

**Cathay United Bank Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2021 and 2020 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

The Board of Directors and Stockholder  
Cathay United Bank Co., Ltd.

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Cathay United Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively, the "Company"), as of September 30, 2021 and 2020, the related consolidated statements of comprehensive income for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

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

### **Conclusion**

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2021 and 2020, and its consolidated financial performance for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, and its consolidated cash flows for the nine months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

November 9, 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 review such consolidated financial statements are those generally applied in the Republic of China.*

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

# CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2021 (Reviewed)		December 31, 2020 (Audited)		September 30, 2020 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 6 and 44)	\$ 43,642,478	1	\$ 71,007,491	2	\$ 64,359,252	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7 and 45)	198,499,396	6	129,503,924	4	160,635,656	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 8, 44 and 49)	277,943,963	8	324,043,978	10	315,870,596	10
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 9, 11, 45 and 49)	342,173,291	10	336,097,816	10	327,455,236	11
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTISED COST (Notes 10, 11, 45 and 49)	558,497,730	16	501,728,143	16	427,662,539	14
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Note 12)	37,023,846	1	27,142,475	1	38,037,564	1
RECEIVABLES, NET (Notes 13, 15 and 44)	93,996,532	3	99,813,146	3	90,021,658	3
CURRENT INCOME TAX ASSETS	7,552	-	38,817	-	-	-
DISCOUNTS AND LOANS, NET (Notes 14 and 44)	1,800,415,752	53	1,661,295,961	52	1,604,997,135	52
INVESTMENTS MEASURED BY EQUITY METHOD, NET (Note 17)	1,883,354	-	1,863,169	-	1,802,392	-
OTHER FINANCIAL ASSETS, NET (Note 6)	4,308,345	-	364	-	924	-
PROPERTY AND EQUIPMENT, NET (Note 18)	24,891,994	1	25,330,466	1	25,525,410	1
RIGHT-OF-USE ASSETS, NET (Notes 19 and 44)	3,662,341	-	4,257,544	-	4,182,043	-
INVESTMENT PROPERTIES, NET (Note 20)	548,441	-	646,445	-	734,769	-
INTANGIBLE ASSETS, NET (Note 21)	8,150,189	-	8,139,303	-	8,179,241	-
DEFERRED TAX ASSETS	4,532,846	-	4,407,980	-	4,372,266	-
OTHER ASSETS, NET (Notes 22 and 44)	<u>23,773,704</u>	<u>1</u>	<u>34,143,238</u>	<u>1</u>	<u>34,881,941</u>	<u>1</u>
TOTAL	<u>\$ 3,423,951,754</u>	<u>100</u>	<u>\$ 3,229,460,260</u>	<u>100</u>	<u>\$ 3,108,718,622</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
DEPOSITS FROM THE CENTRAL BANK AND BANKS (Notes 23 and 44)	\$ 82,603,839	3	\$ 66,131,059	2	\$ 67,455,803	2
DUE TO THE CENTRAL BANK AND BANKS	1,076,000	-	1,076,000	-	1,000,000	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 8, 44 and 49)	77,217,915	2	115,614,629	4	113,238,002	4
NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS (Note 24)	21,300,298	1	10,092,058	-	17,722,825	1
PAYABLES (Notes 25 and 44)	40,260,736	1	24,609,128	1	26,011,117	1
CURRENT TAX LIABILITIES	197,452	-	286,330	-	442,469	-
DEPOSITS AND REMITTANCES (Notes 26 and 44)	2,857,078,866	84	2,648,995,024	82	2,521,084,901	81
FINANCIAL DEBENTURES PAYABLE (Note 27)	46,800,000	1	53,800,000	2	53,800,000	2
OTHER FINANCIAL LIABILITIES (Note 28)	32,479,099	1	39,748,324	1	46,450,558	1
PROVISIONS (Notes 15 and 29)	3,741,235	-	3,845,796	-	3,632,756	-
LEASE LIABILITIES (Notes 19 and 44)	3,710,435	-	4,293,299	-	4,225,963	-
DEFERRED INCOME TAX LIABILITIES	2,938,393	-	3,464,973	-	3,406,319	-
OTHER LIABILITIES (Notes 31 and 44)	<u>8,451,061</u>	<u>-</u>	<u>10,848,019</u>	<u>-</u>	<u>9,767,176</u>	<u>-</u>
Total liabilities	<u>3,177,855,329</u>	<u>93</u>	<u>2,982,804,639</u>	<u>92</u>	<u>2,868,237,889</u>	<u>92</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK (Note 32)</b>						
Capital stock						
Common stock	<u>106,985,830</u>	<u>3</u>	<u>106,985,830</u>	<u>4</u>	<u>106,985,830</u>	<u>4</u>
Capital surplus	<u>38,687,276</u>	<u>1</u>	<u>38,687,276</u>	<u>1</u>	<u>38,687,276</u>	<u>1</u>
Retained earnings						
Legal reserve	71,182,447	2	64,526,043	2	64,526,043	2
Special reserve	2,083,756	-	2,084,653	-	2,084,653	-
Unappropriated earnings	<u>20,614,394</u>	<u>1</u>	<u>22,122,582</u>	<u>1</u>	<u>19,064,640</u>	<u>1</u>
Total retained earnings	<u>93,880,597</u>	<u>3</u>	<u>88,733,278</u>	<u>3</u>	<u>85,675,336</u>	<u>3</u>
Other equity	<u>2,447,888</u>	<u>-</u>	<u>7,890,488</u>	<u>-</u>	<u>4,898,300</u>	<u>-</u>
Total equity attributable to owners of the Bank	242,001,591	7	242,296,872	8	236,246,742	8
NON-CONTROLLING INTERESTS (Note 32)	<u>4,094,834</u>	<u>-</u>	<u>4,358,749</u>	<u>-</u>	<u>4,233,991</u>	<u>-</u>
Total equity	<u>246,096,425</u>	<u>7</u>	<u>246,655,621</u>	<u>8</u>	<u>240,480,733</u>	<u>8</u>
TOTAL	<u>\$ 3,423,951,754</u>	<u>100</u>	<u>\$ 3,229,460,260</u>	<u>100</u>	<u>\$ 3,108,718,622</u>	<u>100</u>

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

## CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
NET INTEREST REVENUE								
(Notes 33 and 44)								
Interest income	\$ 12,455,468	72	\$ 11,398,028	76	\$ 36,479,738	74	\$ 38,150,470	79
Interest expense	<u>(2,622,027)</u>	<u>(15)</u>	<u>(3,057,458)</u>	<u>(20)</u>	<u>(7,991,293)</u>	<u>(16)</u>	<u>(11,865,214)</u>	<u>(24)</u>
Total net interest revenue	<u>9,833,441</u>	<u>57</u>	<u>8,340,570</u>	<u>56</u>	<u>28,488,445</u>	<u>58</u>	<u>26,285,256</u>	<u>55</u>
NET REVENUE OTHER THAN INTEREST								
Net service fee revenue (Notes 34 and 44)	5,387,663	31	4,672,448	31	14,085,471	29	12,634,093	26
Gain on financial assets or liabilities at fair value through profit or loss (Notes 35 and 44)	300,888	2	567,017	4	1,782,391	4	3,376,861	7
Realized gain on financial assets at fair value through other comprehensive income (Notes 9 and 36)	1,304,574	8	1,372,282	9	3,687,157	7	4,743,211	10
Losses arising from derecognition of financial assets measured at amortised cost (Notes 10 and 14)	(122,103)	(1)	(382,685)	(2)	(443,242)	(1)	(362,805)	(1)
Foreign exchange gain	332,196	2	203,911	1	804,369	2	789,910	2
Impairment reversal (loss) on assets (Note 37)	(2,993)	-	(41,811)	-	86,629	-	(97,904)	-
Share of profit of associates and joint ventures accounted for using equity method (Note 17)	33,043	-	34,285	-	104,575	-	98,199	-
Net other revenue other than interest income (Note 44)	<u>88,360</u>	<u>1</u>	<u>189,628</u>	<u>1</u>	<u>362,837</u>	<u>1</u>	<u>650,227</u>	<u>1</u>
Total net revenue other than interest	<u>7,321,628</u>	<u>43</u>	<u>6,615,075</u>	<u>44</u>	<u>20,470,187</u>	<u>42</u>	<u>21,831,792</u>	<u>45</u>
NET REVENUE	<u>17,155,069</u>	<u>100</u>	<u>14,955,645</u>	<u>100</u>	<u>48,958,632</u>	<u>100</u>	<u>48,117,048</u>	<u>100</u>
BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Notes 13, 14, 15 and 38)	<u>(621,739)</u>	<u>(4)</u>	<u>(635,684)</u>	<u>(4)</u>	<u>(2,742,840)</u>	<u>(5)</u>	<u>(1,907,639)</u>	<u>(4)</u>
TOTAL OPERATING EXPENSES								
Employee benefits expenses (Notes 39 and 44)	(4,413,071)	(26)	(4,191,579)	(28)	(13,014,238)	(27)	(12,648,665)	(26)
Depreciation and amortization expense (Notes 18, 19, 21 and 40)	(886,020)	(5)	(863,385)	(6)	(2,601,300)	(5)	(2,556,539)	(5)
Other general and administrative expense (Notes 41 and 44)	<u>(3,612,077)</u>	<u>(21)</u>	<u>(3,207,807)</u>	<u>(21)</u>	<u>(8,894,276)</u>	<u>(18)</u>	<u>(8,858,463)</u>	<u>(19)</u>
Total operating expenses	<u>(8,911,168)</u>	<u>(52)</u>	<u>(8,262,771)</u>	<u>(55)</u>	<u>(24,509,814)</u>	<u>(50)</u>	<u>(24,063,667)</u>	<u>(50)</u>

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## CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX	\$ 7,622,162	44	\$ 6,057,190	41	\$ 21,705,978	45	\$ 22,145,742	46
INCOME TAX EXPENSE (Note 42)	(1,043,558)	(6)	(698,460)	(5)	(2,866,657)	(6)	(2,938,082)	(6)
INCOME FROM CONTINUING OPERATIONS, NET OF TAX	<u>6,578,604</u>	<u>38</u>	<u>5,358,730</u>	<u>36</u>	<u>18,839,321</u>	<u>39</u>	<u>19,207,660</u>	<u>40</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX (Note 32)								
Components of other comprehensive income that will not be reclassified to profit or loss, net of tax								
Remeasurement of defined benefit plans	-	-	-	-	(655)	-	1,126	-
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	(1,967,199)	(12)	419,451	3	1,307,924	3	(2,152,664)	(4)
Change in fair value of financial liability attributable to change in credit risk of liability	292,827	2	(65,396)	-	568,595	1	1,051,925	2
Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method	-	-	-	-	5,219	-	(5,052)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 42)	130,360	1	584	-	167,377	-	46,201	-
Components of other comprehensive income that will be reclassified to profit or loss, net of tax								
Exchange differences on translating the financial statements of foreign operations	(183,726)	(1)	4,090	-	(893,778)	(2)	(629,076)	(1)
Share of other comprehensive loss of associates and joint ventures accounted for using equity method	-	-	-	-	(10,984)	-	(1,214)	-

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## CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
Gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	\$ (997,711)	(6)	\$ 131,738	-	\$ (4,810,377)	(10)	\$ 1,473,767	3
Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 42)	62,859	1	(58,541)	-	271,270	1	65,182	-
Other comprehensive income (loss), net of tax	(2,662,590)	(15)	431,926	3	(3,395,409)	(7)	(149,805)	-
<b>TOTAL COMPREHENSIVE INCOME, NET OF TAX</b>	<b><u>\$ 3,916,014</u></b>	<b><u>23</u></b>	<b><u>\$ 5,790,656</u></b>	<b><u>39</u></b>	<b><u>\$ 15,443,912</u></b>	<b><u>32</u></b>	<b><u>\$ 19,057,855</u></b>	<b><u>40</u></b>
<b>PROFIT ATTRIBUTABLE TO:</b>								
Owners of the Bank	\$ 6,444,602	37	\$ 5,282,311	36	\$ 18,628,030	38	\$ 18,865,070	39
Non-controlling interests	134,002	1	76,419	-	211,291	1	342,590	1
	<b><u>\$ 6,578,604</u></b>	<b><u>38</u></b>	<b><u>\$ 5,358,730</u></b>	<b><u>36</u></b>	<b><u>\$ 18,839,321</u></b>	<b><u>39</u></b>	<b><u>\$ 19,207,660</u></b>	<b><u>40</u></b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>								
Owners of the Bank	\$ 3,783,908	22	\$ 5,857,629	39	\$ 15,236,719	31	\$ 18,761,138	39
Non-controlling interests	132,106	1	(66,973)	-	207,193	1	296,717	1
	<b><u>\$ 3,916,014</u></b>	<b><u>23</u></b>	<b><u>\$ 5,790,656</u></b>	<b><u>39</u></b>	<b><u>\$ 15,443,912</u></b>	<b><u>32</u></b>	<b><u>\$ 19,057,855</u></b>	<b><u>40</u></b>
<b>EARNINGS PER SHARE</b> (Note 43)								
Basic	<u>\$ 0.60</u>		<u>\$ 0.49</u>		<u>\$ 1.74</u>		<u>\$ 1.76</u>	

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

(Concluded)

**CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Bank												Non-controlling Interests	Total Equity
	Retained Earnings					Other Equity								
	Capital Stock Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income	Changes in the Fair Value of Financial Liabilities Attributable to Changes in the Credit Risk	Gains (Losses) on Remeasurements of Defined Benefit	Property Revaluation Surplus	Total			
BALANCE AT JANUARY 1, 2020	\$ 101,658,353	\$ 38,687,276	\$ 57,935,811	\$ 2,183,978	\$ 21,675,159	\$ (1,670,723)	\$ 10,124,219	\$ (1,850,508)	\$ (1,715,929)	\$ 457,968	\$ 5,345,027	\$ 4,409,576	\$ 231,895,180	
Appropriation of 2019 earnings														
Legal reserve	-	-	6,590,232	-	(6,590,232)	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(10,000,000)	-	-	-	-	-	-	-	(10,000,000)	
Stock dividends	5,327,477	-	-	-	(5,327,477)	-	-	-	-	-	-	-	-	
Net income for the nine months ended September 30, 2020	-	-	-	-	18,865,070	-	-	-	-	-	-	342,590	19,207,660	
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(427,239)	(516,629)	841,539	(1,603)	-	(103,932)	(45,873)	(149,805)	
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	18,865,070	(427,239)	(516,629)	841,539	(1,603)	-	(103,932)	296,717	19,057,855	
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(472,302)	(472,302)	
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	199,570	-	(199,570)	-	-	-	(199,570)	-	-	
Others	-	-	-	(99,325)	242,550	-	-	-	-	(143,225)	(143,225)	-	-	
<b>BALANCE AT SEPTEMBER 30, 2020</b>	<b>\$ 106,985,830</b>	<b>\$ 38,687,276</b>	<b>\$ 64,526,043</b>	<b>\$ 2,084,653</b>	<b>\$ 19,064,640</b>	<b>\$ (2,097,962)</b>	<b>\$ 9,408,020</b>	<b>\$ (1,008,969)</b>	<b>\$ (1,717,532)</b>	<b>\$ 314,743</b>	<b>\$ 4,898,300</b>	<b>\$ 4,233,991</b>	<b>\$ 240,480,733</b>	
BALANCE AT JANUARY 1, 2021	\$ 106,985,830	\$ 38,687,276	\$ 64,526,043	\$ 2,084,653	\$ 22,122,582	\$ (2,034,967)	\$ 12,999,487	\$ (1,478,705)	\$ (1,910,070)	\$ 314,743	\$ 7,890,488	\$ 4,358,749	\$ 246,655,621	
Appropriation of 2020 earnings														
Legal reserve	-	-	6,656,404	-	(6,656,404)	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(15,532,000)	-	-	-	-	-	-	-	(15,532,000)	
Net income for the nine months ended September 30, 2021	-	-	-	-	18,628,030	-	-	-	-	-	-	211,291	18,839,321	
Other comprehensive income (loss) for the nine months ended September 30, 2021, net of income tax	-	-	-	-	-	(656,088)	(3,190,436)	454,876	337	-	(3,391,311)	(4,098)	(3,395,409)	
Total comprehensive income (loss) for the nine months ended September 30, 2021	-	-	-	-	18,628,030	(656,088)	(3,190,436)	454,876	337	-	(3,391,311)	207,193	15,443,912	
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(471,108)	(471,108)	
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	1,986,364	-	(1,986,364)	-	-	-	(1,986,364)	-	-	
Other	-	-	-	(897)	65,822	-	-	-	-	(64,925)	(64,925)	-	-	
<b>BALANCE AT SEPTEMBER 30, 2021</b>	<b>\$ 106,985,830</b>	<b>\$ 38,687,276</b>	<b>\$ 71,182,447</b>	<b>\$ 2,083,756</b>	<b>\$ 20,614,394</b>	<b>\$ (2,691,055)</b>	<b>\$ 7,822,687</b>	<b>\$ (1,023,829)</b>	<b>\$ (1,909,733)</b>	<b>\$ 249,818</b>	<b>\$ 2,447,888</b>	<b>\$ 4,094,834</b>	<b>\$ 246,096,425</b>	

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



# CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	\$ 21,705,978	\$ 22,145,742
Adjustments:		
Depreciation expense	2,226,382	2,177,888
Amortization expense	374,918	378,651
Expected credit loss/bad debt expense	2,742,840	1,907,639
Net gains on financial assets and liabilities at fair value through profit or loss	(1,782,391)	(3,376,861)
Interest expense	7,991,293	11,865,214
Net losses arising from derecognition of financial assets measured at amortised cost	443,242	362,805
Interest income	(36,479,738)	(38,150,470)
Dividend income	(1,534,776)	(945,883)
Share of profit of associates and joint ventures accounted for using equity method	(104,575)	(98,199)
Loss on disposal of property and equipment	3,896	2,251
Gains on disposal of investment properties	(23,700)	(3,600)
Gains on disposal of investments	(2,152,381)	(3,797,328)
Impairment loss (Reversal of impairment loss) on financial assets	(86,629)	97,904
Loss on fair value adjustment of investment property	4,604	17,735
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	(10,356,408)	(6,911,018)
Financial assets at fair value through profit or loss	20,792,117	38,228,930
Financial assets at fair value through other comprehensive income	(7,365,854)	(273,380)
Investments in debt instruments at amortised cost	(57,185,893)	16,878,422
Receivables	7,312,721	10,498,616
Discounts and loans	(141,912,122)	(53,492,068)
Other financial assets	(4,307,978)	(15)
Other assets	5,529,815	(6,737,418)
Deposits from the Central Bank and banks	16,472,780	(16,652,325)
Financial liabilities at fair value through profit or loss	(11,057,744)	(33,363,026)
Notes and bonds issued under repurchase agreement	11,208,240	(30,457,627)
Payables	17,309,233	1,678,084
Deposits and remittances	208,083,842	185,753,793
Other financial liabilities	(7,269,225)	(19,153,664)
Provisions	(36,935)	(68,897)
Other liabilities	(189,054)	(407,046)
Cash generated from operations	40,356,498	78,104,849
Interest received	36,318,882	39,722,112
Dividends received	1,535,704	964,917

(Continued)

# CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2021	2020
Interest paid	\$ (9,500,426)	\$ (13,892,978)
Income tax paid	<u>(4,236,645)</u>	<u>(4,644,287)</u>
Net cash generated from operating activities	<u>64,474,013</u>	<u>100,254,613</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(674,062)	(849,593)
Proceeds from disposal of property and equipment	688	11,500
Acquisition of intangible assets	(187,573)	(392,106)
Proceeds from disposal of investment properties	117,100	108,600
Other assets	4,646,433	479,996
Dividends received	<u>78,625</u>	<u>66,380</u>
Net cash generated from (used in) investing activities	<u>3,981,211</u>	<u>(575,223)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in due to the Central Bank and banks	-	1,000,000
Repayments of financial debentures payable	(7,000,000)	(100,000)
Decrease in financial liabilities designated as at fair value through profit or loss	-	(11,289,165)
Payments of lease liabilities	(1,189,974)	(1,159,945)
Other liabilities	(2,194,993)	921,829
Cash dividends paid	<u>(16,003,108)</u>	<u>(10,472,302)</u>
Net cash used in financing activities	<u>(26,388,075)</u>	<u>(21,099,583)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<u>(843,001)</u>	<u>(590,110)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,224,148	77,989,697
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		
	<u>151,993,849</u>	<u>113,515,093</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 193,217,997</u>	<u>\$ 191,504,790</u>

(Continued)

# CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

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	<u>September 30</u>	
	<u>2021</u>	<u>2020</u>
RECONCILIATIONS OF CASH AND CASH EQUIVALENTS		
REPORTED IN THE CONSOLIDATED STATEMENTS OF CASH		
FLOWS WITH THOSE REPORTED IN THE CONSOLIDATED		
BALANCE SHEETS		
Cash and cash equivalents reported in the consolidated balance sheet	\$ 43,642,478	\$ 64,359,252
Due from the Central Bank and call loans to banks qualifying for cash		
and cash equivalents under the definition of IAS 7	112,551,673	89,107,974
Securities purchased under resell agreements qualifying for cash and		
cash equivalents under the definition of IAS 7	<u>37,023,846</u>	<u>38,037,564</u>
Cash and cash equivalents at the end of the period	<u>\$ 193,217,997</u>	<u>\$ 191,504,790</u>

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

(Concluded)

# CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 1. INFORMATION ON THE BUSINESS

Cathay United Bank Co., Ltd. (“the Bank”), originally named United World Chinese Commercial Bank (“UWCCB”), was established in December 1974 after obtaining approval from the Ministry of Finance, Republic of China (“ROC”) and officially started operations on May 20, 1975. The Bank is mainly engaged in the following operations: (1) all commercial banking operations authorized by the ROC Banking Act (“Banking Act”); (2) international banking business and related operations; (3) trust business; (4) off-shore banking business; and (5) other financial operations related to the promotion of investments by overseas Chinese. The Bank’s registered office and main business location is at No. 7, Songren Rd., Xinyi District, Taipei City, Republic of China (ROC).

The Bank’s stock was originally trading on the Taiwan Stock Exchange (the “TWSE”) until December 18, 2002, where it was delisted after becoming a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holdings”) on the same date through a share swap. Under the Financial Institutions Merger Act, the Bank merged with the former Cathay Commercial Bank, a wholly-owned subsidiary of Cathay Financial Holdings on October 27, 2003, with UWCCB as the surviving entity and was renamed Cathay United Bank Co., Ltd.

The Bank merged with Lucky Bank on January 1, 2007. The Bank was the surviving entity after this merger and Lucky Bank was the extinguished entity. In addition, the Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007.

Cathay Financial Holdings is the Bank’s ultimate parent 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 of the Bank and its subsidiaries (“the Company”) were approved by the Bank’s board of directors on November 9, 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 Public Banks and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by 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 Public Banks and the IFRSs endorsed and issued into effect by the FSC did not have a material impact on the Company’s accounting policies:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”

The Company elected to apply the practical expedient provided in the amendments to deal with the changes in the basis for determining contractual cash flows of financial assets, financial liabilities or lease liabilities resulting from the interest rate benchmark reform. The changes 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.

- b. The IFRSs endorsed by the FSC for application starting from 2022

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Announced by IASB</b>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

Note 1: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 2: 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 3: 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 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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 2)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 3)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 4)

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 will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: 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 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’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**

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in the consolidated financial statements is less than that required in a complete set of annual financial statements.

##### **Basis of Preparation**

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

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

### Principles for preparing the consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (Indovina Bank, CUBC Bank and CUBCN Bank).

The accounting policies of the consolidated entities are same.

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

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Company 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 Bank.

The Bank's financial statements include the accounts of the head office, all branches, and OBU, in addition to the subsidiaries' accounts. All intercompany transactions and accounts balances have been eliminated for consolidation purposes.

### Entities included in the consolidated financial statements

See Note 16 for detailed information on subsidiaries (including percentages of ownership and main businesses).

## **Foreign Currencies**

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized 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 purposes of presenting the consolidated financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries, associates, joint ventures and branches 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 exchange rates prevailing at the time of the transactions or the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Bank and non-controlling interests as appropriate).

### **Current and Non-current Assets and Liabilities**

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the consolidated financial statements of the Company were not classified as current or non-current. Nevertheless, accounts were properly categorized in accordance with the nature of each account and sequenced by their liquidity.

### **Cash and Cash Equivalents**

In the consolidated balance sheet, cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments or time deposits that mature within 12 months from the date of acquisition and readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In the consolidated statements of cash flows, cash and cash equivalents comprise cash and cash equivalents, due from the Central Bank, call loans to other banks, and securities purchased under resell agreements as reported in the consolidated balance sheets that correspond to the definition of cash and cash equivalents under IAS 7 "Statement of Cash Flows," as endorsed and issued into effect by the FSC.

### **Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### **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 amortised cost, and investments in debt instruments and equity instruments at FVTOCI.

### a) Financial asset at FVTPL

A financial asset is classified as at FVTPL when the financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortised 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. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in Note 49.

### b) Financial assets at amortised cost

Financial assets that meet the following conditions are subsequently measured at amortised 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 amortised cost, including cash and cash equivalents, due from the Central Bank and call loans to banks, investments in debt instruments at amortised cost, receivables and discounts and loans, are measured at amortised cost, which equals the gross carrying amount determined by 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 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 amortised cost of the financial asset; 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 amortised cost of such financial assets in subsequent reporting periods.

A financial asset is credit-impaired when one or more of the following events have occurred:

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv. The disappearance of an active market for that financial asset because of financial difficulties.

c) Investments in debt instruments at FVTOCI

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

- i. The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of the financial assets; 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.

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 Company 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, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company'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 Company recognizes a loss allowance for expected credit losses on financial assets at amortised cost, and investments in debt instruments measured at FVTOCI.

