,611	\$ 1,747,778
Financial assets at amortized cost	-	1,285,580
Investment property	<u>9,876,964</u>	<u>11,019,398</u>
Total	<u>\$ 13,430,575</u>	<u>\$ 14,052,756</u>
<b>Liabilities</b>		
Current liabilities	<u>\$ 58,881</u>	<u>\$ 105,432</u>
Total liabilities	<u>58,881</u>	<u>105,432</u>
<b>Equity</b>		
Capital	16,654,013	16,654,013
Retained earnings	890,991	1,236,211
Other equity	<u>(4,173,310)</u>	<u>(3,942,900)</u>
Total equity	<u>13,371,694</u>	<u>13,947,324</u>
Total	<u>\$ 13,430,575</u>	<u>\$ 14,052,756</u>

**Cathay Woolgate Exchange Holding 1 Limited**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating (loss) revenue	\$ (277,275)	\$ 891,925
Operating expenses	<u>(5,740)</u>	<u>(733)</u>
(Loss) profit before income tax	(283,015)	891,192
Income tax expense	<u>(62,205)</u>	<u>(150,385)</u>
Net (loss) income	(345,220)	740,807
Other comprehensive (loss) income	<u>(230,410)</u>	<u>221,246</u>
Total comprehensive (loss) income	<u>\$ (575,630)</u>	<u>\$ 962,053</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)

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 34,113	\$ 17,971
Financial assets measured at amortized cost	-	11,867
Investment property	99,767	111,307
Total	\$ 133,880	\$ 141,145
<b>Liabilities</b>		
Current liabilities	\$ 681	\$ 998
Total liabilities	681	998
<b>Equity</b>		
Capital	168,222	168,222
Retained earnings	7,166	11,770
Other equity	(42,189)	(39,845)
Total equity	133,199	140,147
Total	\$ 133,880	\$ 141,145

**Cathay Woolgate Exchange Holding 2 Limited**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating (loss) revenue	\$ (2,823)	\$ 8,989
Operating expenses	(1,331)	(733)
(Loss) profit before income tax	(4,154)	8,256
Income tax expense	(450)	(1,480)
Net (loss) income	(4,604)	6,776
Other comprehensive (loss) income	(2,344)	2,233
Total comprehensive (loss) income	\$ (6,948)	\$ 9,009
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)

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 1,473,611	\$ 1,075,425
Investment property	20,317,463	21,096,505
Other non-current assets	163	-
Total	<b>\$ 21,791,237</b>	<b>\$ 22,171,930</b>
<b>Liabilities</b>		
Current liabilities	\$ 164,650	\$ 168,356
Non-current liabilities	12,758,544	12,964,577
Total liabilities	12,923,194	13,132,933
<b>Equity</b>		
Capital	10,189,090	10,189,090
Retained earnings	594,604	621,234
Other equity	(1,915,651)	(1,771,327)
Total equity	8,868,043	9,038,997
Total	<b>\$ 21,791,237</b>	<b>\$ 22,171,930</b>

**Cathay Walbrook Holding 1 Limited**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 407,658	\$ 718,077
Operating costs	(405,704)	(486,503)
Operating expenses	(26,545)	(756)
Profit before (loss) income tax	(24,591)	230,818
Income tax expense	(2,039)	(69,424)
Net (loss) income	(26,630)	161,394
Other comprehensive (loss) income	(144,324)	148,182
Total comprehensive (loss) income	<b>\$ (170,954)</b>	<b>\$ 309,576</b>
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)

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Current assets	\$ 72,406	\$ 53,025
Investment property	1,069,341	1,110,342
Other non-current assets	163	-
Total	<b>\$ 1,141,910</b>	<b>\$ 1,163,367</b>
<b>Liabilities</b>		
Current liabilities	\$ 8,358	\$ 8,567
Non-current liabilities	671,502	682,346
Total liabilities	679,860	690,913
<b>Equity</b>		
Capital	536,268	536,268
Retained earnings	26,355	29,179
Other equity	(100,573)	(92,993)
Total equity	462,050	472,454
Total	<b>\$ 1,141,910</b>	<b>\$ 1,163,367</b>

**Cathay Walbrook Holding 2 Limited**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 21,439	\$ 37,759
Operating costs	(21,353)	(25,605)
Operating expenses	(2,958)	(758)
(Loss) profit before income tax	(2,872)	11,396
Income tax benefit (expense)	48	(3,503)
Net (loss) income	(2,824)	7,893
Other comprehensive (loss) income	(7,580)	7,753
Total comprehensive (loss) income	<b>\$ (10,404)</b>	<b>\$ 15,646</b>
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)

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets	\$ 6,270,216	\$ 5,635,194
Financial assets at fair value through profit or loss	916,693	1,056,370
Financial assets at fair value through other comprehensive income	5,426	4,409
Investments accounted for using the equity method	-	2,774,628
Property and equipment	922,833	770,358
Right-of-use assets	825,519	790,993
Intangible assets	14,521,342	9,833,170
Deferred tax assets	237,286	100,422
Other non-current assets	305,167	270,618
Total	\$ 24,004,482	\$ 21,236,162
<b>Liabilities</b>		
Current liabilities	\$ 3,865,454	\$ 3,940,693
Provisions	-	177,625
Financial liabilities for hedging	48,887	30,894
Lease liabilities	913,690	859,735
Deferred tax liabilities	423,181	385,259
Other non-current liabilities	4,637,199	509,103
Total liabilities	9,888,411	5,903,309
<b>Equity</b>		
Capital	99,343	99,343
Capital surplus	15,624,196	15,624,196
Retained earnings	3,106,384	448,451
Other equity	(6,096,825)	(1,381,220)
Non-controlling interests	1,382,973	542,083
Total equity	14,116,071	15,332,853
Total	\$ 24,004,482	\$ 21,236,162

**Conning Holdings Limited**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 10,260,771	\$ 7,305,508
Operating costs	(910,589)	(922,886)
Operating expenses	(6,233,967)	(5,771,884)
Operating income	3,116,215	610,738
Non-operating income and expenses	(1,097)	-
Profit before income tax	3,115,118	610,738
Income tax expense	(264,459)	(172,464)
Net income	2,850,659	438,274
Other comprehensive loss	(796,073)	(344,487)
 Total comprehensive income	 \$ 2,054,586	 \$ 93,787
 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)**

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 10,004,597	\$ 10,501,223
Receivables	2,597,751	2,631,288
Financial assets at fair value through profit or loss	11,665,436	9,697,413
Financial assets at fair value through other comprehensive income	1,226,184	1,343,814
Financial assets measured at amortized cost	6,874,033	7,644,009
Investments accounted for using the equity method	2,814,164	2,737,905
Loans	195,316	229,849
Reinsurance assets	7,336,678	6,560,871
Property and equipment	188,259	166,902
Right-of-use assets	101,982	203,598
Intangible assets	81,777	63,203
Deferred tax assets	175,329	134,204
Other assets	<u>617,042</u>	<u>624,601</u>
<b>Total</b>	<b><u>\$ 43,878,548</u></b>	<b><u>\$ 42,538,880</u></b>
<b>Liabilities</b>		
Payables	\$ 3,198,584	\$ 3,230,479
Financial liabilities at fair value through profit or loss	2,700	367
Lease liabilities	102,357	204,118
Insurance liabilities	25,988,108	24,718,953
Other liabilities	716,499	994,858
Provisions	454,164	432,909
Deferred tax liabilities	<u>286,310</u>	<u>300,739</u>
<b>Total liabilities</b>	<b><u>30,748,722</u></b>	<b><u>29,882,423</u></b>
<b>Equity</b>		
Ordinary shares	3,057,052	3,057,052
Capital surplus	518,326	518,326
Retained earnings	9,679,187	9,273,299
Other equity	<u>(124,739)</u>	<u>(192,220)</u>
<b>Total equity</b>	<b><u>13,129,826</u></b>	<b><u>12,656,457</u></b>
<b>Total</b>	<b><u>\$ 43,878,548</u></b>	<b><u>\$ 42,538,880</u></b>

**Cathay Century Insurance Co., Ltd.**

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 20,406,319	\$ 20,465,597
Operating costs	(13,861,758)	(14,039,182)
Operating expenses	<u>(3,998,730)</u>	<u>(3,935,900)</u>
Operating profit	2,545,831	2,490,515
Non-operating income and expenses	<u>4,446</u>	<u>4,481</u>
Profit before income tax	2,550,277	2,494,996
Income tax expense	<u>(376,333)</u>	<u>(388,710)</u>
Net income	2,173,944	2,106,286
Other comprehensive income	<u>67,481</u>	<u>620,427</u>
Total comprehensive income	<u>\$ 2,241,425</u>	<u>\$ 2,726,713</u>
Basic earnings per share	<u>\$7.11</u>	<u>\$6.89</u>

**Cathay Insurance Co., Ltd. (Vietnam)**

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

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 248,975	\$ 184,376
Receivables	76,283	144,928
Financial assets measured at amortized cost	524,924	538,189
Reinsurance assets	109,259	154,292
Property and equipment	8,827	5,180
Right-of-use assets	3,882	5,900
Intangible assets	9,403	4,104
Other assets	<u>48,782</u>	<u>48,069</u>
Total	<u>\$ 1,030,335</u>	<u>\$ 1,085,038</u>
<b>Liabilities</b>		
Payables	\$ 164,332	\$ 173,768
Insurance liabilities	238,175	275,828
Lease liabilities	3,680	6,035
Deferred tax liabilities	117	134
Other liabilities	<u>13,530</u>	<u>13,844</u>
Total liabilities	<u>419,834</u>	<u>469,609</u>
<b>Equity</b>		
Capital	845,585	845,585
Retained earnings	(57,250)	(83,292)
Other equity	<u>(177,834)</u>	<u>(146,864)</u>
Total equity	<u>610,501</u>	<u>615,429</u>
Total	<u>\$ 1,030,335</u>	<u>\$ 1,085,038</u>

**Cathay Insurance Co., Ltd. (Vietnam)**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 338,418	\$ 260,339
Operating costs	(79,565)	(85,720)
Operating expenses	<u>(225,572)</u>	<u>(161,396)</u>
Operating income	33,281	13,223
Non-operating income and expenses	<u>940</u>	<u>871</u>
Profit before income tax	34,221	14,094
Income tax expense	<u>(8,179)</u>	<u>(3)</u>
Net income	26,042	14,091
Other comprehensive loss	<u>(30,970)</u>	<u>(12,486)</u>
 Total comprehensive (loss) income	 <u>\$ (4,928)</u>	 <u>\$ 1,605</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)

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 74,801,339	\$ 48,515,201
Due from the Central Bank and call loans to other banks	114,673,136	111,420,796
Financial assets at fair value through profit or loss	320,798,792	294,191,635
Financial assets at fair value through other comprehensive income	304,618,288	293,510,005
Financial assets measured at amortized cost	501,266,786	443,835,161
Securities purchased under resale agreements	18,338,416	9,780,448
Receivables	99,694,198	99,115,885
Loans	1,593,426,912	1,487,889,877
Investments accounted for using the equity method	25,777,352	25,617,511
Other financial assets	364	909
Property and equipment	24,174,666	24,554,606
Right-of-use assets	3,697,989	3,717,597
Investment property	646,445	857,504
Intangible assets	7,635,738	7,628,450
Deferred tax assets	4,371,750	3,860,039
Other assets	30,472,784	28,401,262
<b>Total</b>	<b>\$ 3,124,394,955</b>	<b>\$ 2,882,896,886</b>
<b>Liabilities</b>		
Deposits from the Central Bank and banks	\$ 63,383,248	\$ 70,709,191
Due to the Central Bank and other banks	1,076,000	-
Financial liabilities at fair value through profit or loss	114,386,759	106,531,886
Securities sold under repurchase agreements	10,092,058	43,710,339
Payables	22,325,212	23,858,296
Current tax liabilities	189,195	241,436
Deposits and remittances	2,559,958,727	2,276,606,769
Financial debentures payable	53,800,000	53,900,000
Other financial liabilities	35,331,092	60,218,085
Provisions	3,766,162	3,682,517
Lease liabilities	3,719,319	3,739,711
Deferred tax liabilities	3,330,151	3,046,972
Other liabilities	10,740,160	9,166,080
<b>Total liabilities</b>	<b>2,882,098,083</b>	<b>2,655,411,282</b>
<b>Equity</b>		
Ordinary shares	106,985,830	101,658,353
Capital surplus	38,687,276	38,687,276
Retained earnings	88,733,278	81,794,948
Other equity	7,890,488	5,345,027
<b>Total equity</b>	<b>242,296,872</b>	<b>227,485,604</b>
<b>Total</b>	<b>\$ 3,124,394,955</b>	<b>\$ 2,882,896,886</b>



**Cathay United Bank Co., Ltd.**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest income	\$ 43,507,190	\$ 51,391,239
Interest expense	<u>(11,398,019)</u>	<u>(18,742,159)</u>
Net interest income	32,109,171	32,649,080
Non-interest income	<u>26,559,968</u>	<u>27,464,942</u>
Total income	58,669,139	60,114,022
Bad debt expense, commitment and guarantee liability provision	(2,900,505)	(2,871,227)
Operating expenses	<u>(30,746,967)</u>	<u>(31,940,142)</u>
Profit before income tax	25,021,667	25,302,653
Income tax expense	<u>(3,168,000)</u>	<u>(3,480,000)</u>
Net income	21,853,667	21,822,653
Other comprehensive income	<u>2,957,601</u>	<u>3,821,112</u>
Total comprehensive income	<u>\$ 24,811,268</u>	<u>\$ 25,643,765</u>
Basic earnings per share	<u>\$2.04</u>	<u>\$2.14</u>

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

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 1,895,490	\$ 11,305,750
Due from the Central Bank and call loans to other banks	5,210,061	2,919,836
Financial assets at fair value through profit or loss	2,049,582	4,370,584
Financial assets at fair value through other comprehensive income	9,683,574	9,707,639
Financial assets measured at amortized cost	-	647,735
Securities purchased under resale agreements	6,657,815	2,117,861
Receivables	468,328	212,052
Loans	40,406,004	38,616,595
Property and equipment	694,147	805,364
Right-of-use assets	143,014	138,194
Intangible assets	41,426	22,650
Deferred tax assets	-	-
Other assets	<u>70,400</u>	<u>112,558</u>
<b>Total</b>	<u>\$ 67,319,841</u>	<u>\$ 70,976,818</u>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 2,543,214	\$ 16,758,923
Payables	1,764,344	1,847,465
Current tax liabilities	81,954	6,873
Deposits and remittances	53,925,397	43,198,199
Provisions	12,718	2,986
Lease liabilities	128,111	115,370
Deferred tax liabilities	118,016	196,322
Other liabilities	<u>28,589</u>	<u>31,529</u>
<b>Total liabilities</b>	<u>58,602,343</u>	<u>62,157,667</u>
<b>Equity</b>		
Capital	6,094,911	6,094,911
Retained earnings	2,234,791	2,212,659
Other equity	<u>387,796</u>	<u>511,581</u>
<b>Total equity</b>	<u>8,717,498</u>	<u>8,819,151</u>
<b>Total</b>	<u>\$ 67,319,841</u>	<u>\$ 70,976,818</u>

**Indovina Bank Limited**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest income	\$ 4,226,746	\$ 4,561,969
Interest expense	<u>(2,543,013)</u>	<u>(2,403,384)</u>
Net interest income	1,683,733	2,158,585
Non-interest income	<u>606,088</u>	<u>224,217</u>
Total income	<u>2,289,821</u>	<u>2,382,802</u>
Bad debt expense, commitment and guarantee liability provision	(387,848)	47,757
Operating expenses	<u>(742,096)</u>	<u>(720,548)</u>
Profit before income tax	1,159,877	1,710,011
Income tax expense	<u>(244,603)</u>	<u>(382,490)</u>
Net income	915,274	1,327,521
Other comprehensive (loss) income	<u>(123,785)</u>	<u>195,495</u>
 Total comprehensive income	 <u>\$ 791,489</u>	 <u>\$ 1,523,016</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)**

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 1,480,074	\$ 1,447,614
Due from the Central Bank and call loans to other banks	1,803,851	2,066,824
Financial assets at fair value through other comprehensive income	730	770
Receivables	94,022	84,675
Current tax assets	11,671	10,496
Loans	7,269,273	7,692,289
Property and equipment	179,500	161,191
Right-of-use assets	92,651	113,859
Intangible assets	37,699	51,698
Deferred tax assets	6,343	-
Other assets	48,348	50,766
<b>Total</b>	<b>\$ 11,024,162</b>	<b>\$ 11,680,182</b>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 381,894	\$ 1,090,474
Payables	298,905	114,892
Current tax liabilities	26,852	66,623
Deposits and remittances	7,266,520	7,084,625
Provisions	1,558	1,617
Lease liabilities	97,596	117,006
Deferred tax liabilities	11,918	7,417
Other liabilities	6,003	11,640
<b>Total liabilities</b>	<b>8,091,246</b>	<b>8,494,294</b>
<b>Equity</b>		
Ordinary shares	3,020,769	3,020,769
Retained earnings	102,425	191,555
Other equity	(190,278)	(26,436)
<b>Total equity</b>	<b>2,932,916</b>	<b>3,185,888</b>
<b>Total</b>	<b>\$ 11,024,162</b>	<b>\$ 11,680,182</b>

**Cathay United Bank (Cambodia) Corporation Limited**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest income	\$ 669,055	\$ 685,762
Interest expense	<u>(156,503)</u>	<u>(110,665)</u>
Net interest income	512,552	575,097
Non-interest income	<u>64,904</u>	<u>51,117</u>
Total income	<u>577,456</u>	<u>626,214</u>
Bad debt expense, commitment and guarantee liability provision	(92,421)	(39,429)
Operating expenses	<u>(385,138)</u>	<u>(344,922)</u>
Profit before income tax	99,897	241,863
Income tax expense	<u>(11,419)</u>	<u>(61,811)</u>
Net income	88,478	180,052
Other comprehensive loss	<u>(163,842)</u>	<u>(67,223)</u>
 Total comprehensive (loss) income	 <u>\$ (75,364)</u>	 <u>\$ 112,829</u>
 Basic earnings per share	 <u>\$0.88</u>	 <u>\$1.80</u>

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

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

<b>Assets</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 2,648,385	\$ 1,408,000
Due from the Central Bank and call loans to other banks	8,189,195	6,458,690
Financial assets at fair value through profit or loss	1,195,605	312,534
Financial assets at fair value through other comprehensive income	21,795,225	20,911,695
Financial assets measured at amortized cost	461,357	452,089
Securities purchased under resale agreements	2,146,244	2,397,041
Receivables	4,271,031	3,633,987
Current tax assets	38,817	-
Loans	20,193,772	18,952,145
Property and equipment	202,683	169,334
Right-of-use assets	323,891	256,447
Intangible assets	123,097	132,157
Deferred tax assets	29,887	4,884
Other assets	<u>3,551,705</u>	<u>60,669</u>
<b>Total</b>	<u>\$ 65,170,894</u>	<u>\$ 55,149,672</u>
<b>Liabilities</b>		
Due to the Central Bank and other banks	\$ 10,012,819	\$ 17,149,161
Financial liabilities at fair value through profit or loss	1,227,871	239,053
Notes and bonds sold under repurchase agreements	-	4,470,114
Payables	4,935,100	3,202,724
Current tax liabilities	-	91,125
Deposits and remittances	27,844,380	8,441,516
Other financial liabilities	4,417,232	5,386,138
Provisions	65,359	11,231
Lease liabilities	348,273	274,294
Deferred tax liabilities	4,888	-
Other liabilities	<u>73,266</u>	<u>41,265</u>
<b>Total liabilities</b>	<u>48,929,188</u>	<u>39,306,621</u>
<b>Equity</b>		
Capital	14,377,562	14,377,562
Capital surplus	2,522,670	2,522,670
Retained earnings	536,882	358,821
Other equity	<u>(1,195,408)</u>	<u>(1,416,002)</u>
<b>Total equity</b>	<u>16,241,706</u>	<u>15,843,051</u>
<b>Total</b>	<u>\$ 65,170,894</u>	<u>\$ 55,149,672</u>

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

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

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest income	\$ 1,809,948	\$ 1,846,576
Interest expense	<u>(892,286)</u>	<u>(783,558)</u>
Net interest income	917,662	1,063,018
Non-interest income	<u>166,974</u>	<u>7,000</u>
Total income	1,084,636	1,070,018
Bad debt expense, commitment and guarantee liability (reversal) provision	(1,692)	10,119
Operating expenses	<u>(817,705)</u>	<u>(800,069)</u>
Profit before income tax	265,239	280,068
Income tax expense	<u>(87,660)</u>	<u>(56,671)</u>
Net income	177,579	223,397
Other comprehensive income (loss)	<u>220,595</u>	<u>(375,515)</u>
Total comprehensive income (loss)	<u>\$ 398,174</u>	<u>\$ (152,118)</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)

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets	\$ 44,276,495	\$ 23,688,567
Financial assets at fair value through other comprehensive income - non-current	210	175
Investments accounted for using the equity method	2,157,020	2,074,725
Property and equipment	219,207	114,147
Right-of-use assets	75,227	99,339
Intangible assets	69,584	66,624
Deferred tax assets	18,543	27,842
Other non-current assets	697,450	705,031
<b>Total</b>	<b>\$ 47,513,736</b>	<b>\$ 26,776,450</b>
<b>Liabilities</b>		
Current liabilities	\$ 36,084,418	\$ 18,084,695
Other non-current liabilities	59,376	75,105
<b>Total liabilities</b>	<b>36,143,794</b>	<b>18,159,800</b>
<b>Equity</b>		
Ordinary shares	7,300,000	6,000,000
Capital surplus	898,167	498,167
Retained earnings	2,626,243	1,658,864
Other equity	545,532	459,619
<b>Total equity</b>	<b>11,369,942</b>	<b>8,616,650</b>
<b>Total</b>	<b>\$ 47,513,736</b>	<b>\$ 26,776,450</b>



**Cathay Securities Corporation**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Revenues	\$ 5,397,349	\$ 3,511,143
Service fee expenses	(196,078)	(113,725)
Employee benefit expenses	(1,617,639)	(1,283,634)
Operating expenses	(1,927,944)	(1,336,058)
Share of the profit of subsidiaries and associates accounted for using the equity method	39,215	8,792
Non-operating income and expenses	33,652	18,567
Profit before income tax	1,728,555	805,085
Income tax expense	(261,176)	(105,015)
Net income	1,467,379	700,070
Other comprehensive income	85,913	184,190
Total comprehensive income	\$ 1,553,292	\$ 884,260
Basic earnings per share	\$2.19	\$1.08

**Cathay Futures Co., Ltd.**

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

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets	\$ 15,729,693	\$ 8,611,191
Financial assets at fair value through other comprehensive income - non-current	643,157	537,790
Property and equipment	60,443	64,209
Investment property	291,175	290,341
Right-of-use assets	9,265	4,546
Intangible assets	17,336	22,031
Other non-current assets	163,973	148,920
 Total	 \$ 16,915,042	 \$ 9,679,028
 <b>Liabilities</b>		
Current liabilities	\$ 15,338,432	\$ 8,235,094
Deferred tax liabilities	6,765	6,833
Other non-current liabilities	6,540	2,174
Total liabilities	15,351,737	8,244,101
 <b>Equity</b>		
Ordinary shares	667,000	667,000
Capital surplus	680	680
Retained earnings	282,983	259,583
Other equity	612,642	507,664
Total equity	1,563,305	1,434,927
 Total	 \$ 16,915,042	 \$ 9,679,028

**Cathay Futures Co., Ltd.**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Revenues	\$ 369,175	\$ 284,517
Operating expenses	<u>(377,185)</u>	<u>(320,708)</u>
Operating loss	(8,010)	(36,191)
Non-operating income and expenses	<u>85,732</u>	<u>101,998</u>
Profit before income tax	77,722	65,807
Income tax expense	<u>(15,320)</u>	<u>(9,776)</u>
Net income	62,402	56,031
Other comprehensive income	<u>104,978</u>	<u>212,008</u>
 Total comprehensive income	 <u>\$ 167,380</u>	 <u>\$ 268,039</u>
 Basic earnings per share	 <u>\$0.94</u>	 <u>\$0.84</u>

**Cathay Securities (Hong Kong) Limited**

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets	\$ 4,645,940	\$ 2,581,950
Property and equipment	4,794	11,026
Intangible assets	1,831	1,901
Other non-current assets	<u>37,030</u>	<u>81,026</u>
 Total	 <u>\$ 4,689,595</u>	 <u>\$ 2,675,903</u>
 <b>Liabilities</b>		
Current liabilities	\$ 4,094,190	\$ 2,029,395
Non-current liabilities	<u>1,543</u>	<u>6,576</u>
Total liabilities	<u>4,095,733</u>	<u>2,035,971</u>
 <b>Equity</b>		
Ordinary shares	1,108,244	1,108,244
Retained earnings	(443,570)	(420,389)
Other equity	<u>(70,812)</u>	<u>(47,923)</u>
Total equity	<u>593,862</u>	<u>639,932</u>
 Total	 <u>\$ 4,689,595</u>	 <u>\$ 2,675,903</u>

**Cathay Securities (Hong Kong) Limited**  
**Condensed Statements of Comprehensive Income**  
(In Thousands of New Taiwan Dollars)

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Revenues	\$ 115,971	\$ 101,419
Service fee expenses	(2,672)	(3,168)
Employee benefit expenses	(49,479)	(47,467)
Operating expenses	(88,968)	(103,780)
Non-operating income and expenses	<u>1,967</u>	<u>6,499</u>
Loss before income tax	(23,181)	(46,497)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(23,181)	(46,497)
Other comprehensive loss	<u>(22,889)</u>	<u>(11,406)</u>
 Total comprehensive loss	 <u>\$ (46,070)</u>	 <u>\$ (57,903)</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)

	<b>December 31, 2020</b>
<b>Assets</b>	
Current assets	\$ <u>3,436</u>
Total	<u>\$ 3,436</u>
 <b>Liabilities</b>	
Current liabilities	\$ <u>182</u>
Total liabilities	<u>182</u>
 <b>Equity</b>	
Ordinary shares	3,875
Retained earnings	(439)
Other equity	<u>(182)</u>
Total equity	<u>3,254</u>
 Total	 <u>\$ 3,436</u>

**Cathay Capital (Asia) Limited**

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

	<b>From February 24 to December 31, 2020</b>
Operating loss	\$ (5)
Operating cost	(30)
Operating expenses	(409)
Non-operating income and expenses	<u>5</u>
Loss before income tax	(439)
Income tax expense	<u>-</u>
Net loss	(439)
Other comprehensive loss	<u>(182)</u>
Total comprehensive loss	<u>\$ (621)</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)**

	<b>December 31</b>	
<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets	\$ 2,801,140	\$ 2,669,528
Financial assets at fair value through other comprehensive income - non-current	9,778	9,138
Investments accounted for using the equity method	484,507	458,614
Property and equipment	33,399	43,078
Right-of-use assets	49,495	5,428
Intangible assets	21,839	22,648
Deferred tax assets	29,850	23,543
Guarantee deposits paid	258,156	232,170
Other non-current assets	<u>61,759</u>	<u>22,669</u>
<b>Total</b>	<u><b>\$ 3,749,923</b></u>	<u><b>\$ 3,486,816</b></u>
<b>Liabilities</b>		
Current liabilities	\$ 676,044	\$ 660,093
Non-current liabilities	<u>149,718</u>	<u>128,869</u>
<b>Total liabilities</b>	<u><b>825,762</b></u>	<u><b>788,962</b></u>
<b>Equity</b>		
Ordinary shares	1,500,000	1,500,000
Capital surplus	16,453	16,453
Retained earnings	1,514,603	1,270,570
Other equity	<u>(106,895)</u>	<u>(89,169)</u>
<b>Total equity</b>	<u><b>2,924,161</b></u>	<u><b>2,697,854</b></u>
<b>Total</b>	<u><b>\$ 3,749,923</b></u>	<u><b>\$ 3,486,816</b></u>

**Cathay Securities Investment Trust Co., Ltd.**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 2,873,737	\$ 2,672,983
Operating expenses	<u>(1,788,015)</u>	<u>(1,791,623)</u>
Operating profit	1,085,722	881,360
Non-operating income and expenses	<u>(9,989)</u>	<u>(1,798)</u>
Profit before income tax	1,075,733	879,562
Income tax expense	<u>(218,431)</u>	<u>(178,151)</u>
Net income	857,302	701,411
Other comprehensive loss	<u>(17,726)</u>	<u>(18,381)</u>
 Total comprehensive income	 <u>\$ 839,576</u>	 <u>\$ 683,030</u>
 Basic earnings per share	 <u>\$5.72</u>	 <u>\$4.68</u>

**Cathay Private Equity Co., Ltd.**

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets	\$ 53,371	\$ 31,119
Other non-current assets	<u>28,329</u>	<u>10,106</u>
 Total	 <u>\$ 81,700</u>	 <u>\$ 41,225</u>
 <b>Liabilities</b>		
Current liabilities	<u>\$ 4,294</u>	<u>\$ 3,669</u>
Total liabilities	<u>4,294</u>	<u>3,669</u>
 <b>Equity</b>		
Ordinary shares	100,000	50,000
Capital surplus	63	63
Retained earnings	<u>(22,657)</u>	<u>(12,507)</u>
Total equity	<u>77,406</u>	<u>37,556</u>
 Total	 <u>\$ 81,700</u>	 <u>\$ 41,225</u>

**Cathay Private Equity Co., Ltd.**

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

	For the Years Ended December 31	
	2020	2019
Operating revenue	\$ 10,061	\$ 3,086
Operating expenses	<u>(22,495)</u>	<u>(15,703)</u>
Operating loss	(12,434)	(12,617)
Non-operating income and expenses	<u>(95)</u>	<u>(570)</u>
Loss before income tax	(12,529)	(13,187)
Income tax benefit	<u>2,379</u>	<u>2,520</u>
Net loss	<u>(10,150)</u>	<u>(10,667)</u>
Total comprehensive loss	<u>\$ (10,150)</u>	<u>\$ (10,667)</u>
Basic loss per share	<u>\$(1.31)</u>	<u>\$(2.13)</u>

