

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

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2022 and 2021 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. and its subsidiaries (collectively, the “Group”) as of September 30, 2022 and 2021, the related consolidated statements of comprehensive income for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2022 and 2021, its consolidated financial performance for the three months ended September 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2022 and 2021, in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Public Banks and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Cheng-Hung Kuo and Shu-Wan Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 10, 2022

Notice to Readers

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

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

| | September 30, 2022 (Reviewed) | | December 31, 2021 (Audited) | | September 30, 2021 (Reviewed) | |
|--|----------------------------------|------------|--------------------------------|------------|----------------------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| ASSETS | | | | | | |
| CASH AND CASH EQUIVALENTS (Notes 4, 6 and 28) | \$ 192,327,910 | 2 | \$ 467,635,057 | 4 | \$ 476,817,293 | 4 |
| DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS | 350,548,777 | 3 | 234,546,475 | 2 | 198,499,396 | 2 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5, 7 and 28) | 1,658,155,436 | 14 | 1,929,395,229 | 17 | 1,795,781,455 | 16 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 5, 8, 28 and 29) | 1,724,764,282 | 14 | 1,626,821,625 | 14 | 1,662,374,427 | 15 |
| DEBT INSTRUMENTS AT AMORTIZED COST (Notes 4, 5, 9 and 29) | 3,584,483,630 | 30 | 3,266,686,240 | 28 | 3,240,849,350 | 28 |
| FINANCIAL ASSETS FOR HEDGING (Notes 4 and 5) | 41,599 | - | 500,642 | - | 244,235 | - |
| NOTES AND BONDS PURCHASED UNDER RESALE AGREEMENTS (Note 4) | 34,356,746 | - | 77,243,060 | 1 | 76,195,818 | 1 |
| RECEIVABLES, NET (Notes 4, 5, 10 and 28) | 209,371,204 | 2 | 205,480,862 | 2 | 189,383,985 | 2 |
| CURRENT TAX ASSETS | 4,781,029 | - | 4,164,103 | - | 4,328,319 | - |
| ASSETS HELD FOR SALE, NET (Note 15) | - | - | 283,087 | - | - | - |
| DISCOUNT AND LOANS, NET (Notes 4, 5, 11 and 28) | 2,463,678,060 | 21 | 2,287,115,449 | 20 | 2,277,243,022 | 20 |
| REINSURANCE CONTRACT ASSETS, NET | 16,186,229 | - | 12,260,483 | - | 11,910,262 | - |
| INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4, 13 and 28) | 35,522,488 | - | 32,614,572 | - | 32,795,562 | - |
| OTHER FINANCIAL ASSETS, NET (Notes 4 and 23) | 662,130,009 | 6 | 741,107,026 | 6 | 713,235,519 | 6 |
| INVESTMENT PROPERTIES, NET (Notes 4, 5, 14, 28 and 29) | 445,671,734 | 4 | 432,525,464 | 4 | 429,598,353 | 4 |
| PROPERTY AND EQUIPMENT, NET (Notes 4 and 15) | 98,034,583 | 1 | 97,852,266 | 1 | 99,276,642 | 1 |
| RIGHT-OF-USE ASSETS, NET (Notes 4, 16 and 28) | 4,408,324 | - | 4,362,776 | - | 4,221,277 | - |
| INTANGIBLE ASSETS, NET (Notes 4 and 17) | 52,067,009 | - | 51,543,583 | - | 52,106,253 | - |
| DEFERRED TAX ASSETS (Note 4) | 170,580,662 | 1 | 63,746,198 | 1 | 64,875,910 | 1 |
| OTHER ASSETS, NET (Notes 28 and 29) | 182,517,752 | 2 | 58,477,264 | - | 54,113,144 | - |
| TOTAL | \$ 11,889,627,463 | 100 | \$ 11,594,361,461 | 100 | \$ 11,383,850,222 | 100 |
| LIABILITIES AND EQUITY | | | | | | |
| DEPOSITS FROM THE CENTRAL BANK AND BANKS | \$ 95,969,588 | 1 | \$ 74,605,174 | 1 | \$ 82,603,839 | 1 |
| DUE TO THE CENTRAL BANK AND BANKS | - | - | 1,076,000 | - | 1,076,000 | - |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 7) | 348,140,012 | 3 | 79,934,187 | 1 | 84,999,867 | 1 |
| FINANCIAL LIABILITIES FOR HEDGING (Notes 4 and 5) | 5,847,890 | - | 20,956 | - | 42,836 | - |
| NOTES AND BONDS SOLD UNDER REPURCHASE AGREEMENTS (Note 4) | 40,798,812 | - | 39,827,873 | - | 23,767,050 | - |
| COMMERCIAL PAPER PAYABLE, NET (Note 18) | 72,100,000 | - | 63,469,166 | - | 62,669,737 | 1 |
| PAYABLES (Note 28) | 72,634,921 | 1 | 76,870,285 | 1 | 107,446,145 | 1 |
| CURRENT TAX LIABILITIES (Note 4) | 4,600,241 | - | 7,528,389 | - | 7,711,939 | - |
| DEPOSITS AND REMITTANCES (Notes 19 and 28) | 3,118,068,568 | 26 | 2,871,960,053 | 25 | 2,816,351,413 | 25 |
| BONDS PAYABLE (Note 20) | 132,000,000 | 1 | 141,800,000 | 1 | 141,800,000 | 1 |
| OTHER BORROWINGS | 7,579,500 | - | 1,670,185 | - | 1,288,320 | - |
| PROVISIONS (Notes 4, 21 and 22) | 6,860,788,001 | 58 | 6,448,259,356 | 56 | 6,349,029,048 | 56 |
| OTHER FINANCIAL LIABILITIES (Notes 4 and 23) | 703,058,049 | 6 | 763,908,198 | 7 | 737,975,535 | 6 |
| LEASE LIABILITIES (Notes 4, 16 and 28) | 18,822,216 | - | 14,721,170 | - | 14,663,920 | - |
| DEFERRED TAX LIABILITIES (Note 4) | 76,543,304 | 1 | 52,976,726 | - | 52,441,937 | - |
| OTHER LIABILITIES (Note 28) | 26,033,679 | - | 41,695,016 | - | 29,949,431 | - |
| Total liabilities | 11,582,984,781 | 97 | 10,680,322,734 | 92 | 10,513,817,017 | 92 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24) | | | | | | |
| Share capital | | | | | | |
| Ordinary shares | 131,692,102 | 1 | 131,692,102 | 1 | 131,692,102 | 1 |
| Preference shares | 15,333,000 | - | 15,333,000 | - | 15,333,000 | - |
| Capital surplus | 177,122,144 | 2 | 177,244,388 | 2 | 177,247,370 | 2 |
| Retained earnings | | | | | | |
| Legal reserve | 73,747,059 | 1 | 59,471,895 | 1 | 59,471,895 | 1 |
| Special reserve | 150,768,651 | 1 | 150,716,023 | 1 | 150,716,023 | 1 |
| Unappropriated earnings | 253,586,831 | 2 | 267,799,001 | 2 | 248,138,648 | 2 |
| Other equity | (507,371,343) | (4) | 99,781,737 | 1 | 76,166,735 | 1 |
| Total equity attributable to owners of the Company | 294,878,444 | 3 | 902,038,146 | 8 | 858,765,773 | 8 |
| NON-CONTROLLING INTERESTS (Notes 4 and 24) | 11,764,238 | - | 12,000,581 | - | 11,267,432 | - |
| Total equity | 306,642,682 | 3 | 914,038,727 | 8 | 870,033,205 | 8 |
| TOTAL | \$ 11,889,627,463 | 100 | \$ 11,594,361,461 | 100 | \$ 11,383,850,222 | 100 |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|---|---|-------------|------------------------|-------------|--|-------------|------------------------|-------------|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| INTEREST INCOME (Notes 4 and 28) | \$ 65,723,632 | 96 | \$ 52,081,713 | 39 | \$ 178,509,807 | 58 | \$ 154,940,407 | 32 |
| INTEREST EXPENSE (Notes 4 and 28) | <u>(6,832,824)</u> | <u>(10)</u> | <u>(3,221,238)</u> | <u>(2)</u> | <u>(14,330,188)</u> | <u>(4)</u> | <u>(9,767,022)</u> | <u>(2)</u> |
| NET INTEREST INCOME | <u>58,890,808</u> | <u>86</u> | <u>48,860,475</u> | <u>37</u> | <u>164,179,619</u> | <u>54</u> | <u>145,173,385</u> | <u>30</u> |
| NET INCOME AND GAINS OTHER THAN INTEREST INCOME | | | | | | | | |
| Net gain on service fee and commission fee (Notes 4, 23, 25 and 28) | 3,779,994 | 5 | 3,832,036 | 3 | 12,132,656 | 4 | 9,308,234 | 2 |
| Net (loss) income on insurance operations (Notes 4, 25 and 28) | (17,860,829) | (26) | 34,872,822 | 27 | 24,401,462 | 8 | 155,247,743 | 33 |
| (Loss) gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 7) | (209,800,800) | (305) | (14,501,949) | (11) | (557,226,204) | (182) | 86,973,370 | 18 |
| Gain on investment properties (Notes 4, 14 and 28) | 2,909,860 | 4 | 2,470,622 | 2 | 10,728,506 | 3 | 8,974,662 | 2 |
| Realized gain on financial assets at fair value through other comprehensive income (Note 4) | 177,983 | - | 8,904,222 | 7 | 5,719,265 | 2 | 29,720,225 | 6 |
| Net gain on derecognition of financial assets at amortized cost (Notes 4 and 9) | 1,084,686 | 2 | 5,197,515 | 4 | 11,580,326 | 4 | 31,759,336 | 7 |
| Foreign exchange gain (loss) (Note 4) | 204,535,628 | 298 | (1,260,126) | (1) | 404,877,814 | 132 | (59,496,247) | (12) |
| (Impairment loss) reversal of impairment loss on assets (Note 4) | (838,360) | (1) | 173,849 | - | (4,383,637) | (2) | 2,233,166 | - |
| Share of profit of associates and joint ventures accounted for using the equity method (Notes 4 and 13) | 833,229 | 1 | 595,282 | - | 2,076,680 | 1 | 1,615,912 | - |
| Gain on reclassification using the overlay approach (Notes 4 and 7) | 42,259,674 | 61 | 40,934,630 | 31 | 270,143,762 | 88 | 57,520,214 | 12 |
| Net other non-interest (loss) gain (Note 28) | <u>(17,277,419)</u> | <u>(25)</u> | <u>1,733,231</u> | <u>1</u> | <u>(37,739,530)</u> | <u>(12)</u> | <u>8,559,050</u> | <u>2</u> |
| PROFIT FROM OPERATIONS | <u>68,694,454</u> | <u>100</u> | <u>131,812,609</u> | <u>100</u> | <u>306,490,719</u> | <u>100</u> | <u>477,589,050</u> | <u>100</u> |
| NET CHANGES IN INSURANCE LIABILITY RESERVE (Notes 21 and 25) | <u>(37,530,574)</u> | <u>(54)</u> | <u>(75,254,786)</u> | <u>(57)</u> | <u>(168,344,109)</u> | <u>(55)</u> | <u>(273,724,215)</u> | <u>(57)</u> |
| PROVISION FOR BAD DEBT, COMMITMENTS AND GUARANTEE RESERVE | <u>(1,145,330)</u> | <u>(2)</u> | <u>(1,033,749)</u> | <u>(1)</u> | <u>(2,358,441)</u> | <u>(1)</u> | <u>(3,214,275)</u> | <u>(1)</u> |
| OPERATING EXPENSES (Notes 22, 25 and 28) | | | | | | | | |
| Employee benefit expenses | (13,484,361) | (19) | (13,174,473) | (10) | (40,589,103) | (13) | (39,900,030) | (8) |
| Depreciation and amortization expenses | (1,863,668) | (3) | (1,855,857) | (1) | (5,471,511) | (2) | (5,431,617) | (1) |
| Other general and administrative expenses | <u>(7,585,072)</u> | <u>(11)</u> | <u>(6,603,909)</u> | <u>(5)</u> | <u>(18,886,449)</u> | <u>(6)</u> | <u>(17,240,724)</u> | <u>(4)</u> |
| Total operating expenses | <u>\$ (22,933,101)</u> | <u>(33)</u> | <u>\$ (21,634,239)</u> | <u>(16)</u> | <u>\$ (64,947,063)</u> | <u>(21)</u> | <u>\$ (62,572,371)</u> | <u>(13)</u> |

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|--|---|-------|---------------|------|--|-------|----------------|------|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| PROFIT BEFORE INCOME TAX | \$ 7,085,449 | 11 | \$ 33,889,835 | 26 | \$ 70,841,106 | 23 | \$ 138,078,189 | 29 |
| INCOME TAX EXPENSE (Notes 4 and 26) | (1,919,511) | (3) | (3,036,388) | (3) | (16,361,774) | (5) | (15,708,729) | (3) |
| NET INCOME | 5,165,938 | 8 | 30,853,447 | 23 | 54,479,332 | 18 | 122,369,460 | 26 |
| OTHER COMPREHENSIVE LOSS (Notes 4 and 24) | | | | | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | | | | | |
| Remeasurement of defined benefit plans | - | - | - | - | (826) | - | (655) | - |
| Property revaluation surplus | - | - | - | - | 1,322,404 | - | - | - |
| (Loss) gain on equity instruments at fair value through other comprehensive income | (12,846,869) | (19) | (6,431,609) | (5) | (28,301,864) | (9) | 2,188,574 | 1 |
| Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss | 649,048 | 1 | 292,827 | - | 1,037,069 | - | 568,595 | - |
| Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method for items that will not be reclassified subsequently to profit or loss | 61,967 | - | 137,978 | - | (673,528) | - | 146,195 | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 26) | 59,833 | - | 373,681 | 1 | 520,267 | - | 527,468 | - |
| Items that may be reclassified subsequently to profit or loss: | | | | | | | | |
| Exchange differences on translation of the financial statements of foreign operations | 3,702,103 | 5 | (615,990) | (1) | 7,340,910 | 3 | (2,476,457) | (1) |
| (Loss) gain on hedging instruments | (124,319) | - | (7,388) | - | 275,504 | - | (98,983) | - |
| Loss on debt instruments at fair value through other comprehensive income | (123,131,384) | (179) | (14,697,736) | (11) | (416,076,228) | (136) | (77,408,318) | (16) |
| Share of other comprehensive (loss) income of associates and joint ventures accounted for using the equity method for items that may be reclassified subsequently to profit or loss | (80,214) | - | (418,406) | - | 564,706 | - | (954,817) | - |

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CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|---|---|--------------|------------------------|-------------|--|--------------|-----------------------|-------------|
| | 2022 | | 2021 | | 2022 | | 2021 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Other comprehensive loss reclassified using overlay approach | \$ (42,259,674) | (61) | \$ (40,934,630) | (31) | \$ (270,143,762) | (88) | \$ (57,520,214) | (12) |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 26) | <u>24,264,789</u> | <u>35</u> | <u>4,398,057</u> | <u>3</u> | <u>92,909,793</u> | <u>30</u> | <u>15,269,161</u> | <u>3</u> |
| Total other comprehensive loss for the period, net of income tax | <u>(149,704,720)</u> | <u>(218)</u> | <u>(57,903,216)</u> | <u>(44)</u> | <u>(611,225,555)</u> | <u>(200)</u> | <u>(119,759,451)</u> | <u>(25)</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME | <u>\$ (144,538,782)</u> | <u>(210)</u> | <u>\$ (27,049,769)</u> | <u>(21)</u> | <u>\$ (556,746,223)</u> | <u>(182)</u> | <u>\$ 2,610,009</u> | <u>1</u> |
| NET INCOME | | | | | | | | |
| ATTRIBUTABLE TO: | | | | | | | | |
| Owners of the Company | \$ 5,086,226 | 8 | \$ 30,545,610 | 23 | \$ 53,893,886 | 18 | \$ 121,596,084 | 26 |
| Non-controlling interests | <u>79,712</u> | <u>-</u> | <u>307,837</u> | <u>-</u> | <u>585,446</u> | <u>-</u> | <u>773,376</u> | <u>-</u> |
| | <u>\$ 5,165,938</u> | <u>8</u> | <u>\$ 30,853,447</u> | <u>23</u> | <u>\$ 54,479,332</u> | <u>18</u> | <u>\$ 122,369,460</u> | <u>26</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME | | | | | | | | |
| ATTRIBUTABLE TO: | | | | | | | | |
| Owner of the Company | \$ (144,700,594) | (210) | \$ (27,333,090) | (21) | \$ (557,663,371) | (182) | \$ 1,895,415 | 1 |
| Non-controlling interests | <u>161,812</u> | <u>-</u> | <u>283,321</u> | <u>-</u> | <u>917,148</u> | <u>-</u> | <u>714,594</u> | <u>-</u> |
| | <u>\$ (144,538,782)</u> | <u>(210)</u> | <u>\$ (27,049,769)</u> | <u>(21)</u> | <u>\$ (556,746,223)</u> | <u>(182)</u> | <u>\$ 2,610,009</u> | <u>1</u> |
| EARNINGS PER SHARE (Note 27) | | | | | | | | |
| Basic earnings per share | <u>\$ 0.38</u> | | <u>\$ 2.32</u> | | <u>\$ 3.83</u> | | <u>\$ 8.98</u> | |

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

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

| | Equity Attributable to Owners of the Company | | | | | | | | | | | | | | | Non-controlling Interests | Total Equity |
|--|--|------------------|-----------------|---------------|-----------------|-------------------------|---|---|------------------------------------|--|--|------------------------------|------------------|----------------|--|---------------------------|----------------|
| | Share Capital | | | | | | Retained Earnings | | | Other Equity | | | Total | Others | | | |
| | Ordinary Shares | Preferred Shares | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on the Translation of Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income | Gain (Loss) on Hedging Instruments | Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss | Remeasurement of Defined Benefit Plans | Property Revaluation Surplus | | | Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach | | |
| BALANCE, AT JANUARY 1, 2021 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,256,053 | \$ 51,967,688 | \$ 149,894,910 | \$ 169,606,342 | \$ (15,464,009) | \$ 106,207,840 | \$ 347,871 | \$ (1,478,705) | \$ (1,966,279) | \$ 11,097,089 | \$ 102,511,617 | \$ (3,944,303) | \$ 893,061,216 | \$ 11,714,465 | \$ 904,775,681 |
| Appropriation of 2020 earnings | - | - | - | 7,504,207 | - | (7,504,207) | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | - | - | (1,025,611) | - | - | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 1,025,611 | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (32,923,025) | - | - | - | - | - | - | - | - | (32,923,025) | - | (32,923,025) |
| Cash dividends on preferred shares | - | - | - | - | - | (3,390,924) | - | - | - | - | - | - | - | - | (3,390,924) | - | (3,390,924) |
| Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method | - | - | (8,683) | - | - | (33,629) | - | - | - | - | - | - | - | - | (42,312) | - | (42,312) |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | (554,511) | - | - | - | - | - | - | - | 719,914 | 165,403 | (176,506) | (11,103) |
| Net income for the nine months ended September 30, 2021 | - | - | - | - | - | 121,596,084 | - | - | - | - | - | - | - | - | 121,596,084 | 773,376 | 122,369,460 |
| Other comprehensive (loss) income for the nine months ended September 30, 2021, net of income tax | - | - | - | - | - | - | (2,851,039) | (60,903,318) | (76,202) | 454,876 | (9,557) | - | (56,315,429) | - | (119,700,669) | (58,782) | (119,759,451) |
| Total comprehensive income (loss) for nine months ended September 30, 2021 | - | - | - | - | - | 121,596,084 | (2,851,039) | (60,903,318) | (76,202) | 454,876 | (9,557) | - | (56,315,429) | - | 1,895,415 | 714,594 | 2,610,009 |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | - | 2,098,706 | - | (2,098,706) | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | (204,498) | 269,423 | - | - | - | - | - | (64,925) | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (985,121) | (985,121) |
| BALANCE, AT SEPTEMBER 30, 2021 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,247,370 | \$ 59,471,895 | \$ 150,716,023 | \$ 248,138,648 | \$ (18,315,048) | \$ 43,205,816 | \$ 271,669 | \$ (1,023,829) | \$ (1,975,836) | \$ 11,032,164 | \$ 46,196,188 | \$ (3,224,389) | \$ 858,765,773 | \$ 11,267,432 | \$ 870,033,205 |
| BALANCE, AT JANUARY 1, 2022 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,244,388 | \$ 59,471,895 | \$ 150,716,023 | \$ 267,799,001 | \$ (18,652,251) | \$ 47,131,473 | \$ 335,851 | \$ (889,397) | \$ (966,130) | \$ 11,281,909 | \$ 64,764,671 | \$ (3,224,389) | \$ 902,038,146 | \$ 12,000,581 | \$ 914,038,727 |
| Appropriation of 2021 earnings | - | - | - | 14,275,164 | - | (14,275,164) | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | - | - | (52,628) | - | - | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 52,628 | - | - | - | - | - | - | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (46,092,235) | - | - | - | - | - | - | - | - | (46,092,235) | - | (46,092,235) |
| Cash dividends on preferred shares | - | - | - | - | - | (3,390,924) | - | - | - | - | - | - | - | - | (3,390,924) | - | (3,390,924) |
| Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method | - | - | (122,244) | - | - | - | - | - | - | - | - | - | - | - | (122,244) | - | (122,244) |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | (621,991) | - | - | - | - | - | - | - | 731,063 | 109,072 | (109,072) | - |
| Net income for the nine months ended September 30, 2022 | - | - | - | - | - | 53,893,886 | - | - | - | - | - | - | - | - | 53,893,886 | 585,446 | 54,479,332 |
| Other comprehensive income (loss) for the nine months ended September 30, 2022, net of income tax | - | - | - | - | - | - | 6,676,659 | (368,752,967) | 224,018 | 829,655 | 34,641 | 1,311,727 | (251,880,990) | - | (611,557,257) | 331,702 | (611,225,555) |
| Total comprehensive income (loss) for nine months ended September 30, 2022 | - | - | - | - | - | 53,893,886 | 6,676,659 | (368,752,967) | 224,018 | 829,655 | 34,641 | 1,311,727 | (251,880,990) | - | (557,663,371) | 917,148 | (556,746,223) |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | - | (3,657,750) | - | 3,657,750 | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | (15,364) | - | - | - | - | - | 15,364 | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,044,419) | (1,044,419) |
| BALANCE, AT SEPTEMBER 30, 2022 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,122,144 | \$ 73,747,059 | \$ 150,768,651 | \$ 253,586,831 | \$ (11,975,592) | \$ (317,963,744) | \$ 559,869 | \$ (59,742) | \$ (931,489) | \$ 12,609,000 | \$ (187,116,319) | \$ (2,493,326) | \$ 294,878,444 | \$ 11,764,238 | \$ 306,642,682 |