The Company always recognizes lifetime expected credit losses (ECLs) for accounts receivable and lease receivables. For all other financial instruments, the Company 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 the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

For receivables that do not contain a significant financing component, the allowance for losses is recognized at an amount equal to lifetime ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. A 12-month ECL represents 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. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

The definition of the financial assets in default is described in Note 50.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

According to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, the Bank assesses the customers' financial position, the overdue payments of the principal and interest, and the value of collateral to classify credit assets into normal credit assets (excluding loans to the ROC government) and unsound assets which should be further classified as special mention, substandard, doubtful and losses, for which the minimum provisions are 1%, 2%, 10%, 50%, and 100% of the outstanding balance, respectively. Furthermore, the FSC stipulates that banks should recognize provision of at least 1.5% of normal credit assets in mainland China (including short-term advances for trade finance) and loans for 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.

The Company writes 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 the current period.

### 3) Derecognition of financial assets

The Company 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. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset at amortised 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 an investment in a debt instrument 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 that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

### b. Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in 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 for the cases stated below, all financial liabilities are measured at amortised cost using the effective interest method:

a) Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

A financial liability is classified as designated as at FVTPL upon initial recognition if:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is 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
- iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

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 it will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. The change in fair value of the outstanding liabilities are recognized in profit or loss. 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 49.

b) Financial guarantee contracts

Financial guarantee contracts issued by the Company, if not designated as at FVTPL, are subsequently measured at the higher of:

- i. The amount of the loss allowance reflecting expected credit loss; and
- ii. The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

2) Derecognition of financial liabilities

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

#### d. Derivatives

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. 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 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 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.

#### e. Modification of financial instruments

When a financial instrument is modified, the Bank assesses whether the modification will result in derecognition. If modification of a financial instrument results in derecognition, it is accounted for as derecognition of financial assets or liabilities. If the modification does not result in derecognition, the Bank recalculates the gross carrying amount of the financial asset or the amortized cost of the financial liability based on the modified cash flows discounted at the original effective interest rate with any modification gain or loss recognized in profit or loss. The cost incurred is adjusted to the carrying amount of the modified financial asset or financial liability and amortized over the modified remaining period.

For the changes in the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the interest rate benchmark reform, the Bank elects to apply the practical expedient in which the changes 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. When multiple changes are made to a financial asset or a financial liability, the Bank first applies the practical expedient to those changes required by interest rate benchmark reform, and then applies the requirements of modification of financial instruments to the other changes that cannot apply the practical expedient.

### **Investments in Associates**

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Bank 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 Bank's share of the profit or loss and other comprehensive income of the associate. The Bank also recognizes the changes in the Bank's share of the equity of associates attributable to the Bank.

Any excess of the cost of acquisition over the Bank'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 amortised. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

When the Bank 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 Bank's proportionate interest in the associate. The Bank 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 and joint ventures accounted for using the equity method. If the

Bank'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 measured by equity method is insufficient, the shortage is debited to retained earnings.

When the Bank'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 Bank's net investment in the associate), the Bank discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Bank 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, which 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 Bank 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 Bank 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 Bank continues to apply the equity method and does not remeasure the retained interest.

Profits or losses resulting from downstream transactions are eliminated in full only in the Bank's financial statements. Profits and losses resulting from upstream transactions and transactions between associates are recognized only in the Bank's financial statements only to the extent of interests in the associates that are not related to the Bank.

### **Nonperforming Loans**

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interest) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

### **Repurchase and Resale Transactions**

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

## **Property and Equipment**

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

Freehold land is not depreciated. Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property and equipment is shorter than its useful life, such asset is depreciated over its lease term. 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 also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs, and are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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.

The Bank decides to transfer assets to or from investment property based on the actual use of assets.

For a transfer from the property and equipment classification to investment property based on the actual use of assets, any difference between the fair value of the property at the transfer date and its previous carrying amount is recognized in other comprehensive income.

## **Goodwill**

Goodwill arising from the acquisition of a business is carried 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 Company's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that are 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 on 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.

## **Foreclosed Collateral**

Collateral assumed (recorded in other assets) are recognized at cost, which includes the assumed prices and any necessary repairs to make the collateral saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

## **Intangible Assets (Excluding Goodwill)**

### 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 losses. 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.

### b. Derecognition

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 Asset and Intangible Assets (Excluding Goodwill)**

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment, right-of-use asset 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. Corporate assets are allocated to cash-generating units on a reasonable and consistent basis of allocation.

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, cash-generating unit or assets related to contract costs 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 on the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

## **Leasing**

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

### a. The Company 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 as income 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 recognized as expenses on a straight-line basis over the lease terms. Lease modification that resulted from a negotiation with a lessee is accounted for as a new lease from the effective date of modification.



Variable lease payments that do not depend on an index or a rate are recognized as income in the periods in which they are incurred.

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

b. The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of the 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, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are 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.

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, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. 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 Company uses its incremental borrowing rate.

Subsequently, lease liabilities are measured at amortised cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

## **Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are the best estimate of the consideration required to settle a present obligation at the consolidated balance sheet date, taking the risks and uncertainties on the obligation into account. Provisions are measured using the discounted cash flows estimated to settle the present obligation.

### **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 an expense when employees have rendered services entitling them to the contributions.

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

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

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plant amendments, settlements, or other significant one-off events.

#### **c. Termination benefits**

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

#### **d. Employee preferential interest rate deposits**

The Bank offers preferential interest rate deposits for its current employees, which include preferential deposits and post-retirement preferential deposits for its current employees as well as preferential deposits for its retired employees, limited to a certain amount. The difference between the preferential interest rate and the market rate is considered as employee benefits.

In accordance with Article 30 of the Regulations Governing the Preparation of Financial Reports by Public Banks, the excess of the interests incurred in post-employment preferential interest deposits over those imputed at the market rate should qualify as post-employment benefits under IAS 19 "Employee Benefits" since the beneficiaries are retired employees. The retirement benefits should be accrued by actuarial method.

## Income Tax

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

### a. Current tax

According to the Income Tax Act, an additional tax on unappropriated earnings is provided for as income tax in the year the stockholders approve to retain earnings.

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

Since 2002, in accordance with Article 49 of the Financial Holding Company Act, the Bank's financial holding company, as the taxpayer, and the Bank elected to jointly declare and report income tax of profit-seeking enterprise and tax surcharge on surplus retained earnings of profit-seeking enterprise in accordance with the relevant provisions of the Income Tax Act. Additional tax payable or tax receivable due to the joint declaration of income tax is recognized under the payables or receivables for allocation of integrated income tax system account.

### b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Bank can 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 associated with such investments and interests are recognized only 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 these differences 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 asset 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes

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.

**Recognition of Interest Revenue and Expense**

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

**Recognition of Service Fee Revenue and Expense**

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

**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 through the eyes of the customer. The consideration is not recognized as earnings at the time of the original sales transaction but at the time when the points are redeemed and the obligation is fulfilled.

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

**Assessment of Impairment of Loans**

The assessment of impairment of loans is based on the value of the collateral, amount of principal and interest due, and the length of the overdue period. Changes in credit ratings on individual assets and the status of the collection are also considered during classification of the loans. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company’s historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period. The inputs include risk of default and expected loss rates. For details of the key assumptions and inputs used, refer to Note 50.

## 6. CASH AND CASH EQUIVALENTS

	September 30, 2021	December 31, 2020	September 30, 2020
Cash on hand	\$ 18,367,470	\$ 18,131,208	\$ 18,088,457
Checks for clearance	2,589,304	2,628,849	3,440,823
Due from banks	<u>22,696,636</u>	<u>50,269,827</u>	<u>42,849,566</u>
	43,653,410	71,029,884	64,378,846
Less: Allowance for impairment loss	<u>(10,932)</u>	<u>(22,393)</u>	<u>(19,594)</u>
	<u>\$ 43,642,478</u>	<u>\$ 71,007,491</u>	<u>\$ 64,359,252</u>

As of September 30, 2021, December 31, 2020 and September 30, 2020, due from banks that mature exceed one year from the date of acquisition are recorded as other financial assets, amounting to \$4,308,254 thousand, \$0 thousand and \$0 thousand, respectively.

Reconciliations of cash and cash equivalents reported in the consolidated statements of cash flows with those reported in the consolidated balance sheets as of September 30, 2021 and 2020 are shown in the consolidated statements of cash flows. Reconciliations as of December 31, 2020 are shown below:

	December 31, 2020
Cash and cash equivalents reported in the consolidated balance sheet	\$ 71,007,491
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	53,843,883
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>27,142,475</u>
Cash and cash equivalents reported in the consolidated statements of cash flows	<u>\$ 151,993,849</u>

## 7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

	September 30, 2021	December 31, 2020	September 30, 2020
Deposit reserves - general account	\$ 72,399,691	\$ 62,606,118	\$ 61,761,643
Deposit reserves - foreign currency account	13,672,268	13,110,851	9,935,788
Deposits in the Central Bank - general account	48,804,193	18,694,542	38,675,826
Call loans and overdrafts	<u>63,747,480</u>	<u>35,149,341</u>	<u>50,432,148</u>
	198,623,632	129,560,852	160,805,405
Less: Allowance for impairment loss	<u>(124,236)</u>	<u>(56,928)</u>	<u>(169,749)</u>
	<u>\$ 198,499,396</u>	<u>\$ 129,503,924</u>	<u>\$ 160,635,656</u>

### The Bank

As provided by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on the average balances of customers' NTD-denominated deposits, and the deposit reserves account B is subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn at any time. As of September 30, 2021, December 31, 2020 and September 30, 2020, the balances of foreign-currency deposit reserves were \$6,892,177 thousand, \$4,687,385 thousand and \$3,985,506 thousand, respectively.

Refer to Note 45 for information relating to deposit reserves - general account pledged as security.

#### Indovina Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were \$1,178,258 thousand, \$1,513,374 thousand and \$1,040,266 thousand as of September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

#### CUBC Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the National Bank of Cambodia were \$818,576 thousand, \$835,669 thousand and \$853,125 thousand as of September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

#### CUBCN Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the People's Bank of China were \$4,783,257 thousand, \$6,074,423 thousand and \$4,056,891 thousand as of September 30, 2021, December 31, 2020 and September 30, 2020, respectively.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2021	December 31, 2020	September 30, 2020
Financial assets mandatorily classified as at <u>fair value through profit or loss</u>			
Treasury bills	\$ 3,990,371	\$ 7,256,547	\$ 14,507,580
Commercial paper	145,613,309	143,166,030	149,081,800
Government bonds	17,320,101	35,857,067	38,391,806
Corporate bonds	16,602,395	6,534,561	5,342,747
Financial debentures	37,118,798	9,881,522	10,219,799
Negotiable certificates of deposits	16,378,778	45,302,719	25,211,420
Stock investments	23,573	2,504,480	139,248
Fund beneficiary certificates	<u>10,390</u>	<u>323,148</u>	<u>693,250</u>
	<u>237,057,715</u>	<u>250,826,074</u>	<u>243,587,650</u>
Derivative financial instruments			
Foreign exchange forward contracts	12,147,022	30,834,966	17,947,387
Interest rate swaps	24,286,782	37,942,861	48,457,270
Options	3,067,332	2,868,014	5,097,243
Others	<u>1,385,112</u>	<u>1,572,063</u>	<u>781,046</u>
	<u>40,886,248</u>	<u>73,217,904</u>	<u>72,282,946</u>
	<u>\$ 277,943,963</u>	<u>\$ 324,043,978</u>	<u>\$ 315,870,596</u>

(Continued)

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
<u>Financial liabilities designated as at fair value through profit or loss</u>			
Bonds	\$ 41,484,266	\$ 44,204,582	\$ 44,924,947
<u>Financial liabilities held for trading</u>			
Derivative financial instruments			
Foreign exchange forward contracts	12,865,821	35,328,699	22,080,420
Interest rate swaps	17,729,926	29,298,629	38,781,917
Options	3,871,134	5,255,052	6,575,368
Others	<u>1,266,768</u>	<u>1,527,667</u>	<u>875,350</u>
	<u>35,733,649</u>	<u>71,410,047</u>	<u>68,313,055</u>
	<u>\$ 77,217,915</u>	<u>\$ 115,614,629</u>	<u>\$ 113,238,002</u>

(Concluded)

The Company engages in derivative transactions mainly to accommodate customers' needs, and to manage its exposure positions. The financial risk management objective of the Company is to minimize risk due to changes in fair value or cash flows.

The contract amounts (nominal amounts) of derivative transactions for accommodating customers' needs and for managing the Company's exposure positions as of September 30, 2021, December 31, 2020 and September 30, 2020 were as follows:

(Unit: Thousands of U.S. Dollars)

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Foreign exchange forward contracts	\$ 98,883,201	\$ 89,966,338	\$ 97,806,640
Interest rate swaps	44,986,591	51,493,757	54,350,783
Options	5,916,309	6,653,564	7,052,532
Futures	627,302	1,128,050	1,489,200
Cross-currency swaps	3,089,094	2,281,884	2,155,194
Commodity exchange contracts	4,604	11,054	4,124

As of September 30, 2021, December 31, 2020 and September 30, 2020, none of the financial assets at fair value through profit or loss was sold under repurchase agreements.

#### **Financial Liabilities Designated as at Fair Value through Profit or Loss**

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

In December 2014, the 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 have been fully redeemed on March 30, 2020.

In March 2017, the 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 have been fully redeemed on April 13, 2020.

In March 2017, the 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%.

The Bank converted fixed interest rates into floating interest rates with interest rate swap contracts to hedge against the fair value risk resulting from interest rate fluctuations. For the nine months ended September 30, 2021 and 2020, such interest rate swaps were valued with a net loss of \$644,526 thousand and net gain of \$3,924,671 thousand, respectively.

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2021	December 31, 2020	September 30, 2020
Investments in equity instruments			
Domestic listed shares	\$ 5,723,423	\$ 11,088,165	\$ 5,711,851
Overseas stock investments	9,815,957	7,591,277	5,864,518
Domestic unlisted shares	<u>5,431,849</u>	<u>4,030,179</u>	<u>3,925,425</u>
	<u>20,971,229</u>	<u>22,709,621</u>	<u>15,501,794</u>
Investments in debt instruments			
Corporate bonds	117,115,244	100,005,665	73,439,070
Financial debentures	89,992,198	82,202,742	74,673,868
Asset-based securities	10,111,570	14,299,523	16,313,861
Negotiable certificates of deposit	24,446,594	39,411,018	88,490,022
Government bonds	<u>79,536,456</u>	<u>77,469,247</u>	<u>59,036,621</u>
	<u>321,202,062</u>	<u>313,388,195</u>	<u>311,953,442</u>
	<u>\$ 342,173,291</u>	<u>\$ 336,097,816</u>	<u>\$ 327,455,236</u>

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

In consideration of its investment strategy, the Company sold its investments in equity instruments at FVTOCI with the fair value of \$36,387,538 thousand and \$32,630,113 thousand during the nine months ended September 30, 2021 and 2020, respectively, and the related unrealized gain of \$1,986,364 thousand and \$199,570 thousand were transferred from other equity to retained earnings, accordingly.

Dividends of \$1,534,776 thousand and \$945,883 thousand were recognized as income for the nine months ended September 30, 2021 and 2020, respectively. Those related to investments held as of September 30, 2021 and 2020 were \$616,274 thousand and \$581,754 thousand, respectively, and the remaining amounts were related to investments derecognized for the nine months ended September 30, 2021 and 2020.



As of September 30, 2021, December 31, 2020 and September 30, 2020, certain financial assets at FVTOCI were sold under repurchase agreements with notional amounts of \$20,146,260 thousand, \$9,074,539 thousand and \$17,254,909 thousand, respectively. The proceeds amounting to \$20,015,425 thousand, \$9,175,931 thousand and \$16,837,053 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$20,034,683 thousand, \$9,189,593 thousand and \$16,850,937 thousand before the end of January 2022, June 2021 and February 2021, respectively.

Refer to Note 45 for information relating to financial assets at fair value through other comprehensive income pledged as security.

#### 10. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTISED COST

	September 30, 2021	December 31, 2020	September 30, 2020
Short-term bills	\$ 441,325,357	\$ 436,402,937	\$ 362,923,920
Government bonds	35,558,515	9,634,615	5,095,150
Corporate bonds	13,592,748	12,345,724	12,449,021
Financial debentures	18,381,008	11,093,242	10,720,344
Asset-based bonds	<u>49,659,526</u>	<u>32,298,469</u>	<u>36,531,913</u>
	558,517,154	501,774,987	427,720,348
Less: Allowance for impairment loss	<u>(19,424)</u>	<u>(46,844)</u>	<u>(57,809)</u>
	<u>\$ 558,497,730</u>	<u>\$ 501,728,143</u>	<u>\$ 427,662,539</u>

For the nine months ended September 30, 2021 and 2020, the Bank disposed of certain bonds in advance due to the expected increase in credit risk, and recognized the gain arising from derecognition of financial assets measured at amortised cost amounting to \$0 thousand and \$3,210 thousand, respectively.

As of September 30, 2021, December 31, 2020 and September 30, 2020, certain financial assets measured at amortised cost were sold under repurchase agreements with notional amounts of \$1,393,300 thousand, \$1,095,769 thousand and \$1,009,901 thousand, respectively. The proceeds amounting to \$1,284,873 thousand, \$916,127 thousand and \$885,772 thousand, respectively, record as notes and bonds sold under repurchase agreements and were repurchased for \$1,285,352 thousand, \$915,796 thousand and \$885,888 thousand before the end of November 2021, January 2021 and October 2020, respectively.

Refer to Note 45 for information relating to investments in debt instruments at amortised cost pledged as security.

## 11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

The credit risk management of the Company's financial assets at FVTOCI and investments in debt instruments at amortised cost is described as follows:

September 30, 2021

	<b>Financial Assets at FVTOCI</b>	<b>Investments in Debt Instruments at Amortised Cost</b>	<b>Total</b>
Gross carrying amount	\$ 318,348,762	\$ 558,517,154	\$ 876,865,916
Less: Allowance for impairment loss	(135,453)	(19,424)	(154,877)
Adjustment to fair value	<u>2,988,753</u>	<u>-</u>	<u>2,988,753</u>
	<u>\$ 321,202,062</u>	<u>\$ 558,497,730</u>	<u>\$ 879,699,792</u>

December 31, 2020

	<b>Financial Assets at FVTOCI</b>	<b>Investments in Debt Instruments at Amortised Cost</b>	<b>Total</b>
Gross carrying amount	\$ 305,805,098	\$ 501,774,987	\$ 807,580,085
Less: Allowance for impairment loss	(196,102)	(46,844)	(242,946)
Adjustment to fair value	<u>7,779,199</u>	<u>-</u>	<u>7,779,199</u>
	<u>\$ 313,388,195</u>	<u>\$ 501,728,143</u>	<u>\$ 815,116,338</u>

September 30, 2020

	<b>Financial Assets at FVTOCI</b>	<b>Investments in Debt Instruments at Amortised Cost</b>	<b>Total</b>
Gross carrying amount	\$ 305,791,289	\$ 427,720,348	\$ 733,511,637
Less: Allowance for impairment loss	(162,392)	(57,809)	(220,201)
Adjustment to fair value	<u>6,324,545</u>	<u>-</u>	<u>6,324,545</u>
	<u>\$ 311,953,442</u>	<u>\$ 427,662,539</u>	<u>\$ 739,615,981</u>

The Company monitors the external credit rating information and price movements of their investments in debt instruments in order to assess whether there has been a significant increase in credit risk since initial recognition.

The Company takes into consideration the multi-period default probability table for each credit rating supplied by external rating agencies, the current financial condition of debtors, industry forecasts, rating of securities issued by credit rating agencies and recovery rates of different types of bonds to assess the 12-month or lifetime expected credit losses.

The carrying amounts of financial assets at FVTOCI and investments in debt instruments at amortised cost sorted by credit rating of the Company are as follows:

<b>Credit Rating</b>	<b>Definition</b>	<b>Basis for Recognizing ECLs</b>	<b>Gross Carrying Amount at September 30, 2021</b>
Low credit risk	Low credit risk at the reporting date	12-month ECLs	\$ 876,865,916
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	Lifetime ECLs (not credit-impaired)	-
Default	Objective evidence of impairment at the reporting date	Lifetime ECLs (credit-impaired)	-

<b>Credit Rating</b>	<b>Definition</b>	<b>Basis for Recognizing ECLs</b>	<b>Gross Carrying Amount at December 31, 2020</b>
Low credit risk	Low credit risk at the reporting date	12-month ECLs	\$ 807,580,085
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	Lifetime ECLs (not credit-impaired)	-
Default	Objective evidence of impairment at the reporting date	Lifetime ECLs (credit-impaired)	-

<b>Credit Rating</b>	<b>Definition</b>	<b>Basis for Recognizing ECLs</b>	<b>Gross Carrying Amount at September 30, 2020</b>
Low credit risk	Low credit risk at the reporting date	12-month ECLs	\$ 733,511,637
Significant increase in credit risk	Credit risk has increased significantly since initial recognition	Lifetime ECLs (not credit-impaired)	-
Default	Objective evidence of impairment at the reporting date	Lifetime ECLs (credit-impaired)	-

The changes in balances of loss allowance of financial assets at FVTOCI and investments in debt instruments at amortised cost sorted by credit rating of the Company are as follows:

For the nine months ended September 30, 2021

	<b>Credit Rating</b>		
	<b>Low Credit Risk (12-month ECLs)</b>	<b>Doubtful (Lifetime ECLs - Not Credit-impaired)</b>	<b>In Default (Lifetime ECLs - Credit-impaired)</b>
Balance at the beginning of the period	\$ 242,946	\$ -	\$ -
New debt instruments purchased	64,036	-	-
Derecognition	(70,300)	-	-
Effect of exchange rates changes and others	<u>(81,805)</u>	<u>-</u>	<u>-</u>
Balance at the end of the period	<u>\$ 154,877</u>	<u>\$ -</u>	<u>\$ -</u>

For the nine months ended September 30, 2020

	<b>Credit Rating</b>		
	<b>Low Credit Risk (12-month ECLs)</b>	<b>Doubtful (Lifetime ECLs - Not Credit-impaired)</b>	<b>In Default (Lifetime ECLs - Credit-impaired)</b>
Balance at the beginning of the period	\$ 126,283	\$ -	\$ -
New debt instruments purchased	111,790	-	-
Derecognition	(38,777)	-	-
Effect of exchange rates changes and others	<u>20,905</u>	<u>-</u>	<u>-</u>
Balance at the end of the period	<u>\$ 220,201</u>	<u>\$ -</u>	<u>\$ -</u>

## 12. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Foreign bonds	\$ -	\$ 2,146,307	\$ 227,120
Corporate bonds	26,505,271	9,875,382	19,989,723
Government bonds	2,341,184	8,042,157	15,139,301
Financial debentures	<u>8,179,870</u>	<u>7,082,719</u>	<u>2,689,252</u>
	37,026,325	27,146,565	38,045,396
Less: Allowance for impairment loss	<u>(2,479)</u>	<u>(4,090)</u>	<u>(7,832)</u>
	<u>\$ 37,023,846</u>	<u>\$ 27,142,475</u>	<u>\$ 38,037,564</u>

As of September 30, 2021, December 31, 2020 and September 30, 2020, none of the securities purchased under resell agreements were sold under repurchase agreements.

## 13. RECEIVABLES, NET

	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Notes and accounts receivables	\$ 79,123,734	\$ 87,142,453	\$ 76,588,214
Interest receivable	7,686,104	6,240,093	5,472,611
Acceptance	1,791,485	1,074,796	955,011
Factoring receivable	4,918,618	4,924,287	6,496,990
Others	<u>2,893,502</u>	<u>2,894,237</u>	<u>2,898,440</u>
	96,413,443	102,275,866	92,411,266
Less: Allowance for impairment loss	<u>(2,416,911)</u>	<u>(2,462,720)</u>	<u>(2,389,608)</u>
	<u>\$ 93,996,532</u>	<u>\$ 99,813,146</u>	<u>\$ 90,021,658</u>

Refer to Note 50 the for impairment loss analysis of receivables.