**Cathay Venture Inc.**

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

	December 31	
	2020	2019
<b>Assets</b>		
Current assets	\$ 1,304,594	\$ 1,470,770
Financial assets at fair value through profit or loss - non-current	4,330,509	3,824,954
Investments accounted for using the equity method	317,665	309,723
Property and equipment	2,711	3,612
Right-of-use assets	11,125	16,231
Deferred tax assets	65,509	45,778
Other non-current assets	<u>1,267</u>	<u>1,126</u>
Total	<u>\$ 6,033,380</u>	<u>\$ 5,672,194</u>
<b>Liabilities</b>		
Current liabilities	\$ 31,349	\$ 42,946
Non-current liabilities	<u>13,431</u>	<u>17,793</u>
Total liabilities	<u>44,780</u>	<u>60,739</u>
<b>Equity</b>		
Ordinary shares	4,842,362	4,565,147
Capital surplus	576,667	576,667
Retained earnings	569,427	469,567
Other equity	<u>144</u>	<u>74</u>
Total equity	<u>5,988,600</u>	<u>5,611,455</u>
Total	<u>\$ 6,033,380</u>	<u>\$ 5,672,194</u>



**Cathay Venture Inc.**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	\$ 433,436	\$ 339,664
Operating costs	(38,365)	(30,919)
Operating expenses	(11,518)	(16,140)
Non-operating income and expenses	(1,053)	(97)
Profit before income tax	382,500	292,508
Income tax (expense) benefit	(5,425)	15,509
Net income	377,075	308,017
Other comprehensive income	70	169
 Total comprehensive income	 \$ 377,145	 \$ 308,186
 Basic earnings per share	 \$0.78	 \$0.72

**Cathay Investment Inc.**

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

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets	\$ 19,496	\$ 34,948
Other non-current assets	15,818	1,040
 Total	 \$ 35,314	 \$ 35,988
 <b>Liabilities</b>		
Current liabilities	\$ 454	\$ 349
Non-current liabilities	328	681
Total liabilities	782	1,030
 <b>Equity</b>		
Ordinary shares	35,000	35,000
Retained earnings	(468)	(42)
Total equity	34,532	34,958
 Total	 \$ 35,314	 \$ 35,988

**Cathay Investment Inc.**

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

	<b>For the Year Ended December 31, 2020</b>	<b>From November 5 to December 31, 2019</b>
Operating revenue	\$ 97	\$ -
Operating expenses	(643)	(54)
Non-operating income and expenses	<u>(11)</u>	<u>2</u>
Loss before income tax	(557)	(52)
Income tax benefit	<u>131</u>	<u>10</u>
Net loss	<u>(426)</u>	<u>(42)</u>
Total comprehensive loss	<u>\$ (426)</u>	<u>\$ (42)</u>
Basic loss per share	<u>\$(0.12)</u>	<u>\$(0.01)</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 year ended December 31, 2020

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.78	0.72	9.68	9.01	12.06
The Company	8.30	8.03	9.26	8.96	94.70
Cathay Life	0.68	0.71	7.67	7.95	5.71
Cathay Century	5.90	5.03	19.78	16.86	10.65
Cathay United Bank	0.83	0.73	10.65	9.30	37.25
Cathay Securities	4.65	3.95	17.30	14.68	27.19

For the year ended December 31, 2019

Unit: %

	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.73	0.66	10.76	9.74	11.49
The Company	8.67	8.68	9.71	9.72	97.97
Cathay Life	0.59	0.57	8.38	8.01	4.17
Cathay Century	6.22	5.25	22.00	18.57	10.29
Cathay United Bank	0.89	0.77	11.79	10.17	36.30
Cathay Securities	3.21	2.79	9.85	8.57	19.94

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 635 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 (65 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 year ended December 31, 2020

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 35,322,608	\$ 155,382,430	\$ 535,481	\$ 203,535	\$ (514,522)	\$ 190,929,532
Net income and gains other than interest income	20,400,213	396,643,821	5,847,615	4,782,604	11,310,700	438,984,953
Profit from operations	55,722,821	552,026,251	6,383,096	4,986,139	10,796,178	629,914,485
Provision for bad debt, commitments and guaranteed liability reserve	(3,382,467)	202,228	-	2,438	(74)	(3,177,875)
Net changes in insurance liability reserve	-	(462,233,422)	139,281	-	-	(462,094,141)
Operating expenses	(31,467,935)	(35,839,479)	(3,282,903)	(3,050,587)	(9,385,784)	(83,026,688)
Profit from continuing operations before taxes	20,872,419	54,155,578	3,239,474	1,937,990	1,410,320	81,615,781
Income tax expense	(3,514,541)	1,624,198	(384,564)	(261,185)	(3,121,466)	(5,657,558)
Net income from continuing operations	17,357,878	55,779,776	2,854,910	1,676,805	(1,711,146)	75,958,223

For the year ended December 31, 2019

Location	Banking Division	Life Insurance Division	Property Insurance Division	Securities Division	Other Division	Total
Net interest income (loss)	\$ 36,635,646	\$ 159,501,497	\$ 533,026	\$ 134,866	\$ (438,530)	\$ 196,366,505
Net income and gains other than interest income	16,892,469	323,102,006	6,204,611	3,161,725	10,159,882	359,520,693
Profit from operations	53,528,115	482,603,503	6,737,637	3,296,591	9,721,352	555,887,198
Provision for bad debt, commitments and guaranteed liability reserve	(2,852,780)	647,389	-	(2)	-	(2,205,393)
Net changes in insurance liability reserve	-	(393,679,154)	(395,043)	-	-	(394,074,197)
Operating expenses	(32,716,674)	(42,175,456)	(3,156,347)	(2,361,238)	(8,640,719)	(89,050,434)
Profit from continuing operations before taxes	17,958,661	47,396,282	3,186,247	935,351	1,080,633	70,557,174
Income tax expense	(3,987,343)	(1,662,000)	(388,792)	(105,117)	(554,618)	(6,697,870)
Net income from continuing operations	13,971,318	45,734,282	2,797,455	830,234	526,015	63,859,304

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

c. Geographical information

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Taiwan	\$ 601,705,258	\$ 531,840,271
Asia	20,156,577	16,996,721
Other countries	<u>8,052,650</u>	<u>7,050,206</u>
	<u>\$ 629,914,485</u>	<u>\$ 555,887,198</u>

d. Major customer

There was no individual external customer whose revenue accounted for 10% or more of the Group's revenue.

### 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 Year Ended December 31, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,923,953	Decrease (increase)	\$ 2,339,162
Expense	×1.05 (×0.95)	Decrease (increase)	3,054,024	Decrease (increase)	2,443,220
Surrender rate	×1.05 (×0.95)	Increase (decrease)	358,110	Increase (decrease)	286,488
Rate of return	+0.1%	Increase	6,236,991	Increase	4,989,593
Rate of return	-0.1%	Decrease	6,243,108	Decrease	4,994,486

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,886,583	Decrease (increase)	\$ 2,309,267
Expense	×1.05 (×0.95)	Decrease (increase)	3,493,065	Decrease (increase)	2,794,452
Surrender rate	×1.05 (×0.95)	Increase (decrease)	624,863	Increase (decrease)	499,891
Rate of return	+0.1%	Increase	5,701,927	Increase	4,561,541
Rate of return	-0.1%	Decrease	5,707,518	Decrease	4,566,014

ii. Cathay Lujiazui Life

For the Year Ended December 31, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 153,298	Decrease (increase)	\$ 114,973
Expense	×1.05 (×0.95)	Decrease (increase)	88,596	Decrease (increase)	66,447
Surrender rate	×1.10 (×0.90)	Increase (decrease)	82,159	Increase (decrease)	61,619
Rate of return	+0.25%	Increase	117,068	Increase	87,801
Rate of return	-0.25%	Decrease	117,349	Decrease	88,012

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 156,997	Decrease (increase)	\$ 117,748
Expense	×1.05 (×0.95)	Decrease (increase)	86,067	Decrease (increase)	64,550
Surrender rate	×1.10 (×0.90)	Increase (decrease)	93,335	Increase (decrease)	70,001
Rate of return	+0.25%	Increase	97,631	Increase	73,223
Rate of return	-0.25%	Decrease	97,869	Decrease	73,402

iii. Cathay Life (Vietnam)

For the Year Ended December 31, 2020					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,484	Decrease (increase)	\$ 1,987
Expense	×1.05 (×0.95)	Decrease (increase)	62,745	Decrease (increase)	50,196
Surrender rate	×1.10 (×0.95)	Increase (decrease)	16,325	Increase (decrease)	13,060
Rate of return	+0.1%	Increase	15,464	Increase	12,371
Rate of return	-0.1%	Decrease	15,479	Decrease	12,383

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,330	Decrease (increase)	\$ 1,064
Expense	×1.05 (×0.95)	Decrease (increase)	47,212	Decrease (increase)	37,770
Surrender rate	×1.10 (×0.95)	Increase (decrease)	8,291	Increase (decrease)	6,633
Rate of return	+0.1%	Increase	13,402	Increase	10,722
Rate of return	-0.1%	Decrease	13,415	Decrease	10,732

- i) Changes in income before tax listed above referred to the effects of income before tax for the years ended December 31, 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):

$$2 \times (\text{Net investment} - \text{Finance costs}) / (\text{The beginning balance of available funds} + \text{The ending balance of available funds} - \text{net incomes (losses) on investment} + \text{Finance costs})$$

b) Concentration of insurance risks

Cathay Life's insurance business is mainly from the R.O.C., and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). Cathay Life reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

In principle, Cathay Life reviews the overall results of claims and payments and its ability to assume risk periodically, and performs an evaluation of insurance risks according to the retention amounts, which is submitted for approval by authority. Cathay Life cedes the excess of insurance risks over the retention amounts to reinsurers. At the same time, Cathay Life considers unexpected human and natural disasters to estimate the reasonable maximum of losses according to the retained risks regularly; Cathay Life determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses and its ability to assume risks. Hence, the insurance risks to some degree have been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, special reserve for catastrophic events should be provided for huge claims and payments due to future catastrophic events, and special reserve for fluctuation of risk should be provided for abnormal changes in loss ratio and claims of each insurance type. The annual increase of special reserve for catastrophic events and fluctuation of risks should be recorded in special reserve of equity, net of tax in accordance with IAS 12.

c) Claim development trend

i. Cathay Life

i) Direct business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,219,624	18,236,609	-	-
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,103,869	19,131,408	19,149,290	17,882	17,918
2016	15,940,308	19,566,897	19,885,388	19,971,081	20,016,631	20,043,203	20,061,493	44,862	44,953
2017	17,297,974	21,370,269	21,769,245	21,867,634	21,915,103	21,943,902	21,963,962	96,328	96,521
2018	19,438,330	23,925,964	24,359,320	24,469,094	24,521,809	24,553,301	24,575,720	216,400	216,833
2019	21,412,454	26,422,361	26,891,979	27,013,109	27,071,040	27,105,140	27,129,381	707,020	708,434
2020	21,393,621	26,252,160	26,715,129	26,834,046	26,892,097	26,926,609	26,950,827	5,557,206	5,568,320
					Expected future payment				\$ 6,652,979
					Add: Assumed reserve for incurred but not reported claim				18,092
					Reserve for unreported claim				6,671,071
					Add: Reported but not paid claim				4,986,567
					Claims reserve balance				<u>\$ 11,657,638</u>

ii) Retained business development trend

Accident Year	Development Year							Unreported Claim	Reserve for Unreported Claim
	1	2	3	4	5	6	7		
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,367,050	18,384,126	-	-
2015	15,474,235	18,809,508	19,140,593	19,222,947	19,270,603	19,298,248	19,316,200	17,952	17,989
2016	16,051,766	19,702,389	20,024,753	20,110,678	20,156,445	20,183,105	20,201,455	45,010	45,101
2017	17,425,760	21,529,927	21,929,989	22,028,646	22,076,519	22,105,459	22,125,612	96,966	97,160
2018	19,559,154	24,057,586	24,492,262	24,603,059	24,656,598	24,688,475	24,711,140	218,878	219,316
2019	21,440,110	26,462,299	26,933,107	27,054,705	27,113,053	27,147,360	27,171,732	709,433	710,852
2020	21,422,045	26,290,445	26,754,598	26,873,992	26,932,474	26,967,203	26,991,559	5,569,514	5,580,653
					Expected future payment				\$ 6,671,071
					Add: Reported but not paid claim				4,925,210
					Retained claims reserve balance				<u>\$ 11,596,281</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 development year is the number of years of the development for the cases; the amounts above the diagonal line represent 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 a 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	
2014	355,210	571,024	606,823	616,181	616,181	616,181	616,181	-
2015	208,476	390,186	417,580	438,329	438,329	438,329	438,329	-
2016	247,382	424,511	477,165	530,075	530,075	530,075	530,075	-
2017	254,508	482,618	538,460	538,460	538,460	538,460	538,460	-
2018	314,434	369,007	410,008	426,692	426,692	426,692	426,693	16,685
2019	423,580	600,072	657,117	683,857	683,857	683,857	683,858	83,786
2020	456,989	718,937	787,282	819,319	819,319	819,319	819,320	362,331
Expected future payment								\$ 462,802
Less: Expected reported but not paid claim								(2,982)
Reserve for unreported claim								459,820
Add: Reported but not paid claim								27,314
Claims reserve balance								<u>\$ 487,134</u>

ii) Retained business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2014	354,379	562,712	598,471	607,826	607,826	607,826	607,826	-
2015	186,831	368,136	395,509	398,600	398,600	398,600	398,600	-
2016	244,886	421,650	474,304	516,992	516,992	516,992	516,992	-
2017	242,798	470,908	525,569	525,569	525,569	525,569	525,569	-
2018	306,017	358,223	421,439	433,093	433,093	433,093	433,093	11,654
2019	420,027	595,039	658,770	676,986	676,986	676,986	676,987	81,948
2020	453,303	717,217	794,034	815,990	815,990	815,990	815,991	362,688
Expected future payment								\$ 456,290
Less: Expected reported but not paid claim								(2,982)
Add: Reported but not paid claim								23,460
Retained claim reserve balance								<u>\$ 476,768</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 development year is the number of years of the development for the cases; the amounts above the diagonal line represent 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 a 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
2016	1,985	2,386	2,386	2,386	2,386
2017	13,905	16,892	16,892	16,953	16,953
2018	80,604	92,569	92,617	92,862	92,862
2019	97,065	117,682	117,730	118,042	118,042
2020	271,451	322,085	322,217	323,069	323,069

ii) Retained business development trend

Accident Year	Development Year				
	1	2	3	4	5
2016	1,985	2,386	2,386	2,386	2,386
2017	13,905	16,892	16,892	16,953	16,953
2018	80,604	92,569	92,617	92,862	92,862
2019	97,065	117,682	117,730	118,042	118,042
2020	271,451	322,085	322,217	323,069	323,069

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the development year is the number of years of the development for the cases; the amounts above the diagonal line represent 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 a 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 by loss ratio 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, the company 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**

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>		
	<b>Within 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
December 31, 2020	\$ (1,025)	\$ 4,481	\$ 182,228
December 31, 2019	(1,665)	3,012	179,320

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 system 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 method according to the changes in environment.
- The committee should enhance cross-department interaction and communication.

ii) Chief risk officer

The appointment of chief risk officers of Cathay Century and its subsidiaries should be approved by the board of directors, who should maintain independence and should not concurrently play a business or financial role nor has the right to access any information which may affect Cathay Century and its subsidiaries' risk overview.

- The chief risk officer should be in charge of the overall risk management.
- The chief risk officer should participate in the important decision making process and provide appropriate suggestions from a risk management perspective.
- The chief risk officer should be a member of the risk management committee.

iii) Risk management department

Cathay Century and its subsidiaries established a risk management department, which is responsible for monitoring, measuring and evaluating major risks, performed independently to business units.

Duties of risk management department are as follows:

- Propose and execute the risk management policies set by the board of directors.
- Propose the risk limits based on risk appetite.
- Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.

- Regularly present risk management reports.
- Regularly review the risk limits and its use of each business unit.
- Assist to execute stress testing and back testing if necessary.
- Other risk management related issues.

iii. Business unit

i) The risk management duties of the manager of a business unit are as follows:

- Manage and report daily risk of the business unit and take necessary responsive actions.
- Supervise regular submission of risk management information 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 to risk limits, report the excess to risk limits along with the corresponding actions of business units.
- 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, 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:

<b>Insurance by Type</b>	<b>For the Years Ended</b>	
	<b>2020</b>	<b>2019</b>
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) Risk coordinated asset-liability management

i. Asset-liability coordinated 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 by cash flow test method (or other method) to evaluate whether the amount of inflows is sufficient to cover the cash outflow for liabilities, that is, whether the asset allocation has reasonable liquidity to pay liabilities for expenditures in future years.

ii. Asset-liability coordinated with risk response

When market risk, liquidity risk and insurance risk events occur, financial, accounting and actuarial service department should take appropriate reactions to coordinated asset-liability risk, and report to the risk management department and propose to the risk management committee evaluation of the risk.

g) Procedures to manage, monitor and control a special event for which property insurance business is committed to assuming additional liabilities or raising 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	
	December 31	
	2020	2019
Fire insurance	\$ 13,274	\$ 10,103
Marine insurance	11,468	14,046
Land and air insurance	37,194	41,335
Liability insurance	45,977	48,045
Financial guarantee insurance	157	3,952
Other property insurance	19,898	21,993
Accident insurance	15,417	18,354
Health insurance	-	-
Policy-related residential earthquake insurance	-	1,700
Compulsory auto liability insurance	<u>161,235</u>	<u>178,606</u>
	304,620	338,134
Less: Loss allowance	<u>(15,231)</u>	<u>(16,907)</u>
Net amount	<u>\$ 289,389</u>	<u>\$ 321,227</u>

3) Receivables and payables of insurance contracts

a) Receivables

Insurance by Type	Premiums Receivable	
	December 31	
	2020	2019
Fire insurance	\$ 936,657	\$ 813,359
Marine insurance	356,045	280,050
Land and air insurance	137,421	165,238
Liability insurance	304,996	252,358
Financial guarantee insurance	34,644	24,869
Other property insurance	237,919	466,437
Accident insurance	119,462	130,202
Health insurance	4,849	9,748
Policy-related residential earthquake insurance	30,466	19,320
Compulsory auto liability insurance	<u>19,596</u>	<u>20,950</u>
	2,182,055	2,182,531
Less: Loss allowance	<u>(36,713)</u>	<u>(33,108)</u>
Net amount	<u>\$ 2,145,342</u>	<u>\$ 2,149,423</u>

Aging analysis of premiums receivable:

	December 31	
	2020	2019
Up to 90 days	\$ 1,845,819	\$ 1,460,661
Over 90 days	<u>336,236</u>	<u>721,870</u>
	<u>\$ 2,182,055</u>	<u>\$ 2,182,531</u>

The overdue amounts as of December 31, 2020 and 2019 in the above premiums receivable were \$336,236 thousand and \$721,870 thousand, respectively, and loss allowance of \$18,347 thousand and \$19,019 thousand were provided, respectively.

b) Payables

Insurance by Type	December 31, 2020		
	Commission Payable	Others	Total
Fire insurance	\$ 28,222	\$ 12,555	\$ 40,777
Marine insurance	13,293	11,805	25,098
Land and air insurance	106,137	98,872	205,009
Liability insurance	23,814	25,884	49,698
Financial guarantee insurance	3,840	378	4,218
Other property insurance	7,176	9,654	16,830
Accident insurance	10,325	25,601	35,926
Health insurance	1,352	878	2,230
Policy-related residential earthquake insurance	1,646	1,225	2,871
Compulsory automobile liability insurance	<u>26,369</u>	<u>-</u>	<u>26,369</u>
	<u>\$ 222,174</u>	<u>\$ 186,852</u>	<u>\$ 409,026</u>
Insurance by Type	December 31, 2019		
	Commission Payable	Others	Total
Fire insurance	\$ 27,532	\$ 11,992	\$ 39,524
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
Policy-related residential earthquake insurance	1,153	1,258	2,411
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>



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

Items	December 31, 2020	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 311,559	\$ 360,628
AON	44,900	188,748
Central Re	11,634	131,069
Cosmos	1,248	117,131
Guy Carpenter	47,162	25,353
Marsh	85,855	225,611
Swiss Re	19,000	113,884
Willis	58,826	57,680
Others (individually below 5%)	<u>171,960</u>	<u>558,089</u>
	752,144	1,778,193
Less: Loss allowance	<u>(43,501)</u>	<u>-</u>
Net amount	<u>\$ 708,643</u>	<u>\$ 1,778,193</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>

The overdue amounts as of December 31, 2020 and 2019 in the above due from reinsurers and ceding companies were \$11,495 thousand and \$10,483 thousand, respectively, and loss allowances of \$11,495 thousand and \$10,483 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

<b>For the Year Ended December 31, 2020</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 180,979	\$ 19,732	\$ 170,473	\$ 16,644	\$ 387,828
Marine insurance	60,288	1,218	8,861	1,655	72,022
Land and air insurance	1,127,555	1,034	34,141	437,584	1,600,314
Liability insurance	179,774	214	436	29,606	210,030
Financial guarantee insurance	11,457	393	10,000	263	22,113
Other property insurance	76,619	5,579	36,502	4,710	123,410
Accident insurance	348,587	1,127	832	86,345	436,891
Health insurance	34,461	497	1,872	3,533	40,363
Policy-related residential earthquake insurance	21,036	267	-	2,648	23,951
Compulsory auto liability insurance	-	394,505	-	-	394,505
	<u>\$ 2,040,756</u>	<u>\$ 424,566</u>	<u>\$ 263,117</u>	<u>\$ 582,988</u>	<u>\$ 3,311,427</u>
<b>For the Year Ended December 31, 2019</b>					
<b>Insurance by Type</b>	<b>Commission Expenses</b>	<b>Service fee Charge</b>	<b>Reinsurance Commission Expenses</b>	<b>Others</b>	<b>Total</b>
Fire insurance	\$ 166,405	\$ 14,069	\$ 131,307	\$ 13,683	\$ 325,464
Marine insurance	66,115	1,616	16,274	1,311	85,316
Land and air insurance	1,066,167	381	16,415	412,459	1,495,422
Liability insurance	180,707	90	294	21,023	202,114
Financial guarantee insurance	11,213	95	4,683	110	16,101
Other property insurance	75,193	6,053	57,594	3,570	142,410
Accident insurance	437,657	598	4,367	118,079	560,701
Health insurance	74,570	401	1,222	16,821	93,014
Policy-related residential earthquake insurance	19,468	266	-	2,687	22,421
Compulsory auto liability insurance	-	396,554	-	-	396,554
	<u>\$ 2,097,495</u>	<u>\$ 420,123</u>	<u>\$ 232,156</u>	<u>\$ 589,743</u>	<u>\$ 3,339,517</u>

Acquisition costs of the insurance contracts were not deferred.

5) Profit and loss analysis of the insurance business

Direct underwriting business

For the Year Ended December 31, 2020						
Insurance by Type	Written Premium	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	\$ 3,366,745	\$ 242,442	\$ 217,355	\$ 594,824	\$ 313,619	\$ 1,998,505
Marine insurance	725,089	59,511	63,161	253,829	133,801	214,787
Land and air insurance	10,110,601	347,246	1,566,173	5,689,720	(51,299)	2,558,761
Liability insurance	1,559,980	52,983	209,593	756,109	12,289	529,006
Financial guarantee insurance	110,740	7,227	12,113	(56,033)	(6,417)	153,850
Other property insurance	1,207,441	229,760	86,909	362,378	(9,372)	537,766
Accident insurance	2,938,798	7,806	436,059	1,364,967	(22,285)	1,152,251
Health insurance	178,398	(10,676)	38,491	87,556	(29,255)	92,282
Policy-related residential earthquake insurance	447,474	14,829	23,951	-	-	408,694
Compulsory auto liability insurance	<u>2,841,187</u>	<u>(25,854)</u>	<u>394,505</u>	<u>2,065,446</u>	<u>63,198</u>	<u>343,892</u>
	<u>\$ 23,486,453</u>	<u>\$ 925,274</u>	<u>\$ 3,048,310</u>	<u>\$ 11,118,796</u>	<u>\$ 404,279</u>	<u>\$ 7,989,794</u>

For the Year Ended December 31, 2019						
Insurance by Type	Written Premium	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	\$ 2,954,155	\$ (67,704)	\$ 194,157	\$ 628,539	\$ 68,455	\$ 2,130,708
Marine insurance	681,264	(2,677)	69,043	269,821	(2,424)	347,501
Land and air insurance	9,672,387	355,372	1,479,007	5,529,317	299,606	2,009,085
Liability insurance	1,548,215	57,891	201,821	636,573	68,539	583,391
Financial guarantee insurance	107,747	(9,126)	11,418	63,400	(26,938)	68,993
Other property insurance	1,202,681	398,135	84,816	295,879	54,659	369,192
Accident insurance	3,533,611	56,501	556,333	1,569,170	(44,591)	1,396,198
Health insurance	440,698	10,047	91,791	107,962	11,956	218,942
Policy-related residential earthquake insurance	418,587	(1,243)	22,421	-	-	397,409
Compulsory auto liability insurance	<u>2,896,160</u>	<u>(8,038)</u>	<u>396,554</u>	<u>2,308,745</u>	<u>92,545</u>	<u>106,354</u>
	<u>\$ 23,455,505</u>	<u>\$ 789,158</u>	<u>\$ 3,107,361</u>	<u>\$ 11,409,406</u>	<u>\$ 521,807</u>	<u>\$ 7,627,773</u>

## Reinsurance inward business

<b>For the Year Ended December 31, 2020</b>						
<b>Insurance by Type</b>	<b>Reinsurance Premium</b>	<b>Net Changes in</b>			<b>Net Changes in Loss Reserve</b>	<b>Profit (Loss)</b>
		<b>Unearned Premium Reserve</b>	<b>Reinsurance Commission Expense</b>	<b>Reinsurance Claim</b>		
Fire insurance	\$ 803,557	\$ 67,368	\$ 170,474	\$ 478,816	\$ 70,534	\$ 16,365
Marine insurance	49,317	(1,855)	8,861	46,204	3,198	(7,091)
Land and air insurance	81,407	9,062	34,140	51,516	22,575	(35,886)
Liability insurance	4,329	1,150	436	438	1,019	1,286
Financial guarantee insurance	38,160	6,554	10,000	8,733	(11,768)	24,641
Other property insurance	205,846	(5,889)	36,502	174,164	8,477	(7,408)
Accident insurance	16,179	(1,279)	832	5,226	1,833	9,567
Health insurance	19,880	(530)	1,872	21,633	(223)	(2,872)
Policy-related residential earthquake insurance	52,444	1,418	-	65	(136)	51,097
Compulsory auto liability insurance	<u>740,921</u>	<u>(8,457)</u>	<u>-</u>	<u>930,227</u>	<u>7,053</u>	<u>(187,902)</u>
	<u>\$ 2,012,040</u>	<u>\$ 67,542</u>	<u>\$ 263,117</u>	<u>\$ 1,717,022</u>	<u>\$ 102,562</u>	<u>\$ (138,203)</u>
<b>For the Year Ended December 31, 2019</b>						
<b>Insurance by Type</b>	<b>Reinsurance Premium</b>	<b>Net Changes in</b>			<b>Net Changes in Loss Reserve</b>	<b>Profit (Loss)</b>
		<b>Unearned Premium Reserve</b>	<b>Reinsurance Commission Expense</b>	<b>Reinsurance Claim</b>		
Fire insurance	\$ 628,478	\$ (62,096)	\$ 131,307	\$ 301,025	\$ 291,341	\$ (33,099)
Marine insurance	73,700	4,895	16,274	31,742	18,274	2,515
Land and air insurance	44,626	6,653	16,415	4,514	5,294	11,750
Liability insurance	2,912	(314)	295	178	423	2,330
Financial guarantee insurance	17,572	1,899	4,683	730	12,120	(1,860)
Other property insurance	275,279	(29,089)	57,593	142,041	9,914	94,820
Accident insurance	26,691	2,511	4,367	4,459	4,682	10,672
Health insurance	16,027	(8,218)	1,222	9,852	898	12,273
Policy-related residential earthquake insurance	49,380	149	-	154	(154)	49,231
Compulsory auto liability insurance	<u>753,281</u>	<u>(1,569)</u>	<u>-</u>	<u>905,668</u>	<u>18,606</u>	<u>(169,424)</u>
	<u>\$ 1,887,946</u>	<u>\$ (85,179)</u>	<u>\$ 232,156</u>	<u>\$ 1,400,363</u>	<u>\$ 361,398</u>	<u>\$ (20,792)</u>

## Ceded reinsurance business

<b>For the Year Ended December 31, 2020</b>						
<b>Insurance by Type</b>	<b>Reinsurance Expenses</b>	<b>Net Changes in Ceded Unearned Premium Reserve</b>	<b>Reinsurance Commission Income</b>	<b>Claims and Payments (Recovered from Reinsurers)</b>	<b>Net Changes in Ceded Loss Reserve</b>	<b>Loss (Profit)</b>
Fire insurance	\$ 1,936,551	\$ 223,018	\$ 151,223	\$ 174,182	\$ 249,824	\$ 1,138,304
Marine insurance	498,842	47,020	46,220	159,675	112,714	133,213
Land and air insurance	379,318	10,650	92,242	149,674	(3,212)	129,964
Liability insurance	493,731	12,302	93,261	274,634	(22,831)	136,365
Financial guarantee insurance	64,349	1,899	11,673	(71,199)	(9,469)	131,445
Other property insurance	847,643	130,203	117,225	195,734	16,604	387,877
Accident insurance	233,358	3,647	59,918	69,832	(6,130)	106,091
Health insurance	13	7	5	-	-	1
Policy-related residential earthquake insurance	447,474	14,829	-	(996)	-	433,641
Compulsory auto liability insurance	<u>1,184,609</u>	<u>(15,512)</u>	<u>-</u>	<u>1,215,098</u>	<u>34,825</u>	<u>(49,802)</u>
	<u>\$ 6,085,888</u>	<u>\$ 428,063</u>	<u>\$ 571,767</u>	<u>\$ 2,166,634</u>	<u>\$ 372,325</u>	<u>\$ 2,547,099</u>
<b>For the Year Ended December 31, 2019</b>						
<b>Insurance by Type</b>	<b>Reinsurance Expenses</b>	<b>Net Changes in Ceded Unearned Premium Reserve</b>	<b>Reinsurance Commission Income</b>	<b>Claims and Payments (Recovered from Reinsurers)</b>	<b>Net Changes in Ceded Loss Reserve</b>	<b>Loss (Profit)</b>
Fire insurance	\$ 1,678,626	\$ (136,001)	\$ 144,728	\$ 317,175	\$ (85,176)	\$ 1,437,900
Marine insurance	457,469	2,614	57,272	199,685	(15,724)	213,622
Land and air insurance	341,018	(22,046)	89,912	178,666	(23,197)	117,683
Liability insurance	510,465	(9,206)	108,044	196,642	99,094	115,891
Financial guarantee insurance	68,484	(11,139)	14,082	52,142	(16,933)	30,332
Other property insurance	883,152	407,215	97,602	134,021	85,546	158,768
Accident insurance	228,056	5,471	60,598	75,503	4,056	82,428
Health insurance	-	-	-	-	-	-
Policy-related residential earthquake insurance	418,587	(1,243)	-	-	-	419,830
Compulsory auto liability insurance	<u>1,207,714</u>	<u>(4,822)</u>	<u>-</u>	<u>1,334,581</u>	<u>56,783</u>	<u>(178,828)</u>
	<u>\$ 5,793,571</u>	<u>\$ 230,843</u>	<u>\$ 572,238</u>	<u>\$ 2,488,415</u>	<u>\$ 104,449</u>	<u>\$ 2,397,626</u>

6) Sensitivity to insurance risk

a) Cathay Century

For the year ended December 31, 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	\$ 3,166,499	51.56%	\$ (158,325)	\$ (158,325)
Marine insurance	714,949	39.38%	(35,747)	(17,336)
Land and air insurance	9,915,252	63.37%	(495,763)	(481,124)
Liability insurance	1,558,773	50.66%	(77,939)	(49,772)
Financial guarantee insurance	110,740	37.54%	(5,537)	(3,252)
Other property insurance	1,201,102	62.13%	(60,055)	(47,233)
Accident insurance	2,910,928	41.66%	(145,546)	(137,843)
Health insurance	178,398	38.15%	(8,920)	(8,920)
Policy-related residential earthquake insurance	447,474	10.64%	(22,374)	(11,187)
Compulsory automobile liability insurance	2,841,187	Not applicable	Not applicable	Not applicable
	<u>\$ 23,045,302</u>		<u>\$ (1,010,206)</u>	<u>\$ (914,992)</u>

For the year ended December 31, 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	\$ 2,699,192	48.09%	\$ (134,960)	\$ (113,340)
Marine insurance	671,406	40.93%	(33,570)	(14,375)
Land and air insurance	9,534,101	63.92%	(476,705)	(459,593)
Liability insurance	1,547,265	53.71%	(77,363)	(53,010)
Financial guarantee insurance	107,747	176.74%	(5,387)	(3,535)
Other property insurance	1,199,342	65.38%	(59,967)	(45,177)
Accident insurance	3,508,288	43.06%	(175,414)	(164,743)
Health insurance	440,698	41.38%	(22,035)	(22,004)
Policy-related residential earthquake insurance	418,587	10.89%	(20,929)	(20,929)
Compulsory automobile liability insurance	2,896,160	Not applicable	Not applicable	Not applicable
	<u>\$ 23,022,786</u>		<u>\$ (1,006,330)</u>	<u>\$ (896,706)</u>

Note: Expected loss rate is calculated based on the simple and weighted average loss rate of the past five years in 2020 and 2019, respectively.