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

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Nine Months Ended September 30 | |
|--|---|----------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | \$ 70,841,106 | \$ 138,078,189 |
| Adjustments for: | | |
| Depreciation expense | 3,211,707 | 3,014,743 |
| Amortization expense | 2,259,804 | 2,416,874 |
| Bad debt expense | 2,358,441 | 3,214,275 |
| Loss (gain) on financial assets and liabilities at fair value through profit or loss | 572,453,957 | (70,984,980) |
| Interest expense | 14,330,188 | 9,767,022 |
| Net gain on derecognition of financial assets at amortized cost | (11,580,326) | (31,759,336) |
| Interest income | (178,509,807) | (154,940,407) |
| Dividend income | (25,977,975) | (20,419,064) |
| Net change in insurance liabilities | 371,355,564 | 238,971,931 |
| Net changes in other provisions | 41,497,316 | (6,777,911) |
| Share of profit of associates and joint ventures accounted for using the equity method | (2,076,680) | (1,615,912) |
| Gain on reclassification using the overlay approach | (270,143,762) | (57,520,214) |
| Loss on disposal and retirement of property and equipment | 6,391 | 6,073 |
| Gain on disposal of investment properties | (2,369) | (23,700) |
| Gain on disposal of assets held for sale | (440,613) | - |
| Gain on disposal of investments accounted for using the equity method | (20,837) | (89,343) |
| Loss (gain) on disposal of investments | 3,727,803 | (23,283,061) |
| Expected credit loss (reversal of expected credit loss) on financial assets | 4,383,637 | (2,233,166) |
| Gain on changes in fair value of investment properties | (1,899,488) | (1,113,905) |
| Net changes in operating assets and liabilities | | |
| Increase in due from the Central Bank and call loans to banks | (6,650,154) | (10,356,408) |
| Decrease in financial assets at fair value through profit or loss | 301,793,792 | 49,047,719 |
| Increase in financial assets at fair value through other comprehensive income | (546,176,243) | (150,656,950) |
| Increase in debt instruments at amortized cost | (307,746,363) | (46,256,138) |
| Decrease in financial assets for hedging | 708,680 | 129,520 |
| Decrease in receivables | 6,955,064 | 6,730,193 |
| Increase in loans | (178,895,063) | (139,212,596) |
| Increase in reinsurance assets | (4,007,493) | (2,380,271) |
| Decrease in other financial assets | 3,726,707 | 3,352,452 |
| Decrease in other assets | 589,410 | 5,808,795 |
| Increase deposits from the Central Bank and banks | 21,364,414 | 16,472,780 |
| Decrease in financial liabilities at fair value through profit or loss | (331,011,618) | (80,361,280) |
| Increase (decrease) in financial liabilities for hedging | 5,852,801 | (422,801) |
| Increase in notes and bonds sold under repurchase agreements | 970,939 | 11,467,486 |

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Nine Months Ended September 30 | |
|---|---|---------------------|
| | 2022 | 2021 |
| (Decrease) increase in payables | \$ (7,038,139) | \$ 39,884,503 |
| Increase in deposits and remittances | 246,108,515 | 200,552,350 |
| Decrease in provisions for employee benefits | (264,571) | (9,101) |
| Increase (decrease) in provisions | 7,153 | (112,453) |
| Increase (decrease) in other financial liabilities | 13,999,832 | (10,825,249) |
| Decrease in other liabilities | <u>(17,709,525)</u> | <u>(6,657,757)</u> |
| Cash used in operations | (201,647,805) | (89,097,098) |
| Interest received | 168,632,780 | 152,071,561 |
| Dividends received | 26,585,335 | 21,105,819 |
| Interest paid | (12,333,825) | (11,657,231) |
| Income tax paid | <u>(9,911,689)</u> | <u>(31,774,685)</u> |
| Net cash (used in) generated from operating activities | <u>(28,675,204)</u> | <u>40,648,366</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through other comprehensive income | (14,476,580) | (27,228,394) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | 13,310,558 | 26,982,146 |
| Acquisition of financial assets at fair value through profit or loss | (720,803) | (763,799) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 358,097 | 415,878 |
| Proceeds from capital reduction of financial assets at fair value through profit or loss | - | 14,800 |
| Acquisition of investments accounted for using equity method | (2,308,500) | (324,500) |
| Proceeds from disposal of investments accounted for using equity method | 29,447 | 216,718 |
| Proceeds from capital reduction of investments accounted for using equity method | 57,000 | 404,415 |
| Proceeds from disposal of assets held for sale | 723,700 | - |
| Acquisition of property and equipment | (2,388,943) | (1,890,831) |
| Proceeds from disposal of property and equipment | 13,668 | 852 |
| Acquisition of intangible assets | (491,264) | (451,930) |
| Acquisition of investment properties | (7,174,737) | (9,936,039) |
| Proceeds from disposal of investment properties | 36,891 | 117,100 |
| (Increase) decrease in other assets | (122,554,153) | 4,718,080 |
| Dividends received | <u>95,134</u> | <u>97,876</u> |
| Net cash used in investing activities | <u>(135,490,485)</u> | <u>(7,627,628)</u> |

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | For the Nine Months Ended September 30 | |
|---|---|-----------------------|
| | 2022 | 2021 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in funds borrowed from the Central Bank and banks | \$ (1,076,000) | \$ - |
| Increase in commercial paper payable | 8,630,000 | 23,150,000 |
| Proceeds from issuance of financial debentures | 545,684 | - |
| Repayment of financial debentures | (10,384,260) | (7,000,000) |
| Increase (decrease) in borrowings | 5,775,312 | (327,763) |
| Repayment of the principal portion of lease liabilities | (1,338,157) | (1,170,989) |
| Increase (decrease) in other liabilities | 2,948,072 | (2,194,993) |
| Dividends paid | (49,483,159) | (36,313,949) |
| Acquisition of interests in subsidiaries | (911,234) | (605,519) |
| Changes in non-controlling interests | <u>(1,044,419)</u> | <u>(676,094)</u> |
| Net cash used in financing activities | <u>(46,338,161)</u> | <u>(25,139,307)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | <u>1,675,515</u> | <u>(141,127)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (208,828,335) | 7,740,304 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | <u>692,041,687</u> | <u>657,824,480</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | <u>\$ 483,213,352</u> | <u>\$ 665,564,784</u> |
| Reconciliation of cash and cash equivalents: | | |
| | September 30 | |
| | 2022 | 2021 |
| Cash and cash equivalents presented in the consolidated balance sheets | \$ 192,327,910 | \$ 476,817,293 |
| Due from the Central Bank and call loans to banks qualified for cash and cash equivalents under the definition of IAS 7 | 256,528,696 | 112,551,673 |
| Notes and bonds purchased under resale agreements qualified for cash and cash equivalents under the definition of IAS 7 | <u>34,356,746</u> | <u>76,195,818</u> |
| Cash and cash equivalents at the end of the period | <u>\$ 483,213,352</u> | <u>\$ 665,564,784</u> |

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

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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

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

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on November 10, 2022.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the accounting policies of the Company and its subsidiaries (collectively, “the Group”).

- b. The IFRSs endorsed by the FSC for application starting from 2023

| New IFRSs | Effective Date Announced by IASB |
|---|-------------------------------------|
| Amendments to IAS 1 “Disclosure of Accounting Policies” | January 1, 2023 (Note 1) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note 2) |
| Amendments to IAS 12 “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” | January 1, 2023 (Note 3) |

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

Note 2: 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 3: 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 Group is continuously assessing the possible impact that the application of above standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| 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 |
| Amendments to IFRS 16 “Leases Liability in a Sale and leaseback” | January 1, 2024 (Note 2) |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17 - Comparative Information” | January 1, 2023 |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | January 1, 2024 |
| Amendments to IAS 1 “Non-current Liabilities with Covenants” | January 1, 2024 |

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: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

- IFRS 17 “Insurance Contracts” and its amendments

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

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. The Group should divide a portfolio of insurance contracts issued into a minimum of:

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

The Group should not include contracts issued more than one year apart in the same group, and the recognition and measurements of IFRS 17 should be applied to all identified groups of contracts.

Recognition

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

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

Measurement on initial recognition

On initial recognition, the Group should measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise estimates of future cash flows, an adjustment to reflect the time value of money and financial risk related to the future cash flows, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit for the group of insurance contracts that the Group will recognize as it provides insurance contract services in the future. Unless a group of contracts is onerous, the Group should measure the contractual service margin on initial recognition of the group of insurance contracts at an amount that results in no income or expenses arising from:

- 1) The initial recognition of an amount for the fulfilment cash flows;
- 2) Any cash flows arising from the contracts in the group at that date; and
- 3) The derecognition at the date of initial derecognition of:
 - a) Any assets for insurance acquisition cash flows;

- b) Any other asset or liability previously recognized for cash flows related to the group of contracts.

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period should be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin; the liability for incurred claims comprises the fulfilment cash flows related to past services. If a group of insurance contracts becomes onerous (or more onerous) on subsequent measurement, the Group should recognize a loss immediately in profit or loss.

Onerous contracts

An insurance contract is onerous at the date of initial recognition if the fulfilment cash flows allocated to the contracts, any previously recognized insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. The Group should recognize a loss in profit or loss for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group of onerous contracts being equal to the fulfilment cash flows and the contractual service margin of the group being zero. Before the loss previously recognized on the onerous group is reversed, the Group should not recognize contractual service margin or insurance revenue.

Premium Allocation Approach (PAA)

The Group may simplify the measurement of a group of insurance contracts using the PAA if, and only if, at the inception of the group:

- 1) The Group reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced by applying the general measurement model; or
- 2) The coverage period of each contract in the group is one year or less.

At the inception of the group, if the Group expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for remaining coverage during the period before a claim is incurred, the above-mentioned criterion 1) is not met.

Using the PAA, the liability for remaining coverage on initial recognition should be:

- 1) The premiums received at initial recognition;
- 2) Minus any insurance acquisition cash flows at that date; and
- 3) Plus or minus any amount arising from the derecognition at that date of:
 - a) Any asset for insurance acquisition cash flows; and
 - b) Any other asset or liability previously recognized for cash flows related to the group of insurance contracts.

Subsequently, the liability for remaining coverage should be adjusted as plus the premiums received and the amortization of insurance acquisition cash flows and minus the amount recognized as insurance revenue for services provided and any investment component paid or transferred to the liability for incurred claims in the period.

Investment contracts with discretionary participation features

An investment contract with discretionary participation features is a financial instrument and it does not include a transfer of significant insurance risk. An investment contract with discretionary participation features the Group issues should apply the requirements of IFRS 17 if the Group also issues insurance contracts.

Modification and derecognition

If the terms of an insurance contract are modified and any of the specific conditions is met, resulting in a substantive modification, the Group should derecognize the original contract and recognize the modified contract as a new contract.

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

Transition

The Group shall apply IFRS 17 retrospectively unless it is impracticable, in which case the Group may choose to adopt the modified retrospective approach or the fair value approach.

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

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

Redesignation of financial assets

At the date of initial application of IFRS 17, an entity which had applied IFRS 9 may redesignate the classification of an eligible asset that meets the condition in paragraph C29 of IFRS 17. The entity is not required to restate the comparative information to reflect changes in the classifications of these assets, and any difference between the previous carrying amount and the carrying amount at the date of initial application of these financial assets should be recognized in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application. If the entity restates the comparative information, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets.

In addition, an enterprise which had applied IFRS 9 before the initial application of IFRS 17 could apply the classification overlay on an individual basis to the financial assets that had been derecognized during the comparative period as if those financial assets had been reclassified in the comparative period in accordance with the redesignation requirements in paragraph C29 of IFRS 17.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an 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 an asset or liability.

Basis of Consolidation

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

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

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

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

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

See Note 12 for detailed information on subsidiaries (including percentages of ownership and main businesses).

Business Combinations

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

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

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

Foreign Currencies

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

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

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

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

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

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

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

Investments in Associates

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

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

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

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

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

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

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

Property and Equipment

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

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

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

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

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include right-of-use assets and properties under construction if the definition of investment properties is met. Investment properties also include land held for a currently undetermined future use.

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

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

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

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

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the

carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

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

Intangible Assets

a. Intangible assets acquired separately

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

b. Intangible assets acquired in a business combination

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

c. Derecognition of intangible assets

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

Impairment of Property and Equipment, Right-of-use Assets and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement categories

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

a) Financial assets at FVTPL

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

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

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

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

b) Financial assets at amortized cost

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

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

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

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

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

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

c) Investments in debt instruments at FVTOCI

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

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

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

d) Investments in equity instruments at FVTOCI

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

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

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

2) Impairment of financial assets

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

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

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

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

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

In addition, in accordance with the Regulations Governing the Procedures for Insurance Enterprises to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, Cathay Life and Cathay Century classify their credit assets as normal ("First Category"), assets that require special mention ("Second Category"), assets that are substandard ("Third Category"), assets that are doubtful ("Fourth Category") and assets for which there is loss ("Fifth Category") based on the borrower's financial conditions and the delay for payment of principal and interests as well as the status of the loan collaterals and the length of time overdue. The minimum amounts of allowance for bad debts are based upon each of the following categories:

- a) The sum of 0.5% of the First Category loan assets excluding life insurance policy loans, premium loans and loans to government agencies, 2% of the Second Category of loan assets, 10% of the Third Category of loan assets, as well as 50% and 100% of the Fourth and Fifth category loan assets.
- b) 1% of the sum of all five categories of loan assets excluding life insurance policy loans, premium loans and loans to government agencies.
- c) Total unsecured portion of non-performing loans and non-accrual loans.

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

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

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

3) Derecognition of financial assets

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

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

4) Offsetting of financial instruments

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

5) Reclassification of financial assets

When the Group changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with IFRS 9. If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Group shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

Financial liabilities at FVTPL

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement (any interest paid on such financial liabilities) recognized in profit or loss.

Financial liabilities may be designated as at FVTPL upon initial recognition when doing so results in more relevant information and if:

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

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

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

Financial guarantee contracts

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

2) Derecognition of financial liabilities

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

d. Derivative financial instruments

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

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

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

e. Modification of financial instrument

When a financial instrument is modified, the Group 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 Group 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 Group 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 Group 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.

Hedge Accounting

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

a. Fair value hedges

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

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

b. Cash flow hedges

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

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

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

c. Hedges of net investments in foreign operations

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

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

Notes and Bonds Purchased/Sold Under Resale/Repurchase Agreements

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

Separate Accounts Insurance Products

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

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

Insurance Liability

a. Cathay Life

Funds reserved for insurance contracts and financial instruments with or without a discretionary participation features are determined in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and validated by the certified actuarial professionals approved by the FSC. For investment contracts with discretionary participation features, the guaranteed elements are not separately recognized from the discretionary participation features, and the whole contract is classified as a liability. The provision of reserve for short-term group insurance is based upon the greater of premium received or calculated according to Jin Guan Bao Tsai No. 10704504821. Provision of reserve for the other insurance liabilities is as follows:

1) Unearned premium reserve

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

2) Loss reserve

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

3) Policy reserve

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

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

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

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

4) Special reserve

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

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

5) Premium deficiency reserve

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

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

6) Other reserve

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

7) Liability adequacy reserve

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

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

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

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

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

d. Cathay Century and its subsidiaries

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

The descriptions of these reserves are as follows:

1) Unearned premium reserve

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

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

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

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

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

2) Loss reserve

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

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

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

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

3) Special reserve

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

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

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

4) Premium deficiency reserve

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

5) Policy reserve

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

6) Liability adequacy reserve

The contracts that need to be tested for liability adequacy required by IFRS 4 should use estimated future cash flow based on the current information on each balance sheet date for the test, and the contracts with recognized insurance liability are tested for liability adequacy. If the test shows that the liability is inadequate, the entire deficiency is recognized in liability adequacy reserve.

Liability Adequacy Test

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

Reserve for Insurance Contracts with the Nature of Financial Products

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

Reserve for Foreign Exchange Valuation

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

Revenue and the Related Expenses Recognition

a. Cathay Life and its subsidiaries

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

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

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

- 2) Cathay Lujiazui Life

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

- 3) Cathay Life (Vietnam)

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

b. Cathay United Bank and its subsidiaries

1) Recognition of interest revenue and expense

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

2) Recognition of service fee revenue and expense

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

3) Customer loyalty program

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

c. Cathay Century and its subsidiaries

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

Taxes on the insurance premiums are recognized pursuant to the Value-added and Non-value-added Business Tax Act and Stamp Tax Act on an accrual basis.

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

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

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

Provision for loss reserve is not discounted.

d. Cathay Securities

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

Classification of Insurance Products

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

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

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

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

- a. Additional payments may be a significant portion of total contractual benefits.
- b. The amounts or timing for additional payments are contractually at the Group's discretion.
- c. Additional payments are contractually based on one of the following matters:
 - 1) The performance on a specified combination of contracts or a specified type of contract.
 - 2) The investment returns on a specified combination of assets held by the Group.
 - 3) The profit or loss of the Group, funds, or other entities.

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

Reinsurance

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

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

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

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

Provisions

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

Leases

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

a. The Group as lessor

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

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

b. The Group as lessee

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

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

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by (a) decreasing the carrying amount of the right-of-use asset of lease modifications that decreased the scope of the lease, and recognizing in profit or loss any gain or loss on the partial or full termination of the lease; (b) making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the consolidated balance sheets.

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. 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 plan amendments, settlements, or other significant one-off events.

c. Termination benefits

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

d. Employee preferential interest rate deposits

Cathay United Bank offers 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.

Taxation

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

a. Current tax

Income tax payable (refundable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

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

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

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

b. Deferred tax

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

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

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

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

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

c. Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The Group considers the possible impact of the economic environment implications of the recent development of the COVID-19, the military conflict between Russia and Ukraine and related international sanctions when making its critical accounting estimates on cash flow projections, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of loans

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

b. Fair value measurements and valuation processes

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

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

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

c. Valuation of insurance contract liabilities

1) Cathay Life and its subsidiaries

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

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

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

2) Cathay Century and its subsidiaries

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

6. CASH AND CASH EQUIVALENTS

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------|-----------------------|-----------------------|-----------------------|
| Cash on hand | \$ 19,453,426 | \$ 23,527,042 | \$ 18,428,168 |
| Cash in banks | 102,347,133 | 196,752,403 | 180,080,320 |
| Time deposits | 20,664,759 | 184,624,212 | 231,460,451 |
| Checks for clearing | 2,285,827 | 6,116,728 | 2,589,304 |
| Cash equivalents | 2,472,778 | 20,796,677 | 21,573,346 |
| Due from banks | 45,131,389 | 35,838,074 | 22,696,636 |
| Less: Loss allowance | <u>(27,402)</u> | <u>(20,079)</u> | <u>(10,932)</u> |
| | <u>\$ 192,327,910</u> | <u>\$ 467,635,057</u> | <u>\$ 476,817,293</u> |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------|-------------------------|-------------------------|
| <u>Financial assets mandatorily classified as at FVTPL</u> | | | |
| Stocks | \$ 393,109,607 | \$ 556,703,945 | \$ 539,877,145 |
| Funds and beneficiary certificates | 673,178,072 | 759,503,179 | 698,329,214 |
| Government bonds | 2,029,296 | 17,741,331 | 17,320,101 |
| Corporate bonds | 14,257,238 | 18,855,363 | 16,756,898 |
| Financial debentures | 53,912,271 | 51,879,381 | 49,122,463 |
| Overseas bonds | 273,071,878 | 295,813,069 | 250,628,137 |
| Short-term notes | 90,247,195 | 168,386,378 | 165,982,458 |
| Futures trading margin | 260,446 | 205,263 | 90,972 |
| Structured time deposits | 14,093,709 | 7,771,014 | 4,600,402 |
| Derivative instruments | <u>143,995,724</u> | <u>52,536,306</u> | <u>53,073,665</u> |
| | <u>\$ 1,658,155,436</u> | <u>\$ 1,929,395,229</u> | <u>\$ 1,795,781,455</u> |
| <u>Financial liabilities at FVTPL</u> | | | |
| Designated as at FVTPL | | | |
| Bonds | \$ 39,948,351 | \$ 40,587,123 | \$ 41,484,266 |
| Held for trading | | | |
| Derivative instruments | 306,754,170 | 38,301,659 | 43,246,213 |
| Security lending payable (non-hedging) | 1,291,611 | 1,031,175 | 257,476 |
| Security lending payable (hedging) | <u>145,880</u> | <u>14,230</u> | <u>11,912</u> |
| | <u>\$ 348,140,012</u> | <u>\$ 79,934,187</u> | <u>\$ 84,999,867</u> |

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| <u>Financial assets mandatorily classified as at FVTPL</u> | | | |
| Stocks | \$ 386,264,506 | \$ 545,639,162 | \$ 529,312,384 |
| Funds and beneficiary certificates | 652,977,191 | 737,717,965 | 672,423,038 |
| Financial debentures | 15,639,356 | 13,160,060 | 12,003,665 |
| Overseas bonds | 270,767,478 | 294,220,757 | 248,773,358 |
| Structured time deposits | <u>14,093,709</u> | <u>7,771,014</u> | <u>4,600,402</u> |
| | <u>\$ 1,339,742,240</u> | <u>\$ 1,598,508,958</u> | <u>\$ 1,467,112,847</u> |

Reclassifications from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the three months and nine months ended September 30, 2022 and 2021 are as below:

| | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|--|--|------------------------|---|------------------------|
| | 2022 | 2021 | 2022 | 2021 |
| (Loss) gain due to application of IFRS 9 to profit or loss | \$ (31,662,176) | \$ (4,751,818) | \$ (211,903,098) | \$ 72,240,367 |
| Gain if applying IAS 39 to profit or loss | <u>(10,597,498)</u> | <u>(36,182,812)</u> | <u>(58,240,664)</u> | <u>(129,760,581)</u> |
| Gain reclassified due to application of overlay approach | <u>\$ (42,259,674)</u> | <u>\$ (40,934,630)</u> | <u>\$ (270,143,762)</u> | <u>\$ (57,520,214)</u> |

Due to application of overlay approach, the amounts of gain and loss on financial assets and liabilities at FVTPL for the three months and nine months ended September 30, 2022 and 2021 had decreased from loss of \$209,800,800 thousand to \$167,541,126 thousand, increased from loss of \$14,501,949 thousand to gain of \$26,432,681 thousand, decreased from loss of \$557,226,204 thousand to \$287,082,442 thousand and increased from gain of \$86,973,370 thousand to \$144,493,584 thousand, respectively.

- b. Financial liabilities designated as at FVTPL

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

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

Cathay United Bank converted fixed interest rates into floating interest rates with interest rate swap contracts to hedge against the fair value risk resulting from interest rate fluctuations. For the nine months ended September 30, 2022 and 2021, such interest rate swaps were valued with a net loss of \$4,699,190 thousand and \$644,526 thousand, respectively.