The changes in the gross carrying amounts of the Company's receivables were as follows:

For the nine months ended September 30, 2021

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit-impaired Financial Assets)	Total
Balance at the beginning of the period	\$ 98,245,219	\$ 1,889,559	\$ 2,141,088	\$ 102,275,866
Changes of financial instruments recognized at the beginning of the current reporting period				
Transferred to Lifetime ECLs	(832,543)	835,395	(2,852)	-
Transferred to credit-impaired financial assets	(51,655)	(14,322)	65,977	-
Transferred to 12-month ECLs	457,477	(453,299)	(4,178)	-
Derecognition of financial assets in the period	(59,027,752)	(1,368,480)	(119,167)	(60,515,399)
New financial assets purchased or originated	54,083,499	789,044	428,502	55,301,045
Written-off as bad debt expense	-	-	(349,088)	(349,088)
Effects of exchange rate changes and others	<u>(294,485)</u>	<u>(2,194)</u>	<u>(2,302)</u>	<u>(298,981)</u>
Balance at the end of the period	<u>\$ 92,579,760</u>	<u>\$ 1,675,703</u>	<u>\$ 2,157,980</u>	<u>\$ 96,413,443</u>

For the nine months ended September 30, 2020

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit-impaired Financial Assets)	Total
Balance at the beginning of the period	\$ 99,439,051	\$ 1,560,450	\$ 2,265,790	\$ 103,265,291
Changes of financial instruments recognized at the beginning of the current reporting period				
Transferred to Lifetime ECLs	(679,555)	684,600	(5,045)	-
Transferred to credit-impaired financial assets	(77,082)	(56,694)	133,776	-
Transferred to 12-month ECLs	571,699	(566,377)	(5,322)	-
Derecognition of financial assets in the period	(61,237,497)	(935,417)	(275,305)	(62,448,219)
New financial assets purchased or originated	50,372,479	1,382,822	409,118	52,164,419
Written-off as bad debt expense	-	-	(402,361)	(402,361)
Effects of exchange rate changes and others	<u>(136,449)</u>	<u>(9,638)</u>	<u>(21,777)</u>	<u>(167,864)</u>
Balance at the end of the period	<u>\$ 88,252,646</u>	<u>\$ 2,059,746</u>	<u>\$ 2,098,874</u>	<u>\$ 92,411,266</u>

The changes in the allowance for doubtful accounts of the Company's receivables were as follows:

For the nine months ended September 30, 2021

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 465,842	\$ 202,476	\$ 1,731,461	\$ 2,399,779	\$ 62,941	\$ 2,462,720
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(5,300)	113,423	(2,131)	105,992	-	105,992
Transferred to credit-impaired financial assets	(645)	(2,494)	59,627	56,488	-	56,488
Transferred to 12-month ECLs	3,417	(74,092)	(3,019)	(73,694)	-	(73,694)
Derecognition of financial assets in the period	(155,793)	(84,885)	(80,208)	(320,886)	-	(320,886)
New financial assets purchased or originated	101,551	79,190	322,835	503,576	-	503,576
Differences of impairment loss under the regulations	-	-	-	-	5,713	5,713
Written-off as bad debt expense	-	-	(349,088)	(349,088)	-	(349,088)
Effects of exchange rate changes and others	1,173	(7,621)	32,538	26,090	-	26,090
Balance at the end of the period	<u>\$ 410,245</u>	<u>\$ 225,997</u>	<u>\$ 1,712,015</u>	<u>\$ 2,348,257</u>	<u>\$ 68,654</u>	<u>\$ 2,416,911</u>

For the nine months ended September 30, 2020

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 509,882	\$ 154,306	\$ 1,660,104	\$ 2,324,292	\$ 52,976	\$ 2,377,268
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(3,469)	88,102	(3,656)	80,977	-	80,977
Transferred to credit-impaired financial assets	(479)	(2,227)	96,906	94,200	-	94,200
Transferred to 12-month ECLs	2,869	(61,973)	(3,790)	(62,894)	-	(62,894)
Derecognition of financial assets in the period	(198,140)	(67,598)	(58,599)	(324,337)	-	(324,337)
New financial assets purchased or originated	100,286	66,141	254,287	420,714	-	420,714
Differences of impairment loss under the regulations	-	-	-	-	10,142	10,142
Written-off as bad debt expense	-	-	(402,361)	(402,361)	-	(402,361)
Effects of exchange rate changes and others	29,765	23,820	142,139	195,724	175	195,899
Balance at the end of the period	<u>\$ 440,714</u>	<u>\$ 200,571</u>	<u>\$ 1,685,030</u>	<u>\$ 2,326,315</u>	<u>\$ 63,293</u>	<u>\$ 2,389,608</u>

#### 14. DISCOUNTS AND LOANS, NET

	September 30, 2021	December 31, 2020	September 30, 2020
Discounts and overdrafts	\$ 826,052	\$ 1,557,418	\$ 1,644,839
Short-term loans	461,519,467	391,477,232	412,363,891
Medium-term loans	451,856,888	442,472,861	428,701,834
Long-term loans	911,140,080	850,038,811	785,101,606
Export negotiations	1,474,339	1,492,261	1,303,967
Overdue loans	<u>3,795,626</u>	<u>2,505,456</u>	<u>3,730,583</u>
	1,830,612,452	1,689,544,039	1,632,846,720
Less: Allowance for doubtful accounts	<u>(30,196,700)</u>	<u>(28,248,078)</u>	<u>(27,849,585)</u>
	<u>\$ 1,800,415,752</u>	<u>\$ 1,661,295,961</u>	<u>\$ 1,604,997,135</u>

For the nine months ended September 30, 2021 and 2020, the loss arising from the derecognition of credit assets measured at amortized cost was \$443,242 thousand and \$366,015 thousand, respectively.

As of September 30, 2021, December 31, 2020 and September 30, 2020, the loan and credit balances of nonaccrual loans were \$3,795,626 thousand, \$2,505,456 thousand and \$3,730,583 thousand, respectively. For the nine months ended September 30, 2021 and 2020, the Company did not write off certain credits without completing the required legal procedures.

Refer to Note 50 for the impairment loss analysis of discounts and loans.

The changes in the gross carrying amounts of the Company's discounts and loans were as follows:

For the nine months ended September 30, 2021

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit-impaired Financial Assets)	Total
Balance at the beginning of the period	\$ 1,621,545,452	\$ 55,888,623	\$ 12,109,964	\$ 1,689,544,039
Changes of financial instruments recognized at the beginning of the current reporting period				
Transferred to Lifetime ECLs	(27,626,169)	27,701,729	(75,560)	-
Transferred to credit-impaired financial assets	(2,544,525)	(499,941)	3,044,466	-
Transferred to 12-month ECLs	19,206,410	(18,878,366)	(328,044)	-
Derecognition of financial assets in the period	(412,153,065)	(18,000,691)	(732,058)	(430,885,814)
New financial assets purchased or originated	569,030,235	9,731,670	1,028,889	579,790,794
Written-off as bad debt expense	-	-	(1,837,269)	(1,837,269)
Effects of exchange rate changes and others	<u>(4,765,214)</u>	<u>(1,086,123)</u>	<u>(147,961)</u>	<u>(5,999,298)</u>
Balance at the end of the period	<u>\$ 1,762,693,124</u>	<u>\$ 54,856,901</u>	<u>\$ 13,062,427</u>	<u>\$ 1,830,612,452</u>

For the nine months ended September 30, 2020

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit-impaired Financial Assets)	Total
Balance at the beginning of the period	\$ 1,500,192,488	\$ 68,503,519	\$ 11,866,187	\$ 1,580,562,194
Changes of financial instruments recognized at the beginning of the current reporting period				
Transferred to Lifetime ECLs	(31,977,353)	32,056,289	(78,936)	-
Transferred to credit-impaired financial assets	(1,547,873)	(1,932,910)	3,480,783	-
Transferred to 12-month ECLs	29,042,615	(28,606,577)	(436,038)	-
Derecognition of financial assets in the period	(400,721,799)	(16,199,714)	(2,058,181)	(418,979,694)
New financial assets purchased or originated	463,003,717	8,222,149	1,270,041	472,495,907
Written-off as bad debt expense	-	-	(1,665,183)	(1,665,183)
Effects of exchange rate changes and others	<u>2,576,679</u>	<u>(1,788,786)</u>	<u>(354,397)</u>	<u>433,496</u>
Balance at the end of the period	<u>\$ 1,560,568,474</u>	<u>\$ 60,253,970</u>	<u>\$ 12,024,276</u>	<u>\$ 1,632,846,720</u>

The changes in the allowance for doubtful accounts of the Company's discounts and loans were as follows:

For the nine months ended September 30, 2021

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 4,643,771	\$ 2,095,225	\$ 5,124,881	\$ 11,863,877	\$ 16,384,201	\$ 28,248,078
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(130,469)	714,550	(13,567)	570,514	-	570,514
Transferred to credit-impaired financial assets	(19,970)	(45,608)	2,044,009	1,978,431	-	1,978,431
Transferred to 12-month ECLs	41,580	(735,760)	(44,052)	(738,232)	-	(738,232)
Derecognition of financial assets in the period	(1,431,626)	(484,121)	(348,741)	(2,264,488)	-	(2,264,488)
New financial assets purchased or originated	1,506,395	386,302	654,517	2,547,214	-	2,547,214
Differences of impairment loss under the regulations	-	-	-	-	3,729,377	3,729,377
Written-off as bad debt expense	-	-	(1,837,269)	(1,837,269)	-	(1,837,269)
Effects of exchange rate changes and others	<u>(1,372,253)</u>	<u>(464,836)</u>	<u>(199,836)</u>	<u>(2,036,925)</u>	<u>-</u>	<u>(2,036,925)</u>
Balance at the end of the period	<u>\$ 3,237,428</u>	<u>\$ 1,465,752</u>	<u>\$ 5,379,942</u>	<u>\$ 10,083,122</u>	<u>\$ 20,113,578</u>	<u>\$ 30,196,700</u>



For the nine months ended September 30, 2020

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 2,753,556	\$ 1,746,741	\$ 5,386,493	\$ 9,886,790	\$ 17,524,498	\$ 27,411,288
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(83,083)	1,325,195	(16,403)	1,225,709	-	1,225,709
Transferred to credit-impaired financial assets	(7,107)	(41,180)	1,312,739	1,264,452	-	1,264,452
Transferred to 12-month ECLs	231,954	(836,567)	(56,808)	(661,421)	-	(661,421)
Derecognition of financial assets in the period	(975,480)	(340,136)	(170,105)	(1,485,721)	-	(1,485,721)
New financial assets purchased or originated	1,862,268	379,371	659,559	2,901,198	-	2,901,198
Differences of impairment loss under the regulations	-	-	-	-	(2,070,647)	(2,070,647)
Written-off as bad debt expense	-	-	(1,665,183)	(1,665,183)	-	(1,665,183)
Effects of exchange rate changes and others	492,081	218,042	223,370	933,493	(3,583)	929,910
Balance at the end of the period	<u>\$ 4,274,189</u>	<u>\$ 2,451,466</u>	<u>\$ 5,673,662</u>	<u>\$ 12,399,317</u>	<u>\$ 15,450,268</u>	<u>\$ 27,849,585</u>

**15. RESERVES FOR LOSSES ON GUARANTEES, LETTER OF CREDIT RECEIVABLE AND FINANCING COMMITMENTS**

The changes in the Company's guarantee liability provisions, letter of credit receivable and provision of commitments were as follows:

For the nine months ended September 30, 2021

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 294,502	\$ 55,062	\$ 5,663	\$ 355,227	\$ 130,717	\$ 485,944
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(9,759)	31,274	-	21,515	-	21,515
Transferred to credit-impaired financial assets	(28)	(49)	4,926	4,849	-	4,849
Transferred to 12-month ECLs	2,399	(30,609)	(437)	(28,647)	-	(28,647)
Derecognition of financial assets in the period	(84,091)	(17,684)	(2,496)	(104,271)	-	(104,271)
New financial assets purchased or originated	44,775	22,014	776	67,565	-	67,565
Differences of impairment loss under the regulations	-	-	-	-	50,891	50,891
Effects of exchange rate changes and others	(115,820)	(9,496)	(4,161)	(129,477)	-	(129,477)
Balance at the end of the period	<u>\$ 131,978</u>	<u>\$ 50,512</u>	<u>\$ 4,271</u>	<u>\$ 186,761</u>	<u>\$ 181,608</u>	<u>\$ 368,369</u>

For the nine months ended September 30, 2020

	12-month ECLs	Lifetime ECLs (Collectively Assessed)	Lifetime ECLs (Neither Purchased Nor Originated Credit- impaired Financial Assets)	Impairment Loss under IFRS 9	Differences of Impairment Loss under Regulations	Total
Balance at the beginning of the period	\$ 192,861	\$ 95,644	\$ 5,501	\$ 294,006	\$ 131,058	\$ 425,064
Changes of financial instruments recognized at the beginning of the current reporting period						
Transferred to Lifetime ECLs	(648)	22,372	(26)	21,698	-	21,698
Transferred to credit-impaired financial assets	(28)	(65)	5,134	5,041	-	5,041
Transferred to 12-month ECLs	8,631	(50,171)	(677)	(42,217)	-	(42,217)
Derecognition of financial assets in the period	(76,881)	(36,729)	(1,843)	(115,453)	-	(115,453)
New financial assets purchased or originated	72,397	12,487	2,228	87,112	-	87,112
Differences of impairment loss under the regulations	-	-	-	-	(1,044)	(1,044)
Effects of exchange rate changes and others	35,557	6,972	(4,648)	37,881	-	37,881
Balance at the end of the period	<u>\$ 231,889</u>	<u>\$ 50,510</u>	<u>\$ 5,669</u>	<u>\$ 288,068</u>	<u>\$ 130,014</u>	<u>\$ 418,082</u>

## 16. SUBSIDIARIES

### Subsidiaries Included in the Consolidated Financial Statement

The subsidiaries included in the consolidated financial statements are as follows:

Investor	Subsidiary	Nature of Activities	Proportion of Ownership (%)			Description
			September 30, 2021	December 31, 2020	September 30, 2020	
The Bank	Indovina Bank Limited (Indovina Bank)	Bank business	50	50	50	Incorporated in Vietnam on November 21, 1990 SBC Bank was incorporated in Cambodia on July 5, 1993, and renamed as CUBC as of January 14, 2014 Incorporated in China on September 3, 2018
	Cathay United Bank (Cambodia) Corporation Limited (CUBC Bank)	Bank business	100	100	100	
	Cathay United Bank (China) Co., Ltd. (CUBCN Bank) (Note)	Bank business	100	100	100	

Note: As a major subsidiary, its financial statements have been reviewed. Please refer to Table 4 for the relevant investment information.

## 17. INVESTMENTS MEASURED BY EQUITY METHOD, NET

	September 30, 2021	December 31, 2020	September 30, 2020
<u>Associates that are not individually material</u>			
Taiwan Real-estate Management Corp.	\$ 95,761	\$ 97,567	\$ 98,495
Taiwan Finance Corp.	<u>1,787,593</u>	<u>1,765,602</u>	<u>1,703,897</u>
	<u>\$ 1,883,354</u>	<u>\$ 1,863,169</u>	<u>\$ 1,802,392</u>

Aggregate information on the Bank's associates that are not individually material is as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
The Bank's share of				
Current net profit	\$ 33,043	\$ 34,285	\$ 104,575	\$ 98,199
Current other comprehensive income	<u>-</u>	<u>-</u>	<u>(5,765)</u>	<u>(6,266)</u>
Current comprehensive income	<u>\$ 33,043</u>	<u>\$ 34,285</u>	<u>\$ 98,810</u>	<u>\$ 91,933</u>

Investments measured by equity method and the Bank's share of profit and loss and other comprehensive income are calculated based on the financial statements which were not reviewed; however, management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements which have not been reviewed.

## 18. PROPERTY AND EQUIPMENT, NET

### For the nine months ended September 30, 2021

	Land	Buildings	Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Construction in Progress and Prepayment for Equipment	Total
<u>Cost</u>								
Balance at the beginning of the period	\$ 15,667,286	\$ 10,211,629	\$ 5,199,696	\$ 112,996	\$ 7,878,125	\$ 280,099	\$ 324,506	\$ 39,674,337
Additions	-	-	202,074	5,033	150,416	2,416	314,123	674,062
Disposals	-	-	(402,844)	(3,165)	(90,229)	-	-	(496,238)
Reclassification	405	(405)	167,190	1,704	141,292	57,542	(380,018)	(12,290)
Others (Note)	(1,687)	-	-	-	-	-	-	(1,687)
Exchange differences	(12,151)	(7,047)	(15,195)	(2,546)	(7,132)	(5,617)	(1,235)	(50,923)
Balance at the end of the period	<u>15,653,853</u>	<u>10,204,177</u>	<u>5,150,921</u>	<u>114,022</u>	<u>8,072,472</u>	<u>334,440</u>	<u>257,376</u>	<u>39,787,261</u>
<u>Accumulated depreciation and impairment</u>								
Balance at the beginning of the period	-	4,724,122	3,414,551	78,301	5,969,057	157,840	-	14,343,871
Depreciation	-	159,559	502,952	6,908	374,741	22,693	-	1,066,853
Disposals	-	-	(400,905)	(3,165)	(87,584)	-	-	(491,654)
Exchange differences	-	(2,736)	(10,741)	(1,766)	(5,545)	(3,015)	-	(23,803)
Balance at the end of the period	<u>-</u>	<u>4,880,945</u>	<u>3,505,857</u>	<u>80,278</u>	<u>6,250,669</u>	<u>177,518</u>	<u>-</u>	<u>14,895,267</u>
<u>Net</u>								
Balance at the end of the period	<u>\$ 15,653,853</u>	<u>\$ 5,323,232</u>	<u>\$ 1,645,064</u>	<u>\$ 33,744</u>	<u>\$ 1,821,803</u>	<u>\$ 156,922</u>	<u>\$ 257,376</u>	<u>\$ 24,891,994</u>

For the nine months ended September 30, 2020

	Land	Buildings	Equipment	Transportation Equipment	Other Equipment	Leasehold Improvements	Construction in Progress and Prepayment for Equipment	Total
<u>Cost</u>								
Balance at the beginning of the period	\$ 15,699,923	\$ 10,229,180	\$ 4,989,377	\$ 116,199	\$ 7,875,242	\$ 261,194	\$ 414,969	\$ 39,586,084
Additions	-	-	322,391	3,883	157,705	293	365,321	849,593
Disposals	-	-	(284,436)	(4,492)	(180,171)	-	-	(469,099)
Reclassification	-	-	131,114	2,654	247,495	20,747	(431,006)	(28,996)
Others (Note)	(1,800)	-	-	-	-	-	-	(1,800)
Exchange differences	(18,543)	(10,764)	(17,884)	(3,796)	(6,631)	(5,155)	(3,094)	(65,867)
Balance at the end of the period	<u>15,679,580</u>	<u>10,218,416</u>	<u>5,140,562</u>	<u>114,448</u>	<u>8,093,640</u>	<u>277,079</u>	<u>346,190</u>	<u>39,869,915</u>
<u>Accumulated depreciation and impairment</u>								
Balance at the beginning of the period	-	4,517,098	3,128,964	76,940	5,955,250	133,412	-	13,811,664
Depreciation	-	160,173	461,365	7,788	366,933	19,658	-	1,015,917
Disposals	-	-	(282,943)	(4,492)	(167,913)	-	-	(455,348)
Exchange differences	-	(3,887)	(13,715)	(2,557)	(4,907)	(2,662)	-	(27,728)
Balance at the end of the period	<u>-</u>	<u>4,673,384</u>	<u>3,293,671</u>	<u>77,679</u>	<u>6,149,363</u>	<u>150,408</u>	<u>-</u>	<u>14,344,505</u>
<u>Net</u>								
Balance at the end of the period	<u>\$ 15,679,580</u>	<u>\$ 5,545,032</u>	<u>\$ 1,846,891</u>	<u>\$ 36,769</u>	<u>\$ 1,944,277</u>	<u>\$ 126,671</u>	<u>\$ 346,190</u>	<u>\$ 25,525,410</u>

Note: The urban renewal demolition and resettlement compensation fees.

Depreciation of the above-mentioned items of property and equipment is calculated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	50 to 60 years
Buildings renovation	5 years
Equipment	3 to 8 years
Transportation equipment	3 to 7 years
Other equipment	3 to 15 years
Leasehold improvements	5 years

As of September 30, 2021, December 31, 2020 and September 30, 2020, no property and equipment was pledged.

## 19. LEASE AGREEMENTS

### a. Right-of-use assets

	September 30, 2021	December 31, 2020	September 30, 2020
Carrying amount of right-of-use assets			
Land and buildings	\$ 3,612,725	\$ 4,217,497	\$ 4,153,470
Equipment	2,193	5,135	1,974
Transportation equipment	<u>47,423</u>	<u>34,912</u>	<u>26,599</u>
	<u>\$ 3,662,341</u>	<u>\$ 4,257,544</u>	<u>\$ 4,182,043</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Additions of right-of-use assets			\$ 580,157	\$ 1,136,523
Depreciation expense of right-of-use assets				
Land and buildings	\$ 378,478	\$ 377,520	\$ 1,135,718	\$ 1,138,672
Equipment	226	346	926	1,093
Transportation equipment	7,263	5,352	22,885	22,206
	<u>\$ 385,967</u>	<u>\$ 383,218</u>	<u>\$ 1,159,529</u>	<u>\$ 1,161,971</u>

Except for the aforementioned addition and recognized depreciation, the Company did not have significant sublease or impairment of right-of-use assets during the nine months ended September 30, 2021 and 2020.

b. Lease liabilities

	September 30, 2021	December 31, 2020	September 30, 2020
Carrying amount of lease liabilities	\$ 3,710,435	\$ 4,293,299	\$ 4,225,963

The discount rate intervals of lease liabilities are as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
Land and buildings	0.04%-4.68%	0.33%-4.68%	0.33%-4.68%
Equipment	0.36%-4.15%	0.70%-4.15%	0.70%-4.15%
Transportation equipment	0.22%-4.13%	0.67%-4.43%	0.67%-5.38%

c. Other lease information

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Short-term rental expense	\$ 135,075	\$ 124,826	\$ 392,838	\$ 434,332
Low value assets rental expense	\$ 25,378	\$ 33,446	\$ 147,599	\$ 271,979
Variable lease payment expense not included in measurable lease liabilities	\$ 8	\$ 122	\$ 85	\$ 265
Gross cash outflow for leases			\$ 1,730,496	\$ 1,866,521

The Company's leases of certain assets qualify as short-term leases and low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 20. INVESTMENT PROPERTIES, NET

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
January 1, 2021	\$ 574,186	\$ 72,259	\$ 646,445
Disposal	(65,307)	(28,093)	(93,400)
Loss on fair value adjustment	<u>(3,328)</u>	<u>(1,276)</u>	<u>(4,604)</u>
September 30, 2021	<u>\$ 505,551</u>	<u>\$ 42,890</u>	<u>\$ 548,441</u>
January 1, 2020	\$ 721,204	\$ 136,300	\$ 857,504
Disposal	(77,569)	(27,431)	(105,000)
Loss on fair value adjustment	<u>(14,205)</u>	<u>(3,530)</u>	<u>(17,735)</u>
September 30, 2020	<u>\$ 629,430</u>	<u>\$ 105,339</u>	<u>\$ 734,769</u>

- a. As of September 30, 2021, December 31, 2020 and September 30, 2020, no investment property was pledged.
- b. Some of the Bank's properties are held for earning rental income or for capital appreciation, while some are for self-use. When the part held for self-use is less than 5% of the individual real estate, the real estate is classified as investment properties.
- c. The fair values of the Bank's investment properties were based on the valuations carried out by qualified real estate appraisers in Taiwan in accordance with the "Regulations on Real Estate Appraisal". The valuation dates were June 30, 2021, December 31, 2020 and June 30, 2020, respectively. The appraisers had reviewed the original valuation reports issued on the aforementioned valuation dates and clarified that the valuation reports were in effect on September 30, 2021 and 2020, respectively.

<b>Appraiser Office</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>	<b>June 30, 2020</b>
REPro KnightFrank Real Estate Appraiser Firm	Hong-Xu, Wu; You-Xiang Cai; Xiang-Yi, Hsu	Xiang-Yi, Hsu; You-Xiang Cai	Hong-Xu, Wu; You-Xiang Cai; Xiang-Yi, Hsu; Wei-Ru, Lee

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 the rentals are similar to those of comparable properties in neighboring areas, the fair values have been mainly determined using the comparison approach and the income approach.

Net rental income is based on current market practices, assuming an annual rental increase 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 ROC Real Estate Appraisers Association Gazette No. 5, the house tax is determined based on the reference tables of current house values provided by each city/county to estimate the total current house value considering the area of the subject property and related public utilities. House tax is calculated based on the tax rates in the House Tax Act and the actual payment data.

Land value tax is calculated based on the changes in the announced land values of the underlying property in the past years and the actual payment data.

According to the ROC Real Estate Appraisers Association Gazette No. 5, replacement allowance for significant renovation cost is calculated based on 10% of construction costs and amortised over its estimated useful life of 20 years.

The main inputs used are as follows:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>	<b>June 30, 2020</b>
Direct capitalization rates	1.94%-3.75%	1.93%-3.79%	1.95%-5.77%
Overall capital interest rate	0.67%-1.93%	0.67%-1.93%	0.67%-2.51%

Operating expenses directly related to investment properties

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Generating rental income	\$ -	\$ -	\$ -	\$ -
Not generating rental income	<u>178</u>	<u>284</u>	<u>1,152</u>	<u>1,706</u>
	<u>\$ 178</u>	<u>\$ 284</u>	<u>\$ 1,152</u>	<u>\$ 1,706</u>

- 2) The fair values of hillside conservation zones, farmlands and scenic areas had been determined mainly by the land development analysis and comparison approaches due to fewer market transactions in such areas as a result of legal restrictions and furthermore, no significant changes are expected in these areas that will affect the market in the near future.

## 21. INTANGIBLE ASSETS, NET

For the nine months ended September 30, 2021

	<b>Computer Software</b>	<b>Goodwill</b>	<b>Total</b>
<u>Cost</u>			
Balance at the beginning of the period	\$ 2,963,152	\$ 6,974,424	\$ 9,937,576
Additions	187,573	-	187,573
Disposal	(458,824)	-	(458,824)
Reclassification	208,690	-	208,690
Exchange differences	<u>(9,640)</u>	<u>(6,786)</u>	<u>(16,426)</u>
Balance at the end of the period	<u>2,890,951</u>	<u>6,967,638</u>	<u>9,858,589</u>

(Continued)

	<b>Computer Software</b>	<b>Goodwill</b>	<b>Total</b>
<u>Accumulated amortization and impairment</u>			
Balance at the beginning of the period	\$ 1,798,273	\$ -	\$ 1,798,273
Amortization	374,918	-	374,918
Disposal	(458,824)	-	(458,824)
Exchange differences	<u>(5,967)</u>	<u>-</u>	<u>(5,967)</u>
Balance at the end of the period	<u>1,708,400</u>	<u>-</u>	<u>1,708,400</u>
<u>Net</u>			
Balance at the end of the period	<u>\$ 1,182,551</u>	<u>\$ 6,967,638</u>	<u>\$ 8,150,189</u> (Concluded)

For the nine months ended September 30, 2020

	<b>Computer Software</b>	<b>Goodwill</b>	<b>Total</b>
<u>Cost</u>			
Balance at the beginning of the period	\$ 2,816,530	\$ 6,991,316	\$ 9,807,846
Additions	392,106	-	392,106
Disposal	(264,756)	-	(264,756)
Reclassification	27,171	-	27,171
Exchange differences	<u>(10,289)</u>	<u>(10,359)</u>	<u>(20,648)</u>
Balance at the end of the period	<u>2,960,762</u>	<u>6,980,957</u>	<u>9,941,719</u>
<u>Accumulated amortization and impairment</u>			
Balance at the beginning of the period	1,654,657	-	1,654,657
Amortization	378,651	-	378,651
Disposal	(264,756)	-	(264,756)
Exchange differences	<u>(6,074)</u>	<u>-</u>	<u>(6,074)</u>
Balance at the end of the period	<u>1,762,478</u>	<u>-</u>	<u>1,762,478</u>
<u>Net</u>			
Balance at the end of the period	<u>\$ 1,198,284</u>	<u>\$ 6,980,957</u>	<u>\$ 8,179,241</u>

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

The 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 of goodwill, the 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 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.