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 year ended December 31, 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	\$ 195,349	30.61%	\$ (9,767)	\$ (9,725)
Marine insurance	10,140	15.16%	(507)	(117)
Fire insurance	200,246	53.38%	(10,012)	(2,327)
Engineering insurance	6,280	28.25%	(314)	(95)
Accident insurance	27,870	36.75%	(1,393)	(1,393)
Liability insurance	<u>1,266</u>	14.24%	<u>(63)</u>	<u>(20)</u>
	<u>\$ 441,151</u>		<u>\$ (22,056)</u>	<u>\$ (13,677)</u>

For the year ended December 31, 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	\$ 138,286	30.61%	\$ (6,914)	\$ (6,885)
Marine insurance	9,858	15.16%	(493)	(113)
Fire insurance	254,963	53.38%	(12,748)	(2,962)
Engineering insurance	3,339	28.25%	(167)	(51)
Accident insurance	25,323	36.75%	(1,266)	(1,266)
Liability insurance	<u>950</u>	14.24%	<u>(48)</u>	<u>(15)</u>
	<u>\$ 432,719</u>		<u>\$ (21,636)</u>	<u>\$ (11,292)</u>

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

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Insurance (Vietnam), profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

## 7) Risk concentration

### a) Cathay Century

#### i. Situations that may cause concentration of insurance risk:

##### i) Single insurance contract or several related contracts

For the year ended December 31, 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

For the year ended December 31, 2020, both the loss amount and the loss rate of comprehensive travel insurance, cargo insurance and non-cargo insurance have increased due to the COVID-19 pandemic, the tornado in Tennessee, and the Offshore Insurance Unit hull insurance business, respectively.

##### 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 December 31, 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 be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Century established “Operation Standards under Crisis”, under which crisis handling team is set up in reaction to the event and execute emergency tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to keep financial stability. As of December 31, 2020, measures have been taken to deal with the impact of COVID-19 on operating, insurance and investment business.

##### v) When a non-linear relationship as a certain key variable has approached to the extent that future cash flows may be materially influenced

Since the 3rd stage of liberalization of property insurance premium rate took effect, Cathay Century has conducted regular reviews on voluntary automobile insurance, commercial fire insurance, and residential fire insurance in accordance with regulations. When the actual loss rate exceeds the expected loss rate to a certain percentage, premium rates will be properly adjusted to avoid persistent enlargement of losses. In addition, the actuarial department observes the changes in trend of loss rates of each product on irregular basis and adjusts pricing and coverage in a timely manner to effectively lower insurance risks.



For investment instruments, changes in risk indicators are monitored on a regular basis with cash flow analysis as well as stress testing, to control and manage the impact of fluctuations in major risk factors.

In addition, stress testing is performed for the overall business every year to assess the impacts on financial positions due to extreme scenarios of the assets and insurance risk and understand the major risk factors to response in advance.

vi) Concentration of geographic regions and operating segments

Cathay Century's catastrophe insurance for earthquakes and floods are mainly in, Taoyuan, Hsinchu, Taichung, 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 Year Ended December 31, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 3,166,499	\$ 813,144	\$ 1,767,902	\$ 2,211,741	11.54
Marine insurance	714,949	49,317	491,729	272,537	1.42
Land and air insurance	9,915,252	81,407	379,244	9,617,415	50.19
Liability insurance	1,558,773	4,242	492,959	1,070,056	5.59
Financial guarantee insurance	110,740	38,160	64,349	84,551	0.44
Other property insurance	1,201,102	205,821	843,081	563,842	2.94
Accident insurance	2,910,928	16,179	233,358	2,693,749	14.06
Health insurance	178,398	19,880	13	198,265	1.03
Policy-related residential earthquake insurance	447,474	52,444	447,474	52,444	0.28
Compulsory automobile liability insurance	2,841,187	740,921	1,184,609	2,397,499	12.51
Total	\$ 23,045,302	\$ 2,021,515	\$ 5,904,718	\$ 19,162,099	100.00

Insurance Type	For the Year Ended December 31, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 2,699,192	\$ 629,088	\$ 1,443,236	\$ 1,885,044	9.74
Marine insurance	671,406	73,700	450,507	294,599	1.52
Land and air insurance	9,534,101	44,609	340,897	9,237,813	47.71
Liability insurance	1,547,265	2,845	509,829	1,040,281	5.37
Financial guarantee insurance	107,747	17,572	68,484	56,835	0.29
Other property insurance	1,199,342	275,279	881,111	593,510	3.07
Accident insurance	3,508,288	26,691	228,056	3,306,923	17.08
Health insurance	440,698	16,027	-	456,725	2.36
Policy-related residential earthquake insurance	418,587	49,380	418,587	49,380	0.25
Compulsory automobile liability insurance	2,896,160	753,281	1,207,714	2,441,727	12.61
Total	\$ 23,022,786	\$ 1,888,472	\$ 5,548,421	\$ 19,362,837	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 huge 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) and 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 December 31, 2020, according to related underwriting guidelines for the commercial insurance with low frequency of occurrence and enormous possible losses, the underwriting department and reinsurance department have reviewed or discussed the topic in project meeting.

ii) Exposure to unanticipated change in trend

As of December 31, 2020, the premium revenue of comprehensive travel insurance have decreased due to the reduced demand for traveling in case of COVID-19, but there is no effect for insurance risk, Cathay Insurance Co., Ltd. (Vietnam) would observe 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 December 31, 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 December 31, 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 Year Ended December 31, 2020				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 195,349	\$ -	\$ 74	\$ 195,275	77.95
Flood insurance	10,140	-	7,113	3,027	1.21
Fire insurance	200,246	5,413	183,650	22,009	8.79
Engineering insurance	6,280	26	4,508	1,798	0.72
Accident insurance	27,870	-	-	27,870	11.12
Liability insurance	1,266	87	826	527	0.21
Total	\$ 441,151	\$ 5,526	\$ 196,171	\$ 250,506	100.00

Insurance Type	For the Year Ended December 31, 2019				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 138,286	\$ 17	\$ 121	\$ 138,182	73.88
Flood insurance	9,858	-	6,962	2,896	1.55
Fire insurance	254,963	1,328	237,327	18,964	10.14
Engineering insurance	3,339	-	2,041	1,298	0.69
Accident insurance	25,323	-	-	25,323	13.54
Liability insurance	950	67	636	381	0.20
Total	\$ 432,719	\$ 1,412	\$ 247,087	\$ 187,044	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 and holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

## 8) Development trends of claims

### a) Cathay Century

#### December 31, 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	\$ 9,508,911	
After the first year	-	7,217,836	7,418,703	11,455,620	8,025,062	8,574,948	10,063,196	-	
After the second year	-	7,156,309	7,548,387	10,970,548	7,965,701	8,479,083	-	-	
After the third year	-	7,135,341	7,495,744	11,133,431	8,000,179	-	-	-	
After the fourth year	-	7,133,873	7,449,663	11,177,663	-	-	-	-	
After the fifth year	-	7,145,756	7,456,430	-	-	-	-	-	
After the sixth year	-	7,168,709	-	-	-	-	-	-	
Final estimated claim payments	-	7,168,709	7,456,430	11,177,663	8,000,179	8,479,083	10,063,196	9,508,911	
Accumulated claims disbursed	-	6,948,860	7,415,068	11,098,912	7,856,050	8,173,127	8,556,037	5,089,598	
Adjustment	84,801	219,849	41,362	78,751	144,129	305,956	1,507,159	4,419,313	\$ 6,801,320
Amount recognized in balance sheet	\$ 84,801	\$ 219,849	\$ 41,362	\$ 78,751	\$ 144,129	\$ 305,956	\$ 1,507,159	\$ 4,561,743	\$ 6,943,750

#### 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

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 \$1,638,786 thousand and \$1,241,160 thousand as of December 31, 2020, \$1,575,588 thousand and \$1,138,597 thousand as of December 31, 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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 1,748,081,143	\$ 1,653,983,453
Financial assets at FVTOCI	1,562,998,457	1,182,534,102
Financial assets for hedging	146,959	548,075
Measured at amortized cost		
Cash and cash equivalents	536,716,255	413,405,471
Due from the Central Bank and other banks	129,503,924	110,945,093
Financial assets measured at amortized cost	3,161,044,538	3,068,838,014
Notes and bonds purchased under resale agreements	67,264,342	43,586,931
Discounts and loans, net	2,141,276,205	2,066,761,296
Receivables, net	191,916,164	185,049,532
Other financial assets	660,547,975	615,117,482
Guarantee deposits paid	40,044,829	38,396,708
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	140,778,098	111,526,387
Financial liabilities for hedging	139,858	30,894
Financial liabilities at amortized cost		
Deposits from the Central Bank and banks	66,131,059	84,108,128
Due to the Central Bank and banks	1,076,000	-
Notes and bonds sold under repurchase agreements	12,299,564	50,278,533
Commercial paper payable, net	39,519,918	54,018,845
Payables	68,696,694	66,934,725
Deposits and remittances	2,615,799,063	2,303,443,816
Bonds payable	148,800,000	118,900,000
Other borrowings	1,657,576	2,201,364
Other financial liabilities	692,760,284	676,972,179
Lease liabilities	13,011,637	12,720,337
Guarantee deposits received	21,314,390	18,257,447

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	December 31, 2020				December 31, 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>								
Assets								
Financial assets at FVTPL								
Stocks	\$ 538,241,070	\$ 511,087,638	\$ 20,099,118	\$ 7,054,314	\$ 495,159,801	\$ 445,750,414	\$ 42,710,567	\$ 6,698,820
Bonds	213,583,160	7,624,176	203,032,964	2,926,020	305,294,693	8,748,708	294,583,505	1,962,480
Other	895,567,396	541,181,304	234,648,942	119,737,150	773,731,408	474,400,100	205,203,877	94,127,431
Financial assets at FVTOCI								
Stocks	123,365,677	113,444,258	-	9,921,419	62,877,916	52,330,749	-	10,547,167
Bonds (Note)	1,401,383,513	171,349,180	1,230,034,333	-	1,050,516,360	107,544,852	942,517,660	453,848
Other	39,411,018	-	39,411,018	-	70,253,313	-	70,253,313	-
Liabilities								
Financial liabilities at FVTPL								
Financial liabilities designated as at FVTPL	44,204,582	-	44,204,582	-	57,604,294	-	57,604,294	-
Held for trading	15,146,735	15,146,735	-	-	2,510,119	2,510,119	-	-
<u>Derivative instruments</u>								
Assets								
Financial assets at FVTPL	100,689,517	1,504,002	93,823,683	5,361,832	79,797,551	1,330,214	67,786,158	10,681,179
Financial assets for hedging	146,959	-	146,959	-	548,075	-	548,075	-
Liabilities								
Financial liabilities at FVTPL	81,426,781	611,466	75,453,483	5,361,832	51,411,974	492,986	40,237,809	10,681,179
Derivative financial liabilities for hedging	139,858	-	139,858	-	30,894	-	30,894	-

Note: Including refundable deposits.

Transfers between Level 1 and Level 2:

For the years ended December 31, 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

	<b>For the Year Ended December 31, 2020</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At FVTPL</b>	<b>At FVTOCI</b>	<b>At FVTPL</b>
Beginning balance	\$ 113,469,910	\$ 11,001,015	\$ 10,681,179
Recognized in profit or loss			
Gain and loss on financial assets and liabilities at FVTPL	3,837,851	-	(4,457,141)
Gain and loss on reclassification using the overlay approach	(1,992,371)	-	-
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	(122,015)	(323)	-
Other comprehensive gain and loss reclassified using the overlay approach	1,992,371	-	-
Loss on equity instruments at FVTOCI	-	(665,736)	-
Acquisitions or issuances	35,882,297	115,541	113,221
Disposals or settlements	(16,989,302)	(65,348)	(975,427)
Transfers out of Level 3	(999,425)	(463,730)	-
Ending balance	<u>\$ 135,079,316</u>	<u>\$ 9,921,419</u>	<u>\$ 5,361,832</u>
	<b>For the Year Ended December 31, 2019</b>		
	<b>Financial Assets</b>		<b>Financial Liabilities</b>
	<b>At FVTPL</b>	<b>At FVTOCI</b>	<b>At FVTPL</b>
Beginning balance	\$ 97,317,031	\$ 8,375,581	\$ 12,084,217
Recognized in profit or loss			
Gain and loss on financial assets and liabilities at FVTPL	3,564,416	-	(611,416)
Gain and loss on reclassification using the overlay approach	23,170	-	-
Recognized in other comprehensive income			
Exchange differences on translating the financial statements of foreign operations	(37,159)	(112)	-
Other comprehensive gain and loss reclassified using the overlay approach	(23,170)	-	-
Gain on equity instruments at FVTOCI	-	1,936,703	-
Acquisitions or issuances	28,668,827	744,333	23,000
Disposals or settlements	(16,013,223)	(55,490)	(814,622)
Transfers out of Level 3	(29,982)	-	-
Ending balance	<u>\$ 113,469,910</u>	<u>\$ 11,001,015</u>	<u>\$ 10,681,179</u>



Regarding the above amounts recognized in profit or loss for the years ended December 31, 2020 and 2019, unrealized losses of \$4,926,797 thousand and unrealized losses of \$1,732,681 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 years ended December 31, 2020 and 2019, unrealized gains of \$4,457,141 thousand and unrealized gains of \$611,416 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

<b>December 31, 2020</b>				
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 liquidity, 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.	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
<b>December 31, 2019</b>				
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 liquidity, 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

Cathay United Bank and its subsidiaries

<b>December 31, 2020</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
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.
<b>December 31, 2019</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
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.

Cathay Century and its subsidiaries

<b>December 31, 2020</b>				
<b>Financial Assets</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Weighted Average Number</b>	<b>Relationship Between Inputs and Fair Value</b>
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
<b>December 31, 2019</b>				
<b>Financial Assets</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Weighted Average Number</b>	<b>Relationship Between Inputs and Fair Value</b>
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

December 31, 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%)

#### 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:

#### December 31, 2020

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 3,170,942,822	\$ 122,770,951	\$ 3,443,887,987	\$ 743,273	\$ 3,567,402,211

#### 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

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

<b>December 31, 2020</b>					
<b>Hedging Instrument</b>	<b>Nominal Amount of the Hedging Instrument</b>	<b>Carrying Amount of the Hedging Instrument</b>		<b>Line Item in the Balance Sheet Where the Hedging Instrument Is Included</b>	<b>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period</b>
		<b>Assets</b>	<b>Liabilities</b>		
Interest rate swaps	\$ 4,000,000	\$ 146,959	\$ -	Financial assets for hedging	\$ 31,333
Interest rate swaps	1,086,868	-	48,887	Financial liabilities for hedging	(20,076)

<b>December 31, 2019</b>					
<b>Hedging Instrument</b>	<b>Nominal Amount of the Hedging Instrument</b>	<b>Carrying Amount of the Hedging Instrument</b>		<b>Line Item in the Balance Sheet Where the Hedging Instrument Is Included</b>	<b>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period</b>
		<b>Assets</b>	<b>Liabilities</b>		
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)

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

	<b>Period Till Maturity</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>December 31, 2020</u>					
Interest rate swaps					
Nominal principal	\$ -	\$ -	\$ 195,993	\$ 4,890,875	\$ -
Average fixed rate	-	-	2.5%	1.7%-2.5%	-

	<b>Period Till Maturity</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<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%	-

c) Hedged items

For the Year Ended December 31, 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	\$ (31,333)	\$ 146,959	N/A	\$ 31,333	\$ -	\$ -	\$ (69,581)	Net other non-interest gain
Payables	20,076	(48,887)	N/A	(20,076)	-	-	-	Net other non-interest gain
Discontinued hedge - bond investments	N/A	N/A	(252)	N/A	N/A	N/A	10	Net other non-interest gain

For the Year Ended December 31, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss That Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Item Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (34,498)	\$ 185,206	N/A	\$ 34,498	\$ -	\$ -	\$ (65,902)	Net other non-interest gain
Payables	31,677	(30,894)	N/A	(31,677)	-	-	-	Net other non-interest gain
Discontinued hedge - bond investments	N/A	N/A	(275)	N/A	N/A	N/A	1	Net other non-interest gain

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

	For the Year Ended December 31	
	2020	2019
Beginning balance	\$ 116,269	\$ 173,289
Gross amount recognized in other comprehensive income		
Change in the value of the hedging instrument recognized in other comprehensive income	11,271	2,545
Amount reclassified from the cash flow hedge reserve to profit or loss	(69,571)	(65,901)
Tax effects	<u>16,991</u>	<u>6,336</u>
Ending balance	<u>\$ 74,960</u>	<u>\$ 116,269</u>

2) Fair value hedges

The book value of the foreign currency denominated assets held by Cathay Life and its subsidiaries may fluctuate due to the changes in market exchange rates and thus lead to risk. Accordingly, Cathay Life and its subsidiaries 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

December 31, 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	\$ 4,825,692	\$ -	\$ 90,971	Financial liabilities for hedging	\$ (525,402)

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

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>December 31, 2020</u>					
Cross currency swaps					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 4,825,692
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

c) Hedged items

For the Year Ended December 31, 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	\$ 4,825,692	\$ -	\$ 525,402					\$ -

For the Year Ended December 31, 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	\$ 9,742,013	\$ -	\$ (93,293)					\$ -

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

	For the Year Ended December 31	
	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	71,563	269,576
Tax effects	<u>(14,313)</u>	<u>(53,915)</u>
Ending balance	<u>\$ 272,911</u>	<u>\$ 215,661</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:

December 31, 2020

<b>Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)</b>	<b>Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b)</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 28,176,353	\$ -	\$ 28,176,353	\$ 10,405,202	\$ 12,169,879	\$ 5,601,272

<b>Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b)</b>	<b>Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b)</b>	<b>Relevant Amount That Has Not Been Offset on the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 11,778,038	\$ -	\$ 11,778,038	\$ 10,405,202	\$ 270,595	\$ 1,102,241

December 31, 2019

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

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

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:

December 31, 2020

<b>Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 73,217,904	\$ -	\$ 73,217,904	\$ 71,410,047	\$ 1,807,857	\$ -

<b>Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 71,410,047	\$ -	\$ 71,410,047	\$ 71,410,047	\$ -	\$ -
Repurchase bonds	10,092,058	-	10,092,058	9,278,702	813,356	-

December 31, 2019

<b>Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Assets (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 51,387,906	\$ -	\$ 51,387,906	\$ 49,166,645	\$ 2,221,261	\$ -

<b>Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreements</b>						
<b>Item</b>	<b>Gross Amount of Recognized Financial Liabilities (a)</b>	<b>Gross Amount Offset in the Balance Sheet (b)</b>	<b>Amount Presented in the Balance Sheet (c)= (a)-(b)</b>	<b>Amount Not Offset in the Balance Sheet (d)</b>		<b>Net Amount (e)=(c)-(d)</b>
				<b>Financial Instruments (Note)</b>	<b>Cash Collateral Received/ Pledged</b>	
Derivative financial instruments	\$ 49,166,645	\$ -	\$ 49,166,645	\$ 49,166,645	\$ -	\$ -
Repurchase bonds	48,180,452	-	48,180,452	46,537,689	1,642,763	-

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:

December 31, 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	\$ 2,207,506	\$ -	\$ 2,207,506	\$ 2,218,853	\$ -	\$ (11,347)

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.

g. Transfers of financial assets

Financial assets transferred that have not been fully removed

Cathay United Bank and its subsidiaries

In the daily operations of Cathay United Bank and its subsidiaries, transferred financial assets that do not meet the criteria for full removal are mostly 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:

December 31, 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	\$ 9,706,456	\$ 9,175,931	\$ 9,706,456	\$ 9,175,931	\$ 530,525
Financial assets at amortized cost					
Repurchase agreements	865,651	916,127	961,477	916,127	45,350

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

### 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:

#### December 31, 2020

<b>Categories of Financial Assets</b>	<b>Carrying Value of Transferred Financial Assets</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Fair Value of Transferred Financial Assets</b>	<b>Fair Value of Related Financial Liabilities</b>	<b>Net Fair Value</b>
<u>Financial assets at FVTOCI</u>					
Repurchase bonds	\$ 2,218,853	\$ 2,207,506	\$ 2,218,853	\$ 2,207,506	\$ 11,347

#### December 31, 2019

<b>Categories of Financial Assets</b>	<b>Carrying Value of Transferred Financial Assets</b>	<b>Carrying Value of Related Financial Liabilities</b>	<b>Fair Value of Transferred Financial Assets</b>	<b>Fair Value of Related Financial Liabilities</b>	<b>Net Fair Value</b>
<u>Financial assets at FVTOCI</u>					
Repurchase bonds	\$ 2,065,100	\$ 2,098,081	\$ 2,065,100	\$ 2,098,081	\$ (32,981)

#### h. Financial risk management objectives and policies

##### Cathay Life and its subsidiaries

Cathay Life's and its subsidiaries' 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 Years Ended December 31	
		2020	2019
Equity risk (stock price index)	-10%	\$ (57,825,161)	\$ (48,324,062)
Interest rate risk (yield curve)	+100bps	(148,426,208)	(107,250,216)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(9,747,740)	(11,428,906)

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**

<b>For the Year Ended December 31, 2020</b>			
<b>Risk Factor</b>	<b>Variable (+/-)</b>	<b>Change in Profit or Loss</b>	<b>Change in Equity</b>
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 5,000,932	\$ 4,844,285
	Appreciation of CNY/USD by 1%	1,192,325	316,591
	Appreciation of HKD/USD by 1%	(388)	247,411
	Appreciation of EUR/USD by 1%	(2,740)	210,729
	Appreciation of GBP/USD by 1%	(149)	291,831
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	74	(1,245,536)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(47,559)
	Upward parallel shift of the yield curve (EUR) by 1bp	2,453	(7,561)
	Upward parallel shift of the yield curve (GBP) by 1bp	-	(3,708)
	Upward parallel shift of the yield curve (NTD) by 1bp	-	(337,406)
	Equity price risk	Increase in equity price by 1%	(105,682)
<b>For the Year Ended December 31, 2019</b>			
<b>Risk Factor</b>	<b>Variable (+/-)</b>	<b>Change in Profit or Loss</b>	<b>Change in Equity</b>
Foreign currency risk	Appreciation of USD/NTD by 1%	\$ 6,971,123	\$ 4,572,072
	Appreciation of CNY/USD by 1%	1,273,520	377,983
	Appreciation of HKD/USD by 1%	(1,447)	350,916
	Appreciation of EUR/USD by 1%	410,075	163,587
	Appreciation of GBP/USD by 1%	78,732	296,052
Interest rate risk	Upward parallel shift of the yield curve (USD) by 1bp	(111)	(846,435)
	Upward parallel shift of the yield curve (CNY) by 1bp	-	(14,547)
	Upward parallel shift of the yield curve (EUR) by 1bp	-	(14,281)
	Upward parallel shift of the yield curve (GBP) by 1bp	-	(9,463)
	Upward parallel shift of the yield curve (NTD) by 1bp	147	(74,278)
Equity price risk	Increase in equity price by 1%	(70,248)	4,933,391

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:

#### December 31, 2020

Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 390,017,117	\$ 11,072,417	\$ 173,264	\$ 83,058,513	\$ 19,456,840	\$ 503,778,151
Financial assets at FVTPL	55,583,687	22,875,926	49,567,018	28,446,882	27,752,478	184,225,991
Financial assets at FVTOCI	44,744,477	45,223,287	163,314,323	489,450,958	380,528,502	1,123,261,547
Financial assets for hedging	74,724	-	-	72,235	-	146,959
Financial assets measured at amortized cost	<u>152,627,614</u>	<u>180,749,168</u>	<u>427,807,550</u>	<u>1,224,717,193</u>	<u>663,462,282</u>	<u>2,649,363,807</u>
	<u>\$ 643,047,619</u>	<u>\$ 259,920,798</u>	<u>\$ 640,862,155</u>	<u>\$ 1,825,745,781</u>	<u>\$ 1,091,200,102</u>	<u>\$ 4,460,776,455</u>
Proportion	14.4%	5.8%	14.4%	40.9%	24.5%	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%

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

December 31, 2020

Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 210,393,088	\$ 41,501,050	\$ 59,563,296	\$ 2,697,023	\$ 314,154,457
Non-accrual receivables	<u>163,381</u>	<u>30,890</u>	<u>47,059</u>	<u>1,800,141</u>	<u>2,041,471</u>
	<u>\$ 210,556,469</u>	<u>\$ 41,531,940</u>	<u>\$ 59,610,355</u>	<u>\$ 4,497,164</u>	<u>\$ 316,195,928</u>
Proportion	66.6%	13.1%	18.9%	1.4%	100%

December 31, 2019

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

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.

Expected credit losses in the next 12 months and for the duration of the instrument is calculated separately for the two periods using probability of default ("PD") of issuers, guarantee agencies or borrowers multiplied by loss given default ("LGD") and exposure at default ("EAD"), 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

	December 31, 2020					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses		
Investment grade						
Debt instruments at FVTOCI	\$ 1,119,207,518	\$ -	\$ -	\$ -	\$ -	\$ 1,119,207,518
Financial assets measured at amortized cost	2,635,142,149	-	-	-	(1,726,558)	2,633,415,591
Non-investment grade						
Debt instruments at FVTOCI	3,995,777	58,252	-	-	-	4,054,029
Financial assets measured at amortized cost	13,064,695	3,730,378	-	-	(846,857)	15,948,216
	December 31, 2019					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses		
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

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

	December 31, 2020						
	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	\$ 308,159,666	\$ 46,631	\$ 7,989,631	\$ -	\$ (640,289)	\$ (4,093,427)	\$ 311,462,212
	December 31, 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	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)	\$ 340,964,004

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	(1,821)	1,821	-	-	-
New financial assets originated or purchased	430,775	-	-	-	430,775
Financial assets that have been derecognized during the year	(263,331)	(334,637)	-	-	(597,968)
Changes in models/risk parameters	217,772	332,427	-	-	550,199
Foreign exchange and other movements	<u>(30,389)</u>	<u>(6,214)</u>	<u>-</u>	<u>-</u>	<u>(36,603)</u>
December 31, 2020	<u>\$ 690,084</u>	<u>\$ 3,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693,147</u>
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Charged in Accordance with IFRS 9
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transferred to lifetime expected credit losses	(3,441)	3,441	-	-	-
New financial assets originated or purchased	148,212	-	7	-	148,219
Financial assets that have been derecognized during the year	(271,945)	(86,404)	(12,462)	-	(370,811)
Changes in models/risk parameters	2,062	75,028	-	-	77,090
Foreign exchange and other movements	<u>(6,090)</u>	<u>552</u>	<u>116</u>	<u>-</u>	<u>(5,422)</u>
December 31, 2019	<u>\$ 337,078</u>	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,744</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	(8,617)	8,617	-	-	-
New financial assets originated or purchased	385,394	-	-	-	385,394
Financial assets that have been derecognized during the year	(337,526)	(990,101)	-	-	(1,327,627)
Changes in models/risk parameters	774,325	1,680,246	-	-	2,454,571
Foreign exchange and other movements	(81,441)	(54,503)	-	-	(135,944)
December 31, 2020	<u>\$ 1,775,172</u>	<u>\$ 798,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,573,415</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	(2,069)	2,069	-	-	-
New financial assets originated or purchased	471,829	-	-	-	471,829
Financial assets that have been derecognized during the year	(363,639)	(533,832)	(658,551)	-	(1,556,022)
Changes in models/risk parameters	55,156	(18,543)	-	-	36,613
Foreign exchange and other movements	(22,670)	(1,332)	(51,893)	-	(75,895)
December 31, 2019	<u>\$ 1,043,037</u>	<u>\$ 153,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,197,021</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 year	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
December 31, 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	(9)	9	-	-	-	-	-
Transferred to credit-impaired financial assets	(3,194)	(68)	3,262	-	-	-	-
Transferred to 12-month expected credit losses	607	(86)	(521)	-	-	-	-
New financial assets originated or purchased	59,347	-	10,691	-	70,038	-	70,038
Financial assets that have been derecognized during the year	(38,899)	(130)	(298,466)	-	(337,495)	-	(337,495)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	499,498	499,498
Changes in models/risk parameters	(69,377)	8	(254,932)	-	(324,301)	-	(324,301)
December 31, 2020	<u>\$ 33,284</u>	<u>\$ 32</u>	<u>\$ 606,973</u>	<u>\$ -</u>	<u>\$ 640,289</u>	<u>\$ 4,093,427</u>	<u>\$ 4,733,716</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	(18)	894	(876)	-	-	-	-
Transferred to credit-impaired financial assets	(4,613)	(76)	4,689	-	-	-	-
Transferred to 12-month expected credit losses	1,397	(74)	(1,323)	-	-	-	-
New financial assets originated or purchased	3,918	-	11,254	-	15,172	-	15,172
Financial assets that have been derecognized during the year	(13,573)	(33)	(229,458)	-	(243,064)	-	(243,064)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(1,532,423)	(1,532,423)
Changes in models/risk parameters	7,131	(613)	771,167	-	777,685	-	777,685
December 31, 2019	<u>\$ 84,809</u>	<u>\$ 299</u>	<u>\$ 1,146,939</u>	<u>\$ -</u>	<u>\$ 1,232,047</u>	<u>\$ 3,593,929</u>	<u>\$ 4,825,976</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>December 31, 2020</u>					
Gross carrying amount (Note)	\$ 16,155,217	\$ 57,342	\$ 4,641	\$ -	\$ 16,217,200
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,147	464	-	1,611

Note: Cathay Life's receivables included notes receivable in the amount of \$81,757 thousand and other receivables in the amount of \$16,135,443 thousand.