- c. As of September 30, 2022 and 2021, none of the financial assets at FVTPL of Cathay United Bank and its subsidiaries were sold under repurchase agreements. As of December 31, 2021, certain financial assets at FVTPL of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$2,215,200 thousand. The proceeds amounting to \$2,148,959 thousand was recorded as notes and bonds sold under repurchase agreements and was repurchased for \$2,149,060 thousand before the end of January 2022.
- d. As of September 30, 2022, Cathay Securities and its subsidiaries sold certain financial assets at FVTPL under repurchase agreements with notional amount of \$460,905 thousand.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------|-------------------------|-------------------------|
| Investments in equity instrument at FVTOCI | | | |
| Stocks | \$ 169,532,617 | \$ 176,155,083 | \$ 153,444,859 |
| Investments in debt instrument at FVTOCI | | | |
| Government bonds | 84,722,900 | 112,700,665 | 123,670,276 |
| Corporate bonds | 88,088,288 | 103,339,355 | 121,635,086 |
| Financial debentures | 55,478,050 | 80,292,790 | 89,992,198 |
| Overseas bonds | 1,125,732,315 | 1,119,667,280 | 1,140,211,564 |
| Asset-backed securities | 8,143,749 | 10,163,330 | 10,111,570 |
| Negotiable certificates of deposits | 206,461,507 | 25,599,336 | 24,446,594 |
| Less: Litigation deposits | (35,740) | (43,613) | (45,530) |
| Less: Deposits to the Central Bank | (931,566) | (1,052,601) | (1,092,190) |
| Less: Derivative collateral | (12,427,838) | - | - |
| | <u>1,555,231,665</u> | <u>1,450,666,542</u> | <u>1,508,929,568</u> |
| | <u>\$ 1,724,764,282</u> | <u>\$ 1,626,821,625</u> | <u>\$ 1,662,374,427</u> |

- a. These investments in equity instruments are not held for trading and thus were designated as financial assets at FVTOCI.
- b. Dividend income recognized relating to investments in equity instruments at FVTOCI for the three months and nine months ended September 30, 2022 and 2021 were \$4,594,609 thousand, \$5,160,652 thousand, \$9,454,662 thousand and \$6,455,424 thousand, respectively. Those related to investment derecognized for the three months and nine months ended September 30, 2022 and 2021 were \$869,978 thousand, \$824,957 thousand, \$1,559,700 thousand and \$1,058,630 thousand, respectively.
- c. In consideration of the investment strategy, the Group sold equity instruments at FVTOCI at fair values of \$49,812,739 thousand and \$40,236,173 thousand at the time of sale, and transferred unrealized loss of \$3,657,750 thousand and gain of \$2,098,706 thousand from other equity to retained earnings for the nine months ended September 30, 2022 and 2021, respectively.

- d. As of September 30, 2022, December 31, 2021 and September 30, 2021, certain financial assets at FVTOCI of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$28,457,555 thousand, \$28,230,898 thousand and \$20,146,260 thousand, respectively. The proceeds amounting to \$26,143,114 thousand, \$27,600,460 thousand and \$20,015,425 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$26,218,440 thousand, \$27,614,471 thousand and \$20,034,683 thousand before the end of March 2023, June 2022 and January 2022, respectively.
- e. As of September 30, 2022, December 31, 2021 and September 30, 2021, Cathay Securities and its subsidiaries sold certain debt instruments at FVTOCI under repurchase agreements with notional amounts of \$3,895,865 thousand, \$2,650,000 thousand and \$2,450,000 thousand, respectively.
- f. Refer to Note 29 for the financial assets at FVTOCI that were pledged as collateral.
- g. Refer to Note 36 for information relating to the credit risk management and impairment of debt instruments at FVTOCI.

9. DEBT INSTRUMENTS AT AMORTIZED COST

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------|-------------------------|-------------------------|
| Time deposits | \$ 9,428,135 | \$ 6,300,361 | \$ 6,044,272 |
| Financial debentures | 76,627,136 | 44,228,630 | 47,504,546 |
| Corporate bonds | 51,289,948 | 41,926,858 | 42,689,756 |
| Government bonds | 83,268,361 | 78,728,343 | 76,744,360 |
| Overseas bonds | 3,024,067,909 | 2,603,446,990 | 2,587,524,726 |
| Financial asset beneficiary certificates | 2,237,000 | 445,000 | 445,000 |
| Asset-backed securities | 65,578,959 | 40,413,469 | 49,659,526 |
| Short-term notes | 290,865,452 | 461,857,140 | 441,325,357 |
| Less: Guarantee deposits | (1,531,250) | (1,151,573) | (1,437,846) |
| Less: Deposits in the Central Bank | (8,814,821) | (8,733,908) | (8,836,789) |
| Less: Derivative collateral | (5,491,140) | - | - |
| Less: Loss allowance (Note) | (3,042,059) | (775,070) | (813,558) |
| | <u>\$ 3,584,483,630</u> | <u>\$ 3,266,686,240</u> | <u>\$ 3,240,849,350</u> |

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of September 30, 2022, December 31, 2021 and September 30, 2021, the amounts were \$839 thousand, \$286 thousand and \$308 thousand, respectively.

- a. For the three months and nine months ended September 30, 2022 and 2021, the Group disposed of bonds before maturity due to increase in credit risk, which resulted in gains on disposal of \$80,760 thousand, \$970,820 thousand, \$524,723 thousand and \$4,172,705 thousand, respectively; disposal of bonds close to maturity with proceeds that approximate remaining contractual cashflows, which resulted in gains (losses) on disposal of (\$13,143) thousand, \$0, \$2,800 thousand and \$0, respectively; disposal of bonds before maturity because of infrequent sales or sales that are insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$1,045,281 thousand, \$3,127,515 thousand, \$10,955,332 thousand and \$25,410,283 thousand, respectively; disposal of bonds due to other conditions such as repayments at maturities resulted in gains (losses) on disposal of (\$28,212) thousand, \$1,221,283 thousand, \$307,590 thousand and \$2,619,590 thousand, respectively.

- b. As of September 30, 2022, December 31, 2021 and September 30, 2021, certain debt instruments at amortized cost of Cathay United Bank and its subsidiaries were sold under repurchase agreements with notional amounts of \$14,456,797 thousand, \$7,791,895 thousand and \$1,393,300 thousand, respectively. The proceeds amounting to \$10,684,327 thousand, \$7,412,233 thousand and \$1,284,873 thousand, respectively, were recorded as notes and bonds sold under repurchase agreements and were repurchased for \$10,719,157 thousand, \$7,417,746 thousand and \$1,285,352 thousand before the end of December 2022, February 2022 and November 2021, respectively.
- c. Refer to Note 29 for information relating to debt instruments at amortized cost pledged as collateral.
- d. Refer to Note 36 for information relating to the credit risk management and impairment of debt instruments at amortized cost.

10. RECEIVABLES, NET

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| Notes receivable | \$ 422,416 | \$ 437,570 | \$ 378,363 |
| Accounts receivable | 95,881,848 | 103,071,169 | 85,038,364 |
| Interest receivables | 64,192,615 | 53,454,191 | 57,216,112 |
| Acceptances | 1,256,056 | 1,372,808 | 1,791,485 |
| Factoring receivables | 4,614,033 | 4,081,459 | 4,918,618 |
| Others | <u>46,486,229</u> | <u>45,570,597</u> | <u>42,609,836</u> |
| | 212,853,197 | 207,987,794 | 191,952,778 |
| Less: Loss allowance | <u>(3,481,993)</u> | <u>(2,506,932)</u> | <u>(2,568,793)</u> |
| | <u>\$ 209,371,204</u> | <u>\$ 205,480,862</u> | <u>\$ 189,383,985</u> |

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

For the nine months ended September 30, 2022

| | 12-month Expected- credit Losses | Lifetime Expected- credit Losses (Collectively Assessed) | Lifetime Expected- credit Losses (Neither Purchased Nor Originated Credit- impaired Financial Assets) | Impairment Loss under IFRS 9 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | Total |
|--|--|--|---|------------------------------------|---|--------------|
| Beginning balance | \$ 418,248 | \$ 288,704 | \$ 1,658,913 | \$ 2,365,865 | \$ 69,669 | \$ 2,435,534 |
| Changes of financial instruments recognized at the beginning of the current reporting period | | | | | | |
| Transferred to Lifetime ECLs | (4,792) | 206,861 | (1,559) | 200,510 | - | 200,510 |
| Transferred to credit-impaired financial assets | (1,342) | (4,525) | 64,136 | 58,269 | - | 58,269 |
| Transferred to 12-month ECLs | 24,033 | (179,544) | (1,917) | (157,428) | - | (157,428) |
| Derecognition of financial assets in the period | (355,520) | (86,876) | (88,730) | (531,126) | - | (531,126) |

(Continued)

| | 12-month Expected- credit Losses | Lifetime Expected- credit Losses (Collectively Assessed) | Lifetime Expected- credit Losses (Neither Purchased Nor Originated Credit- impaired Financial Assets) | Impairment Loss under IFRS 9 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | Total |
|---|---|---|--|---|--|---------------------|
| New financial assets purchased or originated | \$ 213,861 | \$ 84,729 | \$ 198,097 | \$ 496,687 | \$ - | \$ 496,687 |
| Difference from impairment charged in accordance with applicable laws and regulations | - | - | - | - | (15,344) | (15,344) |
| Written off as bad debt expense | - | - | (276,825) | (276,825) | - | (276,825) |
| Effects of exchange rate changes and others | <u>184,765</u> | <u>29,648</u> | <u>43,646</u> | <u>258,059</u> | <u>-</u> | <u>258,059</u> |
| Ending balance | <u>\$ 479,253</u> | <u>\$ 338,997</u> | <u>\$ 1,595,761</u> | <u>\$ 2,414,011</u> | <u>\$ 54,325</u> | <u>\$ 2,468,336</u> |

(Concluded)

For the nine months ended September 30, 2021

| | 12-month Expected- credit Losses | Lifetime Expected- credit Losses (Collectively Assessed) | Lifetime Expected- credit Losses (Neither Purchased Nor Originated Credit- impaired Financial Assets) | Impairment Loss under IFRS 9 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | Total |
|--|---|---|--|---|--|---------------------|
| Beginning balance | \$ 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 |
| Difference from impairment charged in accordance with applicable laws and regulations | - | - | - | - | 5,713 | 5,713 |
| Written off as bad debt expense | - | - | (349,088) | (349,088) | - | (349,088) |
| Effects of exchange rate changes and others | <u>1,173</u> | <u>(7,621)</u> | <u>32,538</u> | <u>26,090</u> | <u>-</u> | <u>26,090</u> |
| Ending balance | <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> |

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

| | For the Nine Months Ended September 30 | |
|--------------------------|---|-------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 71,398 | \$ 145,168 |
| Provision for the period | 961,164 | 9,846 |
| Amounts written off | (19,083) | (3,344) |
| Amounts recovered | 161 | - |
| Foreign exchange | <u>17</u> | <u>212</u> |
| Ending balance | <u>\$ 1,013,657</u> | <u>\$ 151,882</u> |

11. DISCOUNTS AND LOANS, NET

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--------------------------|-------------------------------|------------------------------|-------------------------------|
| Export negotiations | \$ 2,009,708 | \$ 1,354,799 | \$ 1,474,339 |
| Loans | 2,491,258,906 | 2,314,739,694 | 2,303,818,037 |
| Discounts and overdrafts | 1,341,432 | 1,278,734 | 826,052 |
| Overdue loans | <u>7,147,993</u> | <u>4,872,323</u> | <u>6,438,637</u> |
| | 2,501,758,039 | 2,322,245,550 | 2,312,557,065 |
| Less: Loss allowance | <u>(38,079,979)</u> | <u>(35,130,101)</u> | <u>(35,314,043)</u> |
| | <u>\$ 2,463,678,060</u> | <u>\$ 2,287,115,449</u> | <u>\$ 2,277,243,022</u> |

- a. As of September 30, 2022, the gross amount of domestic discounts and loans and the related loss allowance belonging to Cathay United Bank amounted to \$1,860,710,499 thousand and \$29,377,573 thousand, respectively.
- b. For the nine months ended September 30, 2022 and 2021, Cathay United Bank disposed credit assets in order to increase debt recovery, and recognized the loss arising from the derecognition of credit assets measured at amortized cost amounting to \$210,119 thousand and \$443,242 thousand, respectively.
- c. Refer to Note 36 for information relating to the credit risk management and impairment of discounts and loans.

12. SUBSIDIARIES

- a. Subsidiaries included in the consolidated financial statements

| Investors | Subsidiary | Nature of Business | Percentage of Ownership Interest (%) | | | Notes |
|--------------------------------|--|--|---|------------------------------|-------------------------------|-------|
| | | | September 30, 2022 | December 31, 2021 | September 30, 2021 | |
| The Company | Cathay Life | Life Insurance | 100.00 | 100.00 | 100.00 | |
| The Company | Cathay United Bank | Banking | 100.00 | 100.00 | 100.00 | |
| The Company | Cathay Century | Property insurance | 100.00 | 100.00 | 100.00 | |
| The Company | Cathay Securities | Security | 100.00 | 100.00 | 100.00 | |
| The Company and Cathay Life | Cathay Venture | Venture capital | 100.00 | 100.00 | 100.00 | |
| The Company | Cathay Securities Investment Trust | Entrusted investments | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Cathay Lujiazui Life | Life insurance | 50.00 | 50.00 | 50.00 | |
| Cathay Life | Cathay Life (Vietnam) | Life insurance | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan") | Office leasing | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Cathay Woolgate Exchange Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | |

(Continued)

| Investors | Subsidiary | Nature of Business | Percentage of Ownership Interest (%) | | | Notes |
|---|---|---------------------------------------|--------------------------------------|-------------------|--------------------|--------|
| | | | September 30, 2022 | December 31, 2021 | September 30, 2021 | |
| Cathay Life | Cathay Woolgate Exchange Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Cathay Walbrook Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Cathay Walbrook Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Conning Holdings Limited ("CHL") | Holding company | 100.00 | 100.00 | 100.00 | |
| Cathay Life | Cathay Industrial Research and Design Center Co., Ltd. ("Cathay Industrial R&D Center") | Real estate rental and leasing | 99.00 | 99.00 | 99.00 | Note 1 |
| CHL | Conning U.S. Holdings, Inc. | Holding company | 100.00 | 100.00 | 100.00 | |
| CHL | Conning Asset Management Ltd. | Asset management services | 100.00 | 100.00 | 100.00 | |
| CHL | Conning (Germany) GmbH | Risk management software services | 100.00 | 100.00 | 100.00 | |
| The Company and CHL | Conning Asia Pacific Ltd. | Asset management services | 100.00 | 100.00 | 100.00 | |
| CHL | Conning Japan Ltd. | Asset management services | 100.00 | 100.00 | 100.00 | |
| CHL | Global Evolution Holding ApS | Holding company | 69.19 | 61.15 | 61.15 | Note 2 |
| Conning U.S. Holdings, Inc. | Conning Holdings Corp. | Holding company | 100.00 | 100.00 | 100.00 | |
| Conning Holdings Corp. | Conning & Company ("C&C") | Holding company | 100.00 | 100.00 | 100.00 | |
| C&C | Conning Inc. | Asset management services | 100.00 | 100.00 | 100.00 | |
| C&C | Goodwin Capital Advisers, Inc. | Asset management services | 100.00 | 100.00 | 100.00 | |
| C&C | Conning Investment Products, Inc. | Securities services | 100.00 | 100.00 | 100.00 | |
| C&C | Octagon Credit Investors, LLC ("Octagon") | Asset management services | 86.34 | 86.13 | 86.13 | |
| Octagon | Octagon Credit Opportunities GP, LLC | Fund management services | 100.00 | 100.00 | 100.00 | |
| Octagon | Octagon Funds GP LLC | Fund management services | 100.00 | 100.00 | 100.00 | |
| Octagon | Octagon Funds GP II LLC | Fund management services | 100.00 | 100.00 | 100.00 | |
| Global Evolution Holding ApS | Global Evolution Financial ApS | Asset management services | 99.77 | 99.51 | 99.72 | |
| Global Evolution Financial ApS | Global Evolution Fondsmaglerselskab A/S | Asset management services | 100.00 | 100.00 | 100.00 | |
| Global Evolution Financial ApS | Mogambo2 Holding ApS | Asset management services | - | - | 100.00 | Note 3 |
| Global Evolution Financial ApS | Global Evolution Manco S.A. | Asset management services | 90.00 | 90.00 | 90.00 | |
| Global Evolution Fondsmaglerselskab A/S | Global Evolution USA, LLC | Asset management services | 100.00 | 100.00 | 100.00 | |
| Global Evolution Fondsmaglerselskab A/S | Global Evolution Fund Management Singapore Pte. Ltd. | Asset management services | 100.00 | 100.00 | 100.00 | |
| Cathay Century | Cathay Insurance (Vietnam) Co., Ltd. ("Cathay Insurance (Vietnam)") | Property insurance services | 100.00 | 100.00 | 100.00 | |
| Cathay United Bank | Indovina Bank Limited ("Indovina Bank") | Banking | 50.00 | 50.00 | 50.00 | |
| Cathay United Bank | Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank") | Banking | 100.00 | 100.00 | 100.00 | |
| Cathay United Bank | Cathay United Bank (China) Co., Ltd. ("CUBCN Bank") | Banking | 100.00 | 100.00 | 100.00 | |
| CUBC Bank | CUBC Investment Co., LTD. (CUBC-I) | Investment service | 100.00 | 100.00 | 100.00 | Note 4 |
| Cathay Securities | Cathay Futures Co., Ltd. ("Cathay Futures") | Futures services | 99.99 | 99.99 | 99.99 | |
| Cathay Securities | Cathay Securities (Hong Kong) Co., Ltd. ("Cathay Securities (Hong Kong)") | Securities services | 100.00 | 100.00 | 100.00 | |
| Cathay Securities (Hong Kong) | Cathay Capital (Asia) Limited ("Cathay Capital (Asia)") | Investment service | 100.00 | 100.00 | 100.00 | |
| Cathay Venture | Cathay Investment Inc. ("Cathay Investment") | Venture capital | - | 100.00 | 100.00 | Note 5 |
| Cathay Securities Investment Trust | Cathay Private Equity Co., Ltd. ("Cathay Private Equity") | Private equity | 100.00 | 100.00 | 100.00 | |

(Concluded)

Note 1: It was jointly established by Cathay Life and Ally Logistic Property Co., Ltd. on January 8, 2021.

Note 2: The non-controlling interests executed the put options on the subsidiary's shares such that CHL acquired an additional 8.04% equity shares on June 22, 2022, and its ownership interest increased from 61.15% to 69.19%.

Note 3: Mogambo2 Holding ApS was dissolved on October 11, 2021.

Note 4: CUBC Bank substantially controls over CUBC-I's operations and the composition of its board of directors with 49% ownership through proxy agreements with the remaining shareholders, therefore listing as a subsidiary of CUBC Bank.

Note 5: Cathay Investment was resolved for dissolution by the board of directors (on behalf of shareholders) on April 27, 2021, and went into liquidation on February 21, 2022. The liquidation was completed on July 14, 2022.

b. Subsidiaries excluded from the consolidated financial statements

| Investors | Subsidiary | Nature of Business | Percentage of Ownership Interest (%) | | | Notes |
|-------------|--|---|--------------------------------------|-------------------|--------------------|-------|
| | | | September 30, 2022 | December 31, 2021 | September 30, 2021 | |
| Cathay Life | Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting") | Security investment consulting services | 100.00 | 100.00 | 100.00 | |

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

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|----------------------|----------------------|----------------------|
| Investments in unconsolidated subsidiaries | \$ 656,989 | \$ 699,974 | \$ 637,732 |
| Investments in associates | <u>34,865,499</u> | <u>31,914,598</u> | <u>32,157,830</u> |
| | <u>\$ 35,522,488</u> | <u>\$ 32,614,572</u> | <u>\$ 32,795,562</u> |

a. Investments in unconsolidated subsidiaries

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|--------------------|-------------------|--------------------|
| Cathay Securities Investment Consulting | <u>\$ 656,989</u> | <u>\$ 699,974</u> | <u>\$ 637,732</u> |

b. Investments in associates

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|--------------------|-------------------|--------------------|
| Rizal Commercial Banking Corporation | \$ 16,537,334 | \$ 15,974,154 | \$ 15,909,684 |
| Cathay Insurance Company Limited (China) | 5,031,662 | 4,824,396 | 4,893,512 |
| CMG International Two Co., Ltd. | 1,775,572 | 663,377 | 667,574 |
| Taiwan Finance Corp. | 1,676,914 | 1,736,374 | 1,787,593 |
| CMG International One Co., Ltd. | 1,559,136 | 668,836 | 671,637 |
| Dasheng IV Venture Capital Co., Ltd. | 1,316,441 | 1,254,083 | 1,105,105 |
| PSS Co., Ltd. | 978,451 | 935,422 | 929,076 |
| Dasheng Venture Capital Co., Ltd. | 920,228 | 1,023,946 | 1,418,884 |
| Ding Teng Co., Ltd. | 888,311 | 855,187 | 847,907 |
| Cathay Power Inc. | 718,019 | 728,975 | 723,520 |
| Neo Cathay Power Corp. | 717,463 | 731,593 | 728,410 |
| Greenhealth Water Resources Co., Ltd. | 488,708 | 469,273 | 463,789 |
| TaiYang Solar Power Co., Ltd. | 486,946 | 417,152 | 331,574 |
| CM Energy Co., Ltd. | 482,054 | 487,829 | 483,136 |
| Symphox Information Co., Ltd. | 349,875 | 386,762 | 396,510 |
| BSCOM Cathay Asset Management Co., Ltd. | 306,978 | 327,780 | 384,862 |
| ThrivEnergy Co., Ltd. | 215,846 | - | - |
| Tien-Tai Optronics Corporation | 135,580 | 137,144 | 135,017 |
| Tiantai II Optoelectronics Co., Ltd. | 131,094 | 133,369 | 131,130 |
| Taiwan Real-estate Management Corp. | 94,547 | 95,892 | 95,761 |
| Lin Yuan Property Management Co., Ltd. | 50,694 | 52,963 | 42,688 |

(Continued)

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-------------------------------------|
| Tien-Tai Management Consulting Co., Ltd. | \$ 3,646 | \$ 5,818 | \$ 6,188 |
| WK Technology Fund VI Co., Ltd. | - | 4,273 | 4,273 |
| PT Bank Mayapada Internasional Tbk | - | - | - |
| | <u>\$ 34,865,499</u> | <u>\$ 31,914,598</u> | <u>\$ 32,157,830</u> (Concluded) |

Aggregate information of associates that are not individually material

| | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|--|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| The Group's share of: | | | | |
| Net income | \$ 775,069 | \$ 525,697 | \$ 1,889,644 | \$ 1,422,795 |
| Other comprehensive loss | <u>(18,688)</u> | <u>(281,061)</u> | <u>(110,324)</u> | <u>(810,186)</u> |
| Total comprehensive income for the period | <u>\$ 756,381</u> | <u>\$ 244,636</u> | <u>\$ 1,779,320</u> | <u>\$ 612,609</u> |

- 1) As the individual associates are not significant, the related financial information is disclosed aggregately. The amounts of the share of profit or loss and other comprehensive loss of associates were based on non-reviewed financial statements.
- 2) Cathay Sunrise Corporation was renamed as Cathay Power Inc. on April 30, 2021.
- 3) CDBS Cathay Asset Management Co., Ltd. was renamed as BSCOM Cathay Asset Management Co., Ltd. on July 28, 2022.
- 4) WK Technology Fund VI Co., Ltd. was dissolved on April 25, 2022 and completed the liquidation procedure.
- 5) Cathay Life lost significant influence on PT Bank Mayapada Internasional Tbk as the shareholding percentage decreased to less than 20% in March 2022, and reclassified the investment to financial assets at FVTPL.
- 6) The investments in associates were not pledged as collateral.