## 22. OTHER ASSETS, NET

	September 30, 2021	December 31, 2020	September 30, 2020
Prepayments	\$ 1,308,143	\$ 781,952	\$ 1,336,653
Temporary payments and suspense accounts	500,327	6,743,215	3,705,130
Interbank clearing funds	8,386,225	8,430,953	11,361,601
Refundable deposits, net	13,089,953	17,584,406	17,875,711
Operating deposits, net	367,946	519,925	519,907
Others	<u>121,110</u>	<u>82,787</u>	<u>82,939</u>
	<u>\$ 23,773,704</u>	<u>\$ 34,143,238</u>	<u>\$ 34,881,941</u>

## 23. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	September 30, 2021	December 31, 2020	September 30, 2020
Call loans from banks	\$ 48,277,862	\$ 26,749,817	\$ 30,035,118
Due to Chunghwa Post Co., Ltd.	17,709,405	17,709,405	17,709,405
Banks overdrafts	1,010,335	805,234	373,040
Deposits from the Central Bank and banks	<u>15,606,237</u>	<u>20,866,603</u>	<u>19,338,240</u>
	<u>\$ 82,603,839</u>	<u>\$ 66,131,059</u>	<u>\$ 67,455,803</u>

## 24. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	September 30, 2021	December 31, 2020	September 30, 2020
Asset-based securities	\$ -	\$ 346,892	\$ 512,445
Corporate bonds	1,754,577	1,879,800	1,418,144
Government bonds	5,530,687	3,095,548	3,424,295
Financial debentures	<u>14,015,034</u>	<u>4,769,818</u>	<u>12,367,941</u>
	<u>\$ 21,300,298</u>	<u>\$ 10,092,058</u>	<u>\$ 17,722,825</u>

## 25. PAYABLES

	September 30, 2021	December 31, 2020	September 30, 2020
Accounts payable	\$ 3,052,342	\$ 3,123,202	\$ 3,851,360
Accrued expenses	7,104,105	8,274,384	7,070,428
Payable on bonds trade settle	9,134,849	2,853,035	3,327,501
Interest payable	3,220,102	3,715,605	3,764,863
Receipts under custody	12,260,485	493,791	2,760,656
Banker's acceptances	1,795,511	1,077,140	958,603
Others	<u>3,693,342</u>	<u>5,071,971</u>	<u>4,277,706</u>
	<u>\$ 40,260,736</u>	<u>\$ 24,609,128</u>	<u>\$ 26,011,117</u>

## 26. DEPOSITS AND REMITTANCES

	September 30, 2021	December 31, 2020	September 30, 2020
Checking deposits	\$ 17,208,921	\$ 16,127,434	\$ 13,891,277
Demand deposits	792,305,474	723,242,979	660,933,003
Demand savings deposits	1,254,178,423	1,102,957,219	1,025,765,133
Time deposits	431,856,378	437,102,128	447,205,615
Time savings deposits	354,995,495	359,917,919	364,867,160
Negotiable certificates of deposits	3,944,689	7,516,122	7,166,588
Outward remittances and remittances payable	<u>2,589,486</u>	<u>2,131,223</u>	<u>1,256,125</u>
	<u>\$ 2,857,078,866</u>	<u>\$ 2,648,995,024</u>	<u>\$ 2,521,084,901</u>

## 27. FINANCIAL DEBENTURES PAYABLE

	September 30, 2021	December 31, 2020	September 30, 2020
1st issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: March 2021	\$ -	\$ 1,500,000	\$ 1,500,000
2nd issue of subordinated financial debentures in 2011; fixed rate at 1.72%; maturity: June 2021	-	2,500,000	2,500,000
1st issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: June 2022	4,200,000	4,200,000	4,200,000
2nd issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: August 2022	5,600,000	5,600,000	5,600,000
1st issue of subordinated financial debentures in 2013; fixed rate at 1.70%; maturity: April 2023	9,900,000	9,900,000	9,900,000
1st issue of subordinated financial debentures in 2014; fixed rate at 1.70%; maturity: May 2021	-	3,000,000	3,000,000
1st issue of subordinated financial debentures in 2014; fixed rate at 1.85%; maturity: May 2024	12,000,000	12,000,000	12,000,000
2nd issue of subordinated financial debentures in 2017; fixed rate at 1.85%; maturity: April 2027	12,700,000	12,700,000	12,700,000
2nd issue of subordinated financial debentures in 2017; fixed rate at 1.50%; maturity: April 2024	<u>2,400,000</u>	<u>2,400,000</u>	<u>2,400,000</u>
	<u>\$ 46,800,000</u>	<u>\$ 53,800,000</u>	<u>\$ 53,800,000</u>

## 28. OTHER FINANCIAL LIABILITIES

	September 30, 2021	December 31, 2020	September 30, 2020
Principal of structured products	<u>\$ 32,479,099</u>	<u>\$ 39,748,324</u>	<u>\$ 46,450,558</u>

## 29. PROVISIONS

	September 30, 2021	December 31, 2020	September 30, 2020
Reserve for employee benefits			
Defined benefit plan	\$ 2,700,467	\$ 2,700,919	\$ 2,542,421
Retired employees' preferential interest rate deposits	575,055	586,625	613,677
Reserve for losses on guarantees	208,336	188,932	181,715
Reserve for finance commitments	155,216	291,609	233,694
Other operating reserve	97,344	72,308	58,576
Other reserve - letter of credit	<u>4,817</u>	<u>5,403</u>	<u>2,673</u>
	<u>\$ 3,741,235</u>	<u>\$ 3,845,796</u>	<u>\$ 3,632,756</u>

## 30. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

The Bank adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Bank makes monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts in the Bureau of Labor Insurance.

For the nine months ended September 30, 2021 and 2020, the Company recognized expenses of \$319,034 thousand and \$310,365 thousand in the consolidated statements of comprehensive income in accordance with the defined contribution plan, respectively.

### b. Defined benefit plan

The defined benefit plan adopted by domestic branches of the Bank under the Labor Standards Law is 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 Bank contributes a fixed proportion 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.

The Bank uses the actuarially determined pension cost rate as of December 31, 2020 and 2019 respectively. For the nine months ended September 30, 2021 and 2020, pension expenses under the defined benefit plan recognized in the consolidated statements of comprehensive income amounted to \$150,790 thousand and \$149,189 thousand, respectively.

### c. Employee preferential interest rate deposit plan

For the nine months ended September 30, 2021 and 2020, employee preferential interest rate deposit plan expenses amounted to \$247,193 thousand and \$260,815 thousand, respectively.

### 31. OTHER LIABILITIES

	September 30, 2021	December 31, 2020	September 30, 2020
Advance receipts	\$ 272,367	\$ 326,255	\$ 339,901
Temporary receipts and suspense accounts	1,781,936	1,762,353	2,010,818
Guarantee deposits received	5,162,964	7,357,957	6,140,510
Contract liabilities	1,233,073	1,401,104	1,274,074
Others	<u>721</u>	<u>350</u>	<u>1,873</u>
	<u>\$ 8,451,061</u>	<u>\$ 10,848,019</u>	<u>\$ 9,767,176</u>

### 32. EQUITY

#### a. Capital stock

##### Common stock

	September 30, 2021	December 31, 2020	September 30, 2020
Number of authorized shares (in thousands)	<u>10,698,583</u>	<u>10,698,583</u>	<u>10,698,583</u>
Amount of authorized shares	<u>\$ 106,985,830</u>	<u>\$ 106,985,830</u>	<u>\$ 106,985,830</u>
Number of shares issued and fully paid (in thousands)	<u>10,698,583</u>	<u>10,698,583</u>	<u>10,698,583</u>
Amount of shares issued	<u>\$ 106,985,830</u>	<u>\$ 106,985,830</u>	<u>\$ 106,985,830</u>

On April 29, 2020, the Bank's board of directors resolved on behalf of the shareholder to transfer the retained earnings of \$5,327,477 thousand in the form of shareholder's dividends to increase capital and issued 532,748 thousand new shares for total authorized capital of \$106,985,830 thousand. The capital increase was approved by the FSC on June 29, 2020 and the recapitalization record date was July 13, 2020.

#### b. Capital surplus

	September 30, 2021	December 31, 2020	September 30, 2020
Capital surplus from the merger	\$ 10,949,303	\$ 10,949,303	\$ 10,949,303
Additional paid-in capital	27,648,873	27,648,873	27,648,873
Others	<u>89,100</u>	<u>89,100</u>	<u>89,100</u>
	<u>\$ 38,687,276</u>	<u>\$ 38,687,276</u>	<u>\$ 38,687,276</u>

#### c. Legal reserve

Retained earnings are appropriated to legal reserve until the amount of legal reserve equals the Bank's paid-in-capital. The legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Bank's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Bank's paid-in-capital. In the event that the accumulated legal reserve equals or exceeds the Bank's paid-in capital or the Bank is sound in both its finance and business operations and had already set aside a legal reserve in compliance with the Banking Act, the restrictions stipulated above shall not apply.

d. Special reserve

According to Rule No. 1030006415 issued by the FSC, on the first-time adoption of the fair value model for investment properties, the Bank should appropriate as special reserve an amount equivalent to the amount of the net increase in fair value transferred to retained earnings. In the subsequent fair value measurement of investment properties, the incremental fair value of investment properties is recognized in profit or loss and the same amount is appropriated from retained earnings to the special reserve. For any subsequent reversal of accumulated incremental fair value of investment properties upon disposal of investment properties, the reversed amount can be distributed accordingly.

According to Rule No. 1090150022, Rule No. 1010012865 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs,” the Bank should appropriate to or reverse from its special reserve certain specified amounts. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses, and thereafter distributed.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

According to Rule No. 10510001510 issued by the FSC, the Bank should appropriate between 0.5% and 1% of net income after tax to the special reserve during the appropriation of earnings from 2016 through 2018. Since 2017, the Company is allowed to reverse special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

The changes in the special reserve of the Bank for the nine months ended September 30, 2021 and 2020 were as follows:

	<b>Investment Properties</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2021	\$ 1,525,971	\$ 558,682	\$ 2,084,653
Decrease	<u>(897)</u>	<u>-</u>	<u>(897)</u>
Balance at September 30, 2021	<u>\$ 1,525,074</u>	<u>\$ 558,682</u>	<u>\$ 2,083,756</u>
Balance at January 1, 2020	\$ 1,625,296	\$ 558,682	\$ 2,183,978
Decrease	<u>(99,325)</u>	<u>-</u>	<u>(99,325)</u>
Balance at September 30, 2020	<u>\$ 1,525,971</u>	<u>\$ 558,682</u>	<u>\$ 2,084,653</u>

e. Retained earnings and dividends policy

According to the Bank’s Articles of Incorporation, if the Bank made a profit in a fiscal year, the profit shall be first utilized for paying taxes and offsetting deficits of prior years, if any. If the legal reserve is less than the paid-in capital, profit shall be appropriated to legal reserve and special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Bank’s board of directors as the basis for proposing a plan for the distribution of dividends and bonuses to shareholder, which should be resolved by the shareholder.

In consideration of the competitive environment, business growth, and capital adequacy, the Bank adopts a residual dividend policy. According to the Bank’s business plan, except for a necessary amount of earnings to be reserved for dividend distribution, the remainder shall be distributed as cash dividends in principle. However, the maximum cash dividend may not exceed the regulatory limit.

The appropriations of earnings for 2020 and 2019 which were approved by the Bank's board of directors on behalf of the shareholder in accordance with the Company Act on April 28, 2021 and April 29, 2020, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Legal reserve	\$ 6,656,404	\$ 6,590,232		
Cash dividends	15,532,000	10,000,000	\$ 1.45	\$ 0.98
Stock dividends	-	5,327,477	-	0.52

f. Other equity items

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ (2,034,967)	\$ (1,670,723)
Exchange differences generated from translating the net assets of foreign operations	(820,110)	(534,049)
Tax effects	164,022	106,810
Other comprehensive income	(656,088)	(427,239)
Balance at the end of the period	\$ (2,691,055)	\$ (2,097,962)

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ 12,999,487	\$ 10,124,219
Recognized for the period		
Unrealized gains (losses)		
Debt instruments	(2,658,052)	5,164,661
Equity instruments	1,307,924	(2,152,664)
Net remeasurement of loss allowance	(69,514)	57,280
Share from subsidiaries and associates accounted for using equity method	(6,626)	(3,762)
Reclassification adjustments		
Disposal of investment in debt instruments	(2,152,381)	(3,797,328)
Tax effect	388,213	215,184
Other comprehensive income	(3,190,436)	(516,629)
Accumulated unrealized losses on equity instruments transferred to retained earnings due to disposal	(1,986,364)	(199,570)
Balance at the end of the period	\$ 7,822,687	\$ 9,408,020

3) Remeasurement of the defined benefit plans

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ (1,910,070)	\$ (1,715,929)
Recognized for the period	(655)	1,126
Share from associates accounted for using equity method	861	(2,504)
Tax effect	<u>131</u>	<u>(225)</u>
Other comprehensive income	<u>337</u>	<u>(1,603)</u>
Balance at the end of the period	<u>\$ (1,909,733)</u>	<u>\$ (1,717,532)</u>

4) Property revaluation surplus

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ 314,743	\$ 457,968
Other comprehensive income	<u>-</u>	<u>-</u>
Transferred to retained earnings	<u>(64,925)</u>	<u>(143,225)</u>
Balance at the end of the period	<u>\$ 249,818</u>	<u>\$ 314,743</u>

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ (1,478,705)	\$ (1,850,508)
Change in fair value attributed to changes in credit risk	568,595	1,051,925
Tax effect	<u>(113,719)</u>	<u>(210,386)</u>
Other comprehensive income	<u>454,876</u>	<u>841,539</u>
Balance at the end of the period	<u>\$ (1,023,829)</u>	<u>\$ (1,008,969)</u>

g. Non-controlling interests

	<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>
Balance at the beginning of the period	\$ 4,358,749	\$ 4,409,576
Net income attributable to non-controlling interests	211,291	342,590
Exchange differences on translating the financial statements of foreign operations	(73,668)	(95,027)
Change in non-controlling interests	(471,108)	(472,302)
Gains from investments in debt instruments measured at fair value through other comprehensive income	<u>69,570</u>	<u>49,154</u>
Balance at the end of the period	<u>\$ 4,094,834</u>	<u>\$ 4,233,991</u>

### 33. NET INTEREST REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Interest income				
Discounts and loans	\$ 9,163,486	\$ 8,164,649	\$ 26,839,048	\$ 27,349,361
Investment securities	2,247,911	2,209,844	6,352,908	7,268,452
Revolving credit	575,845	578,648	1,778,543	1,777,355
Due from banks and call loans to banks	418,149	392,525	1,406,135	1,516,217
Others	<u>50,077</u>	<u>52,362</u>	<u>103,104</u>	<u>239,085</u>
	<u>12,455,468</u>	<u>11,398,028</u>	<u>36,479,738</u>	<u>38,150,470</u>
Interest expense				
Deposits	2,127,973	2,615,138	6,531,121	8,981,696
Structured products	105,241	179,042	340,380	886,359
Due to the Central Bank and other banks	111,855	212,105	319,006	955,556
Notes and bonds issued under repurchase agreements	55,862	23,044	98,618	260,104
Financial debentures and others	<u>221,096</u>	<u>28,129</u>	<u>702,168</u>	<u>781,499</u>
	<u>2,622,027</u>	<u>3,057,458</u>	<u>7,991,293</u>	<u>11,865,214</u>
	<u>\$ 9,833,441</u>	<u>\$ 8,340,570</u>	<u>\$ 28,488,445</u>	<u>\$ 26,285,256</u>

### 34. NET SERVICE FEE REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Service fee income				
Credit card business	\$ 2,580,346	\$ 2,213,190	\$ 5,700,721	\$ 4,880,111
Trust business	1,177,144	1,098,890	3,821,461	3,167,529
Loan business	283,735	215,041	621,849	670,048
Cross-selling marketing	1,949,391	1,321,044	5,613,196	4,765,747
Others	<u>676,461</u>	<u>745,740</u>	<u>2,058,829</u>	<u>2,157,474</u>
	<u>6,667,077</u>	<u>5,593,905</u>	<u>17,816,056</u>	<u>15,640,909</u>
Service fee expenses				
Credit card business	962,813	565,707	2,749,105	1,988,448
Others	<u>316,601</u>	<u>355,750</u>	<u>981,480</u>	<u>1,018,368</u>
	<u>1,279,414</u>	<u>921,457</u>	<u>3,730,585</u>	<u>3,006,816</u>
	<u>\$ 5,387,663</u>	<u>\$ 4,672,448</u>	<u>\$ 14,085,471</u>	<u>\$ 12,634,093</u>

The Bank is also engaged in the business of online payment services. For the nine months ended September 30, 2021 and 2020, service fee revenue was \$498 thousand and \$292 thousand, respectively, and the revenue and other income resulting from the funds collected were both zero.



**35. GAIN (LOSS) ON FINANCIAL ASSETS OR LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Stock	\$ (16,084)	\$ (6,395)	\$ 389,436	\$ (70,470)
Short-term bills	179,260	169,097	563,483	712,995
Fund beneficiary certificates	(8,868)	(11,955)	(8,829)	(44,881)
Investments in debt instruments	194,070	25,701	1,349,079	(2,649,773)
Derivative financial instruments	<u>(47,490)</u>	<u>390,569</u>	<u>(510,778)</u>	<u>5,428,990</u>
	<u>\$ 300,888</u>	<u>\$ 567,017</u>	<u>\$ 1,782,391</u>	<u>\$ 3,376,861</u>
Realized gain (loss)				
Gain on disposal	\$ 57,394	\$ 465,938	\$ 2,154,685	\$ 659,156
Interest income	499,182	390,704	1,298,067	1,369,180
Dividend income	-	2,025	4,204	2,026
Interest expense	(326,473)	(343,406)	(982,357)	(1,047,938)
Unrealized gain (loss)				
Valuation gain (loss)	<u>70,785</u>	<u>51,756</u>	<u>(692,208)</u>	<u>2,394,437</u>
	<u>\$ 300,888</u>	<u>\$ 567,017</u>	<u>\$ 1,782,391</u>	<u>\$ 3,376,861</u>

**36. REALIZED GAIN OR LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net gain on disposal - debt instruments	\$ 540,008	\$ 578,822	\$ 2,152,381	\$ 3,797,328
Dividend income	<u>764,566</u>	<u>793,460</u>	<u>1,534,776</u>	<u>945,883</u>
	<u>\$ 1,304,574</u>	<u>\$ 1,372,282</u>	<u>\$ 3,687,157</u>	<u>\$ 4,743,211</u>

**37. IMPAIRMENT (REVERSAL) LOSS ON ASSETS**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Debt instruments at FVTOCI	\$ 11,568	\$ 31,850	\$ (59,693)	\$ 66,685
Debt instruments at amortised cost	<u>(8,575)</u>	<u>9,961</u>	<u>(26,936)</u>	<u>31,219</u>
	<u>\$ 2,993</u>	<u>\$ 41,811</u>	<u>\$ (86,629)</u>	<u>\$ 97,904</u>

**38. BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION  
(REVERSAL)**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Discounts and loans	\$ 632,157	\$ 495,486	\$ 2,792,331	\$ 1,645,838
Receivables	(39,458)	(12,774)	(14,533)	108,478
Guarantee liability provision	(6,472)	14,869	(22,162)	19,137
Financial commitment provision	12,797	82	(89,934)	(18,954)
Others	<u>22,715</u>	<u>138,021</u>	<u>77,138</u>	<u>153,140</u>
	<u>\$ 621,739</u>	<u>\$ 635,684</u>	<u>\$ 2,742,840</u>	<u>\$ 1,907,639</u>

**39. EMPLOYEE BENEFITS EXPENSES**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Salaries	\$ 3,874,735	\$ 3,678,582	\$ 11,355,773	\$ 11,100,575
Insurance	292,310	261,045	890,000	783,160
Post-employment benefits	178,879	177,217	537,116	529,762
Remuneration of directors	1,093	968	3,122	3,010
Others	<u>66,054</u>	<u>73,767</u>	<u>228,227</u>	<u>232,158</u>
	<u>\$ 4,413,071</u>	<u>\$ 4,191,579</u>	<u>\$ 13,014,238</u>	<u>\$ 12,648,665</u>

For the nine months ended September 30, 2021 and 2020, the average number of the Company's employees was 12,128 and 12,091 respectively, both including 19 non-executive directors.

As of September 30, 2021 and 2020, the number of employees of the Company was 12,174 and 12,104, respectively.

Under the Articles of Incorporation of the Bank, the Bank accrued compensation of employees and remuneration of directors at the rates of 0.05% and no higher than 0.1%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors (after offsetting accumulated deficits). For the nine months ended September 30, 2021 and 2020, compensation of employees and the remuneration of directors were as follows:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Compensation of employees	<u>\$ 3,700</u>	<u>\$ 2,967</u>	<u>\$ 10,650</u>	<u>\$ 10,771</u>
Remuneration of directors	<u>\$ 1,093</u>	<u>\$ 789</u>	<u>\$ 3,122</u>	<u>\$ 3,011</u>

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

Compensation of employees and the remuneration of directors for the years ended December 31, 2020 and 2019 which have been approved by the Bank's board of directors on March 10, 2021 and March 11, 2020, respectively, were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Compensation of employees	<u>\$ 12,520</u>	<u>\$ 12,661</u>
Remuneration of directors	<u>\$ 6,000</u>	<u>\$ 6,000</u>

There was no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2020 and 2019, respectively.

Information on the compensation of employees and remuneration of directors resolved by the Company's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

#### 40. DEPRECIATION AND AMORTIZATION EXPENSES

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Depreciation expense				
Property and equipment	\$ 362,694	\$ 345,628	\$ 1,066,853	\$ 1,015,917
Right-of-use assets	385,967	383,218	1,159,529	1,161,971
Amortization expense				
Intangible assets	<u>137,359</u>	<u>134,539</u>	<u>374,918</u>	<u>378,651</u>
	<u>\$ 886,020</u>	<u>\$ 863,385</u>	<u>\$ 2,601,300</u>	<u>\$ 2,556,539</u>

#### 41. OTHER GENERAL AND ADMINISTRATIVE EXPENSE

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Rental expenses	\$ 160,461	\$ 158,394	\$ 540,522	\$ 706,576
Tax expenses	582,573	539,932	1,755,947	1,675,412
Product promotion expenses	1,361,849	1,158,310	2,428,278	2,499,181
Insurance expenses	218,410	197,968	634,554	580,307
Others	<u>1,288,784</u>	<u>1,153,203</u>	<u>3,534,975</u>	<u>3,396,987</u>
	<u>\$ 3,612,077</u>	<u>\$ 3,207,807</u>	<u>\$ 8,894,276</u>	<u>\$ 8,858,463</u>

## 42. INCOME TAX

### a. Income tax recognized in profit or loss

Main components of income tax expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Current tax				
In respect of the period	\$ 888,352	\$ 642,227	\$ 3,077,597	\$ 2,610,209
Adjustment for prior year	-	-	8,856	101,309
Deferred tax				
In respect of the period	57,648	3,773	(429,453)	(40,518)
Income tax of overseas subsidiaries	<u>97,558</u>	<u>52,460</u>	<u>209,657</u>	<u>267,082</u>
Income tax expense recognized in profit or loss	<u>\$ 1,043,558</u>	<u>\$ 698,460</u>	<u>\$ 2,866,657</u>	<u>\$ 2,938,082</u>

According to the Ministry of Finance's Taiwan Finance Tax No. 910458039, "The joint declaration of business income tax by profit-seeking enterprises in accordance with Article 49 of the Financial Holding Company Act and Article 40 of the Business Mergers and Acquisitions Act" released on February 12, 2003, where a Financial Holding Company holds more than or equal to 90% of the outstanding issued shares of a domestic subsidiary, and the period of shareholdings in the subsidiary has reached 12 months of the tax year, the Financial Holding Company may elect to be the taxpayer and jointly declare profit-seeking enterprise tax. The Bank elected to jointly declare the profit-seeking enterprise income tax since 2003 and the undistributed retained earnings since 2002 with its parent company Cathay Financial Holding Co., Ltd. and its subsidiaries. Additional tax payable or receivable due to the joint declaration of income tax is recognized under the receivables (payables) for allocation of integrated income tax systems account.

### b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
<u>Deferred tax</u>				
Recognized in OCI				
Remeasurement of defined benefit plans	\$ -	\$ -	\$ (131)	\$ 225
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL	58,566	(13,078)	113,719	210,386
Translation of foreign operations	(36,672)	14,295	(164,022)	(106,810)
Fair value changes of financial assets at FVTOCI	<u>(215,113)</u>	<u>56,740</u>	<u>(388,213)</u>	<u>(215,184)</u>
Total income tax expense (benefit) recognized in other comprehensive income	<u>\$ (193,219)</u>	<u>\$ 57,957</u>	<u>\$ (438,647)</u>	<u>\$ (111,383)</u>

c. Income tax assessments

The Bank's income tax returns through 2015 had been assessed; however, the Bank dissatisfied and has invoked the administrative remedy for fiscal years 2014 and 2015. The Bank has assessed relevant income tax based on prudence principle.