**Aging of Receivables and ECL Recognized**

	<b>Not Yet Due/within 1 Month</b>	<b>1-3 Months</b>	<b>3-6 Months</b>	<b>Over 6 Months</b>	<b>Total</b>
<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.

The movements of loss allowance were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 1,541	\$ 2,346
Increase (reversal) for the current period	<u>70</u>	<u>(805)</u>
Ending balance	<u>\$ 1,611</u>	<u>\$ 1,541</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 and derivative financial liabilities were based on the agreed repayment dates.

	<b>December 31, 2020</b>				
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables (Note 1)	\$ 22,135,418	\$ 326,161	\$ 466,043	\$ 973,975	\$ 3,287
Bonds payable (Note 2)	559,620	1,194,411	2,715,000	8,145,000	84,770,000
Lease liabilities (Note 3)	317,787	458,732	689,696	1,400,670	17,942,761
<u>Derivative financial liabilities</u>					
Foreign currency swaps	2,664,438	1,258,529	-	-	-
Foreign exchange forward contracts	13,569,120	224,100	-	-	-
Cross currency swaps	-	-	10,673	42,933	90,971
<b>December 31, 2019</b>					
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<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 currency swaps	1,834,039	298,058	-	-	-
Foreign exchange forward contracts	1,231,198	-	-	-	-
Interest rate swaps	1,481	1,517	3,410	1,259	-
Options	18,016	-	-	-	-

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 has set up 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 or liquidate the collateral, which effectively reduces the credit risk of Cathay United Bank, Indovina Bank and CUBCN Bank. The disclosure of the maximum credit exposure shall not take into account any collateral held or other enhancements.

- ii. CUBC Bank

The approval unit of CUBC Bank's credit risk policies is the board of directors, who sets the counterparty credit limits that are then implemented by the risk management department. These credit risk policies form the basic principles for all credit risk situations faced by CUBC Bank and also serve as the basis for the development of CUBC Bank's various businesses in Cambodia.

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 movements 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. For the assessment, Cathay United Bank and CUBCN Bank consider reasonable and corroborative information (including prospective information) that indicates a significant increase in credit risk since 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, credit risk is deemed to have increased significantly since 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.

Cathay United Bank established Stage 1 and Stage 2 for debt instruments based on bonds ratings. Bonds rated above investment grades are classified as low credit risks. Credit risks are deemed to have significantly increased if the credit ratings decreased over specific level after the initial recognition.



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 a 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

For financial assets whose internal credit assessment indicators show a weaker credit quality compared to that upon initial recognition, credit risk is deemed to have increased significantly 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

When the credit rating of the financial asset at the reporting date falls into the default level, it is determined 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

Assets that show credit deterioration according to the internal credit risk management indicators 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, such as substandard, doubtful and loss, at reporting date would be classified as a credit-impaired loan.

iii) Internal credit assessment indicators

The credit information used for internal credit risk management purpose that indicated credit deterioration at the reporting date would be recognized as indicator of 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.

<b>Credit Category</b>	<b>Definition</b>
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 December 31, 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:

<b>Category</b>	<b>Description</b>
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. The borrower is assessed to have no 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 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 December 31, 2020 are as follows:

<b>Credit Category</b>	<b>Probability of Default (PD)</b>
Enterprise loan	Consumer Price Index Government Expenditures GDP % Proportion of investment in GDP (%)
Consumer loan	Proportion of investment in GDP (%) Proportion of savings in GDP (%) Unemployment rate % Price Index
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 December 31, 2020 are as follows:

<b>Segment</b>	<b>Selected Factors</b>
Loan portfolio	Vietnam GDP growth rate
Bond portfolio	Global GDP growth rate Global inflation index

Cathay United Bank Cambodia (CUBC Bank)

CUBC Bank establishes ECL model based on historical default and loss data and uses the regression analysis to adjust the forward-looking parameters with local macroeconomic factors by considering local risk distribution and borrowers' characteristics.

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 asset

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 instruments, the maximum credit risk exposures of on-balance-sheet financial assets equals their carrying amounts. The maximum credit risk exposures of off-balance-sheet items (without considering the collateral or other credit enhancement instruments) are as follows:

i) Cathay United Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk	
	December 31, 2020	December 31, 2019
Irrevocable loan commitments	\$ 190,736,959	\$ 189,579,513
Credit card commitments	744,977,230	710,712,032
Unused commercial letters of credit	5,731,441	4,496,860
Guarantees on duties and contracts	17,071,951	12,957,304



ii) Indovina Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk	
	December 31, 2020	December 31, 2019
Financial guarantee contracts	\$ 1,323,647	\$ 1,380,304
Unused commercial letters of credit	972,917	662,214

iii) CUBC Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk	
	December 31, 2020	December 31, 2019
Financial guarantee contracts	\$ 17,406	\$ 23,652
Credit card commitments	277,491	280,881
Irrevocable loan commitments	234,582	488,140

iv) CUBCN Bank

Off Balance Sheet Items	Maximum Exposure to Credit Risk	
	December 31, 2020	December 31, 2019
Financial guarantee contracts	\$ 236,475	\$ 427,986
Unused commercial letters of credit	210,453	95,593
Irrevocable loan commitments	928,613	1,050,539

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:

	December 31, 2020			Differences of Impairment Loss under Regulations	Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses		
Total carrying amount	\$ 1,621,545,452	\$ 55,888,623	\$ 12,109,964	\$ -	\$ 1,689,544,039
Less: Allowance impairment	(4,643,771)	(2,095,225)	(5,124,881)	-	(11,863,877)
Less: Differences of impairment loss under regulations	-	-	-	(16,384,201)	(16,384,201)
	<u>\$ 1,616,901,681</u>	<u>\$ 53,793,398</u>	<u>\$ 6,985,083</u>	<u>\$ (16,384,201)</u>	<u>\$ 1,661,295,961</u>

Cathay United Bank and its subsidiaries' receivables:

	December 31, 2020				Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Differences of Impairment Loss under Regulations	
Total carrying amount	\$ 98,245,219	\$ 1,889,559	\$ 2,141,088	\$ -	\$ 102,275,866
Less: Allowance impairment	(465,842)	(202,476)	(1,731,461)	-	(2,399,779)
Less: Differences of impairment loss under regulations	-	-	-	(62,941)	(62,941)
	<u>\$ 97,779,377</u>	<u>\$ 1,687,083</u>	<u>\$ 409,627</u>	<u>\$ (62,941)</u>	<u>\$ 99,813,146</u>

Cathay United Bank and its subsidiaries' discounts and loans:

	December 31, 2019				Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Differences of Impairment Loss under Regulations	
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)
Less: Differences of impairment loss under 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				Total
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Differences of Impairment Loss under Regulations	
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)
Less: Differences of impairment loss under 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>

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 risk concentration of the Cathay United Bank derives from the assets, liabilities and off-balance-sheet items, and arises from exposures to risks in performing obligations or engaging in transactions or cross-line portfolio 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 is not significant relative to Cathay United Bank's total bills discounts and loans, including overdue loans, guarantees, bills purchased, and acceptances receivable. Credit risk concentration risk of Cathay United Bank according to industry and country is listed below:

Industry Type Items	December 31			
	2020		2019	
	Amount	%	Amount	%
Manufacturing	\$ 136,414,473	7.98	\$ 116,211,750	7.28
Financial institutions and insurance	77,235,347	4.52	79,217,724	4.96
Leasing and real estate	151,233,185	8.85	144,353,511	9.04
Individuals	1,029,137,040	60.20	904,288,042	56.65
Others	<u>315,605,920</u>	<u>18.45</u>	<u>352,249,142</u>	<u>22.07</u>
	<u>\$ 1,709,625,965</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>

<b>Geographic Region</b>	<b>December 31</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Items</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Domestic	\$ 1,432,739,575	83.80	\$ 1,308,219,217	81.95
Asia	208,251,320	12.18	211,659,637	13.26
America	47,564,475	2.78	53,564,188	3.36
Others	<u>21,070,595</u>	<u>1.24</u>	<u>22,877,127</u>	<u>1.43</u>
	<u>\$ 1,709,625,965</u>	<u>100.00</u>	<u>\$ 1,596,320,169</u>	<u>100.00</u>

## 2) Liquidity risk

### a) Source and definition of liquidity risk

Liquidity risk means that Cathay United Bank cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or that it has 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 held to manage liquidity risk 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, 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.

	December 31, 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	\$ 21,632,134	\$ 18,939,610	\$ 22,759,390	\$ 174,251	\$ 63,505,385
Non-derivative financial liabilities at FVTPL	-	-	566,549	36,775,320	37,341,869
Securities sold under repurchase agreements	8,782,928	1,322,545	-	-	10,105,473
Payables	16,497,492	2,928,046	113,437	426,011	19,964,986
Deposits and remittances	366,399,102	1,030,683,105	1,016,354,012	148,106,423	2,561,542,642
Financial debentures payable	-	7,518,502	37,213	46,800,000	54,355,715
Lease liabilities	116,107	555,111	680,363	2,409,535	3,761,116
Other capital outflow at maturity	12,868,822	15,291,646	6,218,538	1,037,130	35,416,136

	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

Additional information about the maturity analysis for lease liabilities:

	December 31, 2020				
	Less than 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total
Lease liabilities	\$ 1,351,581	2,156,451	\$ 250,974	\$ 2,110	\$ 3,761,116

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

iii. Maturity analysis of derivative financial liabilities

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

- i) Foreign exchange derivative instruments: Foreign exchange options, non-delivery forwards;
- ii) Interest rate derivative instruments: Swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments traded by Cathay United Bank based on the number of days remaining from the balance sheet date until the contractual maturity date. The analysis of contractual maturity dates illustrates all derivative financial instruments listed on the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

	December 31, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments	\$ 144,336	\$ 51,523	\$ 17,164	\$ 5	\$ 213,028
Interest rate derivative instruments	25,200	879,624	362,723	23,592,651	24,860,198
	<u>\$ 169,536</u>	<u>\$ 931,147</u>	<u>\$ 379,887</u>	<u>\$ 23,592,656</u>	<u>\$ 25,073,226</u>

	December 31, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments	\$ 131,322	\$ 95,306	\$ 7,545	\$ 92	\$ 234,265
Interest rate derivative instruments	<u>53,997</u>	<u>195,095</u>	<u>501,056</u>	<u>20,153,630</u>	<u>20,903,778</u>
	<u>\$ 185,319</u>	<u>\$ 290,401</u>	<u>\$ 508,601</u>	<u>\$ 20,153,722</u>	<u>\$ 21,138,043</u>

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

- i) Foreign exchange derivative instruments: Foreign exchange swaps;
- ii) Interest rate derivative instruments: Cross currency swaps;
- iii) Credit derivative instruments: All derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The table below shows Cathay United Bank's gross settled derivative instruments based on the number of days remaining from the balance sheet date until the contractual maturity date. Contractual maturities are evaluated to be the most basic element for understanding all the derivative financial instruments presented on the balance sheets. The disclosed amounts are based on contractual cash flows and part of the disclosed amounts differ from the related items on the consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

	December 31, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments					
Cash outflow	\$ (6,206,951)	\$ (9,612,506)	\$ (3,966,155)	\$ (543,230)	\$ (20,328,842)
Cash inflow	9,935	2,984	1,329	-	14,248
Interest rate derivative instruments					
Cash outflow	-	(114,986)	(47,427)	(473,217)	(635,630)
Cash inflow	38	-	-	-	38
Cash outflow subtotal	(6,206,951)	(9,727,492)	(4,013,582)	(1,016,447)	(20,964,472)
Cash inflow subtotal	<u>9,973</u>	<u>2,984</u>	<u>1,329</u>	<u>-</u>	<u>14,286</u>
Net cash flow	<u>\$ (6,196,978)</u>	<u>\$ (9,724,508)</u>	<u>\$ (4,012,253)</u>	<u>\$ (1,016,447)</u>	<u>\$ (20,950,186)</u>

	December 31, 2019				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL					
Foreign exchange derivative instruments					
Cash outflow	\$ (3,014,684)	\$ (7,300,980)	\$ (1,041,437)	\$ (110,918)	\$ (11,468,019)
Cash inflow	15,580	6,979	638	-	23,197
Interest rate derivative instruments					
Cash outflow	(40,869)	(156)	(6,949)	(337,556)	(385,530)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(3,055,553)	(7,301,136)	(1,048,386)	(448,474)	(11,853,549)
Cash inflow subtotal	<u>15,580</u>	<u>6,979</u>	<u>638</u>	<u>-</u>	<u>23,197</u>
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>

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:

December 31, 2020

	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
Irrevocable loan commitments	\$ 159,685,630	\$ 25,896,936	\$ 5,154,393	\$ 190,736,959
Credit card commitments	52,483,033	233,082,112	459,412,085	744,977,230
Financial guarantee contracts	15,178,359	7,594,933	30,100	22,803,392

December 31, 2019

	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
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

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  $\beta$  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.

<b>December 31, 2020</b>				
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>	<b>Ending Balance</b>
Interest rate	\$ 98,733	\$ 194,699	\$ 44,753	\$ 44,753
Foreign exchange	223,146	371,160	121,699	162,748
Equity securities price	364,210	791,984	103,986	431,373

<b>December 31, 2019</b>				
<b>Factors of Market Risk</b>	<b>Average Balance</b>	<b>Maximum Balance</b>	<b>Minimum Balance</b>	<b>Ending Balance</b>
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

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.

<b>Stress Test</b>			
<b>Market/Product</b>	<b>Scenario</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Stock market	Major stock exchanges +15%	\$ 2,111,674	\$ 2,275,627
	Major stock exchanges -15%	(2,038,832)	(2,275,627)
Interest rate/bond market	Major interest rate + 100bp	(1,433,146)	(2,123,313)
	Major interest rate (100bp)	53,539	1,761,718
Foreign exchange market	Major currencies +3%	306,945	232,248
	Major currencies -3%	(306,945)	(219,225)
Composite	Major Stock Exchanges -15%	(3,165,033)	(4,166,692)
	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.

Risk Factors	Changes (+/-)	December 31, 2020	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Foreign exchange rate factor sensitivity (FX Delta)	USD+1%	\$ 87,303	\$ -
	HKD+1%	9,862	-
	JPY+1%	15,101	-
	AUD+1%	12,843	-
	CNY+1%	(7,927)	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift+1bp	(8,730)	-
	Yield curves (HKD) parallel shift+1bp	147	-
	Yield curves (JPY) parallel shift+1bp	2	-
	Yield curves (AUD) parallel shift+1bp	(131)	-
	Yield curves (CNY) parallel shift+1bp	(1,303)	-
	Equity securities price factor sensitivity (Equity Delta)	Equity securities price +1%	22,531

Risk Factors	Changes (+/-)	December 31, 2019	
		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

#### 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**

<b>Risk Factors</b>	<b>Changes (+/-)</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Equity risk (stock index)	-10%	\$ (936,002)	\$ (504,117)
Interest rate risk (yield curve)	+20bps	(139,733)	(150,339)
Exchange risk (exchange rate)	USD depreciate against the NTD by 1 dollar	(133,032)	(115,390)

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

<b>For the Year Ended December 31, 2020</b>			
<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>Effect on Profit and Loss</b>	<b>Effect on Equity</b>
Foreign currency risk sensitivity	USD appreciates 1%	\$ 23,146	\$ 6,311
	CNY appreciates 1%	2,637	-
	HKD appreciates 1%	788	4,396
	EUR appreciates 1%	4	499
	VND appreciates 1%	-	6,105
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(5,006)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(50)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,292)	(712)
Equity securities price sensitivity	Increases 1% in equity price	-	93,600

<b>For the Year Ended December 31, 2019</b>			
<b>Risk Factors</b>	<b>Variation (+/-)</b>	<b>Effect on Profit and Loss</b>	<b>Effect on Equity</b>
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

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:

### December 31, 2020

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 9,987,740	\$ -	\$ -	\$ -	\$ 248,975	\$ 10,236,715
Financial assets at FVTPL	467,409	-	-	-	-	467,409
Financial assets at FVTOCI	764,184	-	-	-	-	764,184
Financial assets at amortized cost	2,104,756	71,512	1,231,351	2,916,059	1,582,093	7,905,771
Total	\$ 13,324,089	\$ 71,512	\$ 1,231,351	\$ 2,916,059	\$ 1,831,068	\$ 19,374,079
Proportion	68.77%	0.37%	6.36%	15.05%	9.45%	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%

- 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

	December 31, 2020					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 764,184	\$ -	\$ -	\$ -	\$ -	\$ 764,184
Financial assets measured at amortized cost	7,781,007	-	-	-	(6,120)	7,774,887
<u>Non-investment grade</u>						
Financial assets measured at amortized cost	-	141,195	-	-	(10,311)	130,884
	December 31, 2019					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
<u>Investment grade</u>						
Debt instruments at FVTOCI	\$ 754,014	\$ -	\$ -	\$ -	\$ -	\$ 754,014
Financial assets measured at amortized cost	8,698,998	-	-	-	(3,909)	8,695,089

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

	December 31, 2020					Gross Carrying Amount
	Stage 1	Stage 2	Stage 3		Loss Allowance	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Secured loans	\$ 197,791	\$ -	\$ -	\$ -	\$ (2,475)	\$ 195,316

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

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>25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25</u>
December 31, 2020	<u>\$ 91</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91</u>
January 1, 2019	\$ 148	\$ -	\$ -	\$ -	\$ 148
Changes in models/risk parameters	<u>(82)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(82)</u>
December 31, 2019	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66</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>2,734</u>	<u>-</u>	<u>18,642</u>	<u>-</u>	<u>21,376</u>
December 31, 2020	<u>\$ 6,120</u>	<u>\$ -</u>	<u>\$ 10,311</u>	<u>\$ -</u>	<u>\$ 16,431</u>
January 1, 2019	\$ 3,587	\$ -	\$ -	\$ -	\$ 3,587
Changes in models/risk parameters	<u>322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322</u>
December 31, 2019	<u>\$ 3,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,909</u>

iii. Secured loans

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Assets	Purchased or Originated Credit- impaired Financial Assets			
January 1, 2020	\$ 66	\$ -	\$ -	\$ -	\$ 66	\$ 2,737	\$ 2,803
Changes in model/risk parameters	(44)	-	-	-	(44)	-	(44)
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(284)	(284)
December 31, 2020	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ 2,453</u>	<u>\$ 2,475</u>
January 1, 2019	\$ 53	\$ -	\$ -	\$ -	\$ 53	\$ 2,832	\$ 2,885
Difference from impairment charged in accordance with Regulations Governing the Procedures to Evaluate Assets	13	-	-	-	13	(95)	(82)
December 31, 2019	<u>\$ 66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66</u>	<u>\$ 2,737</u>	<u>\$ 2,803</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 and its subsidiaries applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, and the estimation of lifetime credit loss was as follows:

December 31, 2020	Not Overdue	Overdue	Total
Carrying amount	\$ 2,017,873	\$ 338,004	\$ 2,355,877
Expected credit loss rate	1.00%	5.95%	
Lifetime expected credit losses	\$ 20,087	\$ 20,115	\$ 40,202
December 31, 2019	Not Overdue	Overdue	Total
Carrying amount	\$ 1,654,359	\$ 724,959	\$ 2,379,318
Expected credit loss rate	0.97%	3.05%	-
Lifetime expected credit losses	\$ 16,026	\$ 22,108	\$ 38,134

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.

December 31, 2020

	<b>Less than 6 Months</b>	<b>6-12 Months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,322,801	\$ 18,618	\$ 8,438	\$ 8,209	\$ 4,850
Lease liabilities	69,228	27,848	7,944	2,033	-
<u>Derivative financial liabilities</u>					
Swap	2,700	-	-	-	-

December 31, 2019

	<b>Less than 6 Months</b>	<b>6-12 Months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5+ Years</b>
<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	-	-	-	-

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

	<b>For the Year Ended December 31, 2020</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 36,718	\$ 89,675	\$ 11,733	\$ 62,027
	<b>For the Year Ended December 31, 2019</b>			
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>End of Period</b>
VaR	\$ 16,043	\$ 21,983	\$ 9,609	\$ 13,303

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 Year Ended December 31, 2020  
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (75,660)
Interest rate risk (yield curve)	+100bps	(56,647)
Exchange rate risk (exchange rate)	3%	5,865
Product risk (price)	-10%	(16,775)

**For the Year Ended December 31, 2019  
Stress Test Table**

Risk Factor	Changes (+/-)	Changes in Profit and Loss
Equity risk (stock index)	-10%	\$ (113,102)
Interest rate risk (yield curve)	+100bps	(93,954)
Exchange rate risk (exchange rate)	3%	8,651
Product risk (price)	-10%	(369)

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:

	<b>Debt Instrument Investments</b>	<b>Receivables</b>	<b>Other Receivables</b>	<b>Overdue Receivables</b>	<b>Securities Financing Receivables</b>	<b>Security Lending Receivables</b>	<b>Futures Trading Margin Receivables</b>	<b>Total</b>
Balance at								
January 1, 2020	\$ 852	\$ 96	\$ 17	\$ 94,993	\$ 166	\$ 16	\$ -	\$ 96,140
Increase (decrease)	<u>1,080</u>	<u>174</u>	<u>9</u>	<u>(2,771)</u>	<u>139</u>	<u>12</u>	<u>74</u>	<u>(1,283)</u>
Balance at								
December 31, 2020	<u>\$ 1,932</u>	<u>\$ 270</u>	<u>\$ 26</u>	<u>\$ 92,222</u>	<u>\$ 305</u>	<u>\$ 28</u>	<u>\$ 74</u>	<u>\$ 94,857</u>
Balance at								
January 1, 2019	\$ 1,020	\$ 88	\$ 12	\$ 95,047	\$ 132	\$ 7	\$ -	\$ 96,306
Increase (decrease)	<u>(168)</u>	<u>8</u>	<u>5</u>	<u>(54)</u>	<u>34</u>	<u>9</u>	<u>-</u>	<u>(166)</u>
Balance at								
December 31, 2019	<u>\$ 852</u>	<u>\$ 96</u>	<u>\$ 17</u>	<u>\$ 94,993</u>	<u>\$ 166</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 96,140</u>

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of December 31, 2020 and 2019, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$6,610,559 thousand and \$7,100,772 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.

**December 31, 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	\$ 1,657,576	\$ -	\$ -	\$ -	\$ 1,657,576
Commercial paper payable	1,269,918	-	-	-	1,269,918
Financial liabilities at FVTPL	15,745,711	-	-	-	15,745,711
Liabilities for bonds with repurchase agreements	2,207,506	-	-	-	2,207,506
Short sale margins and payables for short sale collateral received	77,180	154,360	231,540	926,156	1,389,236
Securities lending margin - deposit received	7,208	14,416	21,624	86,502	129,750
Futures trader's equity	13,215,030	-	-	-	13,215,030
Equity for each customer in the account	11,744	-	-	-	11,744
Accounts payable	15,094,904	458,671	236,349	322,227	16,112,151
Other financial liabilities	286,668	-	-	-	286,668
Lease liabilities	7,483	15,076	20,443	20,705	63,707
Others	1,335,561	-	-	-	1,335,561
<b>Total</b>	<b>\$ 50,916,489</b>	<b>\$ 642,523</b>	<b>\$ 509,956</b>	<b>\$ 1,355,590</b>	<b>\$ 53,424,558</b>
% to the total	<u>95.31%</u>	<u>1.20%</u>	<u>0.95%</u>	<u>2.54%</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, 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	\$ 4,872,595	\$ -	\$ -	\$ -	\$ 4,872,595
Financial assets at FVTPL					
Lent securities	112,858	-	-	-	112,858
Operation securities	10,375,243	-	-	-	10,375,243
Open-end funds and beneficiary certificates	50,097	-	-	-	50,097
Call option-futures	35,075	-	-	-	35,075
Futures trading margin	1,329,790	-	-	-	1,329,790
Structured products	115,583	-	-	-	115,583
Financial assets at FVTOCI - current	2,218,853	-	-	-	2,218,853
Securities financing receivables	294,283	574,748	862,122	3,448,489	5,179,642
Refinancing margin and refinancing deposits receivable	1,696	3,392	5,088	20,348	30,524
Security lending receivable	47,348	94,696	142,044	-	284,088
Customer's margin accounts	13,222,279	-	-	-	13,222,279
Security lending deposits price and security lending margin deposits paid	349,115	698,230	1,047,345	4,189,380	6,284,070
Receivables	14,943,570	-	-	171,879	15,115,449
Others	2,094,005	1,914	2,870	1,200,000	3,298,789
	<u>50,062,390</u>	<u>1,372,980</u>	<u>2,059,469</u>	<u>9,030,096</u>	<u>62,524,935</u>
<b>Residual cash</b>	<b>\$ (854,099)</b>	<b>\$ 730,457</b>	<b>\$ 1,549,513</b>	<b>\$ 7,674,506</b>	<b>\$ 9,100,377</b>

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>

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 the Group's consolidated financial statements are the real estate investments and management organizations. As of December 31, 2020 and 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:

<b>Type of Structured Entity</b>	<b>Nature and Purpose</b>	<b>Interests Owned</b>
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 December 31, 2020 and 2019, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<b>December 31, 2020</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
Financial assets at FVTPL	\$ 119,715,465	\$ 40,232,961
Financial assets at FVTOCI	-	66,528,618
Financial assets measured at amortized cost	-	119,025,227
	<u>\$ 119,715,465</u>	<u>\$ 225,786,806</u>



	<b>December 31, 2019</b>	
	<b>Private Equity Funds</b>	<b>Asset-backed Securities</b>
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>

- 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 December 31, 2020 and 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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Financial assets at FVTOCI	\$ 14,299,523	\$ 27,942,654
Investments in debt instruments measured at amortized cost	<u>32,294,807</u>	<u>38,848,276</u>
	<u>\$ 46,594,330</u>	<u>\$ 66,790,930</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 December 31, 2020 and 2019, the carrying amounts of assets recognized by Cathay Century relating to its interests in unconsolidated structured entities are disclosed as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Financial assets at FVTOCI	\$ 33,637	\$ 79,951
Investments in debt instruments measured at amortized cost	<u>459,934</u>	<u>591,412</u>
	<u>\$ 493,571</u>	<u>\$ 671,363</u>

### 37. CAPITAL MANAGEMENT

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

a. Capital adequacy ratio of the Group

Item	Shareholding Proportion of the Company	<b>December 31, 2020</b>	
		Eligible Capital	Statutory Capital Requirements
The Company	100.00%	\$ 893,035,819	\$ 997,712,189
Cathay United Bank	100.00%	276,800,810	171,889,293
Cathay Securities	100.00%	8,712,584	4,015,849
Cathay Life	100.00%	621,219,356	344,994,185
Cathay Century	100.00%	12,179,533	7,536,668
Cathay Venture	75.00%	4,491,451	2,261,794
Cathay Securities Investment Trust	100.00%	2,924,161	1,874,420
Less: Deduction items		<u>(1,033,871,816)</u>	<u>(989,505,379)</u>
		<u>\$ 785,491,898</u>	<u>\$ 540,779,019</u>
Capital adequacy ratio of the Group			145.25%

**December 31, 2019**

Item	Shareholding Proportion of the Company	Eligible Capital	Statutory Capital Requirements
The Company	100.00%	\$ 771,484,510	\$ 849,255,228
Cathay United Bank	100.00%	261,880,481	182,170,074
Cathay Securities	100.00%	6,061,167	2,025,997
Cathay Life	100.00%	565,404,020	326,777,835
Cathay Century	100.00%	11,211,227	6,609,567
Cathay Venture	75.00%	4,208,591	2,126,349
Cathay Securities Investment Trust	100.00%	2,697,854	1,742,915
Less: Deduction items		<u>(894,067,048)</u>	<u>(846,268,296)</u>
		<u>\$ 728,880,802</u>	<u>\$ 524,439,669</u>

Capital adequacy ratio of the Group 138.98%

b. Eligible capital

Item	<u>December 31, 2020</u> Amount
Ordinary shares	\$ 131,692,102
Non-cumulative perpetual preferred stock and non-cumulative subordinated debt without maturity dates - qualifying as bank-level Tier I Capital	15,333,000
Other preferred stock and subordinated financial debentures	-
Capital received in advance	-
Capital surplus	177,256,053
Legal reserve	51,967,688
Special reserve	149,894,910
Retained earnings	169,606,342
Equity adjustments	197,311,121
Less: Goodwill	-
Less: Deferred assets	(25,397)
Less: Treasury stock	<u>-</u>
Total eligible capital	<u>\$ 893,035,819</u>

Items	<u>December 31, 2019</u> Amount
Ordinary shares	\$ 131,692,102
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates - qualifying as bank-level Tier I Capital	15,333,000
Other preferred stock and subordinated financial debentures	-
Capital received in advance	-
Capital surplus	177,256,976
Legal reserve	46,122,845
Special reserve	221,977,672
Retained earnings	58,181,890
Equity adjustments	121,182,880
Less: Goodwill	-
Less: Deferred assets	(262,855)
Less: Treasury stock	-
Total eligible capital	<u>\$ 771,484,510</u>

### 38. BUSINESS COMBINATIONS-SUBSIDIARIES ACQUIRED

#### a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Global Evolution Holding ApS	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

	<b>Global Evolution Holding ApS and Its Subsidiaries</b>
Current assets	
Cash and cash equivalents	\$ 628,816
Other	519,684
Intangible assets - customer relationships	2,467,576
Non-current assets	108,667
Current liabilities	<u>(596,864)</u>
	<u>\$ 3,127,879</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