14. INVESTMENT PROPERTY

| | Land | Buildings | Investment Property Under Construction | Prepayments for Buildings and Land - Investments | Total |
|--|-----------------------|-----------------------|--|---|--------------------------------------|
| Balance at January 1, 2021 | \$ 302,181,742 | \$ 112,634,024 | \$ 1,528,547 | \$ 3,131,915 | \$ 419,476,228 |
| Additions | 1,675,410 | - | 2,092,739 | 7,593,300 | 11,361,449 |
| Disposals | (65,307) | (28,093) | - | - | (93,400) |
| Other reclassification | 7,134,515 | 3,171,414 | (761,766) | (10,567,064) | (1,022,901) |
| (Loss) gain on changes in fair value of investment property | (32,014) | 1,145,919 | - | - | 1,113,905 |
| Foreign exchange | <u>(452,142)</u> | <u>(784,786)</u> | <u>-</u> | <u>-</u> | <u>(1,236,928)</u> |
| Balance at September 30, 2021 | <u>\$ 310,442,204</u> | <u>\$ 116,138,478</u> | <u>\$ 2,859,520</u> | <u>\$ 158,151</u> | <u>\$ 429,598,353</u> (Continued) |

| | Land | Buildings | Investment Property Under Construction | Prepayments for Buildings and Land - Investments | Total |
|---|-----------------------|-----------------------|--|---|--------------------------------------|
| Balance at January 1, 2022 | \$ 309,245,953 | \$ 119,624,493 | \$ 3,412,376 | \$ 242,642 | \$ 432,525,464 |
| Additions | 3,995,792 | - | 2,293,961 | 4,885,843 | 11,175,596 |
| Disposals | (28,851) | (5,671) | - | - | (34,522) |
| Other reclassification | 5,014,369 | 1,214,321 | (1,130,678) | (3,454,682) | 1,643,330 |
| Gain on changes in fair value of investment property | 161,703 | 1,737,785 | - | - | 1,899,488 |
| Foreign exchange | (564,460) | (717,248) | (10,277) | (60,194) | (1,352,179) |
| Others | (180,376) | (5,067) | - | - | (185,443) |
| Balance at September 30, 2022 | <u>\$ 317,644,130</u> | <u>\$ 121,848,613</u> | <u>\$ 4,565,382</u> | <u>\$ 1,613,609</u> | <u>\$ 445,671,734</u> (Concluded) |

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|---------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Rental income from investment properties | \$ 2,917,371 | \$ 2,421,174 | \$ 8,826,649 | \$ 7,837,057 |
| Direct operating expenses from investment properties that generate rental income | (156,792) | (154,793) | (573,935) | (523,108) |
| Direct operating expenses from investment properties that do not generate rental income | <u>(46,654)</u> | <u>(77,735)</u> | <u>(224,864)</u> | <u>(154,842)</u> |
| | <u>\$ 2,713,925</u> | <u>\$ 2,188,646</u> | <u>\$ 8,027,850</u> | <u>\$ 7,159,107</u> |

- a. Certain properties are held to earn rental or for capital appreciation, and the others are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component could not be sold separately, it would be classified as investment property only when owner occupation is lower than 5% of the property.
- b. As of September 30, 2022, the investment properties (excluding investment property under construction and prepayment for buildings and land - investments) belonging to Cathay Life amounted to \$400,218,711 thousand. Investment properties are held mainly for lease business. All the lease agreements are operating leases and the primary terms of the lease agreements are the same as general lease agreements. Rents from investment property are received annually, semi-annually, quarterly, monthly or in one lump sum.
- c. The ownership of the Group's investment properties is not subject to restrictions other than the restriction associated with being furnished as security for other's debts; the ownership of its trust property is not subject to restrictions. Besides, the Group is not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of Regulations Governing Foreign Investments by Insurance Companies.
- d. Valuation on the investment property of Cathay Life and its subsidiaries has been carried out by the following appraisers of the joint appraisal firms meeting the qualification requirements for real estate appraisers in the R.O.C., with valuation dates at June 30, 2022, December 31, 2021 and June 30, 2021 and are still valid at September 30, 2022 and 2021.

Due to the significant changes in cash flows caused by the increase or decrease of lease contracts of certain buildings as well as the completion or acquisition of investment properties, the appraisers re-evaluated their fair values and re-issued the formal reports as of September 30, 2021.

| Name of Appraiser Firms | June 30, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 |
|---|--|---|-----------------------------|---|
| DTZ Real Estate Appraiser Firm | Chang-da, Yang; Gen-yuan, Li; Jia-he, Tsai; Chun-chun, Hu | Gen-yuan, Li; Jia-he, Tsai; Chun-chun, Hu | - | Gen-yuan, Li; Chun-chun, Hu; Jia-he, Tsai |
| Savills plc Real Estate Appraiser Firm | Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang | Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang | - | Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang |
| REPro KnightFrank Real Estate Appraiser Firm | Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu | Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu | - | Hong-xu, Wu; Yu-hsiang, Tsai; Hsiang-yi, Hsu |
| V-LAND Real Estate Appraiser Firm | Jun-han, Lin; Yu-chi, Kao; His-chung, Wang | You-qi, Liang; Yu-chi, Kao; Jun-han, Lin; His-chung, Wang; Hong-chi, Li | - | You-qi, Liang; Jun-han, Lin |
| Shang-shang Real Estate Appraiser Firm | Hong-yuan, Wang; Jian-hao, Huang | Hong-yuan, Wang; Jian-hao, Huang | Hong-yuan, Wang | Hong-yuan, Wang |
| Sinyi Real Estate Appraiser Firm | Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang | Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang | - | Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang |
| Elite Real Estate Appraiser Firm | Yu-lin, Chen; Yi-hui, Luo | Yu-lin, Chen; Yi-hui, Luo | Yu-lin, Chen Yi-hui, Luo | Yu-lin, Chen; Yi-hui, Luo |
| CBRE Real Estate Appraiser Firm | Fu-xue, Shi; Zhi-wei, Lee | Fu-xue, Shi; Zhi-wei, Lee | - | Fu-xue, Shi; Zhi-wei, Lee |
| China Credit Information Service Ltd. | Zhi-Hao, Wu; Wei-Ru, Li | Zhi-Hao, Wu; Wei-Ru, Li | - | - |
| LinkU Real Estate Appraisal and Consulting Services | Lin-Yu, Lian; Sheng-Feng, Lai | Lin-Yu, Lian; Sheng-Feng, Lai | - | - |

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

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

The main inputs used are as follows:

| | June 30, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 |
|-----------------------------------|----------------------|--------------------------|---------------------------|----------------------|
| Direct capitalization rates (net) | 0.44%-4.90% | 0.61%-5.12% | - | 0.68%-5.13% |
| Discount rates | 2.65%-4.37% | 2.35%-4.26% | 2.345%-2.47% | 3.09%-4.26% |

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, to decide the direct capitalization rate and discount rate. The discount rates for the properties acquired after May 11, 2020 had been determined in accordance with the amendment to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises.

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

- e. Cathay United 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, 2022, December 31, 2021 and June 30, 2021, 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, 2022 and 2021, respectively.

| Appraiser Office | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|---|---|--|---|
| REPro Knight Frank Real Estate Appraiser Firm | Xiang-Yi Hsu; Hong-Xu Wu; You-Xiang Cai | Xiang-Yi Hsu; Hong-Xu, Wu; You-Xiang Cai | Xiang-Yi Hsu; Hong-Xu Wu; You-Xiang Cai |

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 amortized over its estimated useful life of 20 years.

The main inputs used are as follows:

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|-------------------------------|----------------------|------------------------------|----------------------|
| Direct capitalization rates | 1.14%-4.03% | 1.20%-4.04% | 1.94%-3.75% |
| Overall capital interest rate | 0.76%-2.21% | 0.67%-1.93% | 0.67%-1.93% |

- 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.
- f. Valuation on the investment property of Cathay Securities and its subsidiaries has been performed by the appraiser from Elite Real Estate Appraiser Firm (Yi-huei, Luo) that met the qualification requirements for real estate appraisers in the R.O.C., respectively, with valuation dates at June 30, 2022, December 31, 2021 and June 30, 2021.

Cathay Securities and its subsidiaries have consulted the appraisers regarding the validity of the original valuation reports, and concluded that the fair values of the aforementioned investment properties at June 30, 2022, December 31, 2021 and June 30, 2021 were still valid at September 30, 2022 and 2021, respectively.

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

| | June 30, 2022 | December 31, 2021 | June 30, 2021 |
|--------------------------------|----------------------|------------------------------|----------------------|
| Estimated future cash inflows | \$ 451,063 | \$ 444,833 | \$ 444,503 |
| Estimated future cash outflows | <u>(15,039)</u> | <u>(14,740)</u> | <u>(14,737)</u> |
| Estimated net cash inflows | <u>\$ 436,024</u> | <u>\$ 430,093</u> | <u>\$ 429,766</u> |
| Discount rate | 2.470% | 2.295% | 2.295% |
| Direct capitalization rate | 2.51% | 2.54% | 2.54% |

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

The investment properties were entirely leased under operating leases, and generated rental income of \$1,951 thousand, \$1,595 thousand, \$5,852 thousand and \$5,190 thousand, respectively, for the three months ended September 30, 2022 and 2021, and for the nine months ended September 30, 2022 and 2021.

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

The discount rate at June 30, 2022, December 31, 2021 and June 30, 2021 are determined based on the interest rate on a 2-year time deposit of petty cash plus 5 quarters percentage points as posted by Chunghwa Post Co., Ltd., plus the risk premium.

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

| | For the Nine Months Ended September 30 | |
|--|---|-----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 405,850,441 | \$ 398,420,117 |
| Amount recognized in profit or loss | | |
| Gain from investment property | 1,899,488 | 1,113,905 |
| Amount recognized in other comprehensive income | | |
| Exchange differences resulting from translation of the financial statements of foreign operations | (1,281,708) | (1,236,928) |
| Additions | 3,995,792 | - |
| Disposals | (34,500) | (93,400) |
| Transfers to property and equipment | (47,622) | (3,475) |
| Transfers from investment property under construction | 1,131,015 | 761,766 |
| Transfers from prepayment for buildings and land | 727 | 4,604,042 |
| Transfer from investment properties measured at cost | 2,218,659 | - |
| Transfers from property and equipment | 1,690,615 | - |
| Others | <u>(185,443)</u> | <u>-</u> |
| Ending balance | <u>\$ 415,237,464</u> | <u>\$ 403,566,027</u> |

The above amount excludes those measured at cost.

- h. Refer to Table 4 for the acquisition of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital.
- i. See Note 29 for information relating to investment properties pledged as collateral for short-term bank borrowings.

15. PROPERTY AND EQUIPMENT

| | Land | Buildings and Construction | Computer Equipment | Leasehold Improvements | Transportation Equipment | Other Equipment | Construction in Progress and Prepayment for Real Estate Equipment | Total |
|--|----------------------|----------------------------|----------------------|------------------------|--------------------------|----------------------|---|-----------------------|
| Cost | | | | | | | | |
| Balance at January 1, 2021 | \$ 68,732,685 | \$ 46,246,545 | \$ 9,188,997 | \$ 1,227,787 | \$ 124,239 | \$ 12,732,934 | \$ 1,039,671 | \$ 139,292,858 |
| Additions | - | 120 | 621,679 | 97,024 | 5,033 | 257,449 | 909,526 | 1,890,831 |
| Disposals | - | - | (454,854) | (881) | (3,168) | (124,884) | - | (583,787) |
| Reclassification | 1,019,831 | 43,692 | 495,395 | 63,222 | 1,704 | 141,324 | (489,803) | 1,275,365 |
| Others | (1,687) | - | - | - | - | - | - | (1,687) |
| Foreign exchange | (12,151) | (28,396) | (39,677) | (18,266) | (2,584) | (12,120) | (1,235) | (114,429) |
| Balance at September 30, 2021 | <u>\$ 69,738,678</u> | <u>\$ 46,261,961</u> | <u>\$ 9,811,540</u> | <u>\$ 1,368,886</u> | <u>\$ 125,224</u> | <u>\$ 12,994,703</u> | <u>\$ 1,458,159</u> | <u>\$ 141,759,151</u> |
| Depreciation and impairment | | | | | | | | |
| Balance at January 1, 2021 | \$ 103,134 | \$ 23,570,910 | \$ 6,298,771 | \$ 794,288 | \$ 87,773 | \$ 10,032,850 | \$ - | \$ 40,887,726 |
| Depreciation | - | 668,642 | 668,713 | 82,656 | 7,376 | 505,794 | - | 1,933,181 |
| Disposals | - | - | (451,188) | (881) | (3,167) | (121,626) | - | (576,862) |
| Reclassification | - | - | 285,584 | 4 | - | (10,353) | - | 275,235 |
| Foreign exchange | - | (6,383) | (18,514) | (8,976) | (1,790) | (1,108) | - | (36,771) |
| Balance at September 30, 2021 | <u>\$ 103,134</u> | <u>\$ 24,233,169</u> | <u>\$ 6,783,366</u> | <u>\$ 867,091</u> | <u>\$ 90,192</u> | <u>\$ 10,405,557</u> | <u>\$ -</u> | <u>\$ 42,482,509</u> |
| Carrying amount at September 30, 2021 | <u>\$ 69,635,544</u> | <u>\$ 22,028,792</u> | <u>\$ 3,028,174</u> | <u>\$ 501,795</u> | <u>\$ 35,032</u> | <u>\$ 2,589,146</u> | <u>\$ 1,458,159</u> | <u>\$ 99,276,642</u> |
| Cost | | | | | | | | |
| Balance at January 1, 2022 | \$ 69,524,895 | \$ 44,614,486 | \$ 10,154,047 | \$ 1,383,785 | \$ 125,651 | \$ 12,855,198 | \$ 1,541,462 | \$ 140,199,524 |
| Additions | - | 905 | 627,727 | 41,685 | 866 | 652,524 | 1,065,236 | 2,388,943 |
| Disposals | (4,195) | (8,221) | (251,912) | - | (5,703) | (413,632) | - | (683,663) |
| Reclassification | (136,459) | 1,148,615 | (263,104) | 10,146 | - | 406,876 | (1,748,143) | (582,069) |
| Foreign exchange | 76,747 | 63,307 | 224,288 | 67,601 | 16,281 | 47,303 | 6,328 | 501,855 |
| Balance at September 30, 2022 | <u>\$ 69,460,988</u> | <u>\$ 45,819,092</u> | <u>\$ 10,491,046</u> | <u>\$ 1,503,217</u> | <u>\$ 137,095</u> | <u>\$ 13,548,269</u> | <u>\$ 864,883</u> | <u>\$ 141,824,590</u> |
| Depreciation and impairment | | | | | | | | |
| Balance at January 1, 2022 | \$ 103,134 | \$ 24,072,492 | \$ 6,907,169 | \$ 878,153 | \$ 87,261 | \$ 10,299,049 | \$ - | \$ 42,347,258 |
| Depreciation | - | 656,889 | 751,143 | 89,576 | 6,690 | 541,585 | - | 2,045,883 |
| Disposals | - | (4,404) | (251,722) | - | (5,036) | (402,442) | - | (663,604) |
| Reclassification | - | (136,359) | (16,628) | - | - | 16,628 | - | (136,359) |
| Foreign exchange | - | 24,317 | 93,862 | 36,420 | 11,336 | 30,894 | - | 196,829 |
| Balance at September 30, 2022 | <u>\$ 103,134</u> | <u>\$ 24,612,935</u> | <u>\$ 7,483,824</u> | <u>\$ 1,004,149</u> | <u>\$ 100,251</u> | <u>\$ 10,485,714</u> | <u>\$ -</u> | <u>\$ 43,790,007</u> |
| Carrying amount at December 31, 2021 and January 1, 2022 | <u>\$ 69,421,761</u> | <u>\$ 20,541,994</u> | <u>\$ 3,246,878</u> | <u>\$ 505,632</u> | <u>\$ 38,390</u> | <u>\$ 2,556,149</u> | <u>\$ 1,541,462</u> | <u>\$ 97,852,266</u> |
| Carrying amount at September 30, 2022 | <u>\$ 69,357,854</u> | <u>\$ 21,206,157</u> | <u>\$ 3,007,222</u> | <u>\$ 499,068</u> | <u>\$ 36,844</u> | <u>\$ 3,062,555</u> | <u>\$ 864,883</u> | <u>\$ 98,034,583</u> |

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

| | |
|----------------------------|-------------------------|
| Buildings and construction | 1-70 years |
| Computer equipment | 3-10 years |
| Leasehold improvements | 3-6 years or lease term |
| Transportation equipment | 3-7 years |
| Other equipment | 2-22 years |

- b. Property and equipment were not pledged as collateral.
- c. As of December 31, 2021, the Cathay United Bank disposed of two vacant premises and classified them as assets held for sale with a carrying amount of \$283,087 thousand. The two premises were originally used for the Cathay United Bank's office and business warehouse. In January and April 2022, the Cathay United Bank disposed the premises for proceeds of \$23,700 thousand and \$700,000 thousand, respectively, and recognized a disposal gain of \$440,613 thousand. No impairment loss was recognized on the classification of the premises as assets held for sale for the year ended December 31, 2021 and for the nine months ended September 30, 2022.
- d. Refer to Table 5 for the disposal of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital.

16. LEASE AGREEMENTS

a. Right-of-use assets

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| <u>Carrying amount</u> | | | |
| Buildings | \$ 4,297,895 | \$ 4,262,741 | \$ 4,116,568 |
| Office equipment | 16,815 | 10,652 | 13,288 |
| Machine equipment | 2,025 | 1,971 | 2,193 |
| Transportation equipment | <u>91,589</u> | <u>87,412</u> | <u>89,228</u> |
| | <u>\$ 4,408,324</u> | <u>\$ 4,362,776</u> | <u>\$ 4,221,277</u> |
| Right-of-use assets presented as investment properties | <u>\$ 13,720,466</u> | <u>\$ 9,958,120</u> | <u>\$ 10,091,177</u> |

| | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|--|--|-------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Additions to right-of-use assets | <u>\$ 330,613</u> | <u>\$ 436,865</u> | <u>\$ 1,026,409</u> | <u>\$ 1,099,218</u> |
| Depreciation expense for right-of-use assets | | | | |
| Buildings | \$ 381,482 | \$ 357,447 | \$ 1,121,129 | \$ 1,035,601 |
| Office equipment | 2,576 | 5,380 | 7,967 | 8,047 |
| Machine equipment | 207 | 226 | 631 | 926 |
| Transportation equipment | <u>11,802</u> | <u>9,143</u> | <u>36,097</u> | <u>36,988</u> |
| | <u>\$ 396,067</u> | <u>\$ 372,196</u> | <u>\$ 1,165,824</u> | <u>\$ 1,081,562</u> |

b. Lease liabilities

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-----------------|-----------------------|----------------------|-----------------------|
| Carrying amount | <u>\$ 18,822,216</u> | <u>\$ 14,721,170</u> | <u>\$ 14,663,920</u> |

Range of discount rates for lease liabilities is as follows:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------------------|-----------------------|----------------------|-----------------------|
| Buildings | 0.04%-8.57% | 0.04%-8.57% | 0.04%-8.57% |
| Office equipment | 0.42%-4.76% | 0.42%-4.76% | 0.42%-4.76% |
| Machine equipment | 0.36%-4.15% | 0.36%-4.15% | 0.36%-4.15% |
| Transportation equipment | 0.22%-4.35% | 0.22%-4.35% | 0.22%-4.35% |
| Investment property-superficies right | 2.82%-4.24% | 2.82%-4.00% | 2.82%-4.00% |

17. INTANGIBLE ASSETS

| | Computer Software | Franchises | Trademarks | Customer Relationships | Goodwill | Other Intangible Assets | Total |
|--|---------------------|----------------------|-------------------|------------------------|----------------------|-------------------------|----------------------|
| Cost | | | | | | | |
| Balance at January 1, 2021 | \$ 6,206,660 | \$ 37,659,600 | \$ 373,996 | \$ 5,731,801 | \$ 21,842,780 | \$ 200,673 | \$ 72,015,510 |
| Additions - acquired separately | 451,930 | - | - | - | - | - | 451,930 |
| Disposals | (459,192) | - | - | - | - | - | (459,192) |
| Reclassification | 220,704 | - | - | - | - | - | 220,704 |
| Others | - | - | - | (172,492) | 368,174 | - | 195,682 |
| Foreign exchange | (13,398) | - | (8,422) | (118,647) | (262,357) | (4,527) | (407,351) |
| Balance at September 30, 2021 | <u>\$ 6,406,704</u> | <u>\$ 37,659,600</u> | <u>\$ 365,574</u> | <u>\$ 5,440,662</u> | <u>\$ 21,948,597</u> | <u>\$ 196,146</u> | <u>\$ 72,017,283</u> |
| Amortization and impairment | | | | | | | |
| Balance at January 1, 2021 | \$ 4,422,597 | \$ 11,436,607 | \$ - | \$ 1,967,996 | \$ - | \$ 185,903 | \$ 18,013,103 |
| Amortization | 560,089 | 1,559,537 | - | 284,506 | - | 12,742 | 2,416,874 |
| Disposals | (459,192) | - | - | - | - | - | (459,192) |
| Foreign exchange | (9,054) | - | - | (46,420) | - | (4,281) | (59,755) |
| Balance at September 30, 2021 | <u>\$ 4,514,440</u> | <u>\$ 12,996,144</u> | <u>\$ -</u> | <u>\$ 2,206,082</u> | <u>\$ -</u> | <u>\$ 194,364</u> | <u>\$ 19,911,030</u> |
| Carrying amount at September 30, 2021 | <u>\$ 1,892,264</u> | <u>\$ 24,663,456</u> | <u>\$ 365,574</u> | <u>\$ 3,234,580</u> | <u>\$ 21,948,597</u> | <u>\$ 1,782</u> | <u>\$ 52,106,253</u> |
| Cost | | | | | | | |
| Balance at January 1, 2022 | \$ 6,698,107 | \$ 37,659,600 | \$ 363,265 | \$ 5,406,299 | \$ 21,880,593 | \$ 194,906 | \$ 72,202,770 |
| Additions - acquired separately | 491,264 | - | - | - | - | - | 491,264 |
| Disposals | (185,945) | - | - | - | - | - | (185,945) |
| Reclassification | 222,408 | - | - | - | - | - | 222,408 |
| Foreign exchange | 60,471 | - | 53,171 | 791,323 | 1,566,009 | 28,515 | 2,499,489 |
| Balance at September 30, 2022 | <u>\$ 7,286,305</u> | <u>\$ 37,659,600</u> | <u>\$ 416,436</u> | <u>\$ 6,197,622</u> | <u>\$ 23,446,602</u> | <u>\$ 223,421</u> | <u>\$ 75,229,986</u> |
| Amortization and impairment | | | | | | | |
| Balance at January 1, 2022 | \$ 4,670,668 | \$ 13,515,990 | \$ - | \$ 2,279,391 | \$ - | \$ 193,138 | \$ 20,659,187 |
| Amortization | 641,225 | 1,341,312 | - | 277,267 | - | - | 2,259,804 |
| Disposals | (185,945) | - | - | - | - | - | (185,945) |
| Foreign exchange | 45,247 | - | - | 356,415 | - | 28,269 | 429,931 |
| Balance at September 30, 2022 | <u>\$ 5,171,195</u> | <u>\$ 14,857,302</u> | <u>\$ -</u> | <u>\$ 2,913,073</u> | <u>\$ -</u> | <u>\$ 221,407</u> | <u>\$ 23,162,977</u> |
| Carrying amount at December 31, 2021 and January 1, 2022 | <u>\$ 2,027,439</u> | <u>\$ 24,143,610</u> | <u>\$ 363,265</u> | <u>\$ 3,126,908</u> | <u>\$ 21,880,593</u> | <u>\$ 1,768</u> | <u>\$ 51,543,583</u> |
| Carrying amount at September 30, 2022 | <u>\$ 2,115,110</u> | <u>\$ 22,802,298</u> | <u>\$ 416,436</u> | <u>\$ 3,284,549</u> | <u>\$ 23,446,602</u> | <u>\$ 2,014</u> | <u>\$ 52,067,009</u> |

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

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

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

1) Cathay Life

Cathay Life recognized goodwill in the acquisitions (1) of all assets, liabilities and operations except reserved assets and liabilities of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on July 1, 2015; (2) of 100% interest in Conning Holdings Limited on September 18, 2015; (3) of 81.89% interest in Octagon Credit Investors, LLC (through Conning & Company, a 100% owned subsidiary of the Group) on February 1, 2016; and (4) of 8% equity shares in Global Evolution Holding ApS by Conning Holdings Limited, which increased its ownership interest to 53% on June 25, 2020. As of September 30, 2022, December 31, 2021 and September 30, 2021, the carrying amounts of goodwill were \$14,847,795 thousand, \$13,324,628 thousand and \$13,390,770 thousand, respectively.