**43. EARNINGS PER SHARE**

The numerator and denominator used in calculating earnings per share are as follows:

	<b>Unit: Dollar Per Share</b>			
	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Basic earnings per share	<u>\$ 0.60</u>	<u>\$ 0.49</u>	<u>\$ 1.74</u>	<u>\$ 1.76</u>

The number of shares outstanding was retrospectively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation. The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were retrospectively adjusted as follows:

Net income

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	Net income for calculating basic earnings per share	<u>\$ 6,444,602</u>	<u>\$ 5,282,311</u>	<u>\$ 18,628,030</u>

Number of shares

	<b>Unit: In Thousands</b>			
	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Weighted average number of ordinary shares used for calculating basic earnings per share	<u>10,698,583</u>	<u>10,698,583</u>	<u>10,698,583</u>	<u>10,698,583</u>

#### 44. RELATED-PARTY TRANSACTIONS

Transactions between the Company and its related parties are summarized as follows:

a. Related parties and relationships

<u>Related Party</u>	<u>Relationship with the Company</u>
Cathay Financial Holding Co., Ltd.	Parent company
Taiwan Real-estate Management Corp.	Associate
Taiwan Finance Corp.	Associate
Cathay Life Insurance Co., Ltd.	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Co., Ltd.	Other related party
Cathay Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Cathay Securities Investment Consulting Co., Ltd.	Other related party
Cathay Futures Co., Ltd.	Other related party
Cathay Life Insurance (Vietnam) Co., Ltd.	Other related party
Cathay Insurance (Vietnam) Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party
Seaward Card Co., Ltd.	Other related party
Cathay Charity Foundation	Other related party
Cathay United Bank Foundation	Other related party
Cathay Cultural Foundation	Other related party
Cathay United Bank Employees' Welfare Committee	Other related party
Cathay Life Insurance Employees' Welfare Committee	Other related party
Cathay Real Estate Development Employees' Welfare Committee	Other related party
Vietinbank	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
Kao-Yi International Investment Co., Ltd.	Other related party
Yua-Yung Marketing (Taiwan) Co., Ltd.	Other related party
Sino Greenergy Group	Other related party
TaiYang Solar Power Co., Ltd.	Other related party
Cathay Hospitality Management 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
Dejin Co., Ltd.	Other related party
Ally Logistic Property Co., Ltd.	Other related party
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Other related party
CM Energy Co., Ltd.	Other related party
Cathay Industrial Research and Design Center Co., Ltd.	Other related party
Cathay Dragon Fund, etc.	Other related party
Directors, managers, and their relatives and affiliates	Other related party

b. Significant transactions between the Company and related parties

1) Loans and deposits

Loans

September 30, 2021

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collateral	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	27	\$ 172,735	\$ 14,069	V	\$ -	None	None	\$ 128	\$ 318
Self-used housing mortgage loans	264	2,441,100	2,228,061	V	-	Real estate, stocks and certificates of deposits	None	1,994	27,931
Others	Taiwan Real-estate Management Corp.	33,000	33,000	V	-	Real estate	None	-	330
Others	Sino Greenery Group	83,012	77,352	V	-	Property	None	(56)	774
Others	Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	10,000	V	-	Real estate	None	100	100
Others	TaiYang Solar Power Co., Ltd.	65,244	61,265	V	-	Property	None	(371)	613

December 31, 2020

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collateral	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	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)	-
Others	Taiwan Real-estate Management Corp.	33,000	33,000	V	-	Real estate	None	-	330
Others	Cathay Securities Co., Ltd.	707,913	-	V	-	Stocks and certificates of deposits	None	-	-
Others	Sino Greenery Group	90,559	83,012	V	-	Property	None	(75)	830
Others	Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	-	V	-	Real estate	None	(100)	-
Others	TaiYang Solar Power Co., Ltd.	70,549	65,244	V	-	Property	None	279	984

September 30, 2020

Type	Account Volume or Name of Related Party	Highest Balance	Ending Balance	Loan Classification		Collateral	Differences in Terms of Transaction with Those for Unrelated Parties	Bad debt Expense 01.01-09.30	Allowance for Bad Debt Expense - Ending Balance
				Normal Loans	Nonperforming Loans				
Consumer loans	28	\$ 137,673	\$ 12,747	V	\$ -	None	None	\$ 44	\$ 217
Self-used housing mortgage loans	272	2,266,966	2,046,661	V	-	Real estate, certificates of deposits, demand deposits and foreign bonds	None	2,908	25,293
Others	Cathay Real Estate Development Co., Ltd.	250,000	-	V	-	Real estate	None	(2,500)	-
Others	Taiwan Real-estate Management Corp.	33,000	33,000	V	-	Real estate	None	-	330
Others	Cathay Securities Co., Ltd.	707,913	-	V	-	Stocks	None	-	-
Others	Sino Greenery Group	90,559	84,899	V	-	Property	None	(57)	849
Others	Yua-Yung Marketing (Taiwan) Co., Ltd.	10,000	-	V	-	Real estate	None	(100)	-
Others	TaiYang Solar Power Co., Ltd.	70,549	66,570	V	-	Property	None	343	1,048

**Interest Revenue**

For the Three Months Ended September 30		For the Nine Months Ended September 30	
2021	2020	2021	2020

Associates

Taiwan Real-estate Management Corp.	\$ 133	\$ 128	\$ 395	\$ 400
Other related parties				
Sino Greenery Group	411	1,438	1,247	1,438
Yua-Yung Marketing (Taiwan) Co., Ltd.	38	22	104	103
TaiYang Solar Power Co., Ltd.	311	331	954	1,085

(Continued)

	<b>Interest Revenue</b>			
	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Cathay Real Estate Development Co., Ltd.	\$ -	\$ -	\$ -	\$ 60
Cathay Securities Co., Ltd.	-	-	-	59
Others	<u>7,495</u>	<u>6,592</u>	<u>22,391</u>	<u>20,373</u>
	<u>8,255</u>	<u>8,383</u>	<u>24,696</u>	<u>23,118</u>
	<u>\$ 8,388</u>	<u>\$ 8,511</u>	<u>\$ 25,091</u>	<u>\$ 23,518</u>

(Concluded)

### Deposits

	<b>September 30, 2021</b>		<b>December 31, 2020</b>		<b>September 30, 2020</b>	
	<b>Ending Balance</b>	<b>Interest Expense</b>	<b>Ending Balance</b>	<b>Interest Expense</b>	<b>Ending Balance</b>	<b>Interest Expense</b>
Parent company						
Cathay Financial Holding Co., Ltd.	\$ 309,667	\$ 75	\$ 209,849	\$ 144	\$ 268,894	\$ 139
Other related parties						
Cathay Life Insurance Co., Ltd.	27,271,402	4,401	23,235,022	14,426	19,892,435	13,320
Cathay Century Insurance Co., Ltd.	2,377,478	315	2,010,221	4,195	2,061,875	3,746
Cathay Securities Co., Ltd.	4,823,870	1,385	3,913,465	2,948	9,368,374	2,486
Cathay Futures Co., Ltd.	773,295	613	1,138,851	4,857	829,609	4,213
Cathay Venture Inc.	209,281	18	103,380	4	5,840	3
Cathay Securities Investment Trust Co., Ltd.	162,591	51	167,389	85	135,273	69
Cathay Securities Investment Consulting Co., Ltd.	473,505	125	502,217	388	429,131	335
Cathay Real Estate Development Co., Ltd.	343,361	23	370,758	18	392,230	12
Cathay Medical Care Corp.	188,040	28	210,060	42	204,083	35
Cathay Hospitality Management Co., Ltd.	30,834	5	189,776	11	21,756	8
Cathay Life Insurance (Vietnam) Co., Ltd.	2,285,372	102,233	835,754	26,147	1,139,273	9,169
Cathay Insurance (Vietnam) Co., Ltd.	290,513	11,269	243,219	5,353	278,229	3,672
Symphox Information Co., Ltd.	119,942	102	407,037	427	229,020	377
Cathay United Bank Foundation	544,970	3,136	530,444	4,560	535,049	3,487
Cathay Charity Foundation	284,081	1,434	274,178	2,026	286,970	1,542
Cathay Cultural Foundation	211,166	1,195	209,366	1,711	217,372	1,300
Cathay United Bank Employees' Welfare Committee	802,120	23,126	760,170	31,356	783,933	23,445
Cathay Life Insurance Employees' Welfare Committee	2,357,316	12,699	2,198,909	17,881	2,246,234	13,607
Cathay Real Estate Development Employees' Welfare Committee	450,757	2,575	413,825	3,560	422,168	2,685
Lin Yuan Property Management Co., Ltd.	154,058	899	270,481	1,387	181,561	1,066
Jinhua Realty Co., Ltd.	105,898	20	167,867	6	-	-
Pai Hsing Investment Co., Ltd.	144,581	101	177,062	743	-	-
Bannan Realty Co., Ltd.	297,388	23	338,238	16	-	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	107,443	188	140,277	291	127,615	217
Dejin Co., Ltd.	29,195	11	636,153	31	-	-
Ally Logistic Property Co., Ltd.	114,856	9	147,229	9	79,132	7
Lin Yuan (Shanghai) Real Estate Co., Ltd.	1,399,162	28,306	1,221,708	33,087	1,145,821	24,653
CM Energy Co., Ltd.	248,238	20	50,160	2	10,139	1
Cathay Industrial Research and Design Center Co., Ltd.	720,278	169	-	-	-	-
Cathay Dragon Fund, etc.	146,646	-	35,341	-	56,586	-
Others	<u>8,070,788</u>	<u>36,537</u>	<u>8,622,051</u>	<u>54,001</u>	<u>9,103,226</u>	<u>42,761</u>
	<u>55,538,425</u>	<u>231,016</u>	<u>49,520,608</u>	<u>209,568</u>	<u>50,182,934</u>	<u>152,216</u>
	<u>\$ 55,848,092</u>	<u>\$ 231,091</u>	<u>\$ 49,730,457</u>	<u>\$ 209,712</u>	<u>\$ 50,451,828</u>	<u>\$ 152,355</u>



Accounts/Related Parties	September 30, 2021		December 31, 2020		September 30, 2020	
	Ending Balance	Interest Income (Expense)	Ending Balance	Interest Income (Expense)	Ending Balance	Interest Income (Expense)
<u>Due from commercial banks</u>						
Other related party						
Vietinbank	\$ 36,155	\$ 369	\$ 519,903	\$ 5,256	\$ 5,057,854	\$ 3,524
<u>Due to commercial banks</u>						
Other related party						
Vietinbank	23,540	-	20,040	(10,117)	5,067,797	(3,441)

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

2) Investments in financial debentures (recorded as financial assets at FVTOCI)

Accounts/Related Parties	September 30, 2021	December 31, 2020	September 30, 2020
Other related party			
Vietinbank	\$ 367,222	\$ 384,663	\$ 376,548

  

Accounts/Related Parties	Interest Income			
	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Other related party				
Vietinbank	\$ 5,826	\$ 6,929	\$ 19,056	\$ 24,370

3) Guarantees

September 30, 2021

Related Parties	Highest Balance	Ending Balance	Balance of Guarantee Liability Provisions	Rate Interval	Collateral
Other related party					
Yua-Yung Marketing (Taiwan) Co., Ltd.	\$ 63,513	\$ 63,513	\$ 42	0.65%-0.8%	Demand deposits

December 31, 2020

Related Parties	Highest Balance	Ending Balance	Balance of Guarantee Liability Provisions	Rate Interval	Collateral
Other related party					
Yua-Yung Marketing (Taiwan) Co., Ltd.	\$ 68,190	\$ 54,673	\$ 28	0.65%-0.8%	Demand deposits

September 30, 2020

<b>Related Parties</b>	<b>Highest Balance</b>	<b>Ending Balance</b>	<b>Balance of Guarantee Liability Provisions</b>	<b>Rate Interval</b>	<b>Collateral</b>
Other related party Yua-Yung Marketing (Taiwan) Co., Ltd.	\$ 68,190	\$ 56,157	\$ 27	0.65%-0.8%	Demand deposits

4) Derivatives

September 30, 2021

<b>Related Parties</b>	<b>Derivative Contracts</b>	<b>Contract Period</b>	<b>Nominal Principal</b>	<b>Evaluation (Loss) Gain</b>	<b>Balance Sheet Amount</b>	
					<b>Account</b>	<b>Balance</b>
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2020.09.29-2022.09.28	\$ 60,887,210	\$ (60,777)	Valuation adjustment for FVTPL financial assets	\$ 75,204
					Valuation adjustment for FVTPL financial liabilities	(464,281)
	SWAP - cross currency exchange between customers (USD)	2021.04.29-2023.05.04	2,786,600	5,674	Valuation adjustment for FVTPL financial assets	5,974
					Valuation adjustment for FVTPL financial liabilities	(300)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2020.10.08-2022.07.28	2,652,843	(11,307)	Valuation adjustment for FVTPL financial assets	2,688
					Valuation adjustment for FVTPL financial liabilities	(26,749)
	SWAP - exchange between customers (EUR)	2021.02.22-2022.02.24	24,259	(1,356)	Valuation adjustment for FVTPL financial assets	-
					Valuation adjustment for FVTPL financial liabilities	(1,188)

December 31, 2020

<b>Related Parties</b>	<b>Derivative Contracts</b>	<b>Contract Period</b>	<b>Nominal Principal</b>	<b>Evaluation (Loss) Gain</b>	<b>Balance Sheet Amount</b>	
					<b>Account</b>	<b>Balance</b>
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2020.02.21-2021.12.09	\$ 99,720,984	\$ (707,642)	Valuation adjustment for FVTPL financial assets	\$ 97,688
					Valuation adjustment for FVTPL financial liabilities	(2,315,173)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2020.01.09-2021.11.17	2,713,962	55	Valuation adjustment for FVTPL financial assets	1,025
					Valuation adjustment for FVTPL financial liabilities	(57,209)
	SWAP - exchange between customers (EUR)	2020.02.20-2021.02.24	26,280	1,559	Valuation adjustment for FVTPL financial assets	1,660
					Valuation adjustment for FVTPL financial liabilities	-

September 30, 2020

Related Parties	Derivative Contracts	Contract Period	Nominal Principal	Evaluation (Loss) Gain	Balance Sheet Amount	
					Account	Balance
Cathay Life Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2019.11.04-2021.09.28	\$ 101,795,370	\$ (118,946)	Valuation adjustment for FVTPL financial assets	\$ 7,131
					Valuation adjustment for FVTPL financial liabilities	(1,451,252)
Cathay Century Insurance Co., Ltd.	SWAP - exchange between customers (USD)	2019.10.07-2021.08.10	2,772,795	(14,729)	Valuation adjustment for FVTPL financial assets	-
					Valuation adjustment for FVTPL financial liabilities	(56,213)
	SWAP - exchange between customers (EUR)	2020.02.20-2021.02.24	25,636	958	Valuation adjustment for FVTPL financial assets	1,059
					Valuation adjustment for FVTPL financial liabilities	-

5) Lease agreement - the Company as lessee

**Acquisition of Right-of-use Assets  
For the Nine Months Ended  
September 30**

Related Parties	2021	2020
Other related parties		
Cathay Life Insurance Co., Ltd.	\$ 1,973	\$ 560,067
Cathay Real Estate Development Co., Ltd.	-	14,271

**Lease Liabilities**

Related Parties	September 30, 2021	December 31, 2020	September 30, 2020
Other related parties			
Cathay Life Insurance Co., Ltd.	\$ 1,297,482	\$ 1,825,007	\$ 2,003,443
Cathay Real Estate Development Co., Ltd.	6,414	15,949	20,652

**Interest Expense**

Related Parties	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Other related parties				
Cathay Life Insurance Co., Ltd.	\$ 1,911	\$ 2,793	\$ 6,403	\$ 8,862
Cathay Real Estate Development Co., Ltd.	6	19	25	47

Related Parties	Rental Expense			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Other related parties				
Cathay Life Insurance Co., Ltd.	\$ 548	\$ 2,775	\$ 1,096	\$ 16,483

Related Parties	Refundable Deposits		
	September 30, 2021	December 31, 2020	September 30, 2020
	Other related parties		
Cathay Life Insurance Co., Ltd.	\$ 187,202	\$ 186,446	\$ 186,446
Cathay Real Estate Development Co., Ltd.	4,446	4,446	4,625

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

6) Lease agreement - the Company as lessor

Related Parties	Rental Income			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Other related parties				
Cathay Life Insurance Co., Ltd.	\$ 10,272	\$ 12,196	\$ 32,674	\$ 36,528
Cathay Century Insurance Co., Ltd.	1,653	1,794	5,190	5,804
Cathay Securities Co., Ltd.	2,570	2,469	7,654	7,310

Related Parties	Guarantee Deposits Received		
	September 30, 2021	December 31, 2020	September 30, 2020
	Other related parties		
Cathay Life Insurance Co., Ltd.	\$ 10,144	\$ 12,019	\$ 12,019
Cathay Century Insurance Co., Ltd.	1,629	1,775	1,775
Cathay Securities Co., Ltd.	2,829	2,843	2,843

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

7) Others

Accounts/Related Parties	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
<u>Commissions and handling fees income</u>				
Other related parties				
Cathay Life Insurance Co., Ltd.	\$ 2,162,120	\$ 1,585,377	\$ 5,756,684	\$ 5,086,453
Cathay Century Insurance Co., Ltd.	67,271	35,152	147,808	105,034
Cathay Securities Co., Ltd.	87,284	40,003	239,833	107,815
Cathay Securities Investment Trust Co., Ltd.	14,812	9,365	35,699	26,925
Cathay Securities Investment Consulting Co., Ltd.	11,898	4,503	29,048	12,521
Cathay Real Estate Development Co., Ltd.	868	1,757	6,481	4,862
<u>Miscellaneous income</u>				
Parent company				
Cathay Financial Holding Co., Ltd.	-	11,261	6,793	23,492
Other related party				
Cathay Life Insurance Co., Ltd.	40	1,738	6,834	26,009
<u>Commissions and handling fees expense</u>				
Other related party				
Cathay Securities Co., Ltd.	1,904	1,598	7,110	7,549
<u>Other operating expenses</u>				
Other related parties				
Cathay Life Insurance Co., Ltd.	34,171	46,387	133,110	131,109
Cathay Securities Co., Ltd.	4,313	1,848	6,751	6,559
Cathay Securities Investment Trust Co., Ltd.	1,800	1,800	5,400	5,400
Cathay Real Estate Development Co., Ltd.	1,569	1,274	3,471	3,483

(Continued)

Accounts/Related Parties	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Symphox Information Co., Ltd.	\$ 101,572	\$ 138,785	\$ 367,697	\$ 375,058
Lin Yuan Property Management Co., Ltd.	11,631	10,283	32,357	15,565
Cathay Healthcare Management Co., Ltd.	2,397	11,952	3,419	17,588
Seaward Card Co., Ltd.	52,305	53,555	156,451	168,443
<u>Insurance expenses paid</u>				
Other related parties				
Cathay Life Insurance Co., Ltd.	36,881	28,790	68,100	50,470
Cathay Century Insurance Co., Ltd.	26,257	52,566	95,237	129,302 (Concluded)
<b>Item/Related Parties</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>	
<u>Related party receivables for allocation of integrated income tax systems account</u>				
Parent company				
Cathay Financial Holding Co., Ltd.	\$ 342,658	\$ -	\$ -	
<u>Receivables</u>				
Other related party				
Cathay Securities Investment Trust Co., Ltd.	3,413	3,142	2,778	
<u>Related party receivables for commission of collecting insurances</u>				
Other related party				
Cathay Life Insurance Co., Ltd.	557,612	350,640	268,188	
<u>Refundable deposit</u>				
Other related party				
Cathay Futures Co., Ltd.	548,206	267,303	230,576	
<u>Accrued expenses</u>				
Other related party				
Seaward Card Co., Ltd.	27,204	35,533	34,711 (Continued)	

Item/Related Parties	September 30, 2021	December 31, 2020	September 30, 2020
<u>Accounts payable</u>			
Parent company			
Cathay Financial Holding Co., Ltd.	\$ -	\$ 6,000	\$ -
Other related parties			
Cathay Century Insurance Co., Ltd.	20,841	49,492	19,006
Symphox Information Co., Ltd.	78,779	84,494	88,348
<u>Related party payables for allocation of integrated income tax systems account</u>			
Parent company			
Cathay Financial Holding Co., Ltd.	-	765,804	180,257 (Concluded)

The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of \$5,305 thousand and \$0 thousand during the nine months ended September 30, 2021 and 2020, respectively.

The Bank purchased bonus points from Symphox Information Co., Ltd. The bonus points can be earned by the Bank's customers and exchanged for merchandise. As of September 30, 2021, December 31, 2020 and September 30, 2020, the unconverted bonus points amounted to \$36,116 thousand, \$20,749 thousand and \$20,119 thousand, respectively.

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

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

c. Compensation of management personnel

Compensation of directors and other management personnel for the nine months ended September 30, 2021 and 2020 was as follows:

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	2021	2020	2021	2020
Short-term employment				
benefits	\$ 105,760	\$ 88,489	\$ 302,681	\$ 273,525
Post-employment benefits	1,576	1,596	4,246	4,361
Other long-term employment				
benefits	<u>-</u>	<u>21</u>	<u>-</u>	<u>76</u>
	<u>\$ 107,336</u>	<u>\$ 90,106</u>	<u>\$ 306,927</u>	<u>\$ 277,962</u>

The key management personnel of the Company includes the chairman, vice chairman, directors, president and vice president.

#### 45. PLEDGED ASSETS

The Bank's due from the Central Bank had been used as collaterals to apply for financing projects of loans to small and medium enterprises affected by Covid-19 pandemic. The Company's assets also been used as collaterals to apply for loans, Central Bank overdraft and apply for provisional seizure of certain assets were as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
Due from the Central Bank (deposit reserves - general accounts)	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000
Financial assets at FVTOCI	12,000,000	12,006,501	12,006,517
Investments in debt instruments at amortised cost	45,684,852	45,525,409	45,523,902

#### 46. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those mentioned in other notes, the contingencies and commitments were as follows:

a. The Bank

1) Entrusted items and guarantees:

	September 30, 2021	December 31, 2020	September 30, 2020
Trust and security held for safekeeping	\$ 891,789,379	\$ 781,995,797	\$ 766,182,222
Collection and payment on behalf of customers	31,153,803	33,483,521	31,785,476
Book-entry for government bonds and depository for short-term marketable securities under management	375,228,609	450,195,466	453,997,080
Entrusted financial management business	11,462,784	11,968,703	11,910,059
Guarantees on duties and contracts	18,967,392	17,071,951	15,394,150
Unused commercial letters of credit	7,436,618	5,731,441	5,343,430
Irrevocable loan commitments	174,242,300	190,736,959	168,200,851
Unused credit card line commitments	681,981,403	661,764,474	658,258,451
Underwritten securities	2,400,000	-	1,000,000

2) As of September 30, 2021, the Bank's significant lawsuits and proceedings arising due to normal business relationships are as follows:

Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of the Bank in its operation, and the plaintiffs claimed damages from the Bank in the amount of approximately \$991,002 thousand. The case has been pending in the court since July 2007, and the Bank won favorable decisions in both the first and second instances. Although the Supreme Court reversed the original second-instance judgements, the Bank again won a favorable decision in the second instance on August 25, 2021. Lee & Li is appealing to the Supreme Court currently. Both the Bank and its attorneys hold that this case will not have a material adverse effect on the financial position of the Bank.



b. Indovina Bank

Entrusted item and guarantees

	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 1,322,375	\$ 1,323,647	\$ 1,271,051
Unused commercial letters of credit	1,158,327	972,917	907,191
Irrevocable loan commitments	683	-	-

c. CUBC Bank

Entrusted item and guarantees

	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 17,635	\$ 17,406	\$ 16,685
Credit card line commitments	273,549	277,491	295,093
Irrevocable loan commitments	251,727	234,582	308,755

d. CUBCN Bank

Entrusted item and guarantees

	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 334,867	\$ 236,475	\$ 327,309
Unused commercial letters of credit	655,611	210,453	210,432
Irrevocable loan commitments	740,957	928,613	899,243

**47. ASSETS AND LIABILITIES MANAGED UNDER THE BANK'S TRUST IN ACCORDANCE WITH THE TRUST ENTERPRISE ACT**

As of September 30, 2021, December 31, 2020 and September 30, 2020, the trust assets (liabilities) were in the amount of \$558,232,403 thousand, \$525,889,269 thousand and \$517,701,368 thousand, respectively.

**48. IMPLEMENTATION OF CROSS-SELLING MARKETING STRATEGIES BETWEEN THE BANK, CATHAY FINANCIAL HOLDING CO., LTD., AND ITS SUBSIDIARIES**

The Bank has entered into cross-selling marketing contracts with Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd. and Cathay Securities Co., Ltd. The contracts cover joint use of operation sites and facilities as well as cross-selling marketing personnel.

The Bank has entered into cooperation contracts with Cathay Financial Holding Co., Ltd., Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd., and Cathay Securities Co., Ltd. for the joint use of information equipment and the development, operation, maintenance and management of information systems.

The related expenses are allocated to each subsidiary directly by the business nature or to the cooperating companies by other reasonable methods.

## 49. FINANCIAL INSTRUMENTS

### a. Information on fair value hierarchy

Fair value is the price that a market participant can receive from selling an asset or pay for settling a liability in an orderly transaction on a measurement date.

Financial instruments are accounted for at fair value on original recognition, and in many cases, usually refers to the transaction price. On subsequent measurement, except for some financial instruments that are measured at amortised cost, they are measured at fair value. The best evidence of fair value is the open quotation in an active market. If there is no active market for the financial instruments, the Bank uses an evaluation model or refers to Bloomberg, Reuters or counterparty quotes to measure the fair value of financial instruments.

### b. The definitions of each level of the fair value hierarchy are shown below:

#### 1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

- a) All financial instruments in the market are homogeneous.
- b) There are willing buyers and sellers in the market all the time.
- c) The public can access the price information easily.

The products in this level, such as listed stock and beneficiary securities, usually have high liquidity or are traded in the exchanges.