	<b>Global Evolution Holding ApS and Its Subsidiaries</b>
Consideration transferred for 8% shares	\$ 781,317
Plus: Non-controlling interests (47% ownership interest in Global Evolution Holding ApS)	1,415,021
Plus: Fair value of 45% shares owned before acquisition	<u>4,394,897</u>
	6,591,235
Less: Fair value of identifiable net assets acquired	<u>(3,127,879)</u>
Goodwill recognized on acquisitions	<u>\$ 3,463,356</u>

e. Net cash outflow on the acquisition of subsidiaries

	<b>Global Evolution Holding ApS and Its Subsidiaries</b>
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:

	<b>December 31, 2020</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 136,841,984	28.5080	\$ 3,901,091,280
CNY	42,150,730	4.3813	184,674,993
AUD	6,327,462	21.9725	139,030,159
Non-monetary items			
USD	11,673,378	28.5080	332,784,660
<u>Financial liabilities</u>			
Monetary items			
USD	17,999,522	28.5080	513,130,373
	<b>December 31, 2019</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<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

It is not possible to disclose foreign exchange gains (losses) of monetary financial instruments by each significant foreign currency due to the variety of the foreign currencies of the Group. The foreign currency exchange losses for the years ended December 31, 2020 and 2019 were \$126,717,214 thousand and \$52,147,418 thousand, respectively.

c. Information on discretionary investments

1) Cathay Life and its subsidiaries

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Domestic shares	\$ 165,441,030	\$ 110,798,703
Overseas shares	73,520,629	51,029,574
Bonds purchased under resale agreements	20,066,000	14,812,000
Cash in banks	51,308,069	35,979,663
Beneficiary certificates	1,997,792	17,180
Futures and options	<u>501,910</u>	<u>435,322</u>
	<b><u>\$ 312,835,430</u></b>	<b><u>\$ 213,072,442</u></b>

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
NTD	\$ 84,358,163	\$ 64,358,163
USD	1,462,200	952,200
HKD	74,084	544,084

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:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Domestic shares	\$ 1,588,344	\$ 1,249,637
Bonds purchased under resale agreements	200,009	370,220
Cash in banks	414,548	216,196
Future margins	<u>2,011</u>	<u>2,010</u>
	<b><u>\$ 2,204,912</u></b>	<b><u>\$ 1,838,063</u></b>

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

d. Disclosure information as required by Article 16 of Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality - loans

(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2020					December 31, 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	\$ 840,401	\$ 265,981,571	0.32%	\$ 3,283,451	390.70%	\$ 106,443	\$ 219,835,224	0.05%	\$ 2,799,559	2630.09%
	Unsecured	203,533	312,112,388	0.07%	7,296,192	3584.78%	234,899	326,886,658	0.07%	8,132,940	3462.31%
Consumer banking	Residential mortgage (Note 4)	363,263	429,232,267	0.08%	6,791,891	1869.69%	652,832	351,141,817	0.19%	5,628,075	862.10%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	248,450	100,603,115	0.25%	3,614,217	1454.71%	211,673	87,272,712	0.24%	2,898,274	1369.22%
	Other (Note 6)	Secured	603,718	489,779,625	0.12%	5,539,927	917.64%	995,451	502,473,730	0.20%	6,105,424
Unsecured		14,922	22,885,286	0.07%	320,255	2146.14%	84,867	26,291,790	0.32%	419,182	493.93%
Total loan		2,274,287	1,620,594,252	0.14%	26,845,933	1180.41%	2,286,165	1,513,901,931	0.15%	25,983,454	1136.55%
		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		\$ 99,834	\$ 87,092,880	0.11%	\$ 1,955,685	1958.94%	\$ 131,125	\$ 89,442,948	0.15%	\$ 1,852,005	1412.39%
Accounts receivable factored without recourse (Note 7)		-	4,924,287	-	77,506	-	-	3,137,119	-	42,657	-

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	December 31, 2020		December 31, 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)	\$ 1,428	\$ 50,506	\$ 2,032	\$ 84,157
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	68,601	1,194,283	52,995	1,186,944
	Total	\$ 70,029	\$ 1,244,789	\$ 55,027	\$ 1,271,101

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, %)

December 31, 2020			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A- real estate lease activities	\$ 25,080,432	10.35
2	Group B- packaging and testing of semi-conductors	7,803,739	3.22
3	Group C- ocean transportation	7,420,326	3.06
4	Group D- other financial intermediation	6,905,632	2.85
5	Group E- security consulting	6,871,093	2.84
6	Group F- real estate development activities	6,200,000	2.56
7	Group G- real estate development activities	5,708,000	2.36
8	Group H- manufacture of computers	5,288,900	2.18
9	Group I - other financial intermediation	4,793,419	1.98
10	Group J - other financial intermediation	4,247,054	1.75

December 30, 2019			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A- real estate lease activities	\$ 30,945,120	13.60
2	Group B- packaging and testing of semi-conductors	17,042,808	7.49
3	Group C- ocean transportation	9,123,947	4.01
4	Group D- other financial intermediation	8,563,610	3.76
5	Group E- other	8,464,135	3.72
6	Group F- real estate lease activities	6,400,000	2.81
7	Group G- other financial intermediation	4,740,141	2.08
8	Group H- wired telecommunications activities	4,380,400	1.93
9	Group I - overseas financial institution	4,314,942	1.90
10	Group J - other financial intermediation	4,269,514	1.88

3) Information on interest rate sensitivity

Interest Rate Sensitivity (New Taiwan Dollars)  
December 31, 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	\$ 1,934,222,537	\$ 51,442,037	\$ 137,064,969	\$ 156,791,393	\$ 2,279,520,936
Interest rate-sensitive liabilities	190,095,447	1,531,047,126	239,236,301	86,479,337	2,046,858,211
Interest rate-sensitive gap	1,744,127,090	(1,479,605,089)	(102,171,332)	70,312,056	232,662,725
Net worth					242,296,872
Ratio of interest rate-sensitive assets to liabilities					111.37%
Ratio of interest rate sensitivity gap to net worth					96.02%

December 31, 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	\$ 1,837,932,196	\$ 7,335,655	\$ 123,846,988	\$ 120,610,271	\$ 2,089,725,110
Interest rate-sensitive liabilities	206,919,364	1,314,554,764	258,573,888	94,850,569	1,874,898,585
Interest rate-sensitive gap	1,631,012,832	(1,307,219,109)	(134,726,900)	25,759,702	214,826,525
Net worth					227,485,604
Ratio of interest rate-sensitive assets to liabilities					111.46%
Ratio of interest rate sensitivity gap to net worth					94.44%

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)  
December 31, 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	\$ 8,399,860	\$ 479,765	\$ 1,112,911	\$ 6,214,503	\$ 16,207,039
Interest rate-sensitive liabilities	10,799,718	3,480,300	4,038,117	4,695,480	23,013,615
Interest rate-sensitive gap	(2,399,858)	(3,000,535)	(2,925,206)	1,519,023	(6,806,576)
Net worth					8,499,259
Ratio of interest rate-sensitive assets to liabilities					70.42%
Ratio of interest rate sensitivity gap to net worth					(80.08%)

**December 31, 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	\$ 7,944,502	\$ 417,969	\$ 1,052,742	\$ 7,468,062	\$ 16,883,275
Interest rate-sensitive liabilities	10,852,355	2,762,903	3,020,304	3,717,138	20,352,700
Interest rate-sensitive gap	(2,907,853)	(2,344,934)	(1,967,562)	3,750,924	(3,469,425)
Net worth					7,556,155
Ratio of interest rate-sensitive assets to liabilities					82.95%
Ratio of interest rate sensitivity gap to net worth					(45.92%)

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  
December 31, 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	\$ 2,991,459,888	\$ 421,163,180	\$ 373,637,362	\$ 326,027,600	\$ 279,941,783	\$ 411,108,777	\$ 1,179,581,186
Main capital outflow on maturity	3,564,991,200	157,675,947	286,412,129	530,879,508	534,669,495	681,943,098	1,373,411,023
Gap	(573,531,312)	263,487,233	87,225,233	(204,851,908)	(254,727,712)	(270,834,321)	(193,829,837)

December 31, 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	\$ 2,753,664,691	\$ 512,917,202	\$ 279,534,600	\$ 326,611,389	\$ 212,034,471	\$ 388,992,625	\$ 1,033,574,404
Main capital outflow on maturity	3,284,386,041	181,117,191	225,578,812	608,926,176	570,919,514	483,026,638	1,214,817,710
Gap	(530,721,350)	331,800,011	53,955,788	(282,314,787)	(358,885,043)	(94,034,013)	(181,243,306)

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

Maturity Analysis of Assets and Liabilities  
December 31, 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	\$ 65,536,230	\$ 21,926,788	\$ 15,635,019	\$ 8,800,757	\$ 9,094,993	\$ 10,078,673
Main capital outflow on maturity	70,572,687	20,713,751	18,347,814	10,820,543	11,798,356	8,892,223
Gap	(5,036,457)	1,213,037	(2,712,795)	(2,019,786)	(2,703,363)	1,186,450

December 31, 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	\$ 61,759,110	\$ 17,781,993	\$ 16,890,342	\$ 8,748,684	\$ 7,808,402	\$ 10,529,689
Main capital outflow on maturity	66,894,443	16,698,526	20,440,429	10,134,936	12,011,769	7,608,783
Gap	(5,135,333)	1,083,467	(3,550,087)	(1,386,252)	(4,203,367)	2,920,906

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

e. Disclosures according to Article 46 of the Financial Holding Company Act

Ending balances of the transaction mentioned in Paragraph 2 of Article 46 of the Financial Holding Company Act, between all subsidiaries of a financial holding company and the same counterparties mentioned in Paragraph 1 of the same article.

December 31, 2020

Expressed in Thousands of New Taiwan Dollars; %

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
1) Same person		
Central Bank of the Republic of China (Taiwan)	\$ 472,894,423	52.95
Treasury Bond/Treasury Bills	178,096,029	19.94
FANNIE MAE	84,583,844	9.47
FREDDIE MAC	73,688,193	8.25
Fubon Asset Management Co., Ltd.	70,030,190	7.84
Yuanta Securities Investment Trust Co., Ltd.	67,793,974	7.59
Macquarie Investment Management Advisers	65,507,219	7.34
Taiwan Semiconductor Manufacturing Company Limited	64,321,397	7.20
CTBC Securities Co., Ltd.	63,930,742	7.16
China Development Bank Corp.	55,895,203	6.26
Fidelity Worldwide Investment	55,222,291	6.18
Qatar Government International Bond	51,347,935	5.75
Israel Government International Bond	51,174,971	5.73
China Government Bond	44,269,580	4.96
KGI Securities Investment Trust Co., Ltd.	41,307,756	4.63
Indonesia Government International Bond	40,302,090	4.51
Mexico Government International Bond	36,955,239	4.14
Chunghwa Telecom Co., Ltd.	35,863,637	4.02
United States Treasury Note/Bond	33,570,357	3.76
Panama Government International Bond	30,473,348	3.41
AT&T Inc.	30,419,328	3.41
Goldman Sachs Group Inc.	29,787,887	3.34
Wells Fargo & Co.	29,250,318	3.28
BNP Paribas	29,170,881	3.27
Bank of China Ltd.	27,523,852	3.08
Barclays PLC	27,305,000	3.06
Russian Foreign Bond - Eurobond	27,297,498	3.06
Mega Bills Finance Co., Ltd.	25,083,483	2.81
Industrial & Commercial Bank of China	24,613,186	2.76
Fubon Financial Holding Co., Ltd.	24,212,918	2.71
Bank Of America N.A.	24,101,561	2.70
Verizon Communications Inc.	23,017,538	2.58
LONDON CLEARING HOUSE	22,929,003	2.57
Agricultural Development Bank of China	22,719,508	2.54
Taiwan Mobile Co., Ltd.	21,985,955	2.46
Sinopec Group Overseas Development Ltd.	21,362,841	2.39

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
E.Sun Commercial Bank, Ltd.	\$ 21,352,181	2.39
State of California	21,295,417	2.38
Government National Mortgage Association	20,848,914	2.33
Citigroup Inc.	20,575,901	2.30
Commonwealth Bank of Australia	20,555,845	2.30
MDC-GMTN B.V.	19,600,481	2.19
Comcast Corp.	19,331,258	2.16
Colombia Government International Bond	18,889,508	2.12
BlackRock Inc.	18,864,473	2.11
CNOOC Ltd.	18,660,433	2.09
JPMorgan Chase & Co.	18,526,260	2.07
Capital Investment Trust Corporation	17,719,126	1.98
Dragon Steel Corporation	17,335,572	1.94
Tencent Holdings Ltd.	17,190,830	1.92
Alibaba Group Holding Ltd.	17,063,464	1.91
China Bills Finance Corporation	16,866,173	1.89
CNOOC PETROLEUM NA ULC	16,784,347	1.88
CVS Health Corp.	16,626,467	1.86
UnitedHealth Group Inc.	15,711,410	1.76
Petronas Capital Ltd.	15,582,334	1.74
PERTAMINA PT	15,356,367	1.72
Ginnie Mae II pool	15,344,832	1.72
Standard Chartered PLC	15,280,405	1.71
America Movil SAB de CV	15,117,371	1.69
Uni-President Enterprises Corporation	14,958,158	1.67
European Investment Bank	14,827,937	1.66
Far EasTone Telecommunications Co., Ltd.	14,768,172	1.65
Shin Kong Investment Trust Co., Ltd.	14,756,862	1.65
Australia & New Zealand Banking Group Ltd.	14,724,638	1.65
IBF securities Investment consulting Co., Ltd.	14,439,530	1.62
CIGNA CORP.	14,393,707	1.61
Anthem Inc.	14,383,276	1.61
Credit Agricole SA	14,381,812	1.61
Vietnam Government Bond	14,286,280	1.60
Fuh Hwa Securities Investment Trust Co., Ltd.	13,974,234	1.56
Amazon.com Inc.	13,871,529	1.55
Natwest Group PLC	13,015,683	1.46
Peruvian Government International Bond	12,945,464	1.45
Saudi Government International Bond	12,844,910	1.44
Export-Import Bank of China	12,190,618	1.37
CITIC LIMITED	12,017,744	1.35
Anheuser-Busch InBev Worldwide Inc.	11,937,815	1.34
REPUBLICA ORIENT URUGUAY	11,736,792	1.31
Southern Copper Corp.	11,678,027	1.31
Prosus NV	11,591,619	1.30

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Abu Dhabi Government International Bond	\$ 11,574,702	1.30
Hon Hai Precision Industry Co., Ltd.	11,566,790	1.30
Fomento Economico Mexicano SAB de CV	11,441,140	1.28
Bristol-Myers Squibb Co	11,340,690	1.27
CTBC Bank Co., Ltd.	11,315,651	1.27
China Cinda Asset Management Co Ltd.	11,312,001	1.27
Societe Generale	11,301,453	1.27
BPCE SA	11,263,094	1.26
Oracle Corp.	11,097,594	1.24
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands	11,007,240	1.23
Baillie Gifford Overseas Limited	10,947,353	1.23
Telefonica Emisiones SAU	10,928,428	1.22
Saudi Arabian Oil Co	10,741,273	1.20
Microsoft Corp	10,596,723	1.19
Sinopec Group Overseas Development 2018 Ltd.	10,446,806	1.17
Mega Financial Holding Co., Ltd.	10,408,603	1.17
China Construction Bank Corp	10,374,150	1.16
Vodafone Group PLC	10,356,874	1.16
Postal Savings Bank of China Co., Ltd.	10,332,976	1.16
Westpac Banking Corp.	10,291,735	1.15
Daiwa SB Investment Limited	10,186,257	1.14
Lloyds Bank PLC	10,179,908	1.14
Walt Disney Co/The	10,147,094	1.14
KAZMUNAYGAS NATIONAL	10,096,868	1.13
Nationwide Building Society	10,076,925	1.13
Central Taiwan Science Park Bureau	10,050,000	1.13
Ecopetrol SA	9,848,381	1.10
American International Group Inc.	9,846,300	1.10
Morgan Stanley	9,817,710	1.10
Shinhan Bank	9,707,491	1.09
Enel Finance International NV	9,702,737	1.09
Abbott Laboratories	9,638,623	1.08
Land Bank of Taiwan Co., Ltd.	9,634,818	1.08
Apple Inc.	9,602,863	1.08
CTBC Financial Holding Co., Ltd.	9,528,114	1.07
Shell International Finance BV	9,522,568	1.07
UBS AG	9,467,390	1.06
Credit Suisse Group AG	9,423,999	1.06
AIA Group Ltd.	9,421,948	1.06
Far East Horizon Limited	9,402,639	1.05
Perusahaan Listrik Negara PT	9,284,802	1.04
Raytheon Technologies Corp.	9,180,870	1.03
Intel Corp.	9,051,087	1.01
PepsiCo Inc.	8,982,925	1.01

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Taiwan Cooperative Bank Co., Ltd.	\$ 8,960,880	1.00
Amgen Inc.	8,841,568	0.99
Taishin International Bank Co., Ltd.	8,829,324	0.99
Formosa Plastics Corporation	8,731,336	0.98
State Grid Overseas Investment Ltd.	8,729,237	0.98
TransCanada PipeLines Ltd.	8,703,113	0.97
China Construction Bank Corporation	8,599,174	0.96
Hua Nan Commercial Bank Co., Ltd.	8,551,636	0.96
Hamilton Lane Advisors, L.L.C	8,536,687	0.96
HSBC BANK PLC	8,489,385	0.95
Nan Ya Plastics Corporation	8,424,754	0.94
Bank of Communications Co., Ltd.	8,329,731	0.93
Taikang Asset Management Co Lt	8,097,048	0.91
Exxon Mobil Corp.	8,076,243	0.90
BBVA Bancomer SA	8,014,260	0.90
Berkshire Hathaway Energy Co	7,926,399	0.89
Srisawad Corp PCL	7,882,194	0.88
Southern Taiwan Science Park Administration	7,800,000	0.87
Pfizer Inc.	7,792,966	0.87
MetLife Inc.	7,770,271	0.87
China Steel Corporation	7,645,729	0.86
Yuanta Commercial Bank Co., Ltd.	7,601,682	0.85
Yuanta Securities Co., Ltd.	7,581,337	0.85
HSBC Bank (Taiwan) Limited	7,564,763	0.85
AbbVie Inc.	7,468,033	0.84
Australia Government Bond	7,435,742	0.83
OVPH LTD.	7,407,483	0.83
Reliance Industries Ltd.	7,274,615	0.81
Takeda Pharmaceutical Co Ltd.	7,265,467	0.81
IBM CORP	7,210,180	0.81
Hungary Government International Bond	7,179,555	0.80
STANDARD LIFE INVESTMENTS	7,124,479	0.80
Yuanta Financial Holding Co., Ltd.	7,034,354	0.79
Grupo Televisa SA	6,925,986	0.78
President Chain Store Corporation	6,925,943	0.78
Phillips 66	6,906,270	0.77
Corp Nacional del Cobre de Chile	6,902,837	0.77
HKT Capital No 1 Ltd.	6,882,356	0.77
Altria Group Inc.	6,825,537	0.76
Taiwan High Speed Rail Corporation	6,812,306	0.76
ING Groep NV	6,747,802	0.76
Prudential Financial Inc.	6,713,539	0.75
Neuberger Berman Investment Funds plc.	6,685,037	0.75
Landesbank Baden-Wuerttemberg	6,674,038	0.75

(Continued)



Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
UniCredit SpA	\$ 6,664,824	0.75
Chang Hwa Commercial Bank Co., Ltd.	6,650,921	0.74
Comision Federal de Electricidad	6,603,829	0.74
China Overseas Land & Investment Ltd.	6,584,900	0.74
Taishin Financial Holding Co., Ltd.	6,517,474	0.73
Union Pacific Corp.	6,492,491	0.73
Deutsche Telekom AG	6,364,520	0.71
Global Investors Series plc	6,356,375	0.71
Enterprise Products Operating LLC	6,296,983	0.71
Mega International Commercial Bank Co., Ltd.	6,269,340	0.70
Philippine Government International Bond	6,265,192	0.70
AstraZeneca PLC	6,254,003	0.70
Gilead Sciences Inc.	6,247,327	0.70
Grand Bills Finance Corporation	6,208,931	0.70
T-MOBILE USA INC	6,156,925	0.69
Citigroup Global Markets Holdings Inc.	6,131,374	0.69
Advanced Semiconductor Engineering, Inc.	6,116,809	0.68
Formosa Chemicals & Fibre Corporation	6,042,259	0.68
Fubon Life Insurance Co., Ltd.	5,997,437	0.67
BlackRock Global Funds	5,960,269	0.67
JPMorgan Chase Bank, N.A.	5,950,575	0.67
Banco Santander SA	5,945,847	0.67
Deutsche Bank AG	5,928,957	0.66
CSX CORP.	5,920,776	0.66
Quanta Computer Inc.	5,904,709	0.66
Robeco Capital Growth Funds	5,890,905	0.66
BAT CAPITAL CORP.	5,816,295	0.65
Fu Yu Construction Co., Ltd.	5,708,000	0.64
Berkshire Hathaway Finance Corp.	5,679,495	0.64
Fidelity Funds/Luxembourg	5,636,849	0.63
Total Capital International SA	5,631,424	0.63
ELECTRICITE DE FRANCE	5,600,236	0.63
Woori Bank	5,595,659	0.63
Argicultural Bank of Taiwan Co., Ltd.	5,593,058	0.63
Dow Chemical Co	5,566,704	0.62
First Commercial Bank Co., Ltd.	5,551,752	0.62
Taiwan Railways Administration	5,511,905	0.62
SOUTHERN CO	5,501,382	0.62
Thaioil Treasury Center Co Ltd	5,483,951	0.61
Allianz Global Investors GMBH	5,454,366	0.61
HSBC Holdings PLC	5,409,913	0.61
SHERWIN-WILLIAMS CO	5,362,063	0.60
Bay Area Toll Authority	5,337,000	0.60
China Development Financial Holding Corp.	5,332,568	0.60
DUKE ENERGY CORP.	5,302,621	0.59

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
BlackRock Fund Advisors	\$ 5,300,663	0.59
Compal Electronics, Inc.	5,298,387	0.59
Cornell Capital LLC	5,258,551	0.59
Rogers Communications Inc.	5,253,133	0.59
Intercontinental Exchange Inc.	5,252,525	0.59
AXA Funds Management SA	5,243,776	0.59
Kinder Morgan Inc/DE	5,172,223	0.58
Hua Nan Financial Holdings Co., Ltd.	5,160,905	0.58
YAGEO Corp.	5,132,027	0.57
FIRST ABU DHABI BANK PJSC	5,093,632	0.57
Burlington Northern Santa Fe LLC	5,092,573	0.57
Vale Overseas Ltd.	5,079,537	0.57
Enbridge Inc.	4,951,811	0.55
China Network Systems Co., Ltd.	4,924,706	0.55
NATWEST MARKETS PLC	4,837,151	0.54
Invesco Funds	4,830,564	0.54
Bank of Taiwan	4,829,911	0.54
PTT Treasury Center Co Ltd	4,828,404	0.54
Barrick North America Finance LLC	4,813,190	0.54
Coca-Cola Co	4,768,305	0.53
Vanguard Fixed Income Securities Funds	4,766,687	0.53
International Bills Finance Corporation	4,701,367	0.53
Abu Dhabi National Energy Co	4,667,435	0.52
Spain Government International Bond	4,582,216	0.51
Merck & Co Inc.	4,567,911	0.51
UBAM	4,513,052	0.51
First Financial Holding Co., Ltd.	4,501,303	0.50
Kroger Co	4,491,415	0.50
Regents of the University of California Medical Center Pooled Revenue	4,437,449	0.50
Yuanta Futures Co., Ltd.	4,434,041	0.50
Humana Inc.	4,399,111	0.49
Halliburton Co	4,391,710	0.49
Largan Precision Co., Ltd.	4,387,227	0.49
Taiwan Cement Corp.	4,367,277	0.49
BANK OF MONTREAL	4,334,269	0.49
MediaTek Inc.	4,318,014	0.48
Mondelez International Inc	4,314,431	0.48
PIMCO Funds: Global Investors Series plc	4,299,485	0.48
Grand Central Limit	4,276,200	0.48
Cyber Company Inc.	4,276,200	0.48
Hon Han Investment Co., Ltd.	4,274,788	0.48
SinoPac Financial Holdings Co., Ltd.	4,267,646	0.48
Blackstone Real Estate Advisors L.P.	4,252,108	0.48
Deutsche Telekom International Finance BV	4,248,601	0.48

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Applied Materials Inc	\$ 4,240,009	0.47
Bayer US Finance LLC	4,231,852	0.47
Macquarie Group Ltd.	4,208,224	0.47
Allstate Corp.	4,206,296	0.47
Dr Pepper Snapple Group Inc.	4,176,488	0.47
Evergreen Marine Corporation	4,163,353	0.47
PTTEP Canada International Finance Ltd.	4,144,673	0.46
CPC Corporation, Taiwan	4,121,985	0.46
Coatue Management, L.L.C.	4,106,159	0.46
Banco de Credito del Peru	4,094,245	0.46
Banco Santander Mexico SA Institucion de Banca Multiple Grupo Financiero Santand	4,086,559	0.46
Canadian Natural Resources Ltd.	4,072,115	0.46
Grupo Bimbo SAB de CV	4,071,126	0.46
Orsted Wind Power TW Holding A/S	4,066,860	0.46
Banco de Credito e Inversiones	4,065,452	0.46
Treasury Corporation of Victoria	4,060,095	0.45
Newmont Corp	4,048,281	0.45
Dominion Energy Inc	4,008,892	0.45
National Australia Bank Ltd.	4,002,345	0.45
Temasek Financial I Ltd	3,988,652	0.45
Corp Andina de Fomento	3,986,475	0.45
ICICI Bank Ltd.	3,974,639	0.45
BECTON DICKINSON AND CO	3,973,842	0.44
Bell Canada	3,970,858	0.44
Los Angeles Community College District	3,966,484	0.44
Taishin Securities Investment Trust Co., Ltd.	3,834,178	0.43
ENI SpA	3,826,642	0.43
PTTEP TREASURY CENTER CO	3,816,079	0.43
Goldman Sachs Finance Corp International Ltd	3,808,567	0.43
ABN AMRO Bank	3,791,230	0.42
PCCW Capital No 5 Ltd.	3,747,919	0.42
Capital Futures Corp.	3,730,813	0.42
India Government	3,718,735	0.42
Standard Chartered Bank Taiwan	3,709,471	0.42
Sumitomo Mitsui Financial Group Inc	3,681,303	0.41
HUNG SHENG Construction Co., Ltd.	3,679,658	0.41
Bangkok Bank PCL	3,643,876	0.41
Investec Asset Management Limited	3,638,897	0.41
Formosa Ha Tinh (Cayman) Limited	3,637,621	0.41
Anheuser-Busch InBev Finance Inc.	3,620,596	0.41
SG Issuer	3,608,567	0.40
UBS Fund Management Luxembourg	3,584,422	0.40
GAM STAR FUND	3,570,333	0.40
Vivo Capital LLC	3,559,022	0.40

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
KWEICHOW MOUTAI CO LTD-A	\$ 3,533,897	0.40
Intesa Sanpaolo SpA	3,510,652	0.39
First Securities Inc.	3,508,551	0.39
WISTRON CORPORATION	3,495,445	0.39
Ninety One Global Strategy Fund	3,480,245	0.39
EVA Airways Corporation	3,467,238	0.39
Equinor ASA	3,463,715	0.39
Malayan Banking Bhd	3,442,320	0.39
Minera Mexico SA de CV	3,429,874	0.38
Ta Ching Bills Finance Corporation	3,421,005	0.38
PROGRESSIVE CORP	3,415,250	0.38
Discovery Communications LLC	3,409,502	0.38
TYSON FOODS INC	3,397,276	0.38
HOTAI FINANCE CO., LTD.	3,395,966	0.38
UBS AG	3,385,175	0.38
NORFOLK SOUTHERN CORP	3,375,825	0.38
Insight Venture Management, LLC	3,372,964	0.38
Oaktree Capital Management, L.P.	3,357,865	0.38
United Overseas Bank Ltd.	3,338,909	0.37
Mitsubishi UFJ Financial Group Inc.	3,335,884	0.37
Qtel International Finance Ltd.	3,314,462	0.37
Taiwan Cooperative Financial Holding Co., Ltd.	3,307,148	0.37
Banco de Chile	3,294,396	0.37
ChunYee Co., Ltd.	3,276,998	0.37
Joint Stock Commercial Bank for Investment and Dev	3,264,166	0.37
Eli Lilly & Co	3,261,507	0.37
Home Depot Inc.	3,252,813	0.36
Indian Railway Finance Corp Ltd	3,252,802	0.36
DBS Group Holdings Ltd	3,228,922	0.36
Durian Logistics Holdings II Limited	3,226,916	0.36
CITIGROUP GLOBAL MARKETS LIMITED	3,222,387	0.36
Shamrock Group Limited	3,215,702	0.36
Bank SinoPac Co., Ltd.	3,208,585	0.36
E INK HOLDINGS INC.	3,195,885	0.36
PT PERUSAHAAN LISTRIK NEGARA (PERSERO)	3,192,896	0.36
Silver Lake Management Company V, L.L.C.	3,185,255	0.36
Wealth Media Co., Ltd.	3,173,773	0.36
BNP PARIBUS PARIS	3,157,366	0.35
Far Eastern New Century Corporation	3,150,700	0.35
Formosa Petrochemical Corporation	3,144,234	0.35
BP Capital Markets America Inc.	3,129,105	0.35
National Retail Properties Inc.	3,127,489	0.35
Alexandria Real Estate Equities Inc.	3,127,371	0.35
UNI-PRESIDENT ASSET MANAGEMENT CORP.	3,124,555	0.35

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
City of San Francisco CA Public Utilities Commission Water Revenue	\$ 3,121,079	0.35
Chile Government International Bond	3,120,614	0.35
ProShare Advisors LLC	3,109,054	0.35
CTBC Securities Investment Co., Ltd.	3,098,975	0.35
Axiata Spv5 Labuan Ltd	3,090,613	0.35
Consolidated Edison Co of New York Inc.	3,089,389	0.35
Industrias Penoles SAB de CV	3,055,403	0.34
Global Infrastructure Management	3,047,991	0.34
Kookmin Bank	3,024,333	0.34
Macquarie Infrastructure Management (Asia) Pty Limited, Singapore Branch	3,008,360	0.34
Taiwan Cooperative Bank Co., Ltd.	3,006,049	0.34
2) Enterprises where the same natural person and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge		
Enterprises where Ko and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	15,715,752	1.76
Enterprises where Dong and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	6,135,207	0.69
Enterprises where Cheng and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	5,908,003	0.66
Enterprises where Lee and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	5,184,697	0.58
Enterprises where Lee and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,806,807	0.54
Enterprises where Zhang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,792,755	0.54
Enterprises where Lee and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	4,209,230	0.47
Enterprises where Fu and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,681,135	0.41
Enterprises where Liao and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,469,743	0.39
Enterprises where Chen and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,379,716	0.38