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

2) Cathay United Bank

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

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

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

18. COMMERCIAL PAPER PAYABLE, NET

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| Nominal amount | \$ 72,100,000 | \$ 63,470,000 | \$ 62,670,000 |
| Less: Discount on short-term bills payable | <u>-</u> | <u>(834)</u> | <u>(263)</u> |
| | <u>\$ 72,100,000</u> | <u>\$ 63,469,166</u> | <u>\$ 62,669,737</u> |
| Interest rate range | 0.95%-1.49% | 0.28%-0.50% | 0.21%-0.33% |

19. DEPOSITS AND REMITTANCES

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-------------------------------|------------------------------|-------------------------------|
| Checking deposits | \$ 14,548,974 | \$ 17,580,377 | \$ 16,655,825 |
| Demand deposits | 800,007,623 | 795,879,514 | 757,506,158 |
| Demand savings deposits | 1,330,616,037 | 1,267,338,737 | 1,254,178,423 |
| Time deposits | 584,470,646 | 429,061,978 | 426,481,337 |
| Time savings deposits | 381,075,247 | 354,855,029 | 354,995,495 |
| Negotiable certificates of deposit | 5,154,499 | 4,665,005 | 3,944,689 |
| Outward remittances and remittances payable | <u>2,195,542</u> | <u>2,579,413</u> | <u>2,589,486</u> |
| | <u>\$ 3,118,068,568</u> | <u>\$ 2,871,960,053</u> | <u>\$ 2,816,351,413</u> |

20. BONDS PAYABLE

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|-----------------------|-----------------------|
| Subordinated financial debentures | \$ 37,000,000 | \$ 46,800,000 | \$ 46,800,000 |
| Cumulative perpetual subordinated corporate bonds | 45,000,000 | 45,000,000 | 45,000,000 |
| Unsecured corporate bonds | <u>50,000,000</u> | <u>50,000,000</u> | <u>50,000,000</u> |
| | <u>\$ 132,000,000</u> | <u>\$ 141,800,000</u> | <u>\$ 141,800,000</u> |

a. Subordinated financial debentures

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| 1st issue of subordinated financial debentures in 2012; fixed rate at 1.65%; maturity: June 2022 | \$ - | \$ 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 |
| 1st issue of subordinated financial debentures in 2013; fixed rate at 1.7%; maturity: April 2023 | 9,900,000 | 9,900,000 | 9,900,000 |
| 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 1.5%; maturity: April 2024 | <u>2,400,000</u> | <u>2,400,000</u> | <u>2,400,000</u> |
| | <u>\$ 37,000,000</u> | <u>\$ 46,800,000</u> | <u>\$ 46,800,000</u> |

b. Cumulative perpetual subordinated corporate bonds

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

- f) Right of early redemption: If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - g) Form of bonds: Book-entry securities.
- 2) Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, Cathay Life issued its first perpetual cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:
- a) Issue amount: \$10,000,000 thousand.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: Perpetual.
 - d) Coupon rate: Fixed rate of 3%.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Right of early redemption: If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - g) Form of bonds: Book-entry securities.
- c. Unsecured corporate bonds
- 1) Pursuant to Order No. Securities-TPEX-Bond-10800038242 of the Taipei Exchange, Cathay Financial Holdings issued its first unsecured corporate bonds on May 8, 2019 through public offering. Key terms and conditions are as follows:
- a) Issue amount: \$20,000,000 thousand, which is divided into A Note of \$4,000,000 thousand, B Note of \$4,000,000 thousand and C Note of \$12,000,000 thousand by issue periods.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - d) Coupon rate: Fixed rate of 0.83% for A Note, 0.93% for B Note and 1.04% for C Note.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Form of bonds: Book-entry securities.

- 2) Pursuant to Order No. Securities-TPEX-Bond-10900064782 of the Taipei Exchange, Cathay Financial Holdings issued its first unsecured corporate bonds on June 23, 2020 through public offering. Key terms and conditions are as follows:
- a) Issue amount: \$8,900,000 thousand, which is divided into A Note of \$1,900,000 thousand, B Note of \$6,500,000 thousand and C Note of \$500,000 thousand by issue periods.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: A Note is 5 years, B Note is 7 years and C Note is 10 years.
 - d) Coupon rate: Fixed rate of 0.59% for A Note, 0.64% for B Note and 0.67% for C Note.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Form of bonds: Book-entry securities.
- 3) Pursuant to Order No. Securities-TPEX-Bond-10900108202 of the Taipei Exchange, Cathay Financial Holdings issued its second unsecured corporate bonds on September 8, 2020 through public offering. Key terms and conditions are as follows:
- a) Issue amount: \$21,100,000 thousand, which is divided into A Note of \$2,400,000 thousand, B Note of \$7,800,000 thousand, C Note of \$2,500,000 thousand and D Note of \$8,400,000 thousand by period issued.
 - b) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - c) Years to maturity: A Note is 5 years, B Note is 6 years, C Note is 7 years and D Note is 10 years.
 - d) Coupon rate: Fixed rate of 0.61% for A Note, 0.64% for B Note, 0.66% for C Note and 0.70% for D Note.
 - e) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - f) Form of bonds: Book-entry securities.

21. PROVISIONS

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------|-------------------------|-------------------------|
| Insurance liability | | | |
| Unearned premium reserve | \$ 35,341,891 | \$ 34,802,057 | \$ 33,011,066 |
| Loss reserve | 28,929,961 | 23,598,653 | 22,827,014 |
| Policy reserve | 6,697,924,939 | 6,334,959,642 | 6,238,281,550 |
| Special reserve | 12,668,559 | 13,674,763 | 13,726,336 |
| Premium deficiency reserve | 10,600,263 | 9,808,215 | 11,333,896 |
| Reserve for insurance contracts with the nature of financial products | 17,863,252 | 15,188,788 | 14,746,848 |
| Reserve for foreign exchange valuation | 50,551,042 | 9,053,726 | 8,042,954 |
| Other reserve | <u>1,857,925</u> | <u>1,865,925</u> | <u>1,867,925</u> |
| | 6,855,737,832 | 6,442,951,769 | 6,343,837,589 |
| Provisions for employee benefits | 3,827,088 | 4,091,659 | 4,042,831 |
| Other reserves | <u>1,223,081</u> | <u>1,215,928</u> | <u>1,148,628</u> |
| | <u>\$ 6,860,788,001</u> | <u>\$ 6,448,259,356</u> | <u>\$ 6,349,029,048</u> |

As of September 30, 2022, policy reserve belonging to Cathay Life amounted to \$6,633,849,934 thousand and loss reserve belonging to Cathay Century amounted to \$16,030,181 thousand.

a. Cathay Life and its subsidiaries

As of September 30, 2022, December 31, 2021 and September 30, 2021, the details and changes of Cathay Life and its subsidiaries' insurance contracts and financial instruments with discretionary participation features are summarized below:

1) Unearned premium reserve

| | September 30, 2022 | | |
|-------------------------------------|------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 71,798 | \$ - | \$ 71,798 |
| Individual injury insurance | 7,343,220 | - | 7,343,220 |
| Individual health insurance | 10,366,202 | - | 10,366,202 |
| Group insurance | 1,460,151 | - | 1,460,151 |
| Investment-linked insurance | <u>124,134</u> | - | <u>124,134</u> |
| | <u>19,365,505</u> | <u>-</u> | <u>19,365,505</u> |
| Less ceded unearned premium reserve | | | |
| Individual life insurance | 798,642 | - | 798,642 |
| Individual injury insurance | 20,089 | - | 20,089 |
| Individual health insurance | 209,593 | - | 209,593 |
| Group insurance | <u>337</u> | - | <u>337</u> |
| | <u>1,028,661</u> | <u>-</u> | <u>1,028,661</u> |
| | <u>\$ 18,336,844</u> | <u>\$ -</u> | <u>\$ 18,336,844</u> |

| | December 31, 2021 | | |
|-------------------------------------|--------------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 64,522 | \$ - | \$ 64,522 |
| Individual injury insurance | 7,539,766 | - | 7,539,766 |
| Individual health insurance | 10,584,652 | - | 10,584,652 |
| Group insurance | 1,188,450 | - | 1,188,450 |
| Investment-linked insurance | <u>118,841</u> | <u>-</u> | <u>118,841</u> |
| | <u>19,496,231</u> | <u>-</u> | <u>19,496,231</u> |
| Less ceded unearned premium reserve | | | |
| Individual life insurance | 880,519 | - | 880,519 |
| Individual injury insurance | 21,575 | - | 21,575 |
| Individual health insurance | 229,227 | - | 229,227 |
| Group insurance | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>1,131,321</u> | <u>-</u> | <u>1,131,321</u> |
| | <u>\$ 18,364,910</u> | <u>\$ -</u> | <u>\$ 18,364,910</u> |

| | September 30, 2021 | | |
|-------------------------------------|--------------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 70,037 | \$ - | \$ 70,037 |
| Individual injury insurance | 7,122,155 | - | 7,122,155 |
| Individual health insurance | 9,777,912 | - | 9,777,912 |
| Group insurance | 1,345,598 | - | 1,345,598 |
| Investment-linked insurance | <u>116,919</u> | <u>-</u> | <u>116,919</u> |
| | <u>18,432,621</u> | <u>-</u> | <u>18,432,621</u> |
| Less ceded unearned premium reserve | | | |
| Individual life insurance | 791,073 | - | 791,073 |
| Individual injury insurance | 17,897 | - | 17,897 |
| Individual health insurance | 188,492 | - | 188,492 |
| Group insurance | <u>438</u> | <u>-</u> | <u>438</u> |
| | <u>997,900</u> | <u>-</u> | <u>997,900</u> |
| | <u>\$ 17,434,721</u> | <u>\$ -</u> | <u>\$ 17,434,721</u> |

The changes in unearned premium reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | |
|-------------------------------------|---|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 19,496,231 | \$ - | \$ 19,496,231 |
| Provision | 19,373,263 | - | 19,373,263 |
| Recovery | (19,522,980) | - | (19,522,980) |
| Foreign exchange | <u>18,991</u> | <u>-</u> | <u>18,991</u> |
| Ending balance | <u>19,365,505</u> | <u>-</u> | <u>19,365,505</u> |
| Less ceded unearned premium reserve | | | |
| Beginning balance | 1,131,321 | - | 1,131,321 |
| Decrease | <u>(102,660)</u> | <u>-</u> | <u>(102,660)</u> |
| Ending balance | <u>1,028,661</u> | <u>-</u> | <u>1,028,661</u> |
| Net ending balance | <u>\$ 18,336,844</u> | <u>\$ -</u> | <u>\$ 18,336,844</u> |
| | For the Nine Months Ended September 30, 2021 | | |
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 18,775,949 | \$ - | \$ 18,775,949 |
| Provision | 18,317,131 | - | 18,317,131 |
| Recovery | (18,655,944) | - | (18,655,944) |
| Foreign exchange | <u>(4,515)</u> | <u>-</u> | <u>(4,515)</u> |
| Ending balance | <u>18,432,621</u> | <u>-</u> | <u>18,432,621</u> |
| Less ceded unearned premium reserve | | | |
| Beginning balance | 1,113,039 | - | 1,113,039 |
| Decrease | <u>(115,139)</u> | <u>-</u> | <u>(115,139)</u> |
| Ending balance | <u>997,900</u> | <u>-</u> | <u>997,900</u> |
| Net ending balance | <u>\$ 17,434,721</u> | <u>\$ -</u> | <u>\$ 17,434,721</u> |

| | December 31, 2021 | | |
|-----------------------------|--------------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Investment-linked insurance | | | |
| Filed but not paid | \$ 207,053 | \$ - | \$ 207,053 |
| Not yet filed | <u>930</u> | <u>-</u> | <u>930</u> |
| | <u>11,731,634</u> | <u>31,747</u> | <u>11,763,381</u> |
| Less ceded loss reserve | | | |
| Individual life insurance | 35,496 | - | 35,496 |
| Individual injury insurance | 12 | - | 12 |
| Individual health insurance | 11,607 | - | 11,607 |
| Group insurance | <u>4,382</u> | <u>-</u> | <u>4,382</u> |
| | <u>51,497</u> | <u>-</u> | <u>51,497</u> |
| | <u>\$ 11,680,137</u> | <u>\$ 31,747</u> | <u>\$ 11,711,884</u> |
| | | | (Concluded) |

| | September 30, 2021 | | |
|-----------------------------|--------------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | | | |
| Filed but not paid | \$ 2,638,138 | \$ 7,873 | \$ 2,646,011 |
| Not yet filed | 53,765 | - | 53,765 |
| Individual injury insurance | | | |
| Filed but not paid | 54,377 | - | 54,377 |
| Not yet filed | 1,954,634 | - | 1,954,634 |
| Individual health insurance | | | |
| Filed but not paid | 1,514,359 | - | 1,514,359 |
| Not yet filed | 3,443,595 | - | 3,443,595 |
| Group insurance | | | |
| Filed but not paid | 90,026 | - | 90,026 |
| Not yet filed | 1,521,872 | - | 1,521,872 |
| Investment-linked insurance | | | |
| Filed but not paid | 182,728 | - | 182,728 |
| Not yet filed | <u>1,817</u> | <u>-</u> | <u>1,817</u> |
| | <u>11,455,311</u> | <u>7,873</u> | <u>11,463,184</u> |
| Less ceded loss reserve | | | |
| Individual life insurance | 83,068 | - | 83,068 |
| Individual injury insurance | 36 | - | 36 |
| Individual health insurance | 12,182 | - | 12,182 |
| Group insurance | <u>3,500</u> | <u>-</u> | <u>3,500</u> |
| | <u>98,786</u> | <u>-</u> | <u>98,786</u> |
| | <u>\$ 11,356,525</u> | <u>\$ 7,873</u> | <u>\$ 11,364,398</u> |

The changes in loss reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | |
|-------------------------|---|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 11,731,634 | \$ 31,747 | \$ 11,763,381 |
| Provision | 13,370,043 | 30,537 | 13,400,580 |
| Recovery | (12,586,914) | (31,747) | (12,618,661) |
| Foreign exchange | <u>79,957</u> | <u>-</u> | <u>79,957</u> |
| Ending balance | <u>12,594,720</u> | <u>30,537</u> | <u>12,625,257</u> |
| Less ceded loss reserve | | | |
| Beginning balance | 51,497 | - | 51,497 |
| Increase | 69,223 | - | 69,223 |
| Decrease | (35,979) | - | (35,979) |
| Foreign exchange | <u>330</u> | <u>-</u> | <u>330</u> |
| Ending balance | <u>85,071</u> | <u>-</u> | <u>85,071</u> |
| Net ending balance | <u>\$ 12,509,649</u> | <u>\$ 30,537</u> | <u>\$ 12,540,186</u> |
| | For the Nine Months Ended September 30, 2021 | | |
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 12,128,263 | \$ 35,590 | \$ 12,163,853 |
| Provision | 11,372,331 | 7,873 | 11,380,204 |
| Recovery | (12,027,460) | (35,590) | (12,063,050) |
| Foreign exchange | <u>(17,823)</u> | <u>-</u> | <u>(17,823)</u> |
| Ending balance | <u>11,455,311</u> | <u>7,873</u> | <u>11,463,184</u> |
| Less ceded loss reserve | | | |
| Beginning balance | 71,723 | - | 71,723 |
| Increase | 62,139 | - | 62,139 |
| Decrease | (34,957) | - | (34,957) |
| Foreign exchange | <u>(119)</u> | <u>-</u> | <u>(119)</u> |
| Ending balance | <u>98,786</u> | <u>-</u> | <u>98,786</u> |
| Net ending balance | <u>\$ 11,356,525</u> | <u>\$ 7,873</u> | <u>\$ 11,364,398</u> |

3) Policy reserve

| | September 30, 2022 | | |
|-----------------------------|--------------------------------|--|-------------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Life insurance (Note 1) | \$ 5,754,093,704 | \$ 3,281 | \$ 5,754,096,985 |
| Injury insurance | 7,527,150 | - | 7,527,150 |
| Health insurance | 923,919,774 | - | 923,919,774 |
| Annuity insurance | 1,235,471 | 8,543,285 | 9,778,756 |
| Investment-linked insurance | <u>2,127,943</u> | <u>-</u> | <u>2,127,943</u> |
| Total (Note 2) | <u>6,688,904,042</u> | <u>8,546,566</u> | <u>6,697,450,608</u> |
| Less ceded policy reserve | | | |
| Life insurance | 377,940 | - | 377,940 |
| Health insurance | <u>19,444</u> | <u>-</u> | <u>19,444</u> |
| | <u>397,384</u> | <u>-</u> | <u>397,384</u> |
| | <u>\$ 6,688,506,658</u> | <u>\$ 8,546,566</u> | <u>\$ 6,697,053,224</u> |
| | December 31, 2021 | | |
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Life insurance (Note 1) | \$ 5,443,891,473 | \$ 3,673 | \$ 5,443,895,146 |
| Injury insurance | 7,497,332 | - | 7,497,332 |
| Health insurance | 869,807,903 | - | 869,807,903 |
| Annuity insurance | 1,312,175 | 10,396,632 | 11,708,807 |
| Investment-linked insurance | <u>1,564,260</u> | <u>-</u> | <u>1,564,260</u> |
| Total (Note 2) | <u>6,324,073,143</u> | <u>10,400,305</u> | <u>6,334,473,448</u> |
| Less ceded policy reserve | | | |
| Life insurance | 376,139 | - | 376,139 |
| Health insurance | <u>18,976</u> | <u>-</u> | <u>18,976</u> |
| | <u>395,115</u> | <u>-</u> | <u>395,115</u> |
| | <u>\$ 6,323,678,028</u> | <u>\$ 10,400,305</u> | <u>\$ 6,334,078,333</u> |

| | September 30, 2021 | | |
|-----------------------------|--|----------------------|-------------------------|
| | Financial Instruments with Discretionary Participation Features | | |
| | Insurance Contracts | Features | Total |
| Life insurance (Note 1) | \$ 5,365,120,642 | \$ 3,672 | \$ 5,365,124,314 |
| Injury insurance | 7,478,089 | - | 7,478,089 |
| Health insurance | 850,940,664 | - | 850,940,664 |
| Annuity insurance | 1,344,131 | 11,414,787 | 12,758,918 |
| Investment-linked insurance | <u>1,521,510</u> | <u>-</u> | <u>1,521,510</u> |
| Total (Note 2) | <u>6,226,405,036</u> | <u>11,418,459</u> | <u>6,237,823,495</u> |
| Less ceded policy reserve | | | |
| Life insurance | 376,368 | - | 376,368 |
| Health insurance | <u>20,589</u> | <u>-</u> | <u>20,589</u> |
| | <u>396,957</u> | <u>-</u> | <u>396,957</u> |
| | <u>\$ 6,226,008,079</u> | <u>\$ 11,418,459</u> | <u>\$ 6,237,426,538</u> |

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

Note 2: Total policy reserve including policy reserve-payables to the insured amounted to \$6,697,924,809 thousand, \$6,334,959,547 thousand and \$6,238,281,440 thousand as of September 30, 2022, December 31, 2021 and September 30, 2021, respectively.