#### 2) Level 2

The products in this level have fair values that can be inferred either directly or indirectly through observable inputs other than quoted prices in an active market. The observable inputs are as follows:

- a) Quoted prices of similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule differences, transaction prices involving related parties, and the correlation of price between the product itself and similar goods;
- b) Quoted prices for identical or similar financial instruments in inactive markets;
- c) For the marking-to-model method, the inputs to the model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;
- d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market; such products are forward contracts, cross-currency swap contracts, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are part of emerging stocks, unlisted shares, investment properties, complex derivative financial instruments or products with prices that are provided by brokers, such as complex foreign exchange options.

c. Measured at fair value on a recurring basis

- 1) The fair value hierarchies of the Company's financial instruments, which are measured at fair value on a recurring basis, were as follows:

Item	September 30, 2021			
	Total	Level 1	Level 2	Level 3
<u>Measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at fair value through profit or loss				
Stocks	\$ 23,573	\$ -	\$ -	\$ 23,573
Bonds	71,041,294	26,499,080	44,542,214	-
Others	165,992,848	10,390	165,982,458	-
Financial assets at fair value through other comprehensive income				
Stocks	20,971,229	12,039,242	-	8,931,987
Bonds	296,755,468	177,631,298	119,124,170	-
Others	24,446,594	-	24,446,594	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated as at fair value through profit or loss				
Bonds	41,484,266	-	41,484,266	-
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	40,886,248	155,149	36,362,931	4,368,168
Liabilities				
Financial liabilities at fair value through profit or loss	35,733,649	2,030	31,363,451	4,368,168

Item	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<u>Measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at fair value through profit or loss				
Stocks	\$ 2,504,480	\$ 2,484,177	\$ -	\$ 20,303
Bonds	52,273,150	2,703,505	49,569,645	-
Others	196,048,444	323,148	195,725,296	-
Financial assets at fair value through other comprehensive income				
Stocks	22,709,621	18,646,762	-	4,062,859
Bonds	273,977,177	106,990,738	166,986,439	-
Others	39,411,018	-	39,411,018	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated as at fair value through profit or loss				
Bonds	44,204,582	-	44,204,582	-
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	73,217,904	59,418	67,796,654	5,361,832
Liabilities				
Financial liabilities at fair value through profit or loss	71,410,047	36,350	66,011,865	5,361,832

Item	September 30, 2020			
	Total	Level 1	Level 2	Level 3
<u>Measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily classified as at fair value through profit or loss				
Stocks	\$ 139,248	\$ 124,720	\$ -	\$ 14,528
Bonds	53,954,352	5,176,691	48,777,661	-
Others	189,494,050	693,251	188,800,799	-
Financial assets at fair value through other comprehensive income				
Stocks	15,501,794	11,540,265	-	3,961,529
Bonds	223,463,420	89,757,242	133,706,178	-
Others	88,490,022	-	88,490,022	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated as at fair value through profit or loss				
Bonds	44,924,947	-	44,924,947	-
<u>Derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	72,282,946	34,992	64,206,287	8,041,667
Liabilities				
Financial liabilities at fair value through profit or loss	68,313,055	35,835	60,235,553	8,041,667

## 2) Financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income and hedging derivative financial instruments with quoted prices in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

a) Marking to market

This method should be considered first when determining fair value. The following are the principles to follow when marking to market:

- i. Ensure the consistency and integrity of market data.
- ii. Market data should be obtained from publicly available, easily accessible and independent sources.
- iii. Listed securities with tradable prices should be valued at closing prices.
- iv. Evaluation of unlisted securities that lack tradable closing prices should use quoted prices from independent brokers and comply with the rules issued by the authorities.

b) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation method is based upon model inputs that are used to derive the value of the trading positions. The Bank uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Company uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contracts and the discounted cash flow method to calculate the fair value of each contract. For foreign exchange option transactions, the Company uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contract.

3) Fair value adjustments

Credit risk valuation adjustments

Credit risk valuation adjustments refer to the fair value of the Over The Counter (OTC) derivative financial commodity contracts, which also reflects the credit risk of both parties, and can be mainly divided into “credit value adjustments” and “debit value adjustments”:

- a) Credit value adjustments (CVA): Adjustment to a transaction in a non-concentrated trading market, that is, the adjustment of a derivatives contract evaluation in the OTC transaction, which reflects the possibility that the Company may not be able to collect the full market value or the counterparty may default on the repayment of the fair value.
- b) Debit value adjustments (DVA): Adjustment to a transaction in a non-concentrated trading market, that is, the adjustment of a derivatives contract evaluation in the OTC transaction, which reflects the possibility that the Company may not be able to pay the full market value or the Company may default on the repayment of the fair value.

Both CVA and DVA are concepts of estimated loss, calculated as the probability of default (PD) multiplied by the loss given default (LGD) and multiplied by the exposure at default (EAD).

The Bank uses the fair value of OTC derivatives to calculate the amount of exposure at default (EAD).

The Bank uses 60% as the loss given default based on the recommendation of “IFRS 13 CVA and DVA Related Disclosure Guidelines” of the stock exchange. The Bank may use other loss given default assumptions based on the nature of risk and available figures.

The Company incorporates the credit risk assessment adjustment into the fair value calculation of financial instruments to reflect the counterparty's credit risk and the Company's credit quality.

4) Transfers between Level 1 and Level 2 during the period

The Company regularly reviews and strengthens the quality of the valuation information according to internal risk control policies. Except for some changes of bond prices in the active market, there were no significant transfers between Level 1 and Level 2 for the nine months ended September 30, 2021 and 2020.

5) Reconciliation of Level 3 fair value measurements

a) Reconciliation of Level 3 fair value measurements of financial assets

For the nine months ended September 30, 2021

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Effects of Exchange	Ending Balance
		In Profit or Loss	In Other Comprehensive Income	Purchase or Change in Fair Value	Transferred to Level 3	Sale or Change in Fair Value	Transferred from Level 3		
Financial assets at fair value through profit or loss									
Stocks	\$ 20,303	\$ 3,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,573
Derivative financial instruments	5,361,832	(992,746)	-	294,961	-	295,879	-	-	4,368,168
Financial assets at fair value through other comprehensive income									
Stocks	4,062,859	-	1,368,661	3,502,685	-	2,202	-	(16)	8,931,987

For the nine months ended September 30, 2020

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Effects of Exchange	Ending Balance
		In Profit or Loss	In Other Comprehensive Income	Purchase or Change in Fair Value	Transferred to Level 3	Sale or Change in Fair Value	Transferred from Level 3		
Financial assets at fair value through profit or loss									
Stocks	\$ 16,263	\$ (1,735)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,528
Derivative financial instruments	10,681,179	(1,809,202)	-	88,630	-	918,940	-	-	8,041,667
Financial assets at fair value through other comprehensive income									
Stocks	4,086,290	-	(125,749)	33,842	-	32,828	-	(26)	3,961,529
Bonds	453,848	-	-	-	-	-	453,848	-	-

Total gains or losses shown in the tables above that contain unrealized gains and losses related to assets held as of September 30, 2021 and 2020 amounted to losses of \$989,476 thousand and \$1,810,937 thousand, respectively.

b) Reconciliation of Level 3 fair value measurement of financial liabilities

For the nine months ended September 30, 2021

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Profit or Loss	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	\$ 5,361,832	\$ (992,746)	\$ -	\$ 294,961	\$ -	\$ 295,879	\$ -	\$ 4,368,168

For the nine months ended September 30, 2020

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Profit or Loss	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	\$ 10,681,179	\$ (1,809,202)	\$ -	\$ 88,630	\$ -	\$ 918,940	\$ -	\$ 8,041,667

Total gains or losses shown on the tables above that contain unrealized gains and losses related to liabilities committed as of September 30, 2021 and 2020 amounted to gains of \$992,746 thousand and \$1,809,202 thousand, respectively.

6) Information on significant unobservable inputs for Level 3 fair value measurement

Description of significant unobservable inputs used in the valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy was as follows:

September 30, 2021

Items	Products	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted Average)	Relationship between Inputs and Fair Value
Measured at fair value on a recurring basis						
<u>Financial assets</u>						
Financial assets at fair value through profit or loss	Stock	\$ 23,573	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of the stock
Financial assets at fair value through other comprehensive income	Stock	7,888,659	Market approach	Discount for lack of marketability	15%-30%	The higher the discount for lack of marketability, the lower the fair value of the stock
		51,377	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the stock
		991,951	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stock

December 31, 2020

Items	Products	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted Average)	Relationship between Inputs and Fair Value
Measured at fair value on a recurring basis						
<u>Financial assets</u>						
Financial assets at fair value through profit or loss	Stock	\$ 20,303	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of the stock
Financial assets at fair value through other comprehensive income	Stock	3,077,929	Market approach	Discount for lack of marketability	15%-30%	The higher the discount for lack of marketability, the lower the fair value of the stock
		49,437	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the stock
		935,493	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stock

September 30, 2020

Items	Products	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted Average)	Relationship between Inputs and Fair Value
Measured at fair value on a recurring basis						
<u>Financial assets</u>						
Financial assets at fair value through profit or loss	Stock	\$ 14,528	Market approach	Discount for lack of marketability	15%-20%	The higher the discount for lack of marketability, the lower the fair value of the stock
Financial assets at fair value through other comprehensive income	Stock	3,019,183	Market approach	Discount for lack of marketability	15%-30%	The higher the discount for lack of marketability, the lower the fair value of the stock
		50,473	Income approach	Cost of equity rate	6%-7%	The higher the cost of equity rate, the lower the fair value of the stock
		891,873	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stock

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

The Company's risk management department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

d. Financial instruments that were not measured at fair value

1) Information on fair value

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements as approximate fair values or that the fair values cannot be reasonably measured.

	September 30, 2021		December 31, 2020		September 30, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>						
Investments in debt instruments at amortised cost	\$ 558,497,730	\$ 557,440,089	\$ 501,728,143	\$ 503,184,932	\$ 427,662,539	\$ 428,708,311

2) Information on fair value hierarchy

Item	September 30, 2021			
	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Investments in debt instruments at amortised cost	\$ 557,440,089	\$ 20,462,308	\$ 531,620,342	\$ 5,357,439

Item	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Investments in debt instruments at amortised cost	\$ 503,184,932	\$ 12,908,846	\$ 489,532,813	\$ 743,273

Item	September 30, 2020			
	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Investments in debt instruments at amortised cost	\$ 428,708,311	\$ 10,328,207	\$ 417,036,811	\$ 1,343,293

3) Valuation techniques

The methods and assumptions used by the Company to estimate the values of financial instruments that are not measured at fair value are as follows:

- a) Cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resell agreements, receivables, other financial assets, due to the Central Bank and other banks, call loans from the Central Bank and other banks, securities sold under repurchase agreements, payables, deposits and remittances whose maturity date is very near or the future payment price approximates the carrying amount take the amount in the book on the balance sheet date as the fair value.
- b) Discounts and loans, deposits, financial debentures and structured commodity principals are all interest-bearing financial assets/liabilities whose carrying amount is taken as the current fair value. The carrying amount of nonperforming loan is the estimated recoverable amount after deduction of allowance for impairment loss, hence its carrying amount is used as its fair value.
- c) If an investment in a debt instrument at amortised cost has a public quoted price in an active market, the market price is used as its fair value; if no market price is available for reference, a valuation method is used to estimate the fair value. The estimates and assumptions used by the Bank in the valuation method are consistent with the information and assumptions used by market participants in the estimation of the fair value of financial products.



## 50. FINANCIAL RISK MANAGEMENT

The 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, the Bank adopts different risk management methods to identify its risks and the Bank follows 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.

The Bank has set up its risk management committee, whose responsibilities are as follows:

- a. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to the board of directors for approval;
- b. To manage and decide the strategy about the Bank's credit risk, market risk and operational risk;
- c. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators;
- d. To analyze the issues that the Bank's business unit brought up for discussion;
- e. Other issues.

The Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

- a. Credit risk

Credit risk represents the risk of loss that the Bank would incur if a counterparty fails to perform its contractual obligations. Sources of credit risk cover both on and off balance sheet accounts.

### The 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 are the executive unit of credit risk control. The credit quality of the Company is strictly controlled in advance. After the loan is approved, lending portfolios are reviewed according to the Bank and Indovina Bank's loan review regulations and deficiencies are tracked to strengthen post-event risk management.

The Bank, Indovina Bank and CUBCN Bank maintain a strict policy to evaluate customers' credit ratings when providing loans, loan commitments and commercial letters of credit. Certain customers are required to provide appropriate collateral for the related loans, and the Bank, Indovina Bank and CUBCN Bank retain the legal right to foreclose or liquidate the collateral, which effectively reduces the credit risk of the Bank, Indovina Bank and CUBCN Bank. The disclosure of the maximum credit exposure does not take into account any collateral held or other enhancements.

## CUBC Bank

The approval unit of CUBC Bank's credit risk policies is the board of directors, and the policies are then implemented by the CUBC Bank's credit 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.

When CUBC Bank provides loans, the approval unit is decided based on credit amount. 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 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 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 enhancements.

## Judgment of significant increase in credit risk after initial recognition

### The Bank

The Bank assesses 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, the Bank considers reasonable and corroborative information (including prospective information) that indicates a significant increase in credit risk since initial recognition. The key indicators for consideration include:

#### 1) Quantitative indicators

##### a) 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.

##### b) Information on the overdue status of a contract

When the contract payment is overdue for 30 days to 89 days at the reporting date, credit risk is deemed to have increased significantly since initial recognition.

#### 2) 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.

##### a) Bounced checks are reported.

##### b) Auditors have expressed significant doubt on the entity's ability to continue as a going concern.

##### c) Auditors' opinion - adverse opinion.

##### d) Auditors' opinion - disclaimer of opinion.

##### e) The stock was placed in full-cash delivery stock.

##### f) Other changes in the internal or external information on judging the credit quality changes.

The 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 credit ratings decreased over specific level after initial recognition date.

#### CUBCN Bank

CUBCN Bank assesses 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, CUBCN Bank considers reasonable and corroborative information (including prospective information) that indicates a significant increase in credit risk since initial recognition. The key indicators for consideration include:

##### 1) Quantitative indicators

###### a) 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.

###### b) Information on the overdue status of a contract

When the contract payment is overdue for 30 days to 90 days at the reporting date, credit risk is deemed to have increased significantly since initial recognition.

##### 2) 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.

###### a) Any financial instruments are classified as special mention.

###### b) Other changes in the internal or external information on judging the credit quality changes.

#### 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 credit risk has increased significantly since initial recognition:

##### 1) Quantitative indicators

###### a) 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.

###### b) 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.

###### c) Information on the overdue status of a contract

When the contract payment is overdue for 30 days at the reporting date, credit risk is deemed to have increased significantly since initial recognition.

d) 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.

2) Qualitative indicators

- a) Bounced checks are reported.
- b) Auditors have expressed significant doubt on the entity's ability to continue as a going concern.
- c) Other changes in the internal or external information on judging the credit quality changes.

CUBC Bank

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

1) Information on the overdue status of a contract

When the contract payment is overdue for more than 15 days for short-term loans or more than 30 days for long-term loans at the reporting date, credit risk is deemed to have increased significantly since initial recognition.

2) Loan classification from National Bank of Cambodia

A loan contract with special mention position at the reporting date would be classified as a loan with significant increase in credit risk since initial recognition.

3) 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.

Default and credit impairment of financial asset

The Bank

The Bank's criteria for determining that a financial asset is in default is the same for evaluating credit impairment of financial assets. Where one or more of the following conditions are met, the Bank determines the financial assets to be subject to default and credit impairment.

1) Quantitative indicator

- a) Changes in credit rating

When the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

b) Information on the overdue status of a contract

When the contract payment was overdue for more than 90 days at the reporting date, it is determined as credit impairment. Debt instruments that do not pay principal and interest according to issuance or transaction condition are determined to be credit impaired.

2) Qualitative indicator

When the information observed at the reporting date indicates the following conditions, it is determined as credit impairment.

a) Bailout, reorganization, individual agreement due to debtor's financial difficulties;

b) Lawsuit action has been taken;

c) Debt settlement, debt negotiation;

d) 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 the 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.

CUBCN Bank

CUBCN Bank's criteria for determining that a financial asset is in default is the same for evaluating credit impairment of financial assets. Where one or more of the following conditions are met, CUBCN Bank determines the financial assets to be subject to default and credit impairment.

1) Quantitative indicator

a) Changes in credit rating

When the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

b) Information on the overdue status of a contract

When the contract payment was overdue for more than 90 days at the reporting date, it is determined as credit impairment.

2) Qualitative indicator

When the information observed at the reporting date indicates the following conditions, it is determined as credit impairment.

a) Any financial instruments are classified as substandard, doubtful or loss.

b) The lowest credit risk is classified as substandard, doubtful or loss.

c) Other internal rating is determined to have fallen into default level.

The aforementioned definition of default and credit impairment applies to all financial assets held by CUBCN Bank, and is consistent with the definition applied on the relevant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

#### Indovina Bank

Indovina Bank assesses the following indicators at each reporting date to determine if the financial assets are credit-impaired:

1) Quantitative indicator

a) Changes in credit rating

When the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

b) Information on the overdue status of a contract

When the contract payment was overdue for more than 90 days at the reporting date, it is determined as credit impairment.

2) Qualitative indicator

a) Bailout, reorganization, individual agreement due to debtor's financial difficulties;

b) Lawsuit action has been taken;

c) Debt settlement, debt negotiation;

d) The debtor has filed for bankruptcy or may apply for bankruptcy or reorganization

e) Principal or interest could not be paid as scheduled during the settlement period

f) Other internal or external information on judging the deterioration in credit quality.

#### CUBC Bank

CUBC Bank assesses the following indicators at each reporting date to determine if the financial assets are credit impaired:

1) Information on the overdue status of a contract

When the contract payment is overdue for more than 30 days for short-term loans or more than 90 days for long-term loans at the reporting date, it is determined as credit impairment.

2) Loan classification from National Bank of Cambodia

A loan contract with specific position, such as substandard, doubtful and loss, at reporting date would be classified as a credit-impaired loan.

3) 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 credit-impaired assets.

## Measurement of expected credit loss

### The Bank

For the purpose of assessing the expected credit losses, the Bank classifies 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 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 the initial recognition (Stage 1), the Bank will measure the allowance for losses at the 12-month expected credit losses. When the credit risk of the financial instrument has increased significantly (Stage 2) or credit impairment has existed (Stage 3) after the initial recognition, the Bank will measure the allowance for losses at the lifetime expected credit losses.

For the measurement of the expected credit losses (“ECL”), the Bank calculates the 12-month ECL and lifetime ECL 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 lifetime.

The PD and LGD applied in the impairment assessment of the credit business of the Bank is adjusted and calculated based on the internal information of each group of assets as well as the currently observable data and the forward-looking macroeconomic information (such as economic growth rate, etc.).

The Bank assesses the EAD of loan at the reporting date. According to internal and external information, the Bank considers the portion of the loan commitment that is expected to be drawn within 12 months after the reporting date and for the lifetime, to determine the EAD for calculating the expected credit losses.

The Bank performs impairment assessment of debt instruments measured at FVTOCI and those measured at amortised cost in accordance with related requirements:

- 1) The EAD is measured at the amortised cost of a financial asset plus its interest receivable.
- 2) 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 forward-looking macroeconomic information (e.g., gross domestic product and economic growth rate, etc.).
- 3) The LGD is selected according to the type of debt instrument based on the information regularly published by Moody’s.

### CUBCN Bank

For the purpose of assessing the expected credit losses, CUBCN Bank classifies the credit assets into the following groups based on product characteristics.

<b>Credit Category</b>	<b>Definition</b>
Loan activities, call loans to banks business, and off-balance sheet credit business	Grouped by product category and internal/external credit rating
Billing business	Grouped by product category and internal/external credit rating
Bond business	Grouped by product category and internal/external credit rating
Due from banks and reverse repurchase	Grouped by product category and internal/external credit rating

- 1) The expected credit losses of financial instruments are measured on a case-by-case basis as follows:
  - a) For financial instruments in Stage 1, the allowance for losses is measured by the 12-month expected credit losses.
  - b) For financial instruments in Stage 2, the allowance for losses is measured by the lifetime expected credit losses.
  - c) For financial instruments in Stage 3, if the single account loan balance exceeds a certain amount, the discounted cash flow method can be used for individual assessment; if not using individual assessment, the allowance for losses is measured by the lifetime expected credit losses, and the PD is 100%.
- 2) The expected credit loss parameters of financial instruments are calculated according to the following principles respectively:
  - a) 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 forward-looking macroeconomic information.
  - b) The LGD is based on LGD regulated in the Capital of Commercial Banks (for Trial Implementation) published by China Banking and Insurance Regulatory Commission.
  - c) The EAD is measured at current exposure method. Besides, off-balance sheet credit business also converts using credit conversion factor regulated in the Capital of Commercial Banks (for Trial Implementation) published by China Banking and Insurance Regulatory Commission.

### Indovina Bank

For the purpose of assessing the expected credit losses, Indovina Bank classifies the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category, counterparty type, and so on.

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



## 1) Loan portfolio

The measurement of expected credit loss of Indovina Bank's loan portfolio is based on its credit category, risk characteristics and product category, and is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probabilities 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 amortised cost and interest receivable. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not met, the loss allowance 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 loss allowance shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

## 2) Bond portfolio

The measurement of expected credit loss of Indovina Bank's bond portfolio is based on its issuer's category, issuer's credit rating and risk characteristics. The probabilities of default and loss given default were built by the delinquent information and calibrated by selected macroeconomic factors for forward-looking adjustment. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not met, the loss allowance 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 loss allowance shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

## CUBC Bank

CUBC Bank has grouped its exposures on the basis of shared credit risk characteristic, including product category and counterparty types as follows:

<b>Category</b>	<b>Description</b>
Loan	Grouped by product characteristics, industry and counterparty type
Credit Card	Grouped by product characteristics

The measurement of expected credit loss of CUBC Bank's loan portfolio is based on its credit category, counterparty type and product category. The probabilities of default and loss given default were built by the internal and external historical delinquent information, LGD supervised under Basel II and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortised cost and interest receivable. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not met, the loss allowance 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 loss allowance shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

## Write-off policy

The Company write-off the financial assets partially or entirely to the extent of the amount which cannot be reasonably expected to be recovered.

The indicators for reasonably expected to be unrecoverable include:

- 1) The recourse procedure has ceased.

2) The debtor's assets or income are evaluated to be insufficient to repay outstanding payments.

Financial asset which has been written-off can do the recovery of debt and institute legal proceedings continuously under related policies.

Consideration of forward-looking information

The Bank

The Bank uses 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 uses 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 the Bank in 2021 are as follows:

<b>Credit Category</b>	<b>Probability of Default (PD)</b>
Enterprise loan	GDP % Government Expenditures
Consumer loan	Proportion of savings to GDP (%) Unemployment rate % Price Index
Credit Card	Price Index Proportion of revenue from government to GDP (%)

CUBCN Bank

CUBCN Bank uses historical data and rate of non-performing industry loans issued by the authorities to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and uses the regression model to estimate the impairment parameter after the prospective adjustment.

The relevant economic factors identified by CUBCN Bank in 2021 include but are not limited to GDP gross domestic product published by the China Statistics Bureau, China Customs and other government authorities, CPI consumer price index, import price index, and government expenditure data, etc.

Indovina Bank

Based on the qualitative and quantitative analysis of historical data, Indovina Bank identifies the local and global economic factors that affect the credit risks and expected credit losses of each group of assets, and uses the regression models, interpolation adjustment, and historical scenario analysis to estimate the impairment parameter after the prospective adjustment. The selected economic factors and their effects on PDs varied from different types of portfolios.

The macroeconomic factors selected by Indovina Bank for the forward-looking adjustments in 2021 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

## 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 2021 are as follows:

<b>Segment</b>	<b>Selected Factors</b>
Loan	Change of inflation (%) Change of volume of imports (%) Proportion of investment in GDP (%)
Credit Card	Change of volume of exports (%) Proportion of savings in GDP (%) Proportion of current account balance in GDP (%)

The valuation techniques or significant assumptions used by the Company for assessing the expected credit losses have no significant change as of September 30, 2021.

### Credit risk management policy

The category of credit asset and the grade of credit quality are described as follows:

#### 1) Category of credit asset

The credit risk of the Bank is classified into five categories. Normal credit assets are classified as "Category One." The remaining unsound credit assets are evaluated based on the status of the loan collateral and the length of time the asset is overdue. Assets that require special mention are classified as "Category Two," assets that are substandard are classified as "Category Three," assets that are doubtful are classified as "Category Four," and assets for which there is loss are classified as "Category Five". For managing the default credits, the Bank established the regulations governing the procedures to deal with non-performing loans, non-accrual loans and bad debts.

#### 2) Grade of credit quality

The Bank sets the grade 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, the Bank develops the rating model of business credit by employing statistical methods and the professional judgment of the experts as well as considering the clients' relevant information. The model is reviewed periodically to verify if the calculated results conform to the reality and make necessary revision to the parameters to optimize the results.

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

The credit quality of the Bank's corporate borrowers is classified as excellent, good, average, or bad.

To ensure the reasonableness of the estimated values of the credit rating system's design, process, and relevant risk factors, the 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.

The Bank evaluates the counterparties' credit quality before transactions are made and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

3) Hedge of credit risk and easing policy

a) Collateral

The 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, the Bank sets the scope of collateral and the procedures for appraising, managing, and disposing of the collateral. In addition, a credit contract stipulates the bases for credit claims, preservation of collateral, and offset provisions when a credit loss event occurs; the Bank may reduce the limit, cut down the payback period, or deem all debts as due. Also, the Bank may use the deposits that the borrowers saved in the Bank to offset the liabilities to lower the credit risk.