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
Enterprises where Jiang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	\$ 3,292,380	0.37
Enterprises where Huang and his/her spouse, blood relative within the second degree of kinship, oneself or his/her spouse is the person-in-charge	3,192,313	0.36
3) Affiliates with same juridical person		
Government of the Republic of China and its supervisory agency	674,352,357	75.51
Government of the USA and its supervisory agency	228,036,140	25.53
Fubon Group	132,540,872	14.84
Group of Yuanta Financial Holdings	99,640,971	11.16
Group of CTBC Financial Holdings	88,774,857	9.94
TSMC Group	66,016,745	7.39
Fidelity and its related parties	60,860,324	6.81
State of Qatar and its related parties	54,662,397	6.12
China Development Group	52,981,801	5.93
Group of Mega Financial Holdings	44,076,379	4.94
Government of Indonesia and its supervisory agency	42,914,258	4.81
CHT Group	36,235,547	4.06
Citigroup Inc. and its related parties	34,010,178	3.81
Uni-President Group	33,054,496	3.70
BNP Paribas and its related parties	32,561,586	3.65
Goldman Sachs Group Inc. and its related parties	30,233,795	3.39
Government of Russia and its supervisory agency	29,835,773	3.34
The Far Eastern Group	28,591,667	3.20
Barclays Bank PLC and its related parties	28,013,804	3.14
JPMorgan and its related parties	27,632,544	3.09
China Steel Group	26,698,325	2.99
Group of Taishin Financial Holdings	26,316,500	2.95
Hon Tai Group	25,837,569	2.89
Bank of America Corporation and its related parties	25,324,199	2.84
Government of China and its supervisory agency	25,272,445	2.83
BlackRock Inc. and its related parties	24,824,742	2.78
Capital Financial Group	24,139,187	2.70
Group of E.Sun Financial Holdings	22,594,560	2.53
Foxconn Technology Group	21,704,068	2.43
IBF Group	20,584,768	2.30
Standard Chartered Bank and its related parties	19,855,310	2.22
O-Bank Group	18,583,322	2.08
Group of Shin Kong Financial Holdings	18,457,298	2.07
Yuen Foong Yu Group	16,972,697	1.90
Group of Hua Nan Financial Holdings	16,432,092	1.84
HSBC Bank PLC and its related parties	16,036,000	1.80
Group of First Financial Holdings	15,231,063	1.71

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
TACB Group	\$ 14,460,084	1.62
UBS AG and its related parties	14,421,391	1.61
Anheuser-Busch InBev NV and its related parties	13,175,436	1.48
Land Bank of Taiwan Group	11,512,485	1.29
Morgan Stanley and its related parties	10,442,413	1.17
Westpac Banking Corp and its related parties	10,415,655	1.17
Evergreen Group	10,412,656	1.17
Nan Ya Plastics Group	10,314,350	1.15
Enel Finance Group and its related parties	10,226,744	1.15
Lloyds Banking Group PLC and its related parties	10,204,588	1.14
Daiwa and its related parties	10,186,841	1.14
Group of ASE Technology Holding	10,108,312	1.13
ING Group and its related parties	9,342,844	1.05
Pfizer Inc. and its related parties	8,141,912	0.91
Formosa Petrochemical Group	7,937,653	0.89
Deutsche Bank AG and its related parties	7,729,933	0.87
China Network Group	6,871,092	0.77
Kinpo Group	6,437,935	0.72
Formosa Chemicals and Fibre Group	6,308,116	0.71
Triumph Transcend Group	6,299,980	0.71
Barrick Gold Corp. and its related parties	6,224,684	0.70
Fu Yu Construction Group	6,196,495	0.69
Quanta Computer Group	6,161,281	0.69
Koos Group	5,563,071	0.62
YAGEO Group	5,287,650	0.59
UMC Group	5,120,460	0.57
DBS and its related parties	4,537,063	0.51
National Australia Bank Ltd. and its related parties	4,529,779	0.51
CPC Group	4,521,831	0.51
Walsin Lihwa Group	4,387,685	0.49
CT&D Group	4,247,054	0.48
Government of Singapore and its supervisory agency	4,244,684	0.48
WISTRON GROUP	4,202,234	0.47
Keppel Group	4,146,694	0.46
Jih Sun Group	3,817,842	0.43
San Miguel Group	3,815,650	0.43
Government of the UK and its supervisory agency	3,808,005	0.43
Hotai Motor Group	3,677,414	0.41
HueTeng Group	3,635,000	0.41
Mitsubishi Chemical Holdings Corp. and its related parties	3,587,387	0.40
BIDV Group	3,520,738	0.39
Chailease Holding Group	3,506,247	0.39
TBC Group	3,290,018	0.37

(Continued)

Name	Total Balance	Total Balance to Financial Holding Company's Net Value (%)
WPG HOLDINGS Group	\$ 3,237,550	0.36
Charoen Pokphand Group	3,135,124	0.35
JUT Group	3,129,487	0.35
Yulon Group	3,123,337	0.35

(Concluded)

#### 40. SUPPLEMENTAL DISCLOSURES

a. Information about significant transactions:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over \$300 million or 10% of the paid-in capital	None
2	Acquisition or disposal of individual real estate at prices over \$300 million or 10% of the paid-in capital	None
3	Discount on processing fee the transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by subsidiaries	None
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

b. Information on investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	Table 3
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	Table 4
3	Discount on processing fee for transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	Table 1
5	Disposal of nonperforming loans by investees	None
6	Related information of financial assets securitization or real estate securitization by investees	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided to others	Note
9	Endorsements/guarantees provided	None
10	Marketable securities held as of December 31, 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 5.
- d. The significant intercompany transactions among the Group are disclosed in Table 6 and Note 28 to consolidated financial statements.
- e. Information on major shareholders: Name, number of shares, and percentage of ownership of shareholders holding more than 5% of the shares are disclosed in Table 7.

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

DECEMBER 31, 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	\$ 6,206,423	Note 1	\$ -	-	\$ -	\$ -
	Cathay United Bank Co., Ltd.	Subsidiary	771,804	Note 1	-	-	-	-
	Cathay Century Insurance Co., Ltd.	Subsidiary	356,009	Note 1	-	-	-	-
Cathay United Bank Co., Ltd.	Cathay Life Insurance Co., Ltd.	Subsidiary	350,640	-	-	-	-	-
	Cathay United Bank (China) Co., Ltd.	Subsidiary	743,981	Note 2	-	-	-	-
Conning Holdings Limited	Cathay Life Insurance Co., Ltd.	Subsidiary	318,750	-	-	-	-	-

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

DECEMBER 31, 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	December 31, 2020				Note	
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value		
Cathay Venture Inc.	<u>Corporate bonds</u> SmartGames CB	N/A	Financial assets at fair value through profit or loss	-	\$ 7	-	\$ 7		
	Guanghe CBI	"	"	-	90,117	-	90,117		
	A2G CB	"	"	-	1,603	-	1,603		
	PT Cemerlang Multimedia CB	"	"	-	79,193	-	79,193		
	Yonggu I	"	"	-	34,029	-	34,029		
	<u>Beneficiary certificates</u> Mega Diamond Money Market Fund	"	"	"	25,216	318,982	-	318,982	
	Taishin 1699 Money Market Fund	"	"	"	26,888	366,917	-	366,917	
	Cathay Taiwan Money Market Fund	"	"	"	33,267	416,977	-	416,977	
	<u>Shares</u> Tien-Tai Management Consulting Co., Ltd.	Investee accounted for using the equity method	Investments accounted for using the equity method	141	5,865	28.20	5,865		
	Tiantai II Optoelectronics Co., Ltd.	"	"	11,427	135,982	32.28	135,982		
	Tien-Tai Optronics Corporation	"	"	10,646	141,286	33.64	141,286		
	F-Fulgent Sun International (Holding) Co., Ltd.	N/A	Financial assets at fair value through profit or loss	626	70,083	-	70,083		
	F-Hiroca Holdings Ltd.	"	"	439	26,829	-	26,829		
	Min Aik Precision Industrial Co., Ltd.	"	"	46	1,385	-	1,385		
	Man Zai Industrial Co., Ltd.	"	"	349	5,567	-	5,567		
	Senhwa Biosciences, Inc.	"	"	1,230	276,750	1.65	276,750		
	Tanvex BioPharma, Inc.	"	"	1,250	46,750	-	46,750		
	Global Tek Fabrication Co., Ltd.	"	"	812	47,096	1.22	47,096		
	Cathay Superior Venture Capital Limited Partnership	"	"	-	15,000	33.33	15,000		
	Shane Global Holdings Inc.	"	"	3,700	386,619	3.33	386,619		
	Brighton-Best International (Taiwan) Inc.	"	"	5,573	153,536	-	153,536		
	Nan Pao Resins Chemical Co., Ltd.	"	"	323	50,436	-	50,436		
	Compal Broadband Networks, Inc.	"	"	38	1,220	-	1,220		
	Ching Chan Optical Technology Co., Ltd.	"	"	744	20,014	2.02	20,014		
	Fusheng Precision Co., Ltd.	"	"	800	138,800	-	138,800		

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Tot Biopharm Co., Ltd.	N/A	Financial assets at fair value through profit or loss	6,909	\$ 112,055	1.21	\$ 112,055	
	WW Holding Inc.	"	"	1,413	66,411	1.08	66,411	
	Airmate (Cayman) International Co Limited	"	"	718	16,150	-	16,150	
	World Known MFG (Cayman) Limited	"	"	1,499	55,763	5.00	55,763	
	Yonggu Group Inc.	"	"	219	17,178	-	17,178	
	Easywell Biomedicals Inc.	"	"	2,025	35,134	1.45	35,134	
	Ta Chen Stainless Pipe Co., Ltd.	"	"	2,400	75,120	-	75,120	
	Trusval Technology Co., Ltd.	"	"	350	23,485	-	23,485	
	REMOTEK Corp.	"	"	480	3,957	2.20	3,957	
	Smartdisplayer Technology Co., Ltd.	"	"	1,000	20,680	4.01	20,680	
	Sincere Group	"	"	449	19,998	2.25	19,998	
	BioGend Therapeutics Co., Ltd.	"	"	2,000	39,020	2.44	39,020	
	Winway Technology Co., Ltd.	"	"	638	169,592	2.24	169,592	
	Tigerair Taiwan Co., Ltd.	"	"	1,829	32,136	-	32,136	
	Wendell Industrial Co., Ltd.	"	"	945	40,087	4.65	40,087	
	Evergreen Steel Corp.	"	"	1,500	74,130	-	74,130	
	Weblink International Inc.	"	"	2,012	58,388	2.73	58,388	
	Proconn Technology Co., Ltd.	"	"	2,055	-	3.30	-	
	EasyCard Investment Holdings Co., Ltd.	"	"	1,430	23,656	1.37	23,656	
	Lan An Co., Ltd	"	"	125	1,096	5.00	1,096	
	Koatech Technology Corp.	"	"	101	1,138	-	1,138	
	Mega Union Technology Incorporated.	"	"	3,022	37,051	9.24	37,051	
	Cathay Healthcare Management Co., Ltd.	"	"	8,250	145,035	15.00	145,035	
	Fashionguide Co., Ltd.	"	"	714	10,847	4.26	10,847	
	Sunmile Group Holding Co., Limited	"	"	528	-	1.85	-	
	Beauty Essentials International Ltd.	"	"	43,252	48,009	4.02	48,009	
	SMS Holdings One I	"	"	1	-	5.00	-	
	Shengzhuang Holdings	"	"	122	-	1.09	-	
	Bioengine Capital Inc.	"	"	10,800	166,568	3.16	166,568	
	Bravo Ideas Digital Co., Ltd.	"	"	3,386	3,826	6.03	3,826	
	Episonica Holding	"	"	2,255	38,623	12.45	38,623	
	Andros Pharmaceuticals Co., Ltd.	"	"	1,050	12,600	4.19	12,600	
	Transound Electronics Co., Ltd.	"	"	1,200	8,916	3.30	8,916	
	Hyper Crystal Inc.	"	"	2,000	19,300	13.80	19,300	
	Amaryllo International B.V.	"	"	1,000	4,430	6.84	4,430	
	Noratech Pharmaceuticals, Inc.	"	"	1,000	23,660	-	23,660	
	Kuang Ming Shipping Corp.	"	"	157	-	-	-	
	Grandsys, Inc.	"	"	1,860	27,863	7.77	27,863	
	SinoGreenenergy	"	"	-	1	10.00	1	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	DTCO (Samoa)	N/A	Financial assets at fair value through profit or loss	325	\$ 2,907	2.94	\$ 2,907	
	Tennrich International Corp.	"	"	1,938	368	3.19	368	
	Allianz Pharmascience Limited	"	"	2,000	23,820	6.85	23,820	
	KKDAY	"	"	5,668	16,778	1.20	16,778	
	SmartGames	"	"	164	1,809	1.91	1,809	
	SSC Holdco Limited	"	"	100	72,082	-	72,082	
	PSS Co., Ltd.	"	"	330	19,318	-	19,318	
	Altek Semiconductor (Cayman) Co., Ltd.	"	"	800	24,912	1.80	24,912	
	Anywhere2Go	"	"	2	9,747	8.99	9,747	
	Yikon Genomics	"	"	1,340	43,992	3.55	43,992	
	Rani Therapeutics, LLC	"	"	119	1,260	-	1,260	
	Mimetas B.V.	"	"	8	17,024	2.81	17,024	
	Xiongchuang (Samoa)	"	"	19	13,477	4.49	13,477	
	91APP	"	"	8,333	29,667	-	29,667	
	Acepodia Inc.	"	"	1,848	38,366	5.81	38,366	
	Greenway Environmental Technology Co., Ltd.	"	"	4,375	32,813	11.22	32,813	
	Chu Chien Technology Limited	"	"	2,302	93,977	1.57	93,977	
	Pacific 8 Venture	"	"	-	65,434	15.00	65,434	
	Monk's hill Venture Fund	"	"	-	23,046	2.50	23,046	
	Huang Chieh Metal Composite Material Tech. Co., Ltd.	"	"	800	83,600	1.37	83,600	
	One Degree	"	"	-	56,148	2.40	56,148	
	Validus	"	"	145	47,448	2.90	47,448	
	Vizionfocus Inc.	"	"	1,700	66,147	3.49	66,147	
	Finaxar	"	"	87	15,996	4.72	15,996	
	aetherAI Holding Co., Ltd.	"	"	-	27,848	12.78	27,848	
	Intudo Venture II, LP	"	"	-	29,526	3.76	29,526	
	King Point Enterprise Co., Ltd.	"	"	1,000	21,780	2.53	21,780	
	Cowealth Medical Holding Co., Ltd.	"	"	3,750	53,438	1.49	53,438	
	INNOPACK VIETNAM CO., LTD.	"	"	1,350	14,769	11.70	14,769	
	Pharmosa Biopharma Inc.	"	"	4,700	97,337	9.40	97,337	
	Transcene Corp.	"	"	3,000	35,550	14.76	35,550	
	Cirocomm Technology Corporation	"	"	2,000	16,900	6.85	16,900	
	Shangrao Dingxin Metal Chemical Co., Ltd.	"	"	-	59,990	2.41	59,990	
	Winking Entertainment Co., Ltd.	"	"	3,612	61,619	8.62	61,619	
	Ampak Technology Inc.	"	"	1,400	72,800	2.32	72,800	
	New Garden Co., Ltd.	"	"	5,000	44,040	8.30	44,040	
	Well Tech Energy Inc.	"	"	2,144	28,944	5.66	28,944	
	TMY Technology Inc.	"	"	1,071	30,000	3.30	30,000	
	Great Giant Fiber Garment Co., Ltd.	"	"	300	24,900	-	24,900	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
	Yuen Foong Yu Consumer Products Co., Ltd.	N/A	Financial assets at fair value through profit or loss	500	\$ 19,850	-	\$ 19,850	
	Handa Pharmaceuticals, Inc.	"	"	1,400	29,120	1.21	29,120	
	Taiwan Aerospace Corp.	"	"	1	14	-	14	
	Hua Zhi Venture Capital Co., Ltd.	"	"	-	1	-	1	
	HUA VI Venture Capital Corp.	"	"	-	2	-	2	
	CDIB BioScience Ventures I, Inc.	"	"	-	1	-	1	
	WK Technology Fund	"	"	-	2	-	2	
	WK Technology Fund IV	"	"	-	1	-	1	
	WK 5 Venture Capital Co., Ltd.	"	"	-	1	-	1	
	WK 8 Venture Capital Co., Ltd.	"	"	-	1	-	1	
	WK 6 Venture Capital Co., Ltd.	"	"	-	1	-	1	
	WK 7 Venture Capital Co., Ltd.	"	"	-	1	-	1	
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	50,077	-	50,077	
	<u>Shares</u> Taiwan Futures Exchange	N/A	Financial assets at fair value through other comprehensive income	5,617	643,157	1.52	643,157	

(Concluded)

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## INFORMATION ON INVESTEEES AND COMBINED SHAREHOLDING PERCENTAGE

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Shareholding Percentage at the End of the Period	Book Value of Investment	Investment Profits or Losses Recognized in the Current Period	Combined Shareholding of the Company and its Affiliates (Note 1)				Note
							Number of Existing Shares	Number of Phantom Shares (Note 2)	Total		
									Number of Shares (In Thousands)	Shareholding Percentage	
Cathay Financial Holding Co., Ltd.	Cathay Life	R.O.C.	Life insurance	100.00%	\$ 678,251,485	\$ 50,123,631	5,851,527	-	5,851,527	100.00%	Note 3
	Cathay United Bank	R.O.C.	Commercial banking operations	100.00%	240,930,199	21,865,103	10,698,583	-	10,698,583	100.00%	Note 3
	Cathay Century	R.O.C.	Property and casualty insurance	100.00%	13,139,602	2,174,153	305,705	-	305,705	100.00%	Note 3
	Cathay Securities	R.O.C.	Securities	100.00%	11,370,404	1,467,387	730,000	-	730,000	100.00%	Note 3
	Cathay Venture	R.O.C.	Venture capital investment	75.00%	4,244,994	282,862	484,236	-	484,236	100.00%	Note 3
	Cathay Securities Investment Trust	R.O.C.	Securities investment trust	100.00%	4,514,570	857,519	150,000	-	150,000	100.00%	Note 3
	Conning Asia Pacific Ltd.	Hong Kong	Wealth management	17.15%	43,548	16,398	272,950	-	272,950	100.00%	Note 4

Note 1: The existing shares and phantom shares of the investees held by the Company, directors, supervisors, general managers, vice general managers, and affiliates meeting the requirements of the Company Act are included.

Note 2: a. "Phantom shares" refer to the shares acquired due to conversion under the assumption that the Company converts the marketable securities with equity characteristics or derivative instrument contracts (that have not been converted to shares) based on the transaction terms and the equity that the Company has the intention of linking to the reinvestment business, and meeting the reinvestment objectives as provided in Paragraph 2, Article 36 and Article 37 of Financial Holding Company Act.

b. The above-mentioned "marketable securities with equity characteristics" refer to the securities stated in Paragraph 1, Article 11 of the Securities and Exchange Act Enforcement Rules, such as convertible corporate bonds and call warrants.

c. The above-mentioned "derivative instrument contracts" refer to those that meet the definition related to derivative instruments under IFRS 9, such as stock options.

Note 3: Based on the investment profit or loss recognized in the respective company's audited financial statements for the same period.

Note 4: Based on the investment profit or loss recognized in the respective company's unaudited financial statements for the same period.

## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Cathay Life Insurance Co., Ltd	Land located at Sanmin Section, Taoyuan City	2020.01.20	\$ 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	2020.05.14	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
	Property located at Bade Section, Taoyuan City	2020.10.23	4,680,000	Installment payments according to contracts	Pao Fong Asset Management Co., Ltd.	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Shintou Section, Taoyuan City	2020.10.23	1,018,880	Installment payments according to contracts	Haihwa Construction Corp.	Non-related party	-	-	-	-	Valuation report of appraisers	Self-use	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, typing fee and stamp duty.

Note 2: The term "event date" refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, date of boards of directors' resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.



## CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2020	Accumulated Repatriation of Investment Income as of December 31, 2020
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	a	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 1,489,585	50.0	\$ 744,792 (Note 2,b,2))	\$ 6,016,144	\$ -
Cathay Century (China)	Property and casualty insurance	12,196,844	a	5,908,393	-	-	5,908,393	267,783	49.0	131,213 (Note 2,b,3))	4,621,539	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office equipment leasing company	7,223,435	a	7,223,435	-	-	7,223,435	161,413	100.0	145,371 (Note 2,b,2))	7,631,432	-
Cathay United Bank (China) Corporation Limited	Wholesale banking	14,377,562	a	14,377,562	-	-	14,377,562	177,579	100.0	177,579 (Note 2,b,2))	16,241,706	-
CDBS Cathay Asset Management Co., Ltd.	Fund management services	1,701,823	a	566,707	-	-	566,707	(52,011)	33.3	(17,319) (Note 2,b,2))	407,101	-
CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4)	Wealth management	468,290	c	-	-	-	-	27,565	33.3	9,179 (Note 2,b,2))	211,637	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 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	\$ 585,862,184

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

- a. Direct investment in China.
- b. Reinvestment in China through companies located in a third region (please indicate the companies located in that third region)
- c. Others.

Note 2: The column of investment profit or loss for the period:

- a. It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- b. It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
  - 1) The financial statements are audited and certified by international accounting firms which have partnership with R.O.C. accounting firms.
  - 2) The financial statements are audited and certified by the parent company's auditors in Taiwan.
  - 3) 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand 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 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand 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 (US\$164,000) thousand on February 27, 2014. According to MOEAIC, further approved working capital of Cathay United Bank’s Qingdao Branch was CNY600,000 (US\$98,200) thousand on January 21, 2014. The approved working capital of Cathay United Bank’s Shamchun Branch amounted to CNY400,000 (US\$60,710) thousand 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 December 31, 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 YEAR ENDED DECEMBER 31, 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	0.32	
		Cathay Life	a	Income tax receivable for consolidated income tax	6,135,434		"	0.06
		Cathay Life	a	Interest revenue	1,260,000		"	0.20
		Cathay United Bank	a	Income tax receivable for consolidated income tax	765,804		"	0.01
		Cathay United Bank	a	Cash and cash equivalents	209,849		"	-
		Cathay Century	a	Income tax receivable for consolidated income tax	351,509		"	-
		Cathay Securities	a	Income tax receivable for consolidated income tax	218,953		"	-
		Cathay Securities Investment Trust	a	Income tax receivable for consolidated income tax	186,069		"	-
		1	Cathay Life	Cathay United Bank	c		Guarantee deposits received	186,446
Cathay United Bank	c			Cash and cash equivalents	23,235,022	"	0.21	
Cathay United Bank	c			Gain on investment property	726,237	"	0.12	
Cathay United Bank	c			Premium income	123,336	"	0.02	
Cathay United Bank	c			Other operating expense	5,269,824	"	0.84	
Cathay United Bank	c			Payables	350,640	"	-	
Cathay United Bank	c			Service fee and commission fee	1,284,764	"	0.20	
Cathay United Bank	c			Net other non-interest gain	185,220	"	0.03	
Cathay United Bank	c			Gain on financial assets and liabilities at fair value through profit or loss	707,642	"	0.11	
Cathay United Bank	c			Financial assets at fair value through profit or loss	2,217,485	"	0.02	
Cathay Century	c			Gain on investment properties	109,922	"	0.02	
Cathay Century	c			Net other non-interest gain	671,489	"	0.11	
Cathay Century	c			Other operating expense	115,639	"	0.02	
Cathay Futures	c			Guarantee deposits paid	1,897,019	"	0.02	
Cathay Securities Investment Trust	c			Service fee and commission fee	288,106	"	0.05	
Cathay Walbrook Holding 1 Limited	c			Loans	12,757,610	"	0.12	
Cathay Walbrook Holding 1 Limited	c			Interest revenue	405,931	"	0.06	
Cathay Walbrook Holding 2 Limited	c			Loans	671,453	"	0.01	
Conning holding limited	c			Payables	318,750	"	-	
Conning holding limited	c			Service fee and commission fee	1,245,469	"	0.20	

(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	\$ 2,010,221	"	0.02
		Cathay Century	c	Service fee and commission revenue	143,411	"	0.02
		Cathay Century	c	Other operating expense	168,070	"	0.03
		Cathay Securities	c	Deposits	3,913,465	"	0.04
		Cathay Securities	c	Net service fee and commission gain	167,851	"	0.03
		Cathay Venture	c	Deposits	103,380	"	-
		Cathay Securities Investment Trust	c	Deposits	167,389	"	-
		Cathay Futures	c	Deposits	1,138,851	"	0.01
		Cathay Futures	c	Guarantee deposits paid	267,303	"	-
		Lin Yuan	c	Deposits	1,221,708	"	0.01
		CUBC Bank	c	Dividend receivable	168,046	"	-
		CUBCN Bank	c	Call loans to other banks	372,319	"	-
		CUBCN Bank	c	Due to other banks	9,640,455	"	0.09
		CUBCN Bank	c	Interest receivable	743,981	"	0.01
3	Indovina Bank	Cathay Insurance (Vietnam)	c	Deposits	243,219	"	-
		Cathay Life (Vietnam)	c	Deposits	835,665	"	0.01
4	Cathay Securities	Cathay Futures	c	Financial assets at fair value through profit or loss	2,068,539	"	0.02
5	Cathay Securities Investment Trust	Conning Asia Pacific Ltd.	c	Other operating expense	136,618	"	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 7****CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****INFORMATION ON MAJOR SHAREHOLDERS  
DECEMBER 31, 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.

# **Cathay Financial Holding Co., Ltd.**

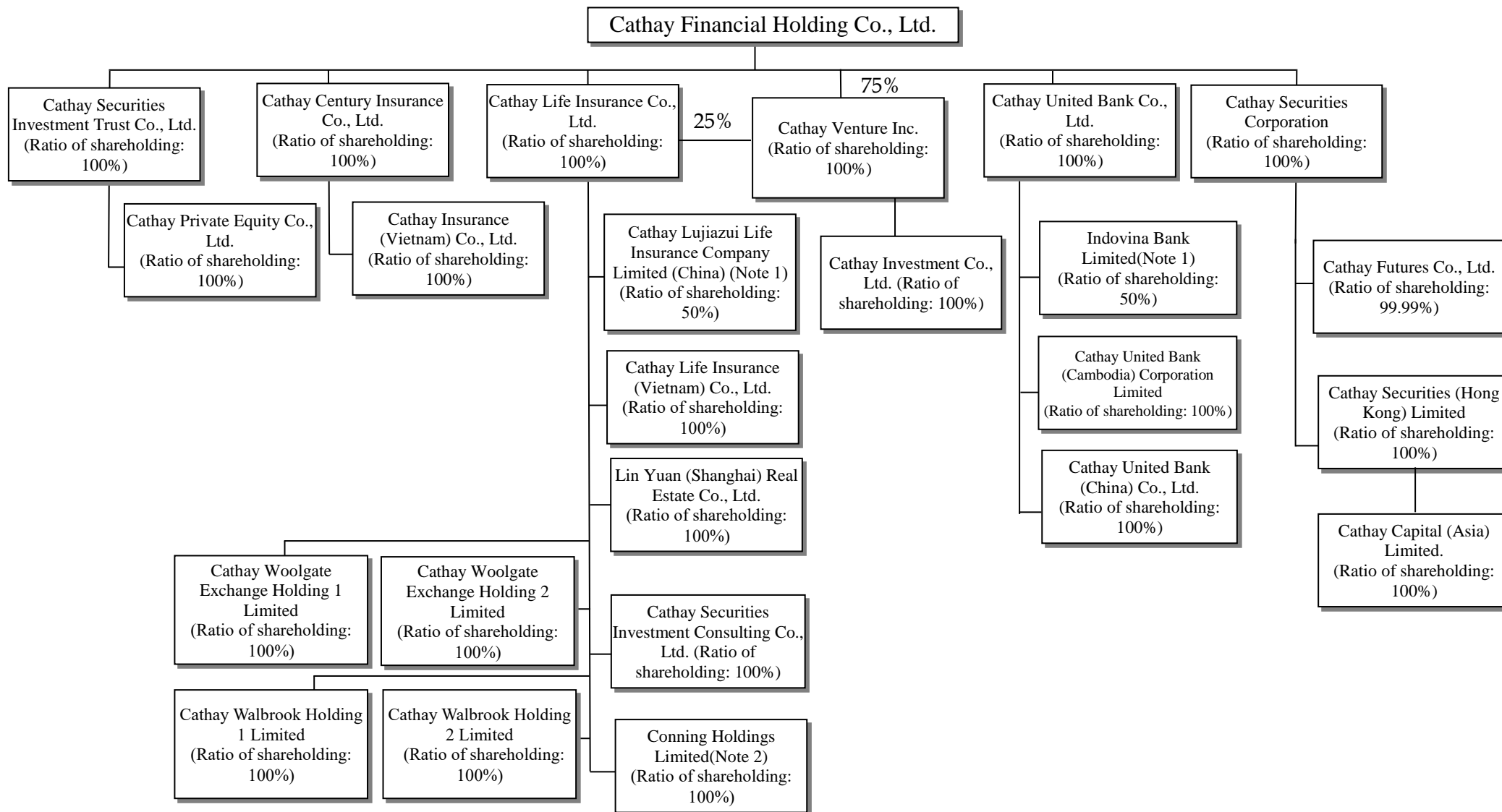
## **Consolidated business reports of affiliated enterprises**

**2020**

Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

Tel: (02)2708-7698

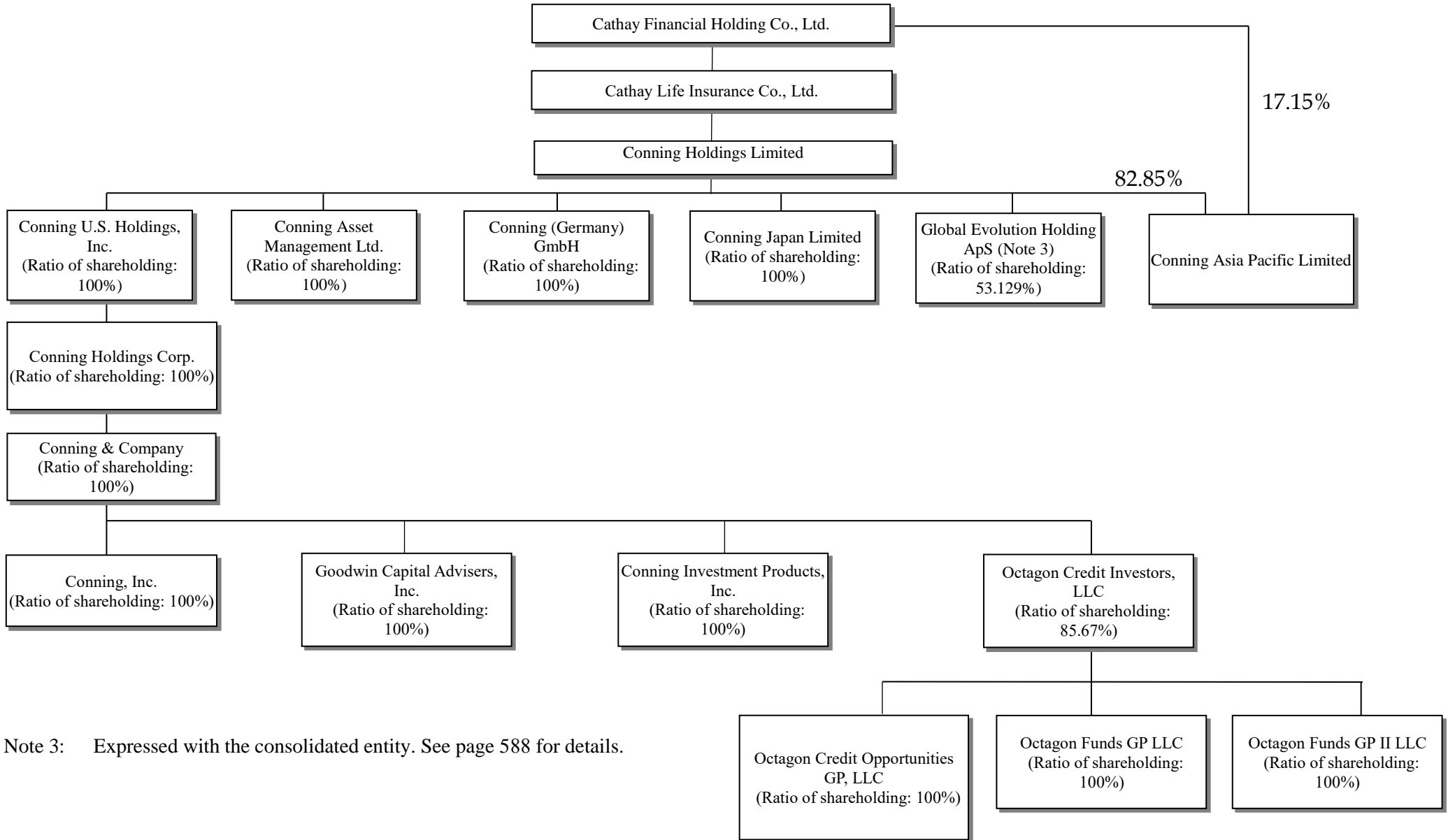
## Organizational Chart of Affiliated Companies



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company

Note 2: Act. Expressed with the consolidated entity. See page 587 for details.