The changes in policy reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | |
|---------------------------|--|---------------------|-------------------------|
| | Financial Instruments with Discretionary Participation Features | | |
| | Insurance Contracts | Features | Total |
| Beginning balance | \$ 6,324,073,143 | \$ 10,400,305 | \$ 6,334,473,448 |
| Provision | 377,050,497 | 60,540 | 377,111,037 |
| Recovery | (210,831,377) | (1,914,327) | (212,745,704) |
| Reclassification | (59,331) | - | (59,331) |
| Foreign exchange | <u>198,671,110</u> | <u>48</u> | <u>198,671,158</u> |
| Ending balance | <u>6,688,904,042</u> | <u>8,546,566</u> | <u>6,697,450,608</u> |
| Less ceded policy reserve | | | |
| Beginning balance | 395,115 | - | 395,115 |
| Increase | 71,259 | - | 71,259 |
| Decrease | (80,401) | - | (80,401) |
| Foreign exchange | <u>11,411</u> | <u>-</u> | <u>11,411</u> |
| Ending balance | <u>397,384</u> | <u>-</u> | <u>397,384</u> |
| Net ending balance | <u>\$ 6,688,506,658</u> | <u>\$ 8,546,566</u> | <u>\$ 6,697,053,224</u> |

| | For the Nine Months Ended September 30, 2021 | | |
|---------------------------|---|--|-------------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 5,984,640,467 | \$ 14,179,191 | \$ 5,998,819,658 |
| Provision | 436,628,819 | 64,575 | 436,693,394 |
| Recovery | (158,258,034) | (2,825,169) | (161,083,203) |
| Reclassification | 6,265 | - | 6,265 |
| Foreign exchange | (36,612,481) | (138) | (36,612,619) |
| Ending balance | <u>6,226,405,036</u> | <u>11,418,459</u> | <u>6,237,823,495</u> |
| Less ceded policy reserve | | | |
| Beginning balance | 425,518 | - | 425,518 |
| Increase | 61,467 | - | 61,467 |
| Decrease | (83,086) | - | (83,086) |
| Foreign exchange | (6,942) | - | (6,942) |
| Ending balance | <u>396,957</u> | <u>-</u> | <u>396,957</u> |
| Net ending balance | <u>\$ 6,226,008,079</u> | <u>\$ 11,418,459</u> | <u>\$ 6,237,426,538</u> |

4) Special reserve

| | September 30, 2022 | | | |
|---|--------------------------------|--|----------------------|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Others | Total |
| Participating policies dividends reserve | \$ (19,826) | \$ - | \$ - | \$ (19,826) |
| Dividend risk reserve | 22,058 | - | - | 22,058 |
| Special reserve for revaluation increments of property | <u>-</u> | <u>-</u> | <u>11,083,324</u> | <u>11,083,324</u> |
| | <u>\$ 2,232</u> | <u>\$ -</u> | <u>\$ 11,083,324</u> | <u>\$ 11,085,556</u> |

| | December 31, 2021 | | | |
|---|--------------------------------|--|----------------------|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Others | Total |
| Participating policies dividends reserve | \$ (41,854) | \$ - | \$ - | \$ (41,854) |
| Dividend risk reserve | 43,589 | - | - | 43,589 |
| Special reserve for revaluation increments of property | <u>-</u> | <u>-</u> | <u>11,083,324</u> | <u>11,083,324</u> |
| | <u>\$ 1,735</u> | <u>\$ -</u> | <u>\$ 11,083,324</u> | <u>\$ 11,085,059</u> |

| | September 30, 2021 | | | |
|--|--------------------------------|--|----------------------|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Others | Total |
| Participating policies dividends reserve | \$ (48,635) | \$ - | \$ - | \$ (48,635) |
| Dividend risk reserve | 50,188 | - | - | 50,188 |
| Special reserve for revaluation increments of property | <u>-</u> | <u>-</u> | <u>11,083,324</u> | <u>11,083,324</u> |
| | <u>\$ 1,553</u> | <u>\$ -</u> | <u>\$ 11,083,324</u> | <u>\$ 11,084,877</u> |

The changes in special reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | | |
|--|---|--|----------------------|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Others | Total |
| Beginning balance | \$ 1,735 | \$ - | \$ 11,083,324 | \$ 11,085,059 |
| Provision for participating policies dividends reserve | 32,874 | - | - | 32,874 |
| Recovery of participating policies dividends reserve | (10,846) | - | - | (10,846) |
| Recovery of dividend risk reserve | <u>(21,531)</u> | <u>-</u> | <u>-</u> | <u>(21,531)</u> |
| Ending balance | <u>\$ 2,232</u> | <u>\$ -</u> | <u>\$ 11,083,324</u> | <u>\$ 11,085,556</u> |

| | For the Nine Months Ended September 30, 2021 | | | |
|--|---|--|----------------------|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Others | Total |
| Beginning balance | \$ 1,452 | \$ - | \$ 11,083,324 | \$ 11,084,776 |
| Provision for participating policies dividends reserve | 15,554 | - | - | 15,554 |
| Recovery of participating policies dividends reserve | (10,713) | - | - | (10,713) |
| Recovery of dividend risk reserve | <u>(4,740)</u> | <u>-</u> | <u>-</u> | <u>(4,740)</u> |
| Ending balance | <u>\$ 1,553</u> | <u>\$ -</u> | <u>\$ 11,083,324</u> | <u>\$ 11,084,877</u> |

5) Premium deficiency reserve

| | September 30, 2022 | | |
|-----------------------------|--------------------------------|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 7,785,590 | \$ - | \$ 7,785,590 |
| Individual injury insurance | 4,580 | - | 4,580 |
| Individual health insurance | 1,309,559 | - | 1,309,559 |
| Group insurance | <u>46</u> | <u>-</u> | <u>46</u> |
| | <u>\$ 9,099,775</u> | <u>\$ -</u> | <u>\$ 9,099,775</u> |
| | December 31, 2021 | | |
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 8,570,062 | \$ - | \$ 8,570,062 |
| Individual injury insurance | 3,300 | - | 3,300 |
| Individual health insurance | 1,234,787 | - | 1,234,787 |
| Group insurance | <u>66</u> | <u>-</u> | <u>66</u> |
| | <u>\$ 9,808,215</u> | <u>\$ -</u> | <u>\$ 9,808,215</u> |
| | September 30, 2021 | | |
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Individual life insurance | \$ 10,039,079 | \$ - | \$ 10,039,079 |
| Individual injury insurance | 805 | - | 805 |
| Individual health insurance | 1,205,376 | - | 1,205,376 |
| Group insurance | <u>84,530</u> | <u>-</u> | <u>84,530</u> |
| | <u>\$ 11,329,790</u> | <u>\$ -</u> | <u>\$ 11,329,790</u> |

The changes in premium deficiency reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | |
|-------------------|---|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 9,808,215 | \$ - | \$ 9,808,215 |
| Provision | 90,249 | - | 90,249 |
| Recovery | (1,114,288) | - | (1,114,288) |
| Foreign exchange | <u>315,599</u> | <u>-</u> | <u>315,599</u> |
| Ending balance | <u>\$ 9,099,775</u> | <u>\$ -</u> | <u>\$ 9,099,775</u> |

| | For the Nine Months Ended September 30, 2021 | | |
|-------------------|---|--|----------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 13,802,343 | \$ - | \$ 13,802,343 |
| Provision | 84,456 | - | 84,456 |
| Recovery | (2,441,334) | - | (2,441,334) |
| Foreign exchange | <u>(115,675)</u> | <u>-</u> | <u>(115,675)</u> |
| Ending balance | <u>\$ 11,329,790</u> | <u>\$ -</u> | <u>\$ 11,329,790</u> |

6) Other reserve

| | September 30, 2022 | | |
|--------|--------------------------------|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Others | <u>\$ 1,857,925</u> | <u>\$ -</u> | <u>\$ 1,857,925</u> |

| | December 31, 2021 | | |
|--------|--------------------------------|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Others | <u>\$ 1,865,925</u> | <u>\$ -</u> | <u>\$ 1,865,925</u> |

| | September 30, 2021 | | |
|--------|--------------------------------|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Others | <u>\$ 1,867,925</u> | <u>\$ -</u> | <u>\$ 1,867,925</u> |

The changes in other reserve are summarized below:

| | For the Nine Months Ended September 30, 2022 | | |
|-------------------|---|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 1,865,925 | \$ - | \$ 1,865,925 |
| Recovery | <u>(8,000)</u> | <u>-</u> | <u>(8,000)</u> |
| Ending balance | <u>\$ 1,857,925</u> | <u>\$ -</u> | <u>\$ 1,857,925</u> |

| | For the Nine Months Ended September 30, 2021 | | |
|-------------------|---|--|---------------------|
| | Insurance Contracts | Financial Instruments with Discretionary Participation Features | Total |
| Beginning balance | \$ 1,876,925 | \$ - | \$ 1,876,925 |
| Recovery | <u>(9,000)</u> | <u>-</u> | <u>(9,000)</u> |
| Ending balance | <u>\$ 1,867,925</u> | <u>\$ -</u> | <u>\$ 1,867,925</u> |

7) Liability adequacy reserve

| | Insurance Contracts and Financial Instruments with Discretionary Participation Features | | |
|---------------------------------------|--|------------------------------|-------------------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Unearned premium reserve | \$ 19,365,505 | \$ 19,496,231 | \$ 18,432,621 |
| Policy reserve | 6,697,924,809 | 6,334,959,547 | 6,238,281,440 |
| Premium deficiency reserve | 9,099,775 | 9,808,215 | 11,329,790 |
| Other reserve | <u>1,857,925</u> | <u>1,865,925</u> | <u>1,867,925</u> |
| Book value of insurance liabilities | <u>\$ 6,728,248,014</u> | <u>\$ 6,366,129,918</u> | <u>\$ 6,269,911,776</u> |
| Estimated present value of cash flows | <u>\$ 5,843,187,832</u> | <u>\$ 5,607,152,746</u> | <u>\$ 5,524,405,415</u> |
| Balance of liability adequacy reserve | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

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

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

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

| | <u>September 30, 2022</u> | <u>December 31, 2021</u> | <u>September 30, 2021</u> |
|----------------------------|---|--|---|
| Test method | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) |
| Groups | Integrated testing | Integrated testing | Integrated testing |
| Significant assumptions | | | |
| a. Information of policies | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date. | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date. |
| b. Discount rate | Under the asset allocation situation on June 30, 2022, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2021; with neutral assumptions for the discount rate after 30 years. | Under the asset allocation situation on September 30, 2021, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2020; with neutral assumptions for the discount rate after 30 years. | Under the asset allocation situation on June 30, 2021, the discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2020; with neutral assumptions for the discount rate after 30 years. |

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------|---|--|--|
| Test method | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) |
| Groups | Integrated testing | Integrated testing | Integrated testing |
| Significant assumptions | | | |
| a. Information of policies | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date. | Includes insurance contracts and financial instruments with discretionary participation features as of the valuation date. |
| b. Discount rate | The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2021; with neutral assumptions for the discount rate after 30 years | The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2020; with neutral assumptions for the discount rate after 30 years. | The discount rate is calculated using the overall return on investment for the Company under the best estimate scenario in the actuarial report for 2020; with neutral assumptions for the discount rate after 30 years. |

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------|---|---|---|
| Test method | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) | Gross premium valuation method (GPV) |
| Groups | Integrated testing | Integrated testing | Integrated testing |
| Significant assumptions | | | |
| a. Information of policies | Include insurance contracts and financial instruments with discretionary participation feature as of valuation date | Include insurance contracts and financial instruments with discretionary participation feature as of valuation date. | Include insurance contracts and financial instruments with discretionary participation feature as of valuation date. |
| b. Discount rate | Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years. | Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years. | Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years. |

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

Cathay Life and its subsidiaries issued financial instruments without discretionary participation features and recognized a reserve for insurance contracts with the nature of financial products. As of September 30, 2022, December 31, 2021 and September 30, 2021, reserve for insurance contracts with the nature of financial products is summarized and reconciled as follows:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------------------------|-------------------------------|---|-------------------------------|
| Life insurance | \$ 16,713,524 | \$ 14,095,296 | \$ 13,680,539 |
| Investment-linked insurance | <u>1,149,728</u> | <u>1,093,492</u> | <u>1,066,309</u> |
| | <u>\$ 17,863,252</u> | <u>\$ 15,188,788</u> | <u>\$ 14,746,848</u> |
| | | For the Nine Months Ended September 30 | |
| | | 2022 | 2021 |
| Beginning balance | | \$ 15,188,788 | \$ 13,731,508 |
| Premiums received | | 3,774,791 | 3,087,548 |
| Claims and payments | | (2,375,041) | (2,699,213) |
| Net provision of statutory reserve | | 776,618 | 777,147 |
| Foreign exchange | | <u>498,096</u> | <u>(150,142)</u> |
| Ending balance | | <u>\$ 17,863,252</u> | <u>\$ 14,746,848</u> |

9) Reserve for foreign exchange valuation

a) The hedging strategy and risk exposure

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

b) Reconciliation for reserve for foreign exchange valuation

| | For the Nine Months Ended September 30 | |
|--------------------|---|---------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 9,053,726 | \$ 14,820,865 |
| Provision: | | |
| Compulsory reserve | 4,378,076 | 5,531,551 |
| Additional reserve | <u>39,644,400</u> | <u>560,436</u> |
| | 44,022,476 | 6,091,987 |
| Recovery | <u>(2,525,160)</u> | <u>(12,869,898)</u> |
| Ending balance | <u>\$ 50,551,042</u> | <u>\$ 8,042,954</u> |

c) Effects due to reserve for foreign exchange valuation

| Item | For the Nine Months Ended September 30, 2022 | | |
|--|--|-----------------------|---------------------|
| | Inapplicable Amount (1) | Applicable Amount (2) | Effects (3)=(2)-(1) |
| Net income attributable to owners of the Company | \$ 87,091,739 | \$ 53,893,886 | \$ (33,197,853) |
| Earnings per share | 6.36 | 3.83 | (2.53) |
| Reserve for foreign exchange valuation | - | 50,551,042 | 50,551,042 |
| Equity attributable to owners of the Company | 331,716,381 | 294,878,444 | (36,837,937) |

| Item | For the Nine Months Ended September 30, 2021 | | |
|--|--|-----------------------|---------------------|
| | Inapplicable Amount (1) | Applicable Amount (2) | Effects (3)=(2)-(1) |
| Net income attributable to owners of the Company | \$ 116,173,756 | \$ 121,596,084 | \$ 5,422,328 |
| Earnings per share | 8.56 | 8.98 | 0.42 |
| Reserve for foreign exchange valuation | - | 8,042,954 | 8,042,954 |
| Equity attributable to owners of the Company | 861,597,240 | 858,765,773 | (2,831,467) |

b. Cathay Century and its subsidiaries

1) Unearned insurance premium reserve

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

| Insurance Type | September 30, 2022 | | | |
|--------------------------|--------------------------|---------------------------------|--------------------------------|-----------------------------------|
| | Unearned Premium Reserve | | Ceded Unearned Premium Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | | | | |
| Fire insurance | \$ 2,286,038 | \$ 149,176 | \$ 1,651,251 | \$ 783,963 |
| Marine insurance | 203,231 | 9,897 | 159,487 | 53,641 |
| Land and air insurance | 6,518,274 | 11,834 | 234,982 | 6,295,126 |
| Liability insurance | 1,266,198 | 1,502 | 412,675 | 855,025 |
| Guarantee insurance | 49,949 | 3,447 | 38,656 | 14,740 |
| Other property insurance | 1,570,310 | 29,146 | 1,241,386 | 358,070 |
| Accident insurance | 1,614,204 | 7,428 | 170,804 | 1,450,828 |

(Continued)

| September 30, 2022 | | | | |
|--|---------------------------------|--|---|--|
| Insurance Type | Unearned Premium Reserve | | Ceded Unearned Premium Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Health insurance | \$ 282,675 | \$ 3,422 | |
| Policy-oriented residential earthquake insurance | 233,923 | 32,724 | 233,923 | 32,724 |
| Compulsory automobile liability insurance | <u>1,241,430</u> | <u>461,578</u> | <u>744,858</u> | <u>958,150</u> |
| | <u>\$ 15,266,232</u> | <u>\$ 710,154</u> | <u>\$ 4,935,419</u> | <u>\$ 11,040,967</u> |

| December 31, 2021 | | | | |
|--|---------------------------------|--|---|--|
| Insurance Type | Unearned Premium Reserve | | Ceded Unearned Premium Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Fire insurance | \$ 1,875,676 | \$ 241,506 | |
| Marine insurance | 195,031 | 17,467 | 143,329 | 69,169 |
| Land and air insurance | 6,264,140 | 19,060 | 226,099 | 6,057,101 |
| Liability insurance | 1,087,179 | 3,918 | 295,440 | 795,657 |
| Guarantee insurance | 55,444 | 4,592 | 35,439 | 24,597 |
| Other property insurance | 1,515,244 | 41,080 | 1,192,079 | 364,245 |
| Accident insurance | 1,596,107 | 11,674 | 92,817 | 1,514,964 |
| Health insurance | 425,727 | 1,071 | 206,791 | 220,007 |
| Policy-oriented residential earthquake insurance | 230,777 | 29,569 | 230,777 | 29,569 |
| Compulsory automobile liability insurance | <u>1,237,536</u> | <u>453,028</u> | <u>742,522</u> | <u>948,042</u> |
| | <u>\$ 14,482,861</u> | <u>\$ 822,965</u> | <u>\$ 4,361,937</u> | <u>\$ 10,943,889</u> |

September 30, 2021

| Insurance Type | Unearned Premium Reserve | | Ceded Unearned Premium Reserve | Retained Business (4)=(1)+(2)-(3) |
|--|---------------------------------|--|---|--|
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Fire insurance | \$ 1,741,717 | \$ 291,159 | |
| Marine insurance | 176,403 | 9,228 | 107,811 | 77,820 |
| Land and air insurance | 5,808,171 | 28,571 | 215,177 | 5,621,565 |
| Liability insurance | 1,022,665 | 4,014 | 305,468 | 721,211 |
| Guarantee insurance | 58,770 | 5,252 | 39,844 | 24,178 |
| Other property insurance | 1,246,367 | 36,488 | 957,781 | 325,074 |
| Accident insurance | 1,571,197 | 7,108 | 107,194 | 1,471,111 |
| Health insurance | 634,084 | 3,254 | 335,798 | 301,540 |
| Policy-oriented residential earthquake insurance | 223,447 | 31,710 | 223,447 | 31,710 |
| Compulsory automobile liability insurance | <u>1,225,561</u> | <u>453,279</u> | <u>735,337</u> | <u>943,503</u> |
| | <u>\$ 13,708,382</u> | <u>\$ 870,063</u> | <u>\$ 4,035,938</u> | <u>\$ 10,542,507</u> |

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

| | For the Nine Months Ended September 30 | | | |
|-------------------|---|---|---|---|
| | 2022 | | 2021 | |
| | Unearned Premium Reserve | Ceded Unearned Premium Reserve | Unearned Premium Reserve | Ceded Unearned Premium Reserve |
| Beginning balance | \$ 15,305,826 | \$ 4,361,937 | \$ 13,737,655 | \$ 3,626,938 |
| Provision | 15,961,972 | 4,928,327 | 14,577,911 | 4,035,663 |
| Recovery | (15,353,963) | (4,383,386) | (13,763,608) | (3,634,266) |
| Foreign exchange | <u>62,551</u> | <u>28,541</u> | <u>26,487</u> | <u>7,603</u> |
| Ending balance | <u>\$ 15,976,386</u> | <u>\$ 4,935,419</u> | <u>\$ 14,578,445</u> | <u>\$ 4,035,938</u> |

2) Loss reserve

a) Loss reserve and ceded loss reserve

| September 30, 2022 | | | | |
|---------------------------|---|--|---------------------------------------|--|
| Items | Loss Reserve | | Ceded Loss Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Filed not yet paid | \$ 8,352,100 | \$ 1,180,279 | |
| Not yet filed | <u>6,295,759</u> | <u>476,566</u> | <u>1,749,606</u> | <u>5,022,719</u> |
| | <u>\$ 14,647,859</u> | <u>\$ 1,656,845</u> | <u>\$ 5,603,956</u> | <u>\$ 10,700,748</u> |

| December 31, 2021 | | | | |
|--------------------------|---|--|---------------------------------------|--|
| Items | Loss Reserve | | Ceded Loss Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Filed not yet paid | \$ 5,930,391 | \$ 1,129,732 | |
| Not yet filed | <u>4,324,824</u> | <u>450,325</u> | <u>1,384,117</u> | <u>3,391,032</u> |
| | <u>\$ 10,255,215</u> | <u>\$ 1,580,057</u> | <u>\$ 4,119,854</u> | <u>\$ 7,715,418</u> |

| September 30, 2021 | | | | |
|---------------------------|---|--|---------------------------------------|--|
| Items | Loss Reserve | | Ceded Loss Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Filed not yet paid | \$ 5,635,426 | \$ 923,107 | |
| Not yet filed | <u>4,356,403</u> | <u>448,894</u> | <u>1,330,816</u> | <u>3,474,481</u> |
| | <u>\$ 9,991,829</u> | <u>\$ 1,372,001</u> | <u>\$ 3,950,385</u> | <u>\$ 7,413,445</u> |

b) Net changes in loss reserve and ceded loss reserve

For the nine months ended September 30, 2022

| Items | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in Loss Reserve |
|--------------------|-------------------------------------|----------------------|------------------------------------|---------------------|------------------------------------|
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | (5)=(1)-(2)+ (3)-(4) |
| Filed not yet paid | \$ 8,366,705 | \$ 5,960,314 | \$ 1,180,279 | \$ 1,129,732 | \$ 2,456,938 |
| Not yet filed | <u>6,267,528</u> | <u>4,301,044</u> | <u>476,566</u> | <u>450,325</u> | <u>1,992,725</u> |
| | <u>\$ 14,634,233</u> | <u>\$ 10,261,358</u> | <u>\$ 1,656,845</u> | <u>\$ 1,580,057</u> | <u>\$ 4,449,663</u> |

| Items | Ceded Reinsurance Business | | Net Changes in |
|--------------------|----------------------------|---------------------|--------------------------|
| | Provision (6) | Recovery (7) | Loss Reserve (8)=(6)-(7) |
| Filed not yet paid | \$ 3,856,314 | \$ 2,752,942 | \$ 1,103,372 |
| Not yet filed | <u>1,736,397</u> | <u>1,372,166</u> | <u>364,231</u> |
| | <u>\$ 5,592,711</u> | <u>\$ 4,125,108</u> | <u>\$ 1,467,603</u> |

For the nine months ended September 30, 2021

| Items | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in |
|--------------------|------------------------------|---------------------|-----------------------------|---------------------|----------------------------------|
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | Loss Reserve (5)=(1)-(2)+(3)-(4) |
| Filed not yet paid | \$ 5,655,953 | \$ 4,597,432 | \$ 923,107 | \$ 786,091 | \$ 1,195,537 |
| Not yet filed | <u>4,334,957</u> | <u>4,023,236</u> | <u>448,894</u> | <u>455,069</u> | <u>305,546</u> |
| | <u>\$ 9,990,910</u> | <u>\$ 8,620,668</u> | <u>\$ 1,372,001</u> | <u>\$ 1,241,160</u> | <u>\$ 1,501,083</u> |

| Items | Ceded Reinsurance Business | | Net Changes in |
|--------------------|----------------------------|---------------------|--------------------------|
| | Provision (6) | Recovery (7) | Loss Reserve (8)=(6)-(7) |
| Filed not yet paid | \$ 2,627,619 | \$ 1,590,645 | \$ 1,036,974 |
| Not yet filed | <u>1,322,456</u> | <u>1,230,099</u> | <u>92,357</u> |
| | <u>\$ 3,950,075</u> | <u>\$ 2,820,744</u> | <u>\$ 1,129,331</u> |

See Note 38 for the impact of the COVID-19 on Cathay Century and its subsidiaries.