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

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

To avoid the excessive risk concentration, the Bank limits the credit amounts of single counterparties and groups; the 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, the 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.

c) Net settlement agreement

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

4) Maximum exposures 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:

a) The Bank

Off-Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2021	December 31, 2020	September 30, 2020
Irrevocable loan commitments	\$ 174,242,300	\$ 190,736,959	\$ 168,200,851
Credit card commitments	758,701,645	744,977,230	732,024,180
Unused commercial letters of credit	7,436,618	5,731,441	5,343,430
Guarantees on duties and contracts	18,967,392	17,071,951	15,394,150

b) Indovina Bank

Off-Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 1,322,375	\$ 1,323,647	\$ 1,271,051
Unused commercial letters of credit	1,158,327	972,917	907,191
Irrevocable loan commitments	683	-	-

c) CUBC Bank

Off-Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 17,635	\$ 17,406	\$ 16,685
Credit card commitments	273,549	277,491	295,093
Irrevocable loan commitments	251,727	234,582	308,755

d) CUBCN Bank

Off-Balance Sheet Items	Maximum Exposure to Credit Risk		
	September 30, 2021	December 31, 2020	September 30, 2020
Financial guarantee contracts	\$ 334,867	\$ 236,475	\$ 327,309
Unused commercial letters of credit	655,611	210,453	210,432
Irrevocable loan commitments	740,957	928,613	899,243

To reduce the risk from any businesses, the Bank conducts an overall assessment and takes appropriate risk reduction measures before undertaking the business, such as obtaining collateral and guarantors. For obtaining of collateral, the Bank has set Guidelines Governing Collateral to ensure that collateral meets the specific criteria and has the effect of reducing the business risk.

The management deems the Company is able to control and minimize the credit risk exposures in off-balance-sheet items as the Company uses stricter rating procedures when extending credits and conducts reviews regularly.

The carrying amounts of the maximum credit risk exposure of on-balance-sheet items were as follows:

September 30, 2021

	Discounts and Loans				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	\$ 1,762,693,124	\$ 54,856,901	\$ 13,062,427	\$ -	\$ 1,830,612,452
Less: Allowance for impairment	(3,237,428)	(1,465,752)	(5,379,942)	-	(10,083,122)
Less: Differences of impairment loss under regulations	-	-	-	(20,113,578)	(20,113,578)
	<u>\$ 1,759,455,696</u>	<u>\$ 53,391,149</u>	<u>\$ 7,682,485</u>	<u>\$ (20,113,578)</u>	<u>\$ 1,800,415,752</u>

  

	Receivable				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	\$ 92,579,760	\$ 1,675,703	\$ 2,157,980	\$ -	\$ 96,413,443
Less: Allowance for impairment	(410,245)	(225,997)	(1,712,015)	-	(2,348,257)
Less: Differences of impairment loss under regulations	-	-	-	(68,654)	(68,654)
	<u>\$ 92,169,515</u>	<u>\$ 1,449,706</u>	<u>\$ 445,965</u>	<u>\$ (68,654)</u>	<u>\$ 93,996,532</u>

## December 31, 2020

	Discounts and Loans				Total
	Stage 1	Stage 2	Stage 3	Differences of	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Impairment Loss under Regulations	
Total carrying amount	\$ 1,621,545,452	\$ 55,888,623	\$ 12,109,964	\$ -	\$ 1,689,544,039
Less: Allowance for 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>

  

	Receivable				Total
	Stage 1	Stage 2	Stage 3	Differences of	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Impairment Loss under Regulations	
Total carrying amount	\$ 98,245,219	\$ 1,889,559	\$ 2,141,088	\$ -	\$ 102,275,866
Less: Allowance for 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>

## September 30, 2020

	Discounts and Loans				Total
	Stage 1	Stage 2	Stage 3	Differences of	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Impairment Loss under Regulations	
Total carrying amount	\$ 1,560,568,474	\$ 60,253,970	\$ 12,024,276	\$ -	\$ 1,632,846,720
Less: Allowance for impairment	(4,274,189)	(2,451,466)	(5,673,662)	-	(12,399,317)
Less: Differences of impairment loss under regulations	-	-	-	(15,450,268)	(15,450,268)
	<u>\$ 1,556,294,285</u>	<u>\$ 57,802,504</u>	<u>\$ 6,350,614</u>	<u>\$ (15,450,268)</u>	<u>\$ 1,604,997,135</u>

  

	Receivable				Total
	Stage 1	Stage 2	Stage 3	Differences of	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Impairment Loss under Regulations	
Total carrying amount	\$ 88,252,646	\$ 2,059,746	\$ 2,098,874	\$ -	\$ 92,411,266
Less: Allowance for impairment	(440,714)	(200,571)	(1,685,030)	-	(2,326,315)
Less: Differences of impairment loss under regulations	-	-	-	(63,293)	(63,293)
	<u>\$ 87,811,932</u>	<u>\$ 1,859,175</u>	<u>\$ 413,844</u>	<u>\$ (63,293)</u>	<u>\$ 90,021,658</u>

### 5) Credit concentration risk of the Company

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

Credit concentration risk of the Company derives from the assets, liabilities and off-balance-sheet items, and arises from performing obligations or engaging in transactions of cross-credit line portfolio with risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. The Company does not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty relative to the Company's total bills discounts and loans, including overdue loans, guarantees, bills purchased, and acceptances receivable is not significant. Credit concentration risk of the Company according to industry and geographic region is listed below:

Industry Type	September 30, 2021		December 31, 2020		September 30, 2020	
	Amount	%	Amount	%	Amount	%
Manufacturing	\$ 148,288,475	8.00	\$ 136,414,473	7.98	\$ 136,408,281	8.26
Financial institutions and insurance	77,866,945	4.20	77,235,347	4.52	77,074,019	4.67
Leasing and real estate	169,871,620	9.16	151,233,185	8.85	143,620,450	8.70
Individuals	1,120,862,860	60.47	1,029,137,040	60.20	948,513,727	57.45
Others	<u>336,704,310</u>	<u>18.17</u>	<u>315,605,920</u>	<u>18.45</u>	<u>345,456,789</u>	<u>20.92</u>
Total	<u>\$ 1,853,594,210</u>	<u>100.00</u>	<u>\$ 1,709,625,965</u>	<u>100.00</u>	<u>\$ 1,651,073,266</u>	<u>100.00</u>

Geographic Region	September 30, 2021		December 31, 2020		September 30, 2020	
	Amount	%	Amount	%	Amount	%
Domestic	\$ 1,596,084,242	86.11	\$ 1,432,739,575	83.80	\$ 1,359,824,715	82.36
Asia	198,476,433	10.71	208,251,320	12.18	218,024,949	13.21
America	41,727,209	2.25	47,564,475	2.78	49,427,059	2.99
Others	17,306,326	0.93	21,070,595	1.24	23,796,543	1.44
Total	<u>\$ 1,853,594,210</u>	<u>100.00</u>	<u>\$ 1,709,625,965</u>	<u>100.00</u>	<u>\$ 1,651,073,266</u>	<u>100.00</u>

b. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means the Bank cannot provide sufficient funding for business 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.

2) 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, scenario simulation analysis and continuous contingency planning with quantitative management requirements and systems. The 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 Bank immediately reports to the board of directors.

3) Financial assets held to manage liquidity risk and maturity analysis of non-derivative financial liabilities of the Bank

a) Financial assets held to manage liquidity risk

The Bank holds highly marketable and diverse financial assets to meet payment obligations; assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets held to manage liquidity risk include cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at FVTPL, financial assets at FVTOCI, investments in debt instruments at amortised cost, discounts and loans, and securities purchased under resell agreements.

b) Maturity analysis of non-derivative financial liabilities of the Bank

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

	September 30, 2021				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 51,004,362	\$ 14,744,552	\$ 7,965,043	\$ 114,737	\$ 73,828,694
Due to the Central Bank and banks	-	1,076,000	-	-	1,076,000
Non-derivative financial liabilities at fair value through profit or loss	363,284	-	231,887	35,947,140	36,542,311
Securities sold under agreements to repurchase	10,910,021	3,388,448	-	-	14,298,469
Payables	26,992,955	7,796,010	987,237	400,209	36,176,411
Deposits and remittances	381,212,182	1,203,216,186	1,035,514,417	150,706,817	2,770,649,602
Financial debentures payable	-	-	10,115,249	37,000,000	47,115,249
Lease liabilities	128,787	476,901	563,730	1,976,209	3,145,627
Other capital outflow at maturity	8,439,796	13,839,577	4,642,916	1,318,393	28,240,682

	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
Due to the Central Bank and banks	-	960,000	116,000	-	1,076,000
Non-derivative financial liabilities at fair value through profit or loss	-	-	566,549	36,775,320	37,341,869
Securities sold under agreements to repurchase	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

  

	September 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Due to the Central Bank and call loans from banks	\$ 35,293,619	\$ 16,083,093	\$ 8,629,260	\$ 18,303	\$ 60,024,275
Due to the Central Bank and banks	-	-	-	1,000,000	1,000,000
Non-derivative financial liabilities at fair value through profit or loss	379,711	-	242,372	37,572,540	38,194,623
Securities sold under agreements to repurchase	9,865,297	563,327	-	-	10,428,624
Payables	12,958,787	7,113,319	786,245	373,142	21,231,493
Deposits and remittances	315,850,430	1,083,406,828	887,939,880	152,732,013	2,439,929,151
Financial debentures payable	-	1,131	7,334,112	46,800,000	54,135,243
Lease liabilities	128,059	519,064	657,733	2,503,774	3,808,630
Other capital outflow at maturity	12,486,068	20,222,322	6,583,483	1,008,627	40,300,500

Additional information about the maturity analysis of lease liabilities:

	September 30, 2021	December 31, 2020	September 30, 2020
Less than 1 year	\$ 1,169,418	\$ 1,351,581	\$ 1,304,856
1-5 years	1,719,644	2,156,451	2,298,693
5-10 years	256,565	250,974	205,081
Over 10 years	-	2,110	-
	<u>\$ 3,145,627</u>	<u>\$ 3,761,116</u>	<u>\$ 3,808,630</u>

c) Maturity analysis of derivative financial liabilities

Net settled derivative financial instruments engaged by the 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 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:

	September 30, 2021				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 222,866	\$ 26,270	\$ 899	\$ 8	\$ 250,043
Interest rate derivative instruments	16,255	404,687	210,311	16,535,244	17,166,497
Total	<u>\$ 239,121</u>	<u>\$ 430,957</u>	<u>\$ 211,210</u>	<u>\$ 16,535,252</u>	<u>\$ 17,416,540</u>

  

	December 31, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 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
Total	<u>\$ 169,536</u>	<u>\$ 931,147</u>	<u>\$ 379,887</u>	<u>\$ 23,592,656</u>	<u>\$ 25,073,226</u>



	September 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments	\$ 601,413	\$ 60,932	\$ 24,149	\$ 3	\$ 686,497
Interest rate derivative instruments	43,181	383,671	859,684	31,178,376	32,464,912
Total	<u>\$ 644,594</u>	<u>\$ 444,603</u>	<u>\$ 883,833</u>	<u>\$ 31,178,379</u>	<u>\$ 33,151,409</u>

Gross settled derivative financial instruments engaged by the 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 amount pay a periodic fee in return for a payment by the protection seller on credit event if any occurs.

The table below shows the 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 are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

	September 30, 2021				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (2,300,897)	\$ (3,108,147)	\$ (811,506)	\$ (579,404)	\$ (6,799,954)
Cash inflow	7,010	17,027	641	3	24,681
Interest rate derivative instruments					
Cash outflow	(249)	(48,709)	(198,976)	(407,660)	(655,594)
Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,301,146)	(3,156,856)	(1,010,482)	(987,064)	(7,455,548)
Cash inflow subtotal	7,010	17,027	641	3	24,681
Net cash flow	<u>\$ (2,294,136)</u>	<u>\$ (3,139,829)</u>	<u>\$ (1,009,841)</u>	<u>\$ (987,061)</u>	<u>\$ (7,430,867)</u>

	December 31, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (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	9,973	2,984	1,329	-	14,286
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>

	September 30, 2020				
	0-30 Days	31-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss					
Foreign exchange derivative instruments					
Cash outflow	\$ (4,038,403)	\$ (7,069,494)	\$ (2,001,784)	\$ (155,691)	\$ (13,265,372)
Cash inflow	3,684	4,938	-	-	8,622
Interest rate derivative instruments					
Cash outflow	-	(67,494)	(110,701)	(197,504)	(375,699)
Cash inflow	9	-	-	-	9
Cash outflow subtotal	(4,038,403)	(7,136,988)	(2,112,485)	(353,195)	(13,641,071)
Cash inflow subtotal	3,693	4,938	-	-	8,631
Net cash flow	<u>\$ (4,034,710)</u>	<u>\$ (7,132,050)</u>	<u>\$ (2,112,485)</u>	<u>\$ (353,195)</u>	<u>\$ (13,632,440)</u>

d) Maturity analysis of off-balance sheet items

- i. Irrevocable commitments: Include the Bank's irrevocable loan commitments and credit card commitments.
- ii. Financial guarantee contracts: The Bank acts as a guarantor or an issuer of standby letter of credit.

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

	<b>September 30, 2021</b>			
	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
Irrevocable loan commitments	\$ 144,752,517	\$ 25,909,994	\$ 3,579,789	\$ 174,242,300
Credit card commitments	35,294,426	205,343,016	518,064,203	758,701,645
Financial guarantee contracts	18,137,523	8,237,181	29,306	26,404,010

  

	<b>December 31, 2020</b>			
	<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

  

	<b>September 30, 2020</b>			
	<b>Not Later Than 1 Year</b>	<b>1-5 Years</b>	<b>Later Than 5 Years</b>	<b>Total</b>
Irrevocable loan commitments	\$ 136,571,155	\$ 26,136,664	\$ 5,493,032	\$ 168,200,851
Credit card commitments	38,388,757	232,322,457	461,312,966	732,024,180
Financial guarantee contracts	14,559,479	6,149,179	28,922	20,737,580

c. Market risk

1) Source and definition of market risk

Market risk is the potential gain or loss arising from movements of market price, such as interest rates, foreign exchange rates and equity securities.

The Bank organized market risk management department and the committee of assets and liabilities management. The department and the committee periodically examine the Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing, and uses medium and long term funding schemes. 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 the Bank for the management system, such as evaluating position, risk limit management, calculation of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

2) Market risk management strategy and process

Market risk management process

a) Identification and measurement

The operations department and risk management department of the Bank identify the market risk factors of risk exposure position, and measure the market risk. 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 price, etc., including position, gain and loss, stress testing, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR) etc., are used to measure the extent of investment portfolio loss that is influenced by interest risk, foreign exchange risk and price of equity securities.

b) Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress testing, 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. The 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 for not implementing stop-loss process and response plan. Furthermore, the department shall report to the executive management for approval and reports to the board of directors regularly.

3) Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investments for the purpose of trading or the hedge on the trading book. Portfolio is held for trading for the purpose of earning profit from the bid-ask spread. Any positions aside from the above trading book will be in the banking book.

a) Strategy

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

b) Policy and procedure

The Bank sets the “Rules of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

c) Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day based on information from independent and easily accessible sources. If the financial instruments are 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.

d) Method of measurement

- i. The assumptions and calculation method are described in the VaR section.
- ii. The Bank executes the stress testing monthly based on the following scenarios: The fluctuation of interest rate at 100bp, equity securities price at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

4) Interest risk management of trading book

a) Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the fair value changes due to fluctuations in interest rates. The main instruments include the securities and derivatives that are related to interest rates.

b) Interest risk management procedure of trading book

The Bank prudently chooses its investment target by studying the credibility and financial position of the securities issuers, and the sovereign risk and the trend of interest rates of the country. According to the operating strategy and the circumstances of the market, the 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.

c) Method of measurement

- i. The assumptions and calculation method are described in the VaR section.
- ii. The Bank measures the investment portfolio's interest risk exposure with DV01 monthly.

5) Interest risk management of 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.

a) Strategy

Interest risk management enhances the 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 or liabilities.

b) Management procedure

When undertaking the operations relating to interest rate instruments, the Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In addition, the Bank also measures the potential impact of interest rate changes on the profit and economic value of the Bank. The 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 are found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

c) Method of measurement

The interest risk of the Bank is mainly measured by the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off-balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, the Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress testing. Each interest risk indicator and the result of stress testing are reported to the executive management regularly for review.

6) Foreign exchange risk management

a) Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchanged at different times. The Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option, etc. The Bank's foreign exchange transactions are implemented daily to offset clients' positions. Thus, the Bank is not exposed to significant foreign exchange risk.

b) Policy, procedure and measurement method of foreign exchange risk management

In order to control foreign exchange risk, the Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, the Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR are described in the VaR section.

For foreign exchange risk, the Bank sets the scenario at 3% fluctuation of foreign exchange rates of major currencies to execute the stress testing quarterly, and reports to the risk management committee.

c) The significant portfolios of foreign currency financial assets and liabilities are as follows:

**Unit: In Thousands of Foreign Currency**

	<b>September 30, 2021</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollar</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 15,585,636	27.8660	\$ 434,309,333
AUD	1,687,983	20.0984	33,925,758
CNY	15,025,999	4.3083	64,736,511
Non-monetary items			
USD	739,012	27.8660	20,593,308
HKD	1,367,206	3.5783	4,892,273
THB	3,473,375	0.8241	2,862,408
<u>Financial liabilities</u>			
Monetary items			
USD	18,252,897	27.8660	508,635,228
CNY	8,996,173	4.3083	38,758,212
AUD	1,291,713	20.0984	25,961,365
Non-monetary items			
USD	572,130	27.8660	15,942,975
HKD	1,410,127	3.5783	5,045,857
CNY	2,614	4.3083	11,262

<b>December 31, 2020</b>			
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollar</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 12,499,496	28.5080	\$ 356,335,632
CNY	11,952,373	4.3802	52,353,784
AUD	1,247,185	21.9811	27,414,498
Non-monetary items			
USD	895,878	28.5080	25,539,690
HKD	3,744,032	3.6775	13,768,678
THB	3,473,375	0.9515	3,304,916
<u>Financial liabilities</u>			
Monetary items			
USD	16,865,082	28.5080	480,789,758
CNY	9,088,330	4.3802	39,808,703
AUD	1,428,519	21.9811	31,400,419
Non-monetary items			
USD	908,910	28.5080	25,911,206
HKD	3,527,023	3.6775	12,970,627
CNY	2,731	4.3802	11,962
<b>September 30, 2020</b>			
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollar</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 12,565,943	29.1260	\$ 365,995,656
CNY	7,044,807	4.2738	30,108,096
HKD	7,089,311	3.7581	26,642,340
Non-monetary items			
USD	1,057,772	29.1260	30,808,667
THB	3,473,375	0.9201	3,195,852
HKD	2,121,302	3.7581	7,972,065
<u>Financial liabilities</u>			
Monetary items			
USD	13,816,039	29.1260	402,405,952
CNY	8,590,701	4.2738	36,714,938
AUD	1,489,449	20.7392	30,889,981
Non-monetary items			
USD	1,018,519	29.1260	29,665,384
CNY	2,840	4.2738	12,138
HKD	2,181,447	3.7581	8,198,096

As the Company has a large variety of foreign currencies, it is not practicable to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange gains were \$332,196 thousand, \$203,911 thousand, \$804,369 thousand and \$789,910 thousand for the three months ended September 30, 2021 and 2020 and for the nine months ended September 30, 2021 and 2020, respectively.

7) Risk management of equity securities price

a) Definition of risk of equity securities price

The market risk of equity securities held by the 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.

b) Purpose of risk management of equity securities price

The purpose is to avoid the massive fluctuation of equity securities price that worsens the Bank's financial situation or earnings; to raise the operating efficiency of capital and strengthen the business operation.

c) Procedure of risk management of equity securities price

The Bank sets investment limits 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.

d) Measurement method

The risk of equity securities price in trading book is mainly controlled by VaR.

The Bank's risk of equity securities prices from its non-trading portfolio is controlled through stress testing of business scale under appropriate scenarios and the Bank reports the results to the risk management committee.

The Bank adopts many methods to manage its market risk. Value-at-risk (VaR) is one of the methods. 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. The 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 potential amount of loss within one day. 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>September 30, 2021</b>				
<b>Factors of Market Risk</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Ending</b>
Interest rate	\$ 103,458	\$ 193,477	\$ 43,133	\$ 193,477
Foreign exchange	110,427	207,113	65,675	70,541
Equity securities price	365,690	629,009	120,573	120,573

<b>December 31, 2020</b>				
<b>Factors of Market Risk</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Ending</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>September 30, 2020</b>				
<b>Factors of Market Risk</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Ending</b>
Interest rate	\$ 116,903	\$ 194,699	\$ 72,467	\$ 79,068
Foreign exchange	193,957	371,160	35,686	161,156
Equity securities price	318,495	791,984	103,986	234,264

Note: Above information about factors of market risks is defined by risk management of the trading book.

The Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank transacts derivative contracts with its clients to meet their demands and also takes proprietary positions for its own accounts within the allowed market risk.

#### 8) Stress testing

The stress testing is used to measure the maximum loss of risk asset portfolio under the worst-case scenario. The Bank takes into consideration various types of risk factors during stress testing and the results will be reported to the executive management.

<b>Stress Testing</b>				
<b>Market/Product</b>	<b>Scenarios</b>	<b>September 30, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>
Stock market	Major stock exchanges + 15%	\$ 859,931	\$ 2,111,674	\$ 1,020,298
	Major stock exchanges - 15%	(859,931)	(2,038,832)	(1,020,298)
Interest rate/bond market	Major interest rate + 100bp	(712,487)	(1,433,146)	(1,704,028)
	Major interest rate - 100bp	784,146	53,539	714,874
Foreign exchange market	Major currencies + 3%	431,300	306,945	412,530
	Major currencies -3%	(415,042)	(306,945)	(399,896)
Composite	Major stock exchanges -15%	(1,141,118)	(3,165,033)	(2,311,796)
	Major interest rate + 100bp			
	Major currencies + 3%			

The information of stress testing is defined by risk management policy of the trading book.

#### 9) Sensitivity analysis

##### a) 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 derivative portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. The Bank's interest rate-sensitive portfolios include government bonds, corporate bonds, interest rate swaps, forward rate agreements and interest rate collars.

##### b) Foreign exchange risk

Foreign exchange rate factor sensitivities ("FX delta") represent the change of the foreign exchange portfolios (i.e., forward exchange transactions and currency swaps) caused by the underlying currency exchange rate fluctuation.



c) Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. The Bank’s equity portfolios include stocks and equity index options.

		<b>September 30, 2021</b>	
<b>Risk Factors</b>	<b>Changes (+/-)</b>	<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
Foreign exchange rate factor sensitivity (FX Delta)	USD + 1%	\$ 159,260	\$ -
	HKD + 1%	(2,191)	-
	JPY + 1%	5,396	-
	AUD + 1%	560	-
	CNY + 1%	(29,249)	-
Interest rate factor sensitivity (PVBP)	Yield curves (USD) parallel shift + 1bp	(211)	-
	Yield curves (HKD) parallel shift + 1bp	(114)	-
	Yield curves (JPY) parallel shift + 1bp	(246)	-
	Yield curves (AUD) parallel shift + 1bp	(557)	-
	Yield curves (CNY) parallel shift + 1bp	(2,312)	-
Equity securities price factor sensitivity (Equity Delta)	Equity securities price + 1%	(1,015)	58,344

  

		<b>December 31, 2020</b>	
<b>Risk Factors</b>	<b>Changes (+/-)</b>	<b>Sensitivity of Profit or Loss</b>	<b>Sensitivity of Equity</b>
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	118,190

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

#### 10) Effect of interest rate benchmark reform

The Bank is exposed to USD LIBOR which is subject to interest rate benchmark reform. The exposures arise on derivatives and non-derivative financial assets and liabilities. SOFR (Secured Overnight Financing Rate) is expected to replace USD LIBOR. There are key differences between USD LIBOR and SOFR. USD LIBOR is “forward looking”, which implies market expectation over future interest rates, and includes a credit spread over the risk-free rate. SOFR is currently a “backward-looking” rate, based on interest rates from actual transactions, and excludes a credit spread. Therefore, when existing contracts and agreements that reference USD LIBOR transfer to SOFR, adjustments for these differences might need to be applied to SOFR to enable the two benchmark rates to be economically equivalent.

The Bank established a USD LIBOR transition project plan to handle risk management policies changes, internal processes adjustments, IT systems updates and valuation models adjustments, as well as to manage any related tax and accounting issues in accordance with interest rate benchmark reform. As of September 30, 2021, changes required to IT systems and internal processes have been identified and have been partially implemented.

Risks arising from the transition relate principally to the potential impact of interest rate basis risk. If the bilateral negotiations with the Bank’s counterparties are not successfully concluded before the cessation of USD LIBOR, the case will bring significant uncertainties to the future interest rate basis applied to financial instruments, and give rise to additional interest rate risk that was not anticipated when the contracts were entered into. If a hedged financial instrument and the related hedging derivative instruments are transitioned to alternative benchmark rates at different times, it could result in hedge ineffectiveness.