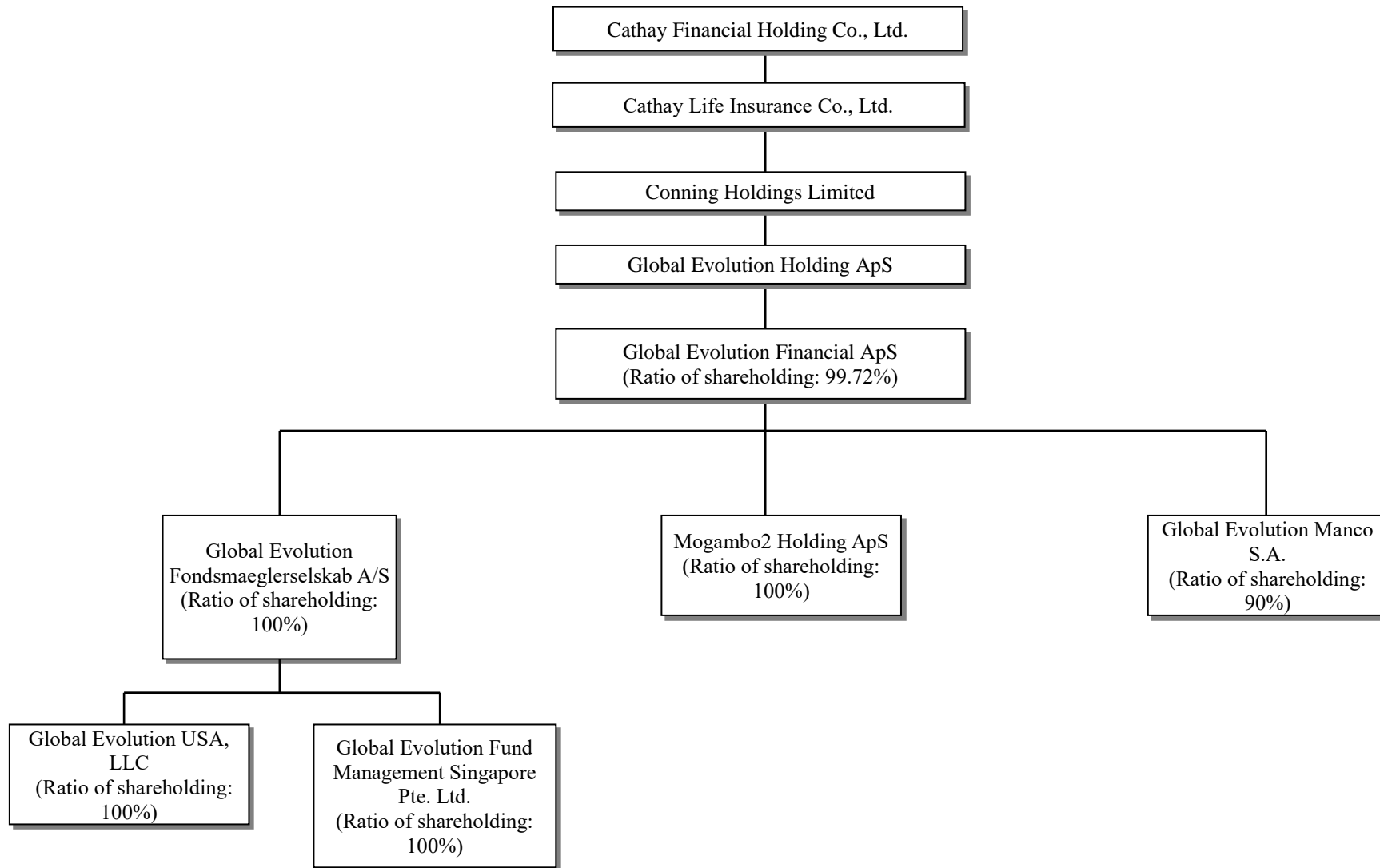
### Organizational Chart of Affiliated Companies (Continued)



Note 3: Expressed with the consolidated entity. See page 588 for details.



### Organizational Chart of Affiliated Companies (Continued)



Basic information on affiliates

Unit: NT\$ thousand

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Cathay Financial Holding Co., Ltd.	2001.12.31	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	\$ 147,025,102	Financial Holdings
Cathay Life Insurance Co., Ltd.	1962.10.23	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	58,515,274	Personal Insurance
Cathay United Bank Co., Ltd.	1975.1.4	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	106,985,830	Commercial Bank
Cathay Century Insurance Co., Ltd.	1993.7.19	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	3,057,052	Property and Casualty Insurance
Cathay Securities Corporation	2004.5.12	19F. & 20F., No. 333 and 6F., 10F., 18F., 19F., 20F., 21F., & 22F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	7,300,000	Securities Business
Cathay Venture Inc.	2003.4.10	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	4,842,362	Venture Capital Business
Cathay Securities Investment Trust Co., Ltd.	2000.2.11	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	1,500,000	Securities Investment Trust
Cathay Securities Investment Consulting Co., Ltd.	2002.11.25	6F., No. 108, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	300,000	Securities investment consulting
Cathay Lujiazui Life Insurance Company Limited	2004.12.29	19F., Building B, Oriental Financial Plaza, No. 1168, Century Boulevard, Pudong New Area, Shanghai, P.R.C.	13,497,155	Personal Insurance
Lin Yuan (Shanghai) Real Estate Co., Ltd.	2012.8.15	Room 306, 3F. Dining-2 Department, Hua Du Tower, No. 828-838 Zhangyang Road, Pilot Free Trade Zone, Shanghai	7,223,435	Leasing of Proprietary Office Space
Cathay Life Insurance (Vietnam) Co., Ltd.	2007.11.21	46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	9,090,730	Personal Insurance
Cathay Woolgate Exchange Holding 1 Limited	2014.7.30	IFC 5, St. Helier, Jersey, JE1 1ST	16,654,013	Management of Real Estate Investment
Cathay Woolgate Exchange Holding 2 Limited	2014.7.30	IFC 5, St. Helier, Jersey, JE1 1ST	168,222	Management of Real Estate Investment
Cathay Walbrook Holding 1 Limited	2015.3.31	IFC 5, St. Helier, Jersey, JE1 1ST	10,189,090	Management of Real Estate Investment
Cathay Walbrook Holding 2 Limited	2015.3.31	IFC 5, St. Helier, Jersey, JE1 1ST	536,268	Management of Real Estate Investment

Basic information on affiliates (Continued)

Unit: NT\$ thousand

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Conning Holdings Limited	2015.6.10	24 Monument Street, London, EC3R 8AJ, United Kingdom	\$ 15,723,539	Holdings Company
Conning U.S. Holdings, Inc.	2015.6.10	One Financial Plaza, Hartford, CT, 06103, USA	-	Holdings Company
Conning Asset Management Ltd.	1998.10.16	24 Monument Street, London, EC3R 8AJ, United Kingdom	191,303	Asset Management
Conning (Germany) GmbH	2012.1.10	Augustinerstr. 10, 50667, Cologne, Germany	938	Risk Management Software Business
Conning Asia Pacific Limited	2011.7.6	19/F LHT Tower, 31 Queen's Road Central, Hong Kong	577,686	Asset Management
Conning Japan Limited	2015.9.3	Oak Minami-Azabu Building 2F, 3-19-23 Minami-Azabu, Minato-ku, Tokyo, Japan	-	Asset Management
Global Evolution Holding ApS	2007.5.1	Kokholm 3A, DK-6000 Kolding, Denmark	333,739	Holdings Company
Conning Holdings Corp.	2009.6.5	One Financial Plaza, Hartford, CT, 06103, USA	-	Holdings Company
Conning & Company	1986.7.10	One Financial Plaza, Hartford, CT, 06103, USA	4,485	Holdings Company
Conning, Inc.	1982.9.13	One Financial Plaza, Hartford, CT, 06103, USA	329	Asset Management
Goodwin Capital Advisers, Inc.	1930.3.14	One Financial Plaza, Hartford, CT, 06103, USA	172	Asset Management
Conning Investment Products, Inc.	2002.2.13	One Financial Plaza, Hartford, CT, 06103, USA	-	Securities Business
Octagon Credit Investors, LLC	1998.12.29	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Asset Management
Octagon Credit Opportunities GP, LLC	2014.6.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Octagon Funds GP LLC	2014.11.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Octagon Funds GP II LLC	2016.1.21	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business

Basic information on affiliates (Continued)

Unit: NT\$ thousand

Corporate name	Date of Establishment	Address	Paid-in capital	Scope of business/production
Global Evolution Financial ApS	2019.1.1	Kokholm 3A, DK-6000 Kolding, Denmark	\$ -	Asset Management
Global Evolution Fondsmaglerselskab A/S	2007.6.4	Kokholm 3A, DK-6000 Kolding, Denmark	-	Asset Management
Mogambo2 Holding ApS	2007.5.1	Kokholm 3A, DK-6000 Kolding, Denmark	-	Asset Management
Global Evolution Manco S.A.	2016.8.17	15, Rue d'Epernay, L-1490 Luxemboug, Luxemburg	-	Asset Management
Global Evolution USA, LLC	2012.1.27	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Asset Management
Global Evolution Fund Management Singapore Pte. Ltd.	2019.10.10	6 Battery Road, #30-00, Singapore 0499909	-	Asset Management
Cathay Insurance (Vietnam) Co., Ltd.	2010.11.2	6th floor, 46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	845,585	Property and Casualty Insurance
Indovina Bank Limited	1992.10.29	97A Nguyen Van Troi Street Ward 12, Phu Nhuan Dist., HCMC, Vietnam	6,094,911	Banking
Cathay United Bank (Cambodia) Corporation Limited	1993.7.5	No.68, Samdech Pan Street (St.214), Sangkat Boeung Raing, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia	3,020,769	Banking
Cathay United Bank (China) Co., Ltd.	2018.9.3	8F, No. 1366, Lujiazui Ring Road, Pudong New District, Shanghai (Foxconn Building)	14,377,562	Banking
Cathay Futures Co., Ltd.	1993.12.29	19F., No. 333 and 10F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	667,000	Futures business
Cathay Securities (Hong Kong) Limited	2007.3.22	Room 1001, 10F., China Building, No. 29 Queen's Road Central, Hong Kong	1,108,244	Securities Business
Cathay Capital (Asia) Limited.	2020.2.24	Unit B, 17th floor, Neich Tower, 128 Gloucester Road, Wan Chai, Hong Kong.	3,875	Investment Business
Cathay Investment Co., Ltd.	2019.11.5	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	35,000	Venture Capital Business
Cathay Private Equity Co., Ltd.	2017.11.15	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	100,000	Private equity service

Information on common shareholders assumed to be in a controlling and subordinate relationship

Unit: NT\$ thousand; Share; %

Reason of assumption	Name (Note 1)	Number of shares held (Note 2)		Date of Establishment	Address	Paid-in capital	Core Business
		Number of shares	Ratio of shareholding				
None							

Note 1: If the subsidiaries share identical shareholders that are corporations, the preparer should fill in the name of the corporations. If the subsidiaries share identical individual shareholders, the preparer should fill in the name of the individuals. Individual shareholders only need to fill in the reason of assumption, the names, and the number of shares held.

Note 2: The preparer fills in the information on stock ownership on the company that shareholders control in the section on the shares held.

Information on directors, supervisors, and presidents of affiliated corporations

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Financial Holding Co., Ltd.	Chairman	Hong-Tu Tsai	51,553,364	0.35%
	Vice Chairman	Tsu-Pei Chen (Representative of Culture and Charity Foundation of the Cathay United Bank)	6,600,740	0.05%
	Director	Andrew Ming-Jian Kuo (Representative of Culture and Charity Foundation of the Cathay United Bank)	6,600,740	0.05%
	Director	Cheng-Ta Tsai (Representative of Chia Yi Capital Co., Ltd.)	60,241,183	0.41%
	Director	Chi-Wei Joong (Representative of Chia Yi Capital Co., Ltd.)	60,241,183	0.41%
	Director	Cheng-Chiu Tsai (Representative of Chen-Sheng Industrial Co., Ltd.)	33,875,134	0.23%
	Director	Tiao-Kuei Huang (Representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.24%
	Director	Ming-Ho Hsiung (Representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.24%
	Director	Chang-Ken Lee (Representative of Cathay Life Employees' Welfare Committee)	34,590,372	0.24%
	Independent Director	Edward Yung-Do Way	-	-
	Independent Director	Feng-Chiang Miao	-	-
	Independent Director	Li-Ling Wang	-	-
	Independent Director	Tang-Chieh Wu	-	-
	President	Chang-Ken Lee	151,729	0.001%

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	Chairman	Tiao-Kuei Huang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Vice Chairman	Ming-Ho Hsiung (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Tzung-Han Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Chung-Yan Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Chung-Chiang Chu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Shang-Chi Liu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Chao-Ting Lin (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Yi-Tsung Wang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Independent Director	Li-Ling Wang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Independent Director	Tang-Chieh Wu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Managing Supervisor	Chih-Ying Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Supervisor	Chih-Ming Lin (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Supervisor	Yung-Chen Li (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Supervisor	Han-Chang Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	President	Shang-Chi Liu	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay United Bank Co., Ltd.	Chairman	Andrew Ming-Jian Kuo (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Vice Chairman	Tzung-Han Tsai (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Managing Director/Independent Director	Tang-Chieh Wu (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Alan Lee (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Managing Director	Chung-Yi Teng (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Managing Director	Chang-Ken Lee (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Han-Guo Chen (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Chi-Wei Joong (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Grace Chen (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Tsung-Hsien Tsai (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Wei-Hua Chou (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Jian-Hsing Wu (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Director	Edward Yung-Do Way (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Independent Director	Feng-Chiang Miao (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Independent Director	Yao-Chun Lai (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Managing Supervisor	Liang-Lin Chien (Representative of Cathay Financial Holdings)	10,698,582,892	100%
	Supervisor President	Alan Lee	-	-



Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Century Insurance Co., Ltd.	Chairman	Cheng-Chiu Tsai (Representative of Cathay Financial Holdings)	305,705,194	100%
	Vice Chairman	Jung-Hsien Hsu (Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Fa-Te Chang (Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsu-Yao Lu (Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Chih-Yi Yu (Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsung-Hsien Tsai (Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Wan-Hsiang Chen (Representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Tang-Chieh Wu (Representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Feng-Chiang Miao (Representative of Cathay Financial Holdings)	305,705,194	100%
	Managing Supervisor	Chin-Hsing Liu (Representative of Cathay Financial Holdings)	305,705,194	100%
	Supervisor	Tso-Hsing Hsu (Representative of Cathay Financial Holdings)	305,705,194	100%
President	Wan-Hsiang Chen	-	-	
Cathay Securities Corporation	Chairman	Shun-Yu Chuang (Representative of Cathay Financial Holdings)	730,000,000	100%
	Director	Chang-Ken Lee (Representative of Cathay Financial Holdings)	730,000,000	100%
	Director	Chin-Hsing Liu (Representative of Cathay Financial Holdings)	730,000,000	100%
	Director	Kuan-Cheng Chou (Representative of Cathay Financial Holdings)	730,000,000	100%
	Independent Director	Edward Yung-Do Way (Representative of Cathay Financial Holdings)	730,000,000	100%
	Independent Director	Wei-Kang Pan (Representative of Cathay Financial Holdings)	730,000,000	100%
	Supervisor	Wan-Chu Ma (Representative of Cathay Financial Holdings)	730,000,000	100%
	Supervisor	Bo-Sheng Fu (Representative of Cathay Financial Holdings)	730,000,000	100%
	President	Kuan-Cheng Chou	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Venture Inc.	Chairman	Jen-Ho Chang (Representative of Cathay Financial Holdings)	363,177,175	75%
	Director	Shu-Fen Cheng (Representative of Cathay Financial Holdings)	363,177,175	75%
	Director	Grace Chen (Representative of Cathay Financial Holdings)	363,177,175	75%
	Director	Chung-Yi Teng (Representative of Cathay Financial Holdings)	363,177,175	75%
	Director	Chuan-Yen Hu (Representative of Cathay Financial Holdings)	363,177,175	75%
	Supervisor	Shun-Yu Chuang	-	-
	President	Chuan-Yen Hu	-	-
Cathay Securities Investment Trust Co., Ltd.	Chairman	Jeff Chang (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Andrew Ming-Jian Kuo (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Chang-Ken Lee (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yung-Chuan Chang (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yi-Tsung Wang (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Linwood (Woody) E. Bradford (Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Bo Rolf Anders Kratz (Representative of Cathay Financial Holdings)	150,000,000	100%
	Supervisor	Jui-Hung Hung (Representative of Cathay Financial Holdings)	150,000,000	100%
	President	Yung-Chuan Chang	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Securities Investment Consulting Co., Ltd.	Chairman	David P. Sun (Representative of Cathay Life Insurance)	30,000,000	100%
	Director	Bo Rolf Anders Kratz (Representative of Cathay Life Insurance)	30,000,000	100%
	Director	Linwood (Woody) E. Bradford (Representative of Cathay Life Insurance)	30,000,000	100%
	Director	Su-Chu Li (Representative of Cathay Life Insurance)	30,000,000	100%
	Director	Chun-Hung Wu (Representative of Cathay Life Insurance)	30,000,000	100%
	Director	Ruo-Lan Huang (Representative of Cathay Life Insurance)	30,000,000	100%
	Supervisor	Wei-Chi Li (Representative of Cathay Life Insurance)	30,000,000	100%
	President	Ruo-Lan Huang	-	-
Cathay Lujiazui Life Insurance Company Limited	Chairman	Tso-Chiang Li (Representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Yen Wang (Representative of Cathay Life Insurance)	-	50%
	Director	Xi Hu (Representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.)	-	50%
	Director	Chin-Shu Lin (Representative of Cathay Life Insurance)	-	50%
	Director	Chun-Hung Wu (Representative of Cathay Life Insurance)	-	50%
	Director	Ming-Hung Liao (Representative of Cathay Life Insurance)	-	50%
	Independent Director	Fang-Shu Chan (Representative of Cathay Life Insurance) (Note)	-	50%
	Independent Director	Chiang-Feng Lin (Representative of Cathay Life Insurance) (Note)	-	50%
	Independent Director	Chung-Chi Chang (Representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.) (Note)	-	50%
	Independent Director	Tao-Yung Lou (Representative of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.) (Note)	-	50%
President	Ming-Hung Liao	-	-	
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Chairman	Wen-Kai Kuo (Representative of Cathay Life Insurance)	-	100%
	Director	Wei-Chi Li (Representative of Cathay Life Insurance)	-	100%
	Director	Min-Hung Shih (Representative of Cathay Life Insurance)	-	100%
	Supervisor	Xu-Feng Zheng (Representative of Cathay Life Insurance)	-	100%
	President	-	-	-

Note: To go in effect once approved by the local authority.

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Life Insurance (Vietnam) Co., Ltd.	Chairman	Chin-Shu Lin (Representative of Cathay Life Insurance)	-	100%
	Director	Chun-Hung Wu (Representative of Cathay Life Insurance)	-	100%
	Director	Hsun-Yu Li (Representative of Cathay Life Insurance)	-	100%
	Supervisor	Fu-Min Wang (Representative of Cathay Life Insurance)	-	100%
	President	Hsun-Yu Li	-	-
Cathay Woolgate Exchange Holding 1 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life Insurance)	326,700,000	100%
	Director	Ting-Lun Li (Representative of Cathay Life Insurance)	326,700,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life Insurance)	326,700,000	100%
	President	-	-	-
Cathay Woolgate Exchange Holding 2 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life Insurance)	3,300,000	100%
	Director	Yi-Hui Chien (Representative of Cathay Life Insurance)	3,300,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life Insurance)	3,300,000	100%
	President	-	-	-
Cathay Walbrook Holding 1 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life Insurance)	213,750,000	100%
	Director	Xu-Feng Zheng (Representative of Cathay Life Insurance)	213,750,000	100%
	Director	Ting-Lun Li (Representative of Cathay Life Insurance)	213,750,000	100%
	President	-	-	-
Cathay Walbrook Holding 2 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life Insurance)	11,250,000	100%
	Director	Xu-Feng Zheng (Representative of Cathay Life Insurance)	11,250,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life Insurance)	11,250,000	100%
	President	-	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Conning Holdings Limited	Chairman	Linwood (Woody) E. Bradford (Representative of Cathay Life Insurance)	2,029,287	100%
	Director	David P. Sun (Representative of Cathay Life Insurance)	2,029,287	100%
	Director	Tzung-Han Tsai (Representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	John Boneparth (Representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Meryl D. Hartzband (Representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Ronald P. Joelson (Representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	David P. Marks (Representative of Cathay Life Insurance)	2,029,287	100%
	Independent Director	Jason Rotman (Representative of Cathay Life Insurance)	2,029,287	100%
	President	-	-	-
Conning U.S. Holdings, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	218	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	218	100%
	President	-	-	-
Conning Asset Management Ltd.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Russell Busst (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Simon Hawkins (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	Michael Carpenter (Representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	David P. Marks (Representative of Conning Holdings Limited)	3,734,000	100%
	President	-	-	-
Conning (Germany) GmbH	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	25,100	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	25,100	100%
	President	-	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Conning Asia Pacific Limited	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	226,150,417	82.85%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	226,150,417	82.85%
	Director	Bo Rolf Anders Kratz (Representative of Conning Holdings Limited)	226,150,417	82.85%
	Director	Siew Mee Yeo (Representative of Conning Holdings Limited)	226,150,417	82.85%
	President	-	-	-
Conning Japan Limited	Director	Bo Rolf Anders Kratz (Representative of Conning Holdings Limited)	1	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	1	100%
	President	-	-	-
Global Evolution Holding ApS	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	3,696,186	53.129%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	3,696,186	53.129%
	President	-	-	-
Conning Holdings Corp.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning U.S. Holdings, Inc.)	1,000	100%
	Director	Jung W. Lee (Representative of Conning U.S. Holdings, Inc.)	1,000	100%
	President	-	-	-
Conning & Company	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Corp.)	1,000	100%
	Director	Jung W. Lee (Representative of Conning Holdings Corp.)	1,000	100%
	Director	Michael E. Haylon (Representative of Conning Holdings Corp.)	1,000	100%
	President	-	-	-
Conning, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	100	100%
	Director	Jung W. Lee (Representative of Conning & Company)	100	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	100	100%
	President	-	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Goodwin Capital Advisers, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	628,000	100%
	Director	Jung W. Lee (Representative of Conning & Company)	628,000	100%
	Director	Richard Sega (Representative of Conning & Company)	628,000	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	628,000	100%
	President	-	-	-
Conning Investment Products, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	1,000	100%
	Director	Jung W. Lee (Representative of Conning & Company)	1,000	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	1,000	100%
	President	-	-	-
Octagon Credit Investors, LLC	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	-	85.67%
	Director	Jung W. Lee (Representative of Conning & Company)	-	85.67%
	Director	Richard Sega (Representative of Conning & Company)	-	85.67%
	Director	Andrew D. Gordon (Representative of Conning & Company)	-	85.67%
	Director	Michael Nechamkin (Representative of Conning & Company)	-	85.67%
	President	-	-	-
Octagon Credit Opportunities GP, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP II LLC	N/A	Octagon Credit Investors, LLC	-	100%
Global Evolution Financial ApS	N/A	Global Evolution Holding ApS	-	99.72%
Global Evolution Fondsmæglerselskab A/S	N/A	Global Evolution Financial ApS	-	100%

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Mogambo2 Holding ApS	N/A	Global Evolution Financial ApS	-	100%
Global Evolution Manco S.A.	N/A	Global Evolution Financial ApS	-	90%
Global Evolution USA, LLC	N/A	Global Evolution Fondsmaeglerselskab A/S	-	100%
Global Evolution Fund Management Singapore Pte. Ltd.	N/A	Global Evolution Fondsmaeglerselskab A/S	-	100%
Cathay Insurance (Vietnam) Co., Ltd.	Chairman	Yi-Min Hu (Representative of Cathay Insurance Co., Ltd.)	-	100%
	Director	Yu-Tang Lin (Representative of Cathay Insurance Co., Ltd.)	-	100%
	Director	Ping-Yao Lin (Representative of Cathay Insurance Co., Ltd.)	-	100%
	President	Yu-Tang Lin	-	-
Indovina Bank Limited	Chairman	Le Duy Hai (Representative of Vietinbank)	-	50%
	Vice Chairman	Ming-Hsien Li (Representative of Cathay United Bank)	-	50%
	Director	Jun-Hao Liu (Representative of Cathay United Bank)	-	50%
	Director	Yi-Fang Chan (Representative of Cathay United Bank)	-	50%
	Director	Tran Thi Hong Anh (Representative of Vietinbank)	-	50%
	Director	Pham Bao Khue (Representative of Vietinbank)	-	50%
	President	Jun-Hao Liu	-	-
Cathay United Bank (Cambodia) Corporation Limited	Chairman	Chung-Yi Teng (Representative of Cathay United Bank)	100,000,000	100%
	Director	David P. Sun (Representative of Cathay United Bank)	100,000,000	100%
	Director	Yi-Fang Chan (Representative of Cathay United Bank)	100,000,000	100%
	Director	Hua-Pen Miao (Representative of Cathay United Bank)	100,000,000	100%
	Director	Hsiu-Chu Chuang (Representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Wu-Shui Cheng (Representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Chang-Chuan Hsia (Representative of Cathay United Bank)	100,000,000	100%
	President	Hsiu-Chu Chuang	-	-



Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay United Bank (China) Co., Ltd.	Chairman	Andrew Ming-Jian Kuo (Representative of Cathay United Bank)	-	100%
	Director	Alan Lee (Representative of Cathay United Bank)	-	100%
	Director	Chung-Yi Teng (Representative of Cathay United Bank)	-	100%
	Director	Chi-Yuan Chien (Representative of Cathay United Bank)	-	100%
	Director	Francis Peng (Representative of Cathay United Bank)	-	100%
	Independent Director	Wu-Shui Cheng (Representative of Cathay United Bank)	-	100%
	Independent Director	Ching-Cheng Hua (Representative of Cathay United Bank)	-	100%
	Supervisor	Wei-Hua Chou (Representative of Cathay United Bank)	-	100%
	President	Francis Peng	-	-
Cathay Futures Co., Ltd.	Chairman	Kuan-Cheng Chou (Representative of Cathay Securities)	66,693,748	99.99%
	Director	Ju-Ping Chiu (Representative of Cathay Securities)	66,693,748	99.99%
	Director	Chuang-Hao Lo (Representative of Cathay Securities)	66,693,748	99.99%
	Director	Chao-Kuei Kuo (Representative of Cathay Securities)	66,693,748	99.99%
	Supervisor	Yu-Mei Lee	-	-
	President	Chuang-Hao Lo	-	-
Cathay Securities (Hong Kong) Limited	Managing Director	Shun-Yu Yang (Representative of Cathay Securities)	-	100%
	Director	Wan-Jin, Chen (Representative of Cathay Securities)	-	100%
	Director	Hsing-Chien Chao (Representative of Cathay Securities)	-	100%
	President	-	-	-
Cathay Capital (Asia) Limited.	Managing Director	Shun-Yu Yang (Representative of Cathay Securities (Hong Kong) Limited)	-	100%
	Director	Chu-Wang Wu (Representative of Cathay Securities (Hong Kong) Limited)	-	100%
	Director	Chi-Wu Chen (Representative of Cathay Securities (Hong Kong) Limited)	-	100%
	President	-	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Corporate name	Title	Name of individual or representative(s)	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Investment Co., Ltd.	Chairman	Jen-Ho Chang (Representative of Cathay Venture)	3,500,000	100%
	Director	Kuan-Cheng Chou (Representative of Cathay Venture)	3,500,000	100%
	Director	Bo-Sheng Fu (Representative of Cathay Venture)	3,500,000	100%
	Director	Kuang-Tzu Wang (Representative of Cathay Venture)	3,500,000	100%
	Director	Cheng-Huan Tuan (Representative of Cathay Venture)	3,500,000	100%
	Supervisor	Chang-Hui Hung (Representative of Cathay Venture)	3,500,000	100%
	President	Kuang-Tzu Wang	-	-
Cathay Private Equity Co., Ltd.	Chairman	Jeff Chang (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	Director	Andrew Ming-Jian, Kuo (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	Director	Yung-Chuan, Chang (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	Director	Chuan-Yen Hu (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	Director	Hui-Chun Wu (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	Supervisor	Kuo-Chung Huang (Representative of Cathay Securities Investment Trust)	10,000,000	100%
	President	Jeff Chang	-	-