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

| Insurance Type | September 30, 2022 | | |
|--|---------------------|---------------------|----------------------|
| | Filed Not Yet Paid | Not Yet Filed | Total |
| Fire insurance | \$ 4,120,564 | \$ 57,528 | \$ 4,178,092 |
| Marine insurance | 600,383 | 197,961 | 798,344 |
| Land and air insurance | 2,135,276 | 1,347,678 | 3,482,954 |
| Liability insurance | 594,306 | 731,249 | 1,325,555 |
| Guarantee insurance | 48,641 | 36,493 | 85,134 |
| Other property insurance | 573,523 | 286,721 | 860,244 |
| Accident insurance | 211,668 | 524,413 | 736,081 |
| Health insurance | 768,213 | 1,730,907 | 2,499,120 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>479,805</u> | <u>1,859,375</u> | <u>2,339,180</u> |
| | <u>\$ 9,532,379</u> | <u>\$ 6,772,325</u> | <u>\$ 16,304,704</u> |

| December 31, 2021 | | | |
|--|---------------------------|----------------------|----------------------|
| Insurance Type | Filed Not Yet Paid | Not Yet Filed | Total |
| Fire insurance | \$ 3,279,459 | \$ 28,876 | \$ 3,308,335 |
| Marine insurance | 408,187 | 167,516 | 575,703 |
| Land and air insurance | 1,683,367 | 1,310,307 | 2,993,674 |
| Liability insurance | 585,673 | 690,307 | 1,275,980 |
| Guarantee insurance | 53,279 | 33,866 | 87,145 |
| Other property insurance | 461,388 | 116,077 | 577,465 |
| Accident insurance | 134,164 | 508,005 | 642,169 |
| Health insurance | 7,923 | 110,734 | 118,657 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>446,683</u> | <u>1,809,461</u> | <u>2,256,144</u> |
| | <u>\$ 7,060,123</u> | <u>\$ 4,775,149</u> | <u>\$ 11,835,272</u> |

| September 30, 2021 | | | |
|--|---------------------------|----------------------|----------------------|
| Insurance Type | Filed Not Yet Paid | Not Yet Filed | Total |
| Fire insurance | \$ 3,059,286 | \$ 29,419 | \$ 3,088,705 |
| Marine insurance | 348,806 | 156,005 | 504,811 |
| Land and air insurance | 1,516,989 | 1,457,623 | 2,974,612 |
| Liability insurance | 576,948 | 663,378 | 1,240,326 |
| Guarantee insurance | 58,383 | 37,683 | 96,066 |
| Other property insurance | 414,480 | 150,503 | 564,983 |
| Accident insurance | 125,244 | 489,941 | 615,185 |
| Health insurance | 3,246 | 95,087 | 98,333 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>455,151</u> | <u>1,725,658</u> | <u>2,180,809</u> |
| | <u>\$ 6,558,533</u> | <u>\$ 4,805,297</u> | <u>\$ 11,363,830</u> |

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

| September 30, 2022 | | | |
|--|----------------------|----------------------|---------------------|
| Insurance Type | Filed Not Yet | | Total |
| | Paid | Not Yet Filed | |
| Fire insurance | \$ 2,503,165 | \$ 24,062 | \$ 2,527,227 |
| Marine insurance | 393,839 | 123,033 | 516,872 |
| Land and air insurance | 90,397 | 38,168 | 128,565 |
| Liability insurance | 270,749 | 266,788 | 537,537 |
| Guarantee insurance | 13,517 | 19,142 | 32,659 |
| Other property insurance | 324,304 | 77,159 | 401,463 |
| Accident insurance | 9,557 | 43,183 | 52,740 |
| Health insurance | 98,166 | 300,296 | 398,462 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>150,656</u> | <u>857,775</u> | <u>1,008,431</u> |
| | <u>\$ 3,854,350</u> | <u>\$ 1,749,606</u> | <u>\$ 5,603,956</u> |
| December 31, 2021 | | | |
| Insurance Type | Filed Not Yet | | Total |
| | Paid | Not Yet Filed | |
| Fire insurance | \$ 1,683,310 | \$ 11,282 | \$ 1,694,592 |
| Marine insurance | 275,098 | 100,501 | 375,599 |
| Land and air insurance | 68,792 | 35,728 | 104,520 |
| Liability insurance | 327,424 | 268,882 | 596,306 |
| Guarantee insurance | 13,775 | 16,353 | 30,128 |
| Other property insurance | 232,315 | 44,182 | 276,497 |
| Accident insurance | 5,789 | 31,251 | 37,040 |
| Health insurance | 283 | 25,968 | 26,251 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>128,951</u> | <u>849,970</u> | <u>978,921</u> |
| | <u>\$ 2,735,737</u> | <u>\$ 1,384,117</u> | <u>\$ 4,119,854</u> |

| Insurance Type | September 30, 2021 | | |
|--|---------------------|---------------------|---------------------|
| | Filed Not Yet Paid | Not Yet Filed | Total |
| Fire insurance | \$ 1,650,285 | \$ 11,603 | \$ 1,661,888 |
| Marine insurance | 210,041 | 88,861 | 298,902 |
| Land and air insurance | 73,103 | 39,431 | 112,534 |
| Liability insurance | 334,304 | 258,720 | 593,024 |
| Guarantee insurance | 14,212 | 18,038 | 32,250 |
| Other property insurance | 202,538 | 59,904 | 262,442 |
| Accident insurance | 6,159 | 32,236 | 38,395 |
| Health insurance | 847 | 22,526 | 23,373 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | <u>128,080</u> | <u>799,497</u> | <u>927,577</u> |
| | <u>\$ 2,619,569</u> | <u>\$ 1,330,816</u> | <u>\$ 3,950,385</u> |

e) Reconciliation of loss reserve and ceded loss reserve

| | For the Nine Months Ended September 30 | | | |
|-------------------|--|---------------------|----------------------|---------------------|
| | 2022 | | 2021 | |
| | Loss Reserve | Ceded Loss Reserve | Loss Reserve | Ceded Loss Reserve |
| Beginning balance | \$ 11,835,272 | \$ 4,119,854 | \$ 9,862,265 | \$ 2,820,967 |
| Provision | 16,291,078 | 5,592,711 | 11,362,911 | 3,950,075 |
| Recovery | (11,841,415) | (4,125,108) | (9,861,828) | (2,820,744) |
| Foreign exchange | <u>19,769</u> | <u>16,499</u> | <u>482</u> | <u>87</u> |
| Ending balance | <u>\$ 16,304,704</u> | <u>\$ 5,603,956</u> | <u>\$ 11,363,830</u> | <u>\$ 3,950,385</u> |

3) Special reserve

a) Special reserve for compulsory automobile liability insurance

| | For the Nine Months Ended September 30 | |
|-------------------|--|-------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 851,422 | \$ 865,038 |
| Provision | 107,152 | 107,540 |
| Recovery | <u>(77,335)</u> | <u>(88,128)</u> |
| Ending balance | <u>\$ 881,239</u> | <u>\$ 884,450</u> |

In accordance with Article 2 of the Compulsory Automobile Liability Insurance Act and Article 24-2, Paragraph 1 of the Deposit and Withdrawal Methods of Various Reserves in the Insurance Industry, as authorized by Article 145, Paragraph 2 and Article 148-3, Paragraph 2 of the Insurance Act, each property insurance company shall set aside NT\$30 per insurance policy as a special reserve, recognized as expense in its own compulsory automobile liability insurance business starting from April 1, 2021. In the case of a deficit in the annual net insurance premium in the business run by a property insurance company in the future, the deficit shall be compensated with the special reserve first; if there is still any shortage, it shall be handled in accordance with the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.

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

| | For the Nine Months Ended September 30, 2022 | | |
|-------------------|---|--------------------------------|---------------------|
| | Catastrophic Event | Fluctuation of Risk | Total |
| Beginning balance | \$ 393,265 | \$ 1,345,017 | \$ 1,738,282 |
| Provision | - | - | - |
| Recovery | <u>-</u> | <u>(1,036,518)</u> | <u>(1,036,518)</u> |
| Ending balance | <u>\$ 393,265</u> | <u>\$ 308,499</u> | <u>\$ 701,764</u> |
| | For the Nine Months Ended September 30, 2021 | | |
| | Catastrophic Event | Fluctuation of Risk | Total |
| Beginning balance | \$ 411,992 | \$ 1,345,017 | \$ 1,757,009 |
| Provision | - | - | - |
| Recovery | <u>-</u> | <u>-</u> | <u>-</u> |
| Ending balance | <u>\$ 411,992</u> | <u>\$ 1,345,017</u> | <u>\$ 1,757,009</u> |

If the Directions for Strengthening Disaster Reserve by Non-Life Insurance Enterprises (formerly Directions for Strengthening Natural Disaster Insurance (Commercial Earthquake, Typhoon and Flood Insurance) Reserve by Non-Life Insurance Enterprises), Directions in Strengthening the Reserve Provision Made by the Co-Insurance Members Undertaking the Taiwan Residential Earthquake Insurance, and Directions for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises were not applied, the Cathay Century and its subsidiaries pre-tax income/loss and loss per share would decrease by \$1,036,518 thousand and \$2.2 for the nine months ended September 30, 2022, respectively. There is no material impact on the Cathay Century and its subsidiaries income before tax and earnings per share for the nine months ended September 30, 2021. The special reserve under liabilities would decrease by \$393,265 thousand and \$1,448,509 thousand, and special reserve under equity would increase by \$310,139 thousand and \$371,511 thousand.

For the nine months ended September 30, 2022, the Cathay Century and its subsidiaries recovered of \$1,036,518 thousand from the special reserve for fluctuation of risk in accordance with the Directions for Strengthening Disaster Reserve by Non-Life Insurance Enterprises, since the actual retained claims resulted from disasters exceeded the expected claims net of the reversal of the special reserve for catastrophic event.

4) Premium deficiency reserve

a) Premium deficiency reserve and ceded premium deficiency reserve

| September 30, 2022 | | | | |
|--|-----------------------------------|--|---|--|
| Insurance Type | Premium Deficiency Reserve | | Ceded Premium Deficiency Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Fire insurance | \$ - | \$ - | |
| Marine insurance | - | - | - | - |
| Land and air insurance | 366 | 122 | - | 488 |
| Liability insurance | - | - | - | - |
| Guarantee insurance | - | - | - | - |
| Other property insurance | 150,000 | - | - | 150,000 |
| Accident insurance | - | - | - | - |
| Health insurance | 1,350,000 | - | - | 1,350,000 |
| Policy-oriented residential earthquake insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| | <u>\$ 1,500,366</u> | <u>\$ 122</u> | <u>\$ -</u> | <u>\$ 1,500,488</u> |

| December 31, 2021 | | | | |
|--|-----------------------------------|--|---|--|
| Insurance Type | Premium Deficiency Reserve | | Ceded Premium Deficiency Reserve | Retained Business (4)=(1)+(2)-(3) |
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | Fire insurance | \$ - | \$ - | |
| Marine insurance | - | - | - | - |
| Land and air insurance | - | - | - | - |
| Liability insurance | - | - | - | - |
| Guarantee insurance | - | - | - | - |
| Other property insurance | - | - | - | - |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Policy-oriented residential earthquake insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

September 30, 2021

| Insurance Type | Premium Deficiency Reserve | | Ceded Premium Deficiency Reserve | Retained Business (4)=(1)+(2)-(3) |
|--|----------------------------|---------------------------------|----------------------------------|--------------------------------------|
| | Direct Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| | | | | |
| Fire insurance | \$ - | \$ - | \$ - | \$ - |
| Marine insurance | 3,600 | 506 | - | 4,106 |
| Land and air insurance | - | - | - | - |
| Liability insurance | - | - | - | - |
| Guarantee insurance | - | - | - | - |
| Other property insurance | - | - | - | - |
| Accident insurance | - | - | - | - |
| Health insurance | - | - | - | - |
| Policy-oriented residential earthquake insurance | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - |
| | <u>\$ 3,600</u> | <u>\$ 506</u> | <u>\$ -</u> | <u>\$ 4,106</u> |

b) Net loss recognized for premium deficiency reserve, net changes in premium deficiency reserve and ceded premium deficiency reserve

| | For the Nine Months Ended September 30, 2022 | | | | | | | | |
|--|--|--------------|-----------------------------|--------------|---|----------------------------|--------------|---|--|
| | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in Premium Deficiency Reserve | Ceded Reinsurance Business | | Net Changes in Ceded Premium Deficiency Reserve | Net Loss Recognized for Premium Deficiency Reserve |
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | (5)=(1)-(2)+(3)-(4) | Provision (6) | Recovery (7) | (8)=(6)-(7) | (9)=(5)-(8) |
| Fire insurance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Marine insurance | - | - | - | - | - | - | - | - | - |
| Land and air insurance | 366 | - | 122 | - | 488 | - | - | - | 488 |
| Liability insurance | - | - | - | - | - | - | - | - | - |
| Guarantee insurance | - | - | - | - | - | - | - | - | - |
| Other property insurance | 150,000 | - | - | - | 150,000 | - | - | - | 150,000 |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | 1,350,000 | - | - | - | 1,350,000 | - | - | - | 1,350,000 |
| Policy-oriented residential earthquake insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - | - | - | - | - | - |
| | <u>\$ 1,500,366</u> | <u>\$ -</u> | <u>\$ 122</u> | <u>\$ -</u> | <u>\$ 1,500,488</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,500,488</u> |

| | For the Nine Months Ended September 30, 2021 | | | | | | | | |
|--|--|-----------------|-----------------------------|---------------|---|----------------------------|--------------|---|--|
| | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in Premium Deficiency Reserve | Ceded Reinsurance Business | | Net Changes in Ceded Premium Deficiency Reserve | Net Loss Recognized for Premium Deficiency Reserve |
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | (5)=(1)-(2)+(3)-(4) | Provision (6) | Recovery (7) | (8)=(6)-(7) | (9)=(5)-(8) |
| Fire insurance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Marine insurance | 3,600 | 3,082 | 506 | 916 | 108 | - | - | - | 108 |
| Land and air insurance | - | 118 | - | 82 | (200) | - | - | - | (200) |
| Liability insurance | - | - | - | - | - | - | - | - | - |
| Guarantee insurance | - | - | - | - | - | - | - | - | - |
| Other property insurance | - | - | - | - | - | - | - | - | - |
| Accident insurance | - | - | - | - | - | - | - | - | - |
| Health insurance | - | - | - | - | - | - | - | - | - |
| Policy-oriented residential earthquake insurance | - | - | - | - | - | - | - | - | - |
| Compulsory automobile liability insurance | - | - | - | - | - | - | - | - | - |
| | <u>\$ 3,600</u> | <u>\$ 3,200</u> | <u>\$ 506</u> | <u>\$ 998</u> | <u>\$ (92)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (92)</u> |

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

| | For the Nine Months Ended September 30 | | | |
|-------------------|---|---|---|---|
| | 2022 | | 2021 | |
| | Premium Deficiency Reserve | Ceded Premium Deficiency Reserve | Premium Deficiency Reserve | Ceded Premium Deficiency Reserve |
| Beginning balance | \$ - | \$ - | \$ 4,198 | \$ - |
| Provision | 1,500,488 | - | 4,106 | - |
| Recovery | - | - | (4,198) | - |
| Ending balance | <u>\$ 1,500,488</u> | <u>\$ -</u> | <u>\$ 4,106</u> | <u>\$ -</u> |

5) Policy reserve

a) Details of policy reserve and ceded policy reserve

September 30, 2022

| Insurance Type | Policy Reserve | | Ceded Policy Reserve | Retained Business (4)=(1)+(2)-(3) |
|-----------------------|---|--|---|--|
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| Health insurance | <u>\$ 130</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 130</u> |

December 31, 2021

| Insurance Type | Policy Reserve | | Ceded Policy Reserve | Retained Business (4)=(1)+(2)-(3) |
|-----------------------|---|--|---|--|
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| Health insurance | <u>\$ 95</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 95</u> |

September 30, 2021

| Insurance Type | Policy Reserve | | Ceded Policy Reserve | Retained Business (4)=(1)+(2)-(3) |
|-----------------------|---|--|---|--|
| | Direct Underwriting Business (1) | Reinsurance Inward Business (2) | Ceded Reinsurance Business (3) | |
| Health insurance | <u>\$ 110</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 110</u> |

b) Net changes in policy reserve and ceded policy reserve

For the nine months ended September 30, 2022

| Insurance Type | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in Policy Reserve |
|------------------|------------------------------|--------------|-----------------------------|--------------|-------------------------------|
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | (5)=(1)-(2)+(3)-(4) |
| Health insurance | <u>\$ 96</u> | <u>\$ 61</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35</u> |

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

For the nine months ended September 30, 2021

| Insurance Type | Direct Underwriting Business | | Reinsurance Inward Business | | Net Changes in Policy Reserve |
|------------------|------------------------------|--------------|-----------------------------|--------------|-------------------------------|
| | Provision (1) | Recovery (2) | Provision (3) | Recovery (4) | (5)=(1)-(2)+(3)-(4) |
| Health insurance | <u>\$ 35</u> | <u>\$ 44</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (9)</u> |

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

22. RETIREMENT BENEFIT PLANS

The pension expense of defined benefit plans was calculated based on the pension cost rate determined by the actuarial calculation on December 31, 2021 and 2020, respectively, and recognized as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------|---|-------------------|--|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Employee benefit expenses | <u>\$ 111,810</u> | <u>\$ 121,359</u> | <u>\$ 335,446</u> | <u>\$ 363,627</u> |

23. OTHER FINANCIAL ASSETS AND LIABILITIES

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|-----------------------|-----------------------|
| <u>Other financial assets</u> | | | |
| Separate account insurance product assets | \$ 649,359,925 | \$ 724,210,234 | \$ 697,724,564 |
| Others | <u>12,770,084</u> | <u>16,896,792</u> | <u>15,510,955</u> |
| | <u>\$ 662,130,009</u> | <u>\$ 741,107,026</u> | <u>\$ 713,235,519</u> |
| <u>Other financial liabilities</u> | | | |
| Separate account insurance product liabilities | \$ 649,359,925 | \$ 724,210,234 | \$ 697,724,564 |
| Principal received from the sale of structured products | 45,092,502 | 31,603,958 | 32,625,766 |
| Others | <u>8,605,622</u> | <u>8,094,006</u> | <u>7,625,205</u> |
| | <u>\$ 703,058,049</u> | <u>\$ 763,908,198</u> | <u>\$ 737,975,535</u> |

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|-----------------------|-----------------------|
| <u>Separate account insurance product assets</u> | | | |
| Cash in bank | \$ 1,757,102 | \$ 536,869 | \$ 518,231 |
| Financial assets at FVTPL | 641,765,012 | 716,214,583 | 689,648,106 |
| Other receivables | <u>5,729,157</u> | <u>7,345,361</u> | <u>7,442,326</u> |
| | <u>\$ 649,251,271</u> | <u>\$ 724,096,813</u> | <u>\$ 697,608,663</u> |
| <u>Separate account insurance product liabilities</u> | | | |
| Other payables | \$ 387,740 | \$ 319,598 | \$ 388,943 |
| Reserve for separate accounts - insurance contracts | 257,666,185 | 306,089,604 | 299,064,216 |
| Reserve for separate accounts - investment contracts | <u>391,197,346</u> | <u>417,687,611</u> | <u>398,155,504</u> |
| | <u>\$ 649,251,271</u> | <u>\$ 724,096,813</u> | <u>\$ 697,608,663</u> |

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|---------------------|---|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| <u>Separate account insurance product income</u> | | | | |
| Premium income | \$ 6,823,426 | \$ 11,321,283 | \$ 21,777,713 | \$ 50,954,806 |
| Interest income | 1,441 | 4 | 2,748 | 1,385 |
| (Losses) gains from financial assets at FVTPL | (14,231,988) | (4,581,342) | (63,766,223) | 12,557,212 |
| Foreign exchange losses | <u>14,235,314</u> | <u>(398,423)</u> | <u>28,623,238</u> | <u>(3,754,050)</u> |
| | <u>\$ 6,828,193</u> | <u>\$ 6,341,522</u> | <u>\$ (13,362,524)</u> | <u>\$ 59,759,353</u> |
| <u>Separate account insurance product expenses</u> | | | | |
| Claims and payments | \$ 5,891,789 | \$ 3,653,461 | \$ 25,641,373 | \$ 9,706,855 |
| Cash surrender value | 4,089,539 | 6,787,630 | 12,634,912 | 23,614,676 |
| (Reversal) provision of separate account reserve | (4,236,497) | (5,254,607) | (54,883,250) | 23,012,450 |
| Administrative expenses | 1,128,175 | 1,195,744 | 3,365,847 | 3,535,665 |
| Non-operating income and expenses | <u>(44,813)</u> | <u>(40,706)</u> | <u>(121,406)</u> | <u>(110,293)</u> |
| | <u>\$ 6,828,193</u> | <u>\$ 6,341,522</u> | <u>\$ (13,362,524)</u> | <u>\$ 59,759,353</u> |

For the three months and nine months ended September 30, 2022 and 2021, the rebates earned from counterparties due to the business of separate account insurance products amounted to \$184,129 thousand, \$205,917 thousand, \$587,821 thousand and \$618,432 thousand, respectively, which were recorded under service fee income.