## The Bank

The following table contains details of non-derivative financial instruments held by the Bank as of September 30, 2021 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

	<b>Carrying Amount</b>
<u>Non-derivative financial assets which are subject to the reform</u>	
Financial assets linked to USD LIBOR	
Financial assets at FVTOCI	\$ 3,961,336
Investments in debt instruments at amortised cost	3,963,395
Discounts and loans	<u>58,142,944</u>
	<u>66,067,675</u>
Financial assets linked to EUR LIBOR	
Discounts and loans	<u>735,292</u>
Financial assets linked to JPY LIBOR	
Discounts and loans	<u>3,673,379</u>
Financial assets linked to SGD LIBOR	
Discounts and loans	<u>446,949</u>
Financial assets linked to HKD HIBOR	
Discounts and loans	<u>22,650,005</u>
Financial assets linked to USD SIBOR	
Discounts and loans	<u>31,024</u>
Financial assets linked to SGD SOR	
Discounts and loans	<u>8,822,362</u>
Financial assets linked to VND VNIBOR	
Discounts and loans	<u>316,560</u>
	<u>\$ 102,743,246</u>
<u>Non-derivative financial liabilities which are subject to the reform</u>	
Financial assets linked to USD LIBOR	
Notes and bonds issued under repurchase agreement	<u>\$ 139,330</u>

The following table contains details of derivative financial instruments held by the Bank at September 30, 2021 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

Derivative Financial Instrument	Nominal Amount	Carrying Amount	
		Financial Assets	Financial Liabilities
<u>Financial assets linked to USD LIBOR</u>			
Interest rate swaps	\$ 18,568,757	\$ 633,405	\$ 47,001
Options	<u>2,336,345</u>	<u>-</u>	<u>118</u>
	<u>20,905,102</u>	<u>633,405</u>	<u>47,119</u>
<u>Financial assets linked to SGD SOR</u>			
Interest rate swaps	1,743,097	695	2,289
Cross-currency swaps	<u>727,144</u>	<u>5,026</u>	<u>-</u>
	<u>2,470,241</u>	<u>5,721</u>	<u>2,289</u>
	<u>\$ 23,375,343</u>	<u>\$ 639,126</u>	<u>\$ 49,408</u>

d. Transfers of financial assets

Financial assets transferred that have not been fully removed

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

The following table is an analysis of financial assets and financial liabilities that have not been fully derecognized:

September 30, 2021					
Category of Financial Assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying Value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair Value	Net Fair Value
Financial assets at fair value through other comprehensive income					
Repurchase agreements	\$ 20,475,506	\$ 20,015,425	\$ 20,475,506	\$ 20,015,425	\$ 460,081
Investments in debt instruments measured at amortised cost					
Repurchase agreements	1,312,363	1,284,873	1,364,999	1,284,873	80,126

December 31, 2020					
Category of Financial Assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying Value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair Value	Net Fair Value
Financial assets at fair value through other comprehensive income					
Repurchase agreements	\$ 9,706,456	\$ 9,175,931	\$ 9,706,456	\$ 9,175,931	\$ 530,525
Investments in debt instruments measured at amortised cost					
Repurchase agreements	865,651	916,127	961,477	916,127	45,350

September 30, 2020					
Category of Financial Assets	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying Value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair Value	Net Fair Value
Financial assets at fair value through other comprehensive income					
Repurchase agreements	\$ 17,925,149	\$ 16,837,053	\$ 17,925,149	\$ 16,837,053	\$ 1,088,096
Investments in debt instruments measured at amortised cost					
Repurchase agreements	890,929	885,772	900,125	885,772	14,353

e. Offsetting financial assets and liabilities

The Company 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.

The Company 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, if not, the financial instruments could be settled at gross amount. 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 is disclosed as follows:

September 30, 2021

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 40,886,248	\$ -	\$ 40,886,248	\$ 35,733,649	\$ 4,164,974	\$ 987,625

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 35,733,649	\$ -	\$ 35,733,649	\$ 35,733,649	\$ -	\$ -
Repurchase agreement	21,300,298	-	21,300,298	20,844,379	455,919	-

December 31, 2020

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 73,217,904	\$ -	\$ 73,217,904	\$ 71,410,047	\$ 1,807,857	\$ -

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 71,410,047	\$ -	\$ 71,410,047	\$ 71,410,047	\$ -	\$ -
Repurchase agreement	10,092,058	-	10,092,058	9,278,702	813,356	-

September 30, 2020

Financial Assets Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Assets (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 72,282,946	\$ -	\$ 72,282,946	\$ 68,313,055	\$ 3,969,891	\$ -

Financial Liabilities Subject to Offsetting, Master Netting Arrangement or Similar Agreement						
Item	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount Offset in the Balance Sheet (b)	Amount Presented in the Balance Sheet (c)= (a)-(b)	Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received/Pledged	
Derivative financial instruments	\$ 68,313,055	\$ -	\$ 68,313,055	\$ 68,313,055	\$ -	\$ -
Repurchase agreement	17,722,825	-	17,722,825	16,361,078	1,361,747	-

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

## 51. CAPITAL MANAGEMENT

### a. Capital adequacy maintain strategy

The eligible capital of the Company must conform to the regulatory capital requirements and achieve the minimum adequacy ratio. The calculation of the eligible capital and regulatory capital should comply with the rules issued by the authorities.

### b. Capital assessment procedure

To ensure the Company possesses sufficient capital to assume various risk, the Company assesses required capital for the portfolios and characteristics of risk and execute risk management through capital allocation to realize optimization of resources.

## 52. UNCONSOLIDATED STRUCTURED ENTITIES

The Company does not provide financial support or other support to the unconsolidated structured entities for the nine months ended September 30, 2021 and 2020. The Company's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets the Company recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Type of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Securitization vehicle	Investment in asset-backed securities to receive returns	Investment in securitization vehicles issued by the entity

The carrying amounts of assets recognized by the Company as of September 30, 2021, December 31, 2020 and September 30, 2020 relating to its interests in unconsolidated structured entities are disclosed as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
Financial assets at FVTOCI	\$ 10,111,570	\$ 14,299,523	\$ 16,313,861
Investments in debt instruments measured at amortised cost	<u>49,658,067</u>	<u>32,294,807</u>	<u>36,528,004</u>
	<u>\$ 59,769,637</u>	<u>\$ 46,594,330</u>	<u>\$ 52,841,865</u>

## 53. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

### The Bank

#### a. Credit risk

- 1) Asset quality: Please refer to Table 2.
- 2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

September 30, 2021			
Rank	Industry Category of Company or Group	Credit Extension Balance	% to Net Asset Value
1	Group A - real estate development activities	\$ 29,660,819	12.26
2	Group B - packaging and testing of semi-conductors	12,826,230	5.30
3	Group C - other financial intermediation	6,870,332	2.84
4	Group D - wired telecommunications activities	6,309,642	2.61
5	Group E - real estate development activities	6,000,000	2.48
6	Group F - real estate development activities	5,708,000	2.36
7	Group G - manufacture of computers	5,510,942	2.28
8	Group H - manufacture of computers	4,665,975	1.93
9	Group I - manufacture of computers	4,579,717	1.89
10	Group J - air transportation	4,460,222	1.84

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

b. Market risk

Interest Rate Sensitivity (New Taiwan Dollar)

(In Thousands of New Taiwan Dollars, %)

September 30, 2021

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 2,077,904,147	\$ 20,652,107	\$ 139,650,687	\$ 167,401,673	\$ 2,405,608,614
Interest rate-sensitive liabilities	174,456,921	1,747,442,642	231,839,055	73,106,532	2,226,845,150
Interest rate-sensitive gap	1,903,447,226	(1,726,790,535)	(92,188,368)	94,295,141	178,763,464
Net worth					242,001,591
Ratio of interest rate-sensitive assets to liabilities					108.03%
Ratio of interest rate sensitivity gap to net worth					73.87%

September 30, 2020

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,907,412,976	\$ 26,475,753	\$ 134,818,871	\$ 128,297,142	\$ 2,197,004,742
Interest rate-sensitive liabilities	186,717,285	1,483,800,146	230,016,680	90,477,682	1,991,011,793
Interest rate-sensitive gap	1,720,695,691	(1,457,324,393)	(95,197,809)	37,819,460	205,992,949
Net worth					236,246,742
Ratio of interest rate-sensitive assets to liabilities					110.35%
Ratio of interest rate sensitivity gap to net worth					87.19%

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank (i.e., excluding foreign currency).

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)**

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

**September 30, 2021**

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 7,921,059	\$ 1,395,157	\$ 1,298,211	\$ 8,276,993	\$ 18,891,420
Interest rate-sensitive liabilities	12,396,814	3,883,464	3,859,669	4,593,364	24,733,311
Interest rate-sensitive gap	(4,475,755)	(2,488,307)	(2,561,458)	3,683,629	(5,841,891)
Net worth					8,684,475
Ratio of interest rate-sensitive assets to liabilities					76.38%
Ratio of interest rate sensitivity gap to net worth					(67.27%)

**September 30, 2020**

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 7,670,274	\$ 1,628,071	\$ 1,097,394	\$ 6,116,613	\$ 16,512,352
Interest rate-sensitive liabilities	10,454,563	3,442,741	3,327,152	4,265,366	21,489,822
Interest rate-sensitive gap	(2,784,289)	(1,814,670)	(2,229,758)	1,851,247	(4,977,470)
Net worth					8,111,198
Ratio of interest rate-sensitive assets to liabilities					76.84%
Ratio of interest rate sensitivity gap to net worth					(61.37%)

Note 1: The above amounts included only U.S. dollar amounts held by the 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)

c. Liquidity risk

1) Profitability (consolidated information)

**Unit: %**

Items		For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Return on total assets	Before income tax	0.65	0.73
	After income tax	0.57	0.63
Return on equity	Before income tax	8.81	9.38
	After income tax	7.65	8.13
Net income ratio		38.48	39.92

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the nine months ended September 30, 2021 and 2020.

## 2) Maturity analysis of assets and liabilities

### Maturity Analysis of Assets and Liabilities (New Taiwan Dollar)

(In Thousands of New Taiwan Dollar)

September 30, 2021

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 3,097,936,353	\$ 469,242,206	\$ 347,352,022	\$ 310,274,574	\$ 249,128,488	\$ 438,663,700	\$ 1,283,275,363
Main capital outflow on maturity	3,694,946,052	145,147,631	239,838,580	487,610,776	600,577,223	700,407,643	1,521,364,199
Gap	(597,009,699)	324,094,575	107,513,442	(177,336,202)	(351,448,735)	(261,743,943)	(238,088,836)

September 30, 2020

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,958,660,921	\$ 472,639,240	\$ 315,648,537	\$ 448,696,770	\$ 259,626,918	\$ 394,592,457	\$ 1,067,456,999
Main capital outflow on maturity	3,495,686,461	157,811,679	250,623,220	478,789,988	634,704,489	643,627,789	1,330,129,296
Gap	(537,025,540)	314,827,561	65,025,317	(30,093,218)	(375,077,571)	(249,035,332)	(262,672,297)

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

### Maturity Analysis of Assets and Liabilities (U.S. Dollars)

(In Thousands of U.S. Dollars)

September 30, 2021

	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	\$ 72,957,700	\$ 23,362,075	\$ 16,824,437	\$ 10,274,083	\$ 10,565,668	\$ 11,931,437
Main capital outflow on maturity	77,762,811	25,294,802	16,948,220	12,486,317	14,198,982	8,834,490
Gap	(4,805,111)	(1,932,727)	(123,783)	(2,212,234)	(3,633,314)	3,096,947

September 30, 2020

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	\$ 68,609,526	\$ 16,431,268	\$ 12,382,170	\$ 10,647,016	\$ 8,291,734	\$ 20,857,338
Main capital outflow on maturity	73,307,126	13,627,946	10,239,107	8,416,214	9,687,007	31,336,852
Gap	(4,697,600)	2,803,322	2,143,063	2,230,802	(1,395,273)	(10,479,514)

Note: The above amounts included only U.S. dollar amounts held by the Bank.

## 54. OPERATING SEGMENTS

For management purposes, the Company divides operating units based on different products and services. The four reportable segments are as follows:

- Corporate banking unit: Syndicated loan, large scale, group and general credit business;
- Individual banking unit: Deposits and consumer loans, foreign exchange service, endorsement guarantees business, note discounting, safe deposits boxes, credit card - related products, and trust business;
- International banking unit: Offshore banking units, overseas branches and representative office; and

- d. Other units: These parts contain the Bank's assets, liabilities, revenues and expenses that cannot be attributed to or allocated reasonably to certain operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

The analysis of the Company's operating revenue and results by reportable segment was as follows:

	<b>For the Nine Months Ended September 30, 2021</b>				
	<b>Corporate Banking</b>	<b>Individual Banking</b>	<b>International Banking</b>	<b>Others</b>	<b>Total</b>
Net interest (externally)	<u>\$ 5,463,830</u>	<u>\$ 13,875,270</u>	<u>\$ 4,271,137</u>	<u>\$ 4,878,208</u>	<u>\$ 28,488,445</u>
Segment revenue (expense)	<u>\$ (952,117)</u>	<u>\$ 3,964,385</u>	<u>\$ (69,304)</u>	<u>\$ (2,942,964)</u>	<u>\$ -</u>
Segment net income	<u>\$ 3,918,637</u>	<u>\$ 15,112,616</u>	<u>\$ 1,168,714</u>	<u>\$ 1,506,011</u>	<u>\$ 21,705,978</u>
Income tax expense					<u>(2,866,657)</u>
Income after income tax					<u>\$ 18,839,321</u>

	<b>For the Nine Months Ended September 30, 2020</b>				
	<b>Corporate Banking</b>	<b>Individual Banking</b>	<b>International Banking</b>	<b>Others</b>	<b>Total</b>
Net interest (externally)	<u>\$ 5,653,125</u>	<u>\$ 10,584,334</u>	<u>\$ 5,236,123</u>	<u>\$ 4,811,674</u>	<u>\$ 26,285,256</u>
Segment revenue (expense)	<u>\$ (1,779,481)</u>	<u>\$ 7,234,233</u>	<u>\$ (397,420)</u>	<u>\$ (5,057,332)</u>	<u>\$ -</u>
Segment net income	<u>\$ 3,089,391</u>	<u>\$ 14,390,758</u>	<u>\$ 2,906,974</u>	<u>\$ 1,758,619</u>	<u>\$ 22,145,742</u>
Income tax expense					<u>(2,938,082)</u>
Income after income tax					<u>\$ 19,207,660</u>

Note 1: No revenue from transactions with a single external customer amounted to 10% or more of the Company's total revenue.

Note 2: Operating segments' profit are measured on a pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.

Note 3: As the Company provided the average amount of deposits and loans to measure assets and liabilities, the measured amount of assets and liabilities is not disclosed.

## 55. OTHER

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

## 56. ADDITIONAL DISCLOSURES

- a. Related information of significant transactions and investees and b. Proportionate share in investees:
- 1) Financing provided: The Bank - not applicable; investee - none
  - 2) Endorsement/guarantee provided: The Bank - not applicable; investee - none
  - 3) Marketable securities held: The Bank - not applicable; investee - none
  - 4) Marketable securities acquired or disposed of at costs or prices of at least \$300 million or 10% of the paid-in capital: The Bank - not applicable; investee - none
  - 5) Acquisition of individual real estate at costs of at least \$300 million or 10% of the paid-in capital: None
  - 6) Disposal of individual real estate at costs of at least \$300 million or 10% of the paid-in capital: None
  - 7) Allowance of service fees to related parties amounting to at least \$5 million: None
  - 8) Receivables from related parties amounting to at least \$300 million or 10% of the paid-in capital: Table 1 (attached)
  - 9) Sale of nonperforming loans: Table 2 (attached).
  - 10) Asset securitization under the “Regulations for Financial Asset Securitization”: None
  - 11) Other significant transactions which may affect the decisions of users of financial reports: Table 3 (attached)
  - 12) Related information of investees and proportionate share: Quarterly report is exempt from disclosure
  - 13) Derivative transactions: Note 8
- c. Investments in mainland China: Table 4 (attached)
- d. Intercompany relationships and significant intercompany transactions

For the detailed information of intercompany relationships and significant intercompany transactions, refer to Table 5 (attached).

- e. Information on major shareholders

A bank whose stock is listed on the TWSE or listed on the TPEX shall disclose the names, numbers of shares held, and shareholding percentages of shareholders who hold 5 percent or more of the Bank's equity: Not applicable.

**CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL  
AS OF SEPTEMBER 30, 2021  
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Cathay United Bank Co., Ltd.	Cathay Financial Holding Co., Ltd.(Note 1)	Parent company	\$ 342,658	-	\$ -	-	\$ -	\$ -
	Cathay United Bank (China) Corporation Limited (Note 2)	Subsidiary	304,842	-	-	-	-	-
	Cathay Life Insurance Co., Ltd. (Note 3)	Other related party	557,612	-	-	-	-	-

Note 1: Related party receivables for allocation of integrated expense tax systems account.

Note 2: Interest receivable.

Note 3: Insurance commission receivable.

**CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES**

**SALE OF NONPERFORMING LOANS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021  
(In Thousands of New Taiwan Dollars)**

<b>Trade Date</b>	<b>Counterparty</b>	<b>Loans Composition</b>	<b>Carrying Amount (Note)</b>	<b>Selling Price</b>	<b>Gain (or Loss) on Disposal</b>	<b>Terms</b>	<b>Relationship</b>
August 31, 2021	FitzWalter Capital Partners (Master HoldCo) Limited	Corporate loans	\$ 733,319	\$ 527,452	\$ (205,867)	None	None

Note: The carrying amount is the amount of debt less the allowance for doubtful accounts.

## CATHAY UNITED BANK CO., LTD.

ASSET QUALITY - NONPERFORMING LOANS  
AS OF SEPTEMBER 30, 2021 AND 2020  
(In Thousands of New Taiwan Dollars, %)

Period		September 30, 2021					September 30, 2020				
Items		Nonperforming Loan (Note 1)	Loan	Ratio of Nonperforming Loan (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Credit Losses	Coverage Ratio (Note 3)
Corporate banking	Secured	\$ 808,673	\$ 293,616,244	0.28%	\$ 1,520,018	187.96%	\$ 866,166	\$ 245,809,962	0.35%	\$ 3,860,785	445.73%
	Unsecured	1,047,698	334,601,925	0.31%	8,719,621	832.27%	287,779	347,502,591	0.08%	7,301,184	2537.08%
Consumer banking	Housing mortgage (Note 4)	237,067	467,037,024	0.05%	7,244,664	3055.96%	365,366	375,526,956	0.10%	5,963,110	1632.09%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small-scale credit loans (Note 5)	245,768	111,323,530	0.22%	4,386,602	1784.85%	242,762	95,958,362	0.25%	3,648,590	1502.95%
	Other (Note 6)	Secured	716,806	525,981,637	0.14%	6,093,518	850.09%	701,827	475,518,974	0.15%	5,319,097
Unsecured		47,889	22,775,313	0.21%	317,694	663.40%	23,838	21,610,959	0.11%	298,591	1252.57%
Loan		3,103,901	1,755,335,673	0.18%	28,282,117	911.18%	2,487,738	1,561,927,804	0.16%	26,391,357	1060.86%
		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		\$ 81,554	\$ 79,075,786	0.10%	\$ 2,000,088	2452.48%	\$ 95,343	\$ 76,558,389	0.12%	\$ 1,916,048	2009.64%
Accounts receivable factored without recourse (Note 7)		-	4,918,618	-	106,817	-	-	6,496,990	-	80,298	-

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-accrued 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, excluding credit cards.

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.

(Continued)

Not reported as nonperforming loans or nonperforming receivables

Types	Items	September 30, 2021		September 30, 2020	
		Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable
	Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	\$ 1,099	\$ 38,515	\$ 1,561	\$ 55,502
	Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	89,807	1,183,534	65,664	1,197,627
	Total	\$ 90,906	\$ 1,222,049	\$ 67,225	\$ 1,253,129

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).

(Concluded)



## CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

(In Thousands of New Taiwan Dollars or Foreign Currencies, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2021 (Note 1)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2021	Investee Net Income	% Ownership of Direct or Indirect Investment	Investment Income	Carrying Value as of September 30, 2021	Accumulated Inward Remittance of Earnings as of September 30, 2021	Note
					Outflow	Inflow							
Cathay United Bank (China) Limited	Local government approved banking	\$ 14,377,562 (CNY 3,000,000)	Direct	\$ 14,377,562 (CNY 3,000,000)	\$ -	\$ -	\$ 14,377,562 (CNY 3,000,000)	\$ 186,873	100	\$ 186,873	\$ 16,197,521	\$ -	

Accumulated Investment in Mainland China as of September 30, 2021	Investment Amount Approved by the Investment Commission, MOEA (Note 2)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$ 14,377,562 (CNY 3,000,000)	\$ 14,377,562 (CNY 3,000,000)	\$ 147,657,855

Note 1: The registered capital of Cathay United Bank (China) Limited was CNY3,000,000,000, which was transferred to the working capital of Cathay United Bank (China) Limited after the merger of Cathay United Bank Shanghai branch, Qingdao branch and Shenzhen branch was approved by the authorities.

Note 2: The Investment Commission of the Ministry of Economic Affairs ("MOEAIC") authorized the Bank to remit US\$60,067,239 (CNY400,000,000). Based on the capital verification report issued by local accountants in mainland China, the Shanghai branch of the Bank was authorized to remit the total amount of working capital of US\$59,768,397.46, and the remaining amount of US\$298,841.54 was repatriated on November 5, 2010. The Bank reported to MOEAIC to revise the amount of the investment on January 18, 2011, and it was authorized by MOEAIC on January 24, 2011. Also, MOEAIC authorized the Bank to remit US\$95,024,128 (CNY600,000,000). Based on the capital verification report issued by local accountants in mainland China, Shanghai branch of the Bank was authorized to remit the total amount of working capital of US\$94,929,198.64, and the remaining amount of US\$94,929.36 was repatriated on February 1, 2012. The Bank reported to MOEAIC to revise the amount of the investment on March 20, 2012, and it was authorized by MOEAIC on March 26, 2012. MOEAIC agreed to the Bank to increase the working capital of Shanghai branch by US\$164,000,000 (CNY1,000,000,000) on February 27, 2014, and was authorized by MOEAIC on July 10, 2014. MOEAIC agreed to the Bank to increase the working capital of the Qingdao branch by US\$98,199,673 (CNY600,000,000) on January 21, 2014, and was authorized by MOEAIC on October 30, 2014. The Bank obtained approval from MOEAIC to increase the working capital of Shenzhen branch by US\$60,708,160.7 (CNY400,000,000) on January 5, 2015, and was authorized by MOEAIC on December 22, 2016.

Note 3: Based on the Investment Commission's "Regulation on Examination of Investment or Technical Cooperation in Mainland China" investments are limited to the larger of 60% of the Bank's net asset value or 60% of the Company's consolidated net asset value.

TABLE 5

## CATHAY UNITED BANK CO., LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS AMONG THE BANK AND SUBSIDIARIES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Transacting Company	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			Percentage of Total Revenue or Total Assets (Note 3)
				Financial Statement Account	Amounts	Terms of Transaction	
0	Cathay United Bank	Indovina Bank	a	Due from banks - interest revenue	\$ 44	Note 4	0.00
		Indovina Bank	a	Due to banks	85,446	Note 4	0.00
		Indovina Bank	a	Due from bank	61,623	Note 4	0.00
1	Indovina Bank	Cathay United Bank	b	Due to banks - interest expense	44	Note 4	0.00
		Cathay United Bank	b	Due from bank	85,446	Note 4	0.00
		Cathay United Bank	b	Due to banks	61,623	Note 4	0.00
0	Cathay United Bank	CUBC Bank	a	Call loan to banks - interest revenue	220	Note 4	0.00
		CUBC Bank	a	Call loan from banks - interest expense	10	Note 4	0.00
		CUBC Bank	a	Due to banks	11,584	Note 4	0.00
		CUBC Bank	a	Due from bank	56,566	Note 4	0.00
		CUBC Bank	a	Call loans to banks	557,320	Note 4	0.02
		CUBC Bank	a	Dividends receivable	164,262	Note 4	0.00
		CUBC Bank	a	Interest receivable	42	Note 4	0.00
		CUBC Bank	a	Net other revenue other than interest income	9,502	Note 4	0.02
2	CUBC Bank	Cathay United Bank	b	Call loan from banks - interest expense	220	Note 4	0.00
		Cathay United Bank	b	Call loan to banks - interest revenue	10	Note 4	0.00
		Cathay United Bank	b	Due from bank	11,584	Note 4	0.00
		Cathay United Bank	b	Due to banks	56,566	Note 4	0.00
		Cathay United Bank	b	Call loans from banks	557,320	Note 4	0.02
		Cathay United Bank	b	Dividends payable	164,262	Note 4	0.00
		Cathay United Bank	b	Interest payable	42	Note 4	0.00
		Cathay United Bank	b	Other general and administrative expense	9,502	Note 4	0.02
0	Cathay United Bank	CUBCN Bank	a	Call loans to banks - interest revenue	60,385	Note 4	0.12
		CUBCN Bank	a	Due from banks - interest revenue	209,130	Note 4	0.43
		CUBCN Bank	a	Due to banks	50,491	Note 4	0.00
		CUBCN Bank	a	Due from banks	3,020,409	Note 4	0.09
		CUBCN Bank	a	Other financial assets	4,308,254	Note 4	0.12
		CUBCN Bank	a	Call loans to banks	4,739,079	Note 4	0.14
		CUBCN Bank	a	Interest receivable	304,842	Note 4	0.01
		CUBCN Bank	a	Other receivable	60,111	Note 4	0.00

(Continued)

No. (Note 1)	Transacting Company	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amounts	Terms of Transaction	Percentage of Total Revenue or Total Assets (Note 3)
3	CUBCN Bank	Cathay United Bank	b	Call loan from banks - interest expense	\$ 60,385	Note 4	0.12
		Cathay United Bank	b	Due to banks - interest expense	209,130	Note 4	0.43
		Cathay United Bank	b	Due from banks	50,491	Note 4	0.00
		Cathay United Bank	b	Due to banks	7,328,663	Note 4	0.21
		Cathay United Bank	b	Call loan from banks	4,739,079	Note 4	0.14
		Cathay United Bank	b	Interest payable	304,842	Note 4	0.01
		Cathay United Bank	b	Other payable	60,111	Note 4	0.00

Note 1: The transacting company is identified in the No. column as follows:

- a. 0 for parent company.
- b. Sequentially from 1 for subsidiaries.

Note 2: The flow of transactions is as follows:

- a. From parent company to subsidiary.
- b. From subsidiary to parent company.
- c. Between subsidiaries.

Note 3: The percentage is calculated as follows:

- a. Assets and liabilities: Ending balance divided by total consolidated assets.
- b. Income and expenses: The amount at the end of the period divided by consolidated net income.

Note 4: The terms of the transactions between the Bank and related parties were similar to those for unrelated parties.

(Concluded)