Operating overview of affiliated corporations

Unit: NT\$ thousand

Corporate name	Location	Capital	Total assets	Total Liabilities	Net worth	Operating revenues	Operating Profit /Net income	Current pre-tax profit	Income tax (expense) credit	Current net income	Earnings per share (NT\$)
Cathay Financial Holding Co., Ltd.	Taiwan	\$ 147,025,102	\$1,003,303,225	\$ 110,242,009	\$ 893,061,216	註 1	\$ 78,756,407	\$ 77,117,686	(\$ 2,538,226)	\$ 74,579,460	5.41
Cathay Life Insurance Co., Ltd.	Taiwan	58,515,274	7,604,328,474	6,890,601,110	713,727,364	906,260,419	48,368,007	49,950,622	1,793,972	51,744,594	8.84
Cathay United Bank Co., Ltd.	Taiwan	106,985,830	3,124,394,955	2,882,098,083	242,296,872	註 1	58,669,139	25,021,667	( 3,168,000)	21,853,667	2.04
Cathay Century Insurance Co., Ltd.	Taiwan	3,057,052	43,878,548	30,748,722	13,129,826	20,406,319	2,545,831	2,550,277	( 376,333)	2,173,944	7.11
Cathay Securities Corporation	Taiwan	7,300,000	47,513,736	36,143,794	11,369,942	5,397,349	1,655,688	1,728,555	( 261,176)	1,467,379	2.19
Cathay Venture Inc.	Taiwan	4,842,362	6,033,380	44,780	5,988,600	433,436	383,553	382,500	( 5,425)	377,075	0.78
Cathay Securities Investment Trust Co., Ltd.	Taiwan	1,500,000	3,749,923	825,762	2,924,161	2,873,737	1,085,722	1,075,733	( 218,431)	857,302	5.72
Cathay Securities Investment Consulting Co., Ltd.	Taiwan	300,000	807,797	170,319	637,478	731,116	273,162	268,806	( 53,761)	215,045	7.72
Cathay Lujiazui Life Insurance Company Limited	China	13,497,155	58,549,117	46,516,828	12,032,289	16,810,496	1,725,660	1,726,939	( 237,354)	1,489,585	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	China	7,223,435	8,582,774	616,390	7,966,384	278,814	227,089	227,089	( 65,676)	161,413	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	9,090,730	18,052,708	7,071,171	10,981,537	3,119,731	( 1,140,849)	( 1,135,031)	( 815)	( 1,135,846)	-
Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	16,654,013	13,430,575	58,881	13,371,694	( 277,275)	( 283,015)	( 283,015)	( 62,205)	( 345,220)	-
Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	168,222	133,880	681	133,199	( 2,823)	( 4,154)	( 4,154)	( 450)	( 4,604)	-
Cathay Walbrook Holding 1 Limited	Jersey Island	10,189,090	21,791,237	12,923,194	8,868,043	407,658	( 24,591)	( 24,591)	( 2,039)	( 26,630)	-
Cathay Walbrook Holding 2 Limited	Jersey Island	536,268	1,141,910	679,860	462,050	21,439	( 2,872)	( 2,872)	48	( 2,824)	-
Conning Holdings Limited (Note 2)	UK	15,723,539	24,004,482	9,888,411	14,116,071	10,260,771	3,116,215	3,115,118	( 264,459)	2,850,659	-
Conning U.S. Holdings, Inc.	USA	-	16,131,664	5,952,424	10,179,240	7,183,006	1,209,529	1,209,529	( 224,890)	984,639	-
Conning Asset Management Ltd.	UK	191,303	403,111	160,562	242,549	264,920	33,811	33,811	( 6,184)	27,627	-
Conning (Germany) GmbH	Germany	938	55,114	29,597	25,517	14,192	3,742	3,742	( 1,218)	2,524	-
Conning Asia Pacific Limited	Hong Kong	577,686	435,491	116,955	318,536	477,482	96,465	96,465	-	96,465	-
Conning Japan Limited	Japan	-	12	-	12	-	-	-	-	-	-
Global Evolution Holding ApS	Denmark	333,739	1,170,522	682,935	487,587	708,830	228,580	228,580	( 65,935)	162,645	-
Conning Holdings Corp.	USA	-	10,885,268	3,778,675	7,106,593	7,183,006	1,319,032	1,319,032	( 264,183)	1,054,849	-
Conning & Company	USA	4,485	10,156,192	3,795,484	6,360,708	7,180,660	1,320,953	1,320,953	( 250,125)	1,070,828	-
Conning, Inc.	USA	329	2,490,978	1,333,706	1,157,272	3,669,690	301,476	301,476	( 73,490)	227,986	-
Goodwin Capital Advisers, Inc.	USA	172	110,707	9,612	101,095	79,844	36,818	36,818	( 7,720)	29,098	-
Conning Investment Products, Inc.	USA	-	19,805	1,726	18,079	10,988	( 6,767)	( 6,767)	877	( 5,890)	-
Octagon Credit Investors, LLC	USA	-	3,086,119	1,122,287	1,963,832	3,420,138	1,230,166	1,230,166	( 30,153)	1,200,013	-

Corporate name	Location	Capital	Total assets	Total Liabilities	Net worth	Operating revenues	Operating Profit /Net income	Current pre-tax profit	Income tax (expense) credit	Current net income	Earnings per share (NT\$)
Octagon Credit Opportunities GP, LLC	USA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Octagon Funds GP LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funds GP II LLC	USA	-	-	-	-	-	-	-	-	-	-
Global Evolution Financial ApS	Denmark	-	-	-	-	-	-	-	-	-	-
Global Evolution Fondsmæglerelskab A/S	Denmark	-	-	-	-	-	-	-	-	-	-
Mogambo2 Holding ApS	Denmark	-	-	-	-	-	-	-	-	-	-
Global Evolution Manco S.A.	Luxembourg	-	-	-	-	-	-	-	-	-	-
Global Evolution USA, LLC	USA	-	-	-	-	-	-	-	-	-	-
Global Evolution Fund Management Singapore Pte. Ltd.	Singapore	-	-	-	-	-	-	-	-	-	-
Cathay Insurance (Vietnam) Co., Ltd.	Vietnam	845,585	1,030,335	419,834	610,501	338,418	33,281	34,221	( 8,179 )	26,042	-
Indovina Bank Limited	Vietnam	6,094,911	67,319,841	58,602,343	8,717,498	註 1	2,289,821	1,159,877	( 244,603 )	915,274	-
Cathay United Bank (Cambodia) Corporation Limited	Cambodia	3,020,769	11,024,162	8,091,246	2,932,916	註 1	577,456	99,897	( 11,419 )	88,478	0.88
Cathay United Bank (China) Co., Ltd.	China	14,377,562	65,170,894	48,929,188	16,241,706	註 1	1,084,636	265,239	( 87,660 )	177,579	-
Cathay Futures Co., Ltd.	Taiwan	667,000	16,915,042	15,351,737	1,563,305	369,175	( 8,010 )	77,722	( 15,320 )	62,402	0.94
Cathay Securities (Hong Kong) Limited	Hong Kong	1,108,244	4,689,595	4,095,733	593,862	115,971	( 25,148 )	( 23,181 )	-	( 23,181 )	-
Cathay Capital (Asia) Limited.	Hong Kong	3,875	3,436	182	3,254	( 5 )	( 444 )	( 439 )	-	( 439 )	-
Cathay Investment Co., Ltd.	Taiwan	35,000	35,314	782	34,532	97	( 546 )	( 557 )	131	( 426 )	(0.12)
Cathay Private Equity Co., Ltd.	Taiwan	100,000	81,700	4,294	77,406	10,061	( 12,434 )	( 12,529 )	2,379	( 10,150 )	(1.31)

Note 1: Due to revisions in Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and Regulations Governing the Preparation of Financial Reports by Public Banks, the financial statements of such companies do not include items such as operating revenue and operating income. Therefore, the company only discloses net income.

Note 2: Conning Holdings Limited is presented on a consolidated basis.

## Brief descriptions of the operations of affiliated corporations

### I. Businesses activities covered by affiliated companies:

- (1) Cathay Financial Holding Co., Ltd.: Financial Holdings
- (2) Cathay Life Insurance Co., Ltd.: Personal Insurance
- (3) Cathay United Bank Co., Ltd.: Commercial Bank
- (4) Cathay Century Insurance Co., Ltd.: Property and Casualty Insurance
- (5) Cathay Securities Corporation: Securities Business
- (6) Cathay Venture Inc.: Venture Capital Business
- (7) Cathay Securities Investment Trust Co., Ltd.: Securities Investment Trust Business
- (8) Cathay Securities Investment Consulting Co., Ltd.: Securities Investment Consulting Services
- (9) Cathay Lujiazui Life Insurance Company Limited: Personal Insurance
- (10) Lin Yuan (Shanghai) Real Estate Co., Ltd.: Leasing of Proprietary Office Space
- (11) Cathay Life Insurance (Vietnam) Co., Ltd.: Personal Insurance
- (12) Cathay Woolgate Exchange Holding 1 Limited: Management of Real Estate Investment
- (13) Cathay Woolgate Exchange Holding 2 Limited: Management of Real Estate Investment
- (14) Cathay Walbrook Holding 1 Limited: Management of Real Estate Investment
- (15) Cathay Walbrook Holding 2 Limited: Management of Real Estate Investment
- (16) Conning Holdings Limited: Holdings Company
- (17) Conning U.S. Holdings, Inc.: Holdings Company
- (18) Conning Asset Management Ltd.: Asset Management Business
- (19) Conning (Germany) GmbH : Risk Management Software Business
- (20) Conning Asia Pacific Limited : Asset Management Business
- (21) Conning Japan Limited : Asset Management Business
- (22) Global Evolution Holding ApS: Holdings Company
- (23) Conning Holdings Corp.: Holdings Company
- (24) Conning & Company: Holdings Company
- (25) Conning, Inc.: Asset Management Business
- (26) Goodwin Capital Advisers, Inc.: Asset Management Business

- (27) Conning Investment Products, Inc.: Securities Business
- (28) Octagon Credit Investors, LLC : Asset Management Business
- (29) Octagon Credit Opportunities GP, LLC: Fund Management Business
- (30) Octagon Funds GP LLC: Fund Management Business
- (31) Octagon Funds GP II LLC: Fund Management Business
- (32) Global Evolution Financial ApS: Asset Management Business
- (33) Global Evolution Fondsmæglersekskab A/S: Asset Management Business
- (34) Mogambo2 Holding ApS: Asset Management Business
- (35) Global Evolution Manco S.A.: Asset Management Business
- (36) Global Evolution USA, LLC: Asset Management Business
- (37) Global Evolution Fund Management Singapore Pte. Ltd.: Asset Management Business
- (38) Cathay Insurance (Vietnam) Co., Ltd.: Property and Casualty Insurance
- (39) Indovina Bank Limited: Banking.
- (40) Cathay United Bank (Cambodia) Co., Ltd.: Banking
- (41) Cathay United Bank (China)Ltd.: Banking
- (42) Cathay Futures Co., Ltd.: Futures
- (43) Cathay Securities (Hong Kong) Limited: Securities Business
- (44) Cathay Capital (Asia) Limited. : Investment Business
- (45) Cathay Investment Co.: Venture Capital Business
- (46) Cathay Private Equity Co., Ltd.: Private Equity Service

## II. Cooperation among all affiliated companies:

### (I) Joint business promotion

To improve competitiveness and operational synergy, our Company consolidated diverse financial institutions, including the bank, the insurance Company, and the securities firm, to create an operation platform with comprehensive product lines. By having 635 business locations throughout Taiwan and nearly 30,000 well-trained sales staff, the Company develops comprehensive financial management and provides one-stop shopping service for customers.

### (II) Interoperability of information

To provide comprehensive financial products and services to customers, our Company has stipulated “Regulations Governing Management of Joint Marketing Among Subsidiaries of Cathay Financial Holdings,” “Joint Marketing Agreement Among Subsidiaries of Cathay Financial Holdings,” “Business and Customer Information Confidentiality Agreement Among Subsidiaries of Cathay Financial Holdings,” “Joint Statement of Confidentiality Measures Among Subsidiaries of Cathay Financial Holdings,” “Regulations Governing Surveillance on Marketing of Subsidiaries by Marketing and Planning Department of Cathay Financial Holdings,” and “Regulations Governing Data Storage Management of Cathay Financial Holdings” pursuant to “Financial Holding Company Act,” “Personal Information Protection Act,” “Regulations Governing Management of Joint Marketing Among Subsidiaries of a Financial Holding Company,” “Rules on Self-regulation for Financial Holding Companies and Their Subsidiaries,” and other applicable letters and orders by FSC. Our Company also provides exit mechanism for customers, striving to use customer information from one another and provide comprehensive financial products and services in an environment that is as lawful, secure, and confidential as possible.

### (III) Shared business facilities or locations

To implement “one-stop shopping” financial services, our Company continues to expand joint marketing business within the scope provided by laws and orders.

1. Cathay United Bank has 165 branches involved in the joint marketing of securities.

Following deregulation a few years back, Cathay United Bank began providing insurance agency services on April 29, 2016, and has since been coordinating its 165 branches nationwide for the sale of life insurance and non-life insurance products.

2. Similarly, Cathay Life began joint marketing of banking and non-life insurance

services through its 65 service centers.

3. Meanwhile, Cathay Securities has set up joint marketing offices at 32 branches of Cathay Life including Zhong Xiao Branch. By sharing business premises and equipment among subsidiaries, the group has made it convenient for customers to open up securities accounts.

(IV) Amortization and amount of revenue, cost, expense and income

Our Company uses the direct attribution method to allocate the revenue, costs, expenses, and income to each relative transaction Company for the joint selling and promotion among subsidiaries based on the nature of operation.



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

**Affiliation report**

**2020**

Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist.,  
Taipei City 106, Taiwan (R.O.C.)  
Tel: (02)2708-7698

## Declaration

The 2020 (from January 1 to December 31, 2020) Affiliation Report of the Company has been prepared in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” and there is no material nonconformity between the information disclosed and relevant information disclosed in the notes of the financial statements for the aforementioned period.

Hereby certify

Company Name: Cathay Financial Holding Co., Ltd.

Chairman: Hong-Tu Tsai

Dated: March 10, 2021

## Affiliation Report

To Cathay Financial Holding Co., Ltd.:

We have audited the 2020 financial statements of Cathay Financial Holding Co., Ltd. in accordance with “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards, and issued our unqualified opinion on March 10, 2021. The attached 2020 affiliation report of Cathay Financial Holding Co., Ltd. was prepared separately based on “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises,” for which we have obtained the customer’s statement, verified relevant financial information, and undertaken necessary procedures to complete our audit.

In our opinion, the 2020 affiliation report of Cathay Financial Holding Co., Ltd. has been prepared in accordance with “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises”; the financial information presented in this report was consistent with the financial statements, and no material amendment was required.

Deloitte & Touche

Certified Public Accountant Cheng-Hung Kuo

Certified Public Accountant Shu-Wan Lin

Dated: March 10, 2021

Summary on the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of the controlling company	Reason of control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
None						

Note: When the controlling company of the subordinate company is a subordinate company of another company, the other company's relevant information shall also be indicated. When the other company is still a subordinate company of a different other company, the same requirements shall also be applied mutatis mutandis.

## Purchase and sales

Unit: NT\$ thousand; %

Transactions with the controlling company				Terms of transactions with the controlling company		Arms length terms of transaction		Reason of the difference	Accounts and notes receivable (payable)		NPL			Remarks
Purchase (sales)	Amount	Percentage of total purchase (sales)	Gross profit from sales	Price (NT\$)	Duration of credit	Price (NT\$)	Duration of credit		Balance	Percentage of total accounts and notes receivable (payable)	Amount	Method of processing	Amount of allowance for bad debt	
None														

Note 1: For the condition of advance receipts (payments), it is necessary to describe the reason, contract terms and conditions, amount and general transaction differences in the Remarks field.

Note 2: For the account items listed in the table that are not applicable, such items may be adjusted individually. If there are no applicable account items as listed in the table due to industry characteristics, this table may be exempted from filling.

## Property transactions

Unit: NT\$ thousand

Transaction type (acquisition or disposal)	Name of property	Transaction date or the date when the event occurred	Transaction amount	Delivery or payment terms	Payment and receipt of consideration	Disposal gains (Note 1)	The reasons why transaction counterparties are controlling companies	Previous data transfer (Note 2)				The methods for determining the transactions (Note 3)	The basis for determining the prices	The purpose of acquisition or disposal and the condition of use	Other stipulations
								Holder	Relationship with the company	Transfer date	Amount				
None															

Note 1: Acquisition of property is exempted being stated in the table.

Note 2: (1) For acquisition of property, the original data obtained by the controlling company shall be stated. For disposal of property, the original data obtained by the subordinate company shall be stated.

(2) The field of "Relationship with Company" shall explain the relationship of the owner with the subordinate company and the controlling company.

(3) If the counterparty of the last preceding transfer transaction is a related party, then the information on the last preceding transfer of such related party shall be further indicated in the same field.

Note 3: The determining hierarchy of the transaction shall be explained.

## Financing

Unit: NT\$ thousand; %

Transaction type (Borrowing or lending)	Highest balance	Balance at the end of the period	Interest rate range	Total interest in this period	Duration of financing	Reason of financing	Acquiring (providing) collaterals		The methods for determining the transactions (Note 1)	Provision of the allowance for bad debt (Note2)
							Name	Amount		
None										

Note 1: The determining hierarchy of the transaction shall be explained.

Note 2: For fund borrowing, it is exempted from being stated in the table.

## Lease of assets

Unit: NT\$ thousand

Transaction type (rent or lease)	Property		Lease duration	Nature of the lease (Note 1)	Basis of determining the rent	Method of collection (payment)	Comparison with regular rent levels	Total rent in this period	Payment and receipt in this period	Other stipulations (Note 2)
	Name	Location								
None										

Note 1: It is necessary to explain whether the nature of leasing is capital leasing or operational leasing.

Note 2: If there is other setting of rights, such as superficies, lien right and easement, such setting of rights shall be indicated.



## Endorsements

Unit: NT\$ thousand; %

Highest balance	Balance at the end of the period		Reason for the endorsement	Providing collateral as guarantee			Conditions or dates for releasing the guarantee or recovering the collateral	The amount of contingent loss already recognized in financial statements	Violations of operation regulations codified by the company
	Amount	Percentage of net assets in the financial statement		Name	Quantity	Value			
None									

## **Cathay Financial Holding Co., Ltd. Declaration of Internal Control System**

On behalf of Cathay Financial Holding Co., Ltd., we hereby declare that, between the period January 1 and December 31, 2020, the Company had duly implemented internal control system and exercised risk management in accordance with “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries.” These policies and practices were also inspected by an independent audit department that reported regularly to the Board of Directors and the Audit Committee. Upon careful assessment, the internal control and legal compliance status of all units of the Company, except for the matters listed in the attachment, have been thoroughly and effectively executed. This Declaration shall become part of the main content of the annual report and prospectuses of the company, and shall be publicly disclosed externally. Any illegal misrepresentation or non-disclosure in the public statement above is subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

Submitted to  
Financial Supervisory Commission

### **Declarers**

Chairman:	Hong-Tu Tsai	(Signature and seal)
President :	Chang-Ken Lee	(Signature and seal)
Chief Auditor:	Hung-Chang Yang	(Signature and seal)
Chief Compliance Officer:	Judie Hsu	(Signature and seal)

March 11, 2021

# Cathay Financial Holding Co., Ltd.

## Areas of Improvement and Rectification of the Internal Control System

(Baseline date: December 31, 2020)

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
[Cathay Life Insurance Subsidiary]		
I. The subsidiary did not implement appropriate verification practices for reports of conflicting domestic equity interest.	The senior manager reporting verification system was established in February 2020. Before the end of each month, the Legal Compliance Department performs the verification in order to ensure that senior managers have completed the reporting operation timely.	Already completed.
II. When reclassifying self-occupied real estate into investment property, the subsidiary was found to have negotiated and signed lease agreements with tenants and made half-yearly reports to the board of directors beforehand, and did not complete the reclassification until the board of directors had made the final resolution. This practice did not conform with Subparagraph 4, Note 3 of the FSC's Instruction No. Jing-Guan-Bao-Cai-10804945921 dated August 23, 2019.	The Company has amended the "Real Estate Management Rules" (please refer to the Attachment for details) of the Company after the approval of the board of directors' meeting on May 14, 2020, specifying that "for the reclassification operation between self-occupied real estate and investment property, it is required to submit a report on the legality, appropriateness, and rationality, and it shall be approved by the board of directors in advance."	Already completed.
III. With regard to complaints about sales representatives having persuaded customers to terminate insurance policies or undertake financed purchase of investment-linked policies, the subsidiary failed to develop adequate control systems to check transaction patterns and prevent sales representatives from engaging in improper solicitation.	For the control of the purchase of new policies with loans, a new system verification system has been established and the telephone operation has also been implemented in order to confirm that customers are aware of relevant possible risks.	Already completed.

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
<p>IV. One of the branches of a Mainland insurance company that the subsidiary is a co-investor of was issued the administrative penalty to suspend new accident insurance services by the local financial authority, but the Company did not notify FSC in time upon receiving news of the administrative penalty.</p>	<p>Cathay Lujiazui Life will summarize documents of material events and subsequent handling process, inspection notices of the competent authority, results and subsequent improvement plans, etc., on a weekly basis for reporting and submission to the Company, and a reporting system has been established.</p>	<p>Already completed.</p>
<p>V. The subsidiary did not develop proper underwriting procedures for corporate insurance applicants. Furthermore, the subsidiary lacked reasonable controls to evaluate whether changes in insurance applicant or beneficiary are consistent with the initial insurance purpose.</p>	<p>The Company’s “Guidelines for Institutional Legal Person Insurance Enrollment Operation” has been established in accordance with the “Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises” amended by FSC on June 14, 2019 in order to improve the review control system for legal person policy underwriting and contract change processes.</p>	<p>Already completed.</p>
<p>VI. Inappropriate sales talks were found in telemarketing activities.</p>	<p>Telephone marketing personnel are prohibited from using the sales pitch involving the technique of comparison with term deposit, and such restriction shall be included in the recording guidelines. Any violators shall be suspended from solicitation and penalized with point deduction according to the type of violation. In addition, education on such matter will continue to be implemented individually for each case in order to improve the sales pitch appropriateness of telephone marketing personnel.</p>	<p>Already completed.</p>

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
<p>VII. The subsidiary did not adopt reasonable measures to verify customers' identity; customer due diligence and enhanced due diligence measures were not fully enforced; insurance policies of high policy value reserve are considered to exhibit high money laundering risk, but online sale of which was not subjected to risk assessment and transaction pattern monitoring.</p>	<ol style="list-style-type: none"> <li>1. New contract legal entity group AML/CFT verification form has been designed, and review personnel are required to perform inspection item by item during the review of legal entity cases in order to prevent any omissions.</li> <li>2. For policyholders' due diligence and financial underwriting operation, in addition to the enhancement of education on the operation procedures, the AML customer risk level threshold is also adjusted. For example, when the risk score reaches a certain threshold, it is considered as high-risk level for enhanced due diligence, and enhanced review is also performed during the payment.</li> <li>3. In addition to the original 5 monitoring types, new monitoring types of customer's short-term online enrollment exceeding a specific amount and customer's change of occupation from high risk to low risk within half a year, etc., are further included.</li> </ol>	<p>Already completed.</p>
<p>VIII. Investigation found that the subsidiary had not followed up on a policyholder's complaint about the private cash exchange between sales representatives and insured that may give rise to consumer dispute. The subsidiary had not implemented its awareness promotion and management over the issue.</p>	<p>The education and training have been implemented during the weekly legal compliance educational training promotion of the business unit, and monthly CSN videos are used during the training of the sales representatives in order to prevent occurrence of such disputes.</p>	<p>Already completed.</p>

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time										
<p>IX. For structured note-linked insurance products, policyholders are issued "Insurance Principal Overdue Collection Advice" (via ordinary mail) and contacted by phone if proceeds are uncollected within 2 months after maturity, but no call record is maintained.</p>	<p>1. The Company established a lateral contact system on April 29, 2019.</p> <p>2. The Company will continue to contact the policyholders to inform the collection of the insurance principals, and notification records will be preserved.</p> <p>3. Up to the date of December 21, 2019, among the 489 cases of overdue collection, 404 cases have been paid with a total payment amount of NT\$210 million. The reasons for the failure of payments for the remaining 85 cases are as follows:</p> <table border="1" data-bbox="683 801 1126 1413"> <thead> <tr> <th data-bbox="687 808 1018 887">Reason of Failure of Payment</th> <th data-bbox="1018 808 1121 887">Ratio</th> </tr> </thead> <tbody> <tr> <td data-bbox="687 887 1018 1088">Policyholder indicates he or she is aware of such matter and expresses that he or she will handle the matter individually</td> <td data-bbox="1018 887 1121 1088">33%</td> </tr> <tr> <td data-bbox="687 1088 1018 1207">Loss of contact, and cannot reach the policyholder</td> <td data-bbox="1018 1088 1121 1207">33%</td> </tr> <tr> <td data-bbox="687 1207 1018 1368">Exchange rate or no foreign currency account is available such that it is pending further handling</td> <td data-bbox="1018 1207 1121 1368">21%</td> </tr> <tr> <td data-bbox="687 1368 1018 1413">Other individual factors</td> <td data-bbox="1018 1368 1121 1413">12%</td> </tr> </tbody> </table>	Reason of Failure of Payment	Ratio	Policyholder indicates he or she is aware of such matter and expresses that he or she will handle the matter individually	33%	Loss of contact, and cannot reach the policyholder	33%	Exchange rate or no foreign currency account is available such that it is pending further handling	21%	Other individual factors	12%	<p>Already completed.</p>
Reason of Failure of Payment	Ratio											
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Exchange rate or no foreign currency account is available such that it is pending further handling	21%											
Other individual factors	12%											
<p>X. Post-investment management on venture capital companies was too focused on performance evaluation, and lacked analysis and disclosure on whether investment positions are consistent with investment plans.</p>	<p>Fund report is prepared quarterly, and in addition to the inspection on the investment position performance of the venture capitals, investments are also reviewed to determine whether they comply with the purpose of investment.</p>	<p>Already completed.</p>										

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
<p>XI. The subsidiary did not evaluate the necessity of SWIFT user accounts that were unused for an extended period of time, in order to keep user access to the minimum; monitoring of abnormal activities in the event log was limited only to transactions completed during non-office hours, and there was no monitoring of other abnormal activities.</p>	<p>1. The necessity of accounts has been evaluated, and accounts that have not been used for a long period of time are deleted.</p> <p>2. For the system abnormality behavior monitoring, since February 1, 2019, abnormal events of multiple login attempts with failure, error in identity verification and change of user group, etc., have been included in the periodic review and monitoring items.</p>	<p>Already completed.</p>
<p>[Cathay United Bank]</p> <p>I. Deficiency of former financial advisor misappropriating customer's account amount.</p> <p>II. Deficiency of former financial advisor misappropriating amount collected on behalf of the customer.</p> <p>III. Implementation of Digital Finance Service It is necessary to enhance the control of the e-mail box provided and registered by the customer, and an abnormality inspection system shall be established.</p>	<p>Various control and verification systems for preventing financial advisors from making arbitrary transactions without authorization of customers have been enhanced, and customer care measures have also been performed. In addition, the effectiveness of relevant systems will also be periodically reviewed subsequently.</p> <p>Control points have been established for the procedure of amount collection on behalf of customers.</p> <p>Relevant control and verification systems are, currently, being actively adjusted and established in process.</p>	<p>Already completed.</p> <p>Already completed.</p> <p>March 31, 2021</p>

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
<p>IV. Implementation of AML, CTF and anti-proliferation of arms operations</p> <p>(I) Regarding the improvements for the institution risk assessment report with respect to the anti-money laundering and counter terrorism financing (referred to as AML/CTF), the operations of follow-up control and reporting to the board of directors indicated in the letter of the FSC shall be enhanced.</p>	<p>For important matters related to AML/CFT, relevant reporting control procedures have been further established in order to enhance relevant control.</p>	<p>Already completed.</p>
<p>(II) Overseas branches and subsidiaries shall be further supervised to implement the improvement and reporting operations with respect to the AML/CFT inspection opinions.</p>	<p>Relevant reporting control procedures have been enhanced and adjusted, and subsequent operation will be performed properly according to such procedures.</p>	<p>Already completed.</p>
<p>(III) For the system parameter consistency for the name and title verification operation performed by overseas branches and subsidiaries and the optimization of the system testing project implemented by a third party under the entrustment of the overseas branches, the follow-up control system shall be enhanced.</p>	<p>The system parameter setting and optimization of follow-up improvement and reporting operation tested by the third party have been completed. Relevant subsequent controls will be enhanced according to the system established.</p>	<p>Already completed.</p>



Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
<p>[Cathay Securities Subsidiary]  Taiwan Stock Exchange (TWSE) forwarded the Letter of Taipei Exchange (TPEX) for its audit on the Company conducted on November 9 and 10, 2020. According to the audit, deficiencies including that the Company provided the co-location service operation with customized service to specific clients for use, the record of “time of accepting client’s entrustment” was not preserved, the system log record content failed to be preserved for 3 years, account passwords failed to be changed after a period of 3 months, the firewall access record was not preserved for 3 years, and vulnerability scan was not performed, etc., were found during the audit. TWSE issued a letter requesting for attention on improvements and an administrative fine of NT\$300,000 was imposed. In addition, the Financial Supervisory Commission (FSC) rendered also a decision on an administrative fine of NT\$1.44 million and a warning sanction was imposed.</p> <p>[Letter No. Tai-Zheng-Fu-Zi No. 1090503728 dated December 11, 2020; Letter No. Jin-Guan-Zheng-Quan-Fa-Zi No. 1090379775 dated March 4, 2020]</p>	<p>The co-location transaction lines were canceled on December 18, 2020 and co-location service is no longer used. In the future, if the resumption of co-location service is to be applied again, it will be handled according to the regulations.</p>	<p>Already completed.</p>