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-------------------------------|------------------------------|-------------------------------|
| <u>Separate account insurance product assets</u> | | | |
| Cash in bank | \$ 5,343 | \$ 10,758 | \$ 32,086 |
| Financial assets at FVTPL | 103,298 | 102,651 | 83,764 |
| Others | <u>13</u> | <u>12</u> | <u>51</u> |
| | <u>\$ 108,654</u> | <u>\$ 113,421</u> | <u>\$ 115,901</u> |
| <u>Separate account insurance product liabilities</u> | | | |
| Other payables | \$ - | \$ 7 | \$ - |
| Reserve for separate accounts - insurance contracts | <u>108,654</u> | <u>113,414</u> | <u>115,901</u> |
| | <u>\$ 108,654</u> | <u>\$ 113,421</u> | <u>\$ 115,901</u> |

| | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|--|--|-------------------|---|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| <u>Separate account insurance product income</u> | | | | |
| Premium income | \$ 13 | \$ 13 | \$ 39 | \$ 38 |
| (Losses) gains from financial assets at FVTPL | (6,418) | (5,922) | (7,055) | 2,122 |
| Interest income | <u>3</u> | <u>(2)</u> | <u>27</u> | <u>9</u> |
| | <u>\$ (6,402)</u> | <u>\$ (5,911)</u> | <u>\$ (6,989)</u> | <u>\$ 2,169</u> |
| <u>Separate account insurance product expenses</u> | | | | |
| (Reversal) provision of separate account reserve | \$ (6,757) | \$ (5,212) | \$ (8,061) | \$ 1,979 |
| Others | <u>355</u> | <u>(699)</u> | <u>1,072</u> | <u>190</u> |
| | <u>\$ (6,402)</u> | <u>\$ (5,911)</u> | <u>\$ (6,989)</u> | <u>\$ 2,169</u> |

24. EQUITY

a. Share capital

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| Number of shares authorized (in thousands) | <u>18,000,000</u> | <u>18,000,000</u> | <u>18,000,000</u> |
| Shares authorized | <u>\$ 180,000,000</u> | <u>\$ 180,000,000</u> | <u>\$ 180,000,000</u> |
| Number of shares issued and fully paid (in thousands) | | | |
| Ordinary shares | <u>13,169,210</u> | <u>13,169,210</u> | <u>13,169,210</u> |
| Preference shares | <u>1,533,300</u> | <u>1,533,300</u> | <u>1,533,300</u> |
| Shares issued | <u>\$ 147,025,102</u> | <u>\$ 147,025,102</u> | <u>\$ 147,025,102</u> |

Ordinary shares issued, which have a par value of \$10, carry one vote per share and carry a right to dividends.

On October 20, 2022, the board of directors resolved the capital raising through issuance of ordinary shares, with tentative total amount of additional 1.5 billion and a tentative issue price of \$26 to \$40 per share. The chairman of the board is authorized to designate the actual issue price after effective registration.

Issuance of preference shares

- 1) On September 9, 2016, the board of directors resolved to capital through issuance of Series A Preference Shares. The Company issued 833,300 thousand preference shares, with a par value of \$10 per share and total amount of \$8,333,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC Jin Guan Zheng Fa No. 1050041628 on October 25, 2016. The base date of capital increase was December 8, 2016. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preference Shares are as follows:
 - a) 3.8% per annum for Series A Preference Shares (7-year IRS 1.06%+2.74%) calculated pursuant to the issue price per share. Interest rate per annum will be reset on the day after the 7th year from the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. The record date for reset of interest rate shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of the record date for reset of interest rate (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
 - b) If there are retained earnings, before the issuer can distribute dividends for Series A Preference Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside legal reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preference share dividends.
 - c) The Company has the sole discretion to distribute dividends of Series A Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series A Preference Share dividends, or preference share dividend distribution would render the Company’s CAR ratio below the level required by law or by the authorities. The Company’s cancellation of preference share dividend distribution shall not be deemed an event of default. Series A Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
 - d) Dividends for Series A Preference Shares are distributed once a year in cash. After shareholders’ approval of the issuer’s financial statements at its annual shareholders’ meeting, the board of directors may set the record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to the actual issued days of the given year.
 - e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
 - f) Holders of Series A Preference Shares shall have the same priority as holders of all subsequently issued preference shares in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
 - g) Holders of Series A Preference Shares have no voting rights at the annual shareholders’ meeting, and cannot elect directors. However, holders of Series A Preference Shares have voting rights at the meeting of Series A Preference Shareholders, and at the annual shareholders’ meeting on items relating to the rights of Series A Preference Shareholders.
 - h) Holders of Series A Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series A Preference Shares.

- i) Through issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series A Preference Shares at the issue price. Rights and obligations of the unredeemed Series A Preference Shares shall remain the same as mentioned above.
- 2) On February 9, 2018, the board of directors resolved the capital raising through issuance of Series B Preference Shares. The Company issued 700,000 thousand preference shares, with a par value of \$10 per share and total amount of \$7,000,000 thousand, and the issue price was \$60 per share. The capital raising was approved by the FSC Jin Guan Zheng Fa No. 1070313814 on May 10, 2018. The base date of capital increase was June 27, 2018. All issued shares were registered and recognized as equity. The rights and obligations of Series B Preference Shares are as follows:
- a) 3.55% per annum for Series B Preference Shares (7-year IRS 1.1675%+2.3825%) calculated pursuant to the issue price per share. The interest rate per annum will be reset on the day after the 7th year from the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. The record date for interest reset shall be 2 business days before the interest reset day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuters, TAFXIRS and COSMOS3 at 11:00 a.m. of the day of reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on the record date for reset of interest rate, the interest rate shall be decided by the issuer in good faith, taking into account the reasonable market trends.
 - b) If there are retained earnings, before the issuer can distribute dividends for Series B Preference Shares, the Company shall first: (i) pay all taxes and dues (ii) offset its losses in previous years (iii) set aside legal reserve, or set aside or reverse special reserve and (iv) the distribution of the remaining portion, if any, will first be distributed as preference share dividend.
 - c) The Company has the sole discretion to distribute dividend of the Series B Preference Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Series B Preference Share dividends, or preference share dividend distribution would render the Company’s CAR ratio below the level required by law or by the authorities. The Company’s cancellation of preference share dividend distribution shall not be deemed an event of default. Series B Preference Shares are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
 - d) Dividends for Series A Preference Shares are distributed once a year in cash. After shareholders’ approval of the issuer’s financial statements at its annual shareholders’ meeting, the board of directors may set the record date for distribution of available dividends from the previous year. Dividend distribution for the years of issuance and redemption (such as the shareholders’ approval of dividends declaration on shareholders meeting) shall be calculated pursuant to the actual issued days of the given year.
 - e) Except for receipt of dividends at the aforementioned dividend rate in Paragraph (a), holders of Preference Shares cannot participate in the distribution of cash or stock dividends to holders of common shares from the profit or additional paid-in capital.
 - f) Holders of Series B Preference Shares shall have the same priority as holders of all subsequently issued preference share in liquidation, which are prior to holders of ordinary shares but subordinated to general creditors, to the extent of the issuance amount.
 - g) Holders of Series B Preference Shares have no voting rights at the annual shareholders’ meeting, and cannot elect directors. However, holders of Series B Preference Shares have voting rights at the shareholders’ meeting of Series B Preference Shareholders, and at the annual shareholders’ meeting on items relating to rights of Series B Preference Shareholders.

- h) Holders of Series B Preference Shares cannot convert the said preference shares to ordinary shares, and have no right to request the Company for redemption of Series B Preference Shares.
- i) Through the issuance of perpetual preferred stock, on the day after the 7th year from the issue date, the Company may redeem all or part of the outstanding Series B Preference Shares at the issue price. Rights and obligations of the unredeemed Series B Preference Shares shall remain the same as mentioned above.

Issuance of overseas depositary receipts

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

b. Capital surplus

- 1) Capital surplus comprises the following:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-------------------------------|------------------------------|-------------------------------|
| Additional paid-in capital | \$ 172,905,009 | \$ 172,905,009 | \$ 172,905,009 |
| Treasury share transactions | 2,539,377 | 2,539,377 | 2,539,377 |
| Additional paid-in capital - employee stock options | 497,629 | 497,629 | 497,629 |
| Conversion of convertible bonds | 1,144,486 | 1,144,486 | 1,144,486 |
| Others | <u>35,643</u> | <u>157,887</u> | <u>160,869</u> |
| | <u>\$ 177,122,144</u> | <u>\$ 177,244,388</u> | <u>\$ 177,247,370</u> |

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

c. Retained earnings and dividends policy

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

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

distribution of compensation of employees and remuneration of directors in the Articles, refer to compensation of employees and remuneration of directors in Note 25 e.

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

The appropriations of earnings for 2021 and 2020 which were approved in the shareholders' meetings on June 17, 2022 and July 23, 2021, respectively, were as follows:

| | Appropriation of Earnings | |
|-------------------------------------|----------------------------------|--------------|
| | 2021 | 2020 |
| Legal reserve | \$ 14,275,164 | \$ 7,504,207 |
| Special reserve | 52,628 | 1,025,611 |
| Cash dividends of ordinary shares | 46,092,235 | 32,923,025 |
| Cash dividends of preference shares | 3,390,924 | 3,390,924 |

d. Special reserves

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-------------------------------|------------------------------|-------------------------------|
| Special reserve transferred from reserve for trading default and for trading loss (1) | \$ 333,598 | \$ 333,598 | \$ 333,598 |
| Special reserve reclassified from liability (2) | 3,744,467 | 3,744,467 | 3,744,467 |
| Special reserve appropriated at the first-time adoption of IFRSs (3) | 2,994,565 | 2,994,565 | 2,994,565 |
| Special reserve for appreciation of investment properties (4) | 108,931,710 | 108,879,082 | 108,879,082 |
| Special reserve transferred from insurance liabilities (5) | <u>34,764,311</u> | <u>34,764,311</u> | <u>34,764,311</u> |
| | <u>\$ 150,768,651</u> | <u>\$ 150,716,023</u> | <u>\$ 150,716,023</u> |

- 1) Cathay United Bank, Cathay Securities and Cathay Futures reclassified the appropriated default losses reserve and trading losses reserve as of December 31, 2010 as special reserve according to the relevant regulations. The special reserve can only be used to offset the accumulated deficit or transferred to capital stock (limited to 50% of the special reserve) once the special reserve reaches one-half of the paid-in capital. The Company set aside a special reserve of \$333,598 thousand in 2011.
- 2) According to the Regulation Governing the Setting Aside of Various Reserves by Insurance Enterprises, for the special reserves for catastrophic event and for fluctuation of risk as of January 1, 2012, amounting to \$9,022,812 thousand, Cathay Life transferred half of the reserves amounting to \$4,511,405 thousand, net of tax effect, to special reserve under retained earnings amounting to \$3,744,467 thousand; half of the reserves were kept as the initial amount of reserve for foreign exchange valuation. The Company set aside a special reserve of \$3,744,467 thousand in 2013.

- 3) At the first-time adoption of IFRSs, Cathay Life chose to use fair values as the deemed costs of investment properties in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects on the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. In accordance with Bao (Tsai) No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Jin Guan Bao Tsai No. 10102508861. The Company set aside a special reserve of \$2,994,565 thousand in 2013.
- 4) In 2014, the Group changed the subsequent measurement of investment properties from the cost model to the fair value model. According to Jin-Guan-Zheng-Fa No. 1030006415, in order to maintain a sound and robust financial structure of a publicly issued company, the Group appropriated a special reserve at the amount that was the same as the net increase arising the first-time application of subsequent measurement for investment property at fair value and transferred it to retained earnings.
- 5) Cathay Life transferred insurance liabilities of \$34,764,311 thousand to special reserve in accordance with Jin Guan Bao Tsai No. 10402029590. The Company set aside a special reserve of \$34,764,311 thousand in 2015.
- e. Other equity

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

| | For the Nine Months Ended September 30 | |
|---|---|------------------------|
| | 2022 | 2021 |
| Beginning balance | <u>\$ (18,652,251)</u> | <u>\$ (15,464,009)</u> |
| Recognized for the period | 6,519,809 | (2,282,984) |
| Share of associates accounted for using the equity method | 843,323 | (903,591) |
| Tax effects | <u>(686,473)</u> | <u>335,536</u> |
| Other comprehensive loss recognized for the period | <u>6,676,659</u> | <u>(2,851,039)</u> |
| Ending balance | <u>\$ (11,975,592)</u> | <u>\$ (18,315,048)</u> |

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

| | For the Nine Months Ended September 30 | |
|--|---|-----------------------|
| | 2022 | 2021 |
| Beginning balance | <u>\$ 47,131,473</u> | <u>\$ 106,207,840</u> |
| Recognized for the period | (447,654,623) | (52,006,285) |
| Share of associates accounted for using the equity method | (995,976) | 106,572 |
| Reclassification adjustments | | |
| Disposal of debt instruments | 3,727,802 | (23,283,061) |
| Tax effects | <u>76,169,830</u> | <u>14,279,456</u> |
| Other comprehensive loss recognized for the period | <u>(368,752,967)</u> | <u>(60,903,318)</u> |
| Cumulative unrealized loss (gain) of equity instruments transferred to retained earnings due to disposal | <u>3,657,750</u> | <u>(2,098,706)</u> |
| Ending balance | <u>\$ (317,963,744)</u> | <u>\$ 43,205,816</u> |

3) Gain on hedging instruments

| | For the Nine Months Ended September 30 | |
|---|---|-------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 335,851 | \$ 347,871 |
| Recognized for the period | 12,747 | (87,429) |
| Reclassification adjustments | | |
| Hedged item that affects profit or loss | 262,757 | (11,554) |
| Tax effects | <u>(51,486)</u> | <u>22,781</u> |
| Other comprehensive (loss) income recognized for the period | <u>224,018</u> | <u>(76,202)</u> |
| Ending balance | <u>\$ 559,869</u> | <u>\$ 271,669</u> |

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

| | For the Nine Months Ended September 30 | |
|--|---|-----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ (889,397) | \$ (1,478,705) |
| Recognized for the period | 1,037,069 | 568,595 |
| Tax effects | <u>(207,414)</u> | <u>(113,719)</u> |
| Other comprehensive income recognized for the period | <u>829,655</u> | <u>454,876</u> |
| Ending balance | <u>\$ (59,742)</u> | <u>\$ (1,023,829)</u> |

5) Remeasurement of defined benefit plans

| | For the Nine Months Ended September 30 | |
|---|---|-----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ (966,130) | \$ (1,966,279) |
| Recognized for the period | (826) | (655) |
| Share of associate accounted for using the equity method | 43,831 | (11,603) |
| Tax effects | <u>(8,364)</u> | <u>2,701</u> |
| Other comprehensive income (loss) recognized for the period | <u>34,641</u> | <u>(9,557)</u> |
| Ending balance | <u>\$ (931,489)</u> | <u>\$ (1,975,836)</u> |

6) Property revaluation surplus

| | For the Nine Months Ended September 30 | |
|--|---|----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 11,281,909 | \$ 11,097,089 |
| Recognized for the period | 1,322,404 | - |
| Tax effects | <u>(10,677)</u> | <u>-</u> |
| Other comprehensive income recognized for the period | 1,311,727 | - |
| Transferred to retained earnings | <u>15,364</u> | <u>(64,925)</u> |
| Ending balance | <u>\$ 12,609,000</u> | <u>\$ 11,032,164</u> |

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

| | For the Nine Months Ended September 30 | |
|--|---|----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 64,764,671 | \$ 102,511,617 |
| Recognized for the period | | |
| Unrealized gain | (247,566,307) | 39,977,476 |
| Reclassification adjustments | | |
| Disposal of financial instruments | (22,539,327) | (97,562,779) |
| Tax effects | 18,224,644 | 1,269,874 |
| Other comprehensive loss recognized for the period | <u>(251,880,990)</u> | <u>(56,315,429)</u> |
| Ending balance | <u>\$ (187,116,319)</u> | <u>\$ 46,196,188</u> |

8) Other equity-other

| | For the Nine Months Ended September 30 | |
|--|---|-----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ (3,224,389) | \$ (3,944,303) |
| Actual execution of put options on subsidiaries' share | 731,063 | 731,017 |
| Others | <u>-</u> | <u>(11,103)</u> |
| Ending balance | <u>\$ (2,493,326)</u> | <u>\$ (3,224,389)</u> |

f. Non-controlling interests

| | For the Nine Months Ended September 30 | |
|--|---|----------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 12,000,581 | \$ 11,714,465 |
| Attributed to non-controlling interest | | |
| Net profit for the period | 585,446 | 773,376 |
| Exchange differences on translation of the financial statements of foreign operations | 821,101 | (193,473) |
| Unrealized (loss) gain on financial assets at FVTOCI | (451,271) | 69,602 |
| Other comprehensive (loss) income on reclassification using the overlay approach | (38,128) | 65,089 |
| Actual acquisition of interests in subsidiaries | (109,072) | (176,506) |
| Others | <u>(1,044,419)</u> | <u>(985,121)</u> |
| Ending balance | <u>\$ 11,764,238</u> | <u>\$ 11,267,432</u> |

25. NET PROFIT FOR THE PERIOD

a. Net gain on service fee and commission fee

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|------------------------|--|---------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Service fee revenue | \$ 9,659,299 | \$ 9,638,440 | \$ 27,012,725 | \$ 26,007,236 |
| Commission fee revenue | 2,258,179 | 2,097,825 | 7,018,710 | 6,572,811 |
| | <u>11,917,478</u> | <u>11,736,265</u> | <u>34,031,435</u> | <u>32,580,047</u> |
| Service fee expense | (2,783,283) | (2,728,936) | (7,934,184) | (7,872,665) |
| Commission fee expense | (5,354,201) | (5,175,293) | (13,964,595) | (15,399,148) |
| | <u>(8,137,484)</u> | <u>(7,904,229)</u> | <u>(21,898,779)</u> | <u>(23,271,813)</u> |
| | <u>\$ 3,779,994</u> | <u>\$ 3,832,036</u> | <u>\$ 12,132,656</u> | <u>\$ 9,308,234</u> |

b. Net income on insurance operations

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|----------------------|---|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Retained premiums earned | \$ 99,052,214 | \$ 111,796,181 | \$ 310,638,021 | \$ 370,836,178 |
| Separate account insurance product income | 6,821,791 | 6,335,611 | (13,369,513) | 59,761,522 |
| | <u>105,874,005</u> | <u>118,131,792</u> | <u>297,268,508</u> | <u>430,597,700</u> |
| Claims and payments | (116,701,831) | (76,697,757) | (285,587,455) | (214,831,391) |
| Separate account insurance product expenses | (6,821,791) | (6,335,611) | 13,369,513 | (59,761,522) |
| Others | (211,212) | (225,602) | (649,104) | (757,044) |
| | <u>(123,734,834)</u> | <u>(83,258,970)</u> | <u>(272,867,046)</u> | <u>(275,349,957)</u> |
| | <u>\$ (17,860,829)</u> | <u>\$ 34,872,822</u> | <u>\$ 24,401,462</u> | <u>\$ 155,247,743</u> |

c. Net changes in insurance liability reserves

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------------|---|-------------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net change in loss reserve | \$ 1,730,667 | \$ 301,655 | \$ (3,730,735) | \$ 338,276 |
| Net change in policy reserve | (38,673,270) | (75,812,314) | (164,374,510) | (275,631,801) |
| Net change in premium deficiency reserve | (287,150) | 575,467 | (476,450) | 2,356,970 |
| Net change in special reserve | (33,776) | (49,908) | 1,006,204 | (19,513) |
| Net change in other reserves | 3,000 | 3,000 | 8,000 | 9,000 |
| Net change in reserve for insurance contracts with the nature of financial products | <u>(270,045)</u> | <u>(272,686)</u> | <u>(776,618)</u> | <u>(777,147)</u> |
| | <u>\$ (37,530,574)</u> | <u>\$ (75,254,786)</u> | <u>\$ (168,344,109)</u> | <u>\$ (273,724,215)</u> |

d. Employee benefit expenses

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|----------------------|---|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Short-term benefits | | | | |
| Salaries | \$ 14,715,679 | \$ 14,093,219 | \$ 42,479,090 | \$ 42,564,974 |
| Labor and health insurance expenses | 1,146,628 | 1,114,580 | 3,627,016 | 3,554,736 |
| Post-employment benefits | 532,132 | 550,304 | 1,654,285 | 1,711,939 |
| Remuneration of directors | 41,069 | 60,071 | 188,959 | 181,417 |
| Others | <u>342,422</u> | <u>305,787</u> | <u>942,167</u> | <u>961,926</u> |
| | <u>\$ 16,777,930</u> | <u>\$ 16,123,961</u> | <u>\$ 48,891,517</u> | <u>\$ 48,974,992</u> |
| An analysis of employee benefit expenses by function | | | | |
| Profit from operations | \$ 3,293,569 | \$ 2,949,488 | \$ 8,302,414 | \$ 9,074,962 |
| Operating expenses | <u>13,484,361</u> | <u>13,174,473</u> | <u>40,589,103</u> | <u>39,900,030</u> |
| | <u>\$ 16,777,930</u> | <u>\$ 16,123,961</u> | <u>\$ 48,891,517</u> | <u>\$ 48,974,992</u> |

e. Compensation of employees and remuneration of directors

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

In the nine months ended September 30, 2022 and 2021, the Company accrues compensation of employees and remuneration of directors at the rates of 0.01% and no higher than 0.05%, respectively.

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------|--|-------------|---|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| | Cash | Cash | Cash | Cash |
| Compensation of employees | \$ 522 | \$ 3,048 | \$ 5,760 | \$ 12,271 |
| Remuneration of directors | 675 | 675 | 2,025 | 2,025 |

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

The compensation of employees and remuneration of directors for 2021 and 2020 which were resolved by the Company's board of directors on March 11, 2022 and March 10, 2021, respectively, are as follows:

| | For the Year Ended December 31 | |
|---------------------------|---------------------------------------|-------------|
| | 2021 | 2020 |
| | Cash | Cash |
| Compensation of employees | \$ 14,057 | \$ 7,713 |
| Remuneration of directors | 2,700 | 2,700 |

There was no significant 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, 2021 and 2020.

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

f. Depreciation and amortization

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|---------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Right-of-use assets | \$ 396,067 | \$ 372,196 | \$ 1,165,824 | \$ 1,081,562 |
| Property and equipment | 699,839 | 665,483 | 2,045,883 | 1,933,181 |
| Intangible assets | <u>767,762</u> | <u>818,178</u> | <u>2,259,804</u> | <u>2,416,874</u> |
| | <u>\$ 1,863,668</u> | <u>\$ 1,855,857</u> | <u>\$ 5,471,511</u> | <u>\$ 5,431,617</u> |
| An analysis of depreciation by function | | | | |
| Operating expenses | <u>\$ 1,095,906</u> | <u>\$ 1,037,679</u> | <u>\$ 3,211,707</u> | <u>\$ 3,014,743</u> |
| An analysis of amortization by function | | | | |
| Operating expenses | <u>\$ 767,762</u> | <u>\$ 818,178</u> | <u>\$ 2,259,804</u> | <u>\$ 2,416,874</u> |

26. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|---------------------|---|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Current tax | | | | |
| In respect of the current period | \$ 531,903 | \$ 1,635,236 | \$ 1,396,822 | \$ 15,183,098 |
| Adjustments for prior years | (38,204) | (11,307) | (190,237) | (301,920) |
| Additional tax of unappropriated earnings | - | - | 3,947,034 | 1,509,915 |
| Others | 337,476 | 1,577,739 | 883,157 | 3,088,518 |
| Deferred tax | | | | |
| In respect of the current period | 1,088,336 | (165,280) | 10,326,885 | (3,862,487) |
| Adjustments for prior years | <u>-</u> | <u>-</u> | <u>(1,887)</u> | <u>91,605</u> |
| Income tax expense recognized in profit or loss | <u>\$ 1,919,511</u> | <u>\$ 3,036,388</u> | <u>\$ 16,361,774</u> | <u>\$ 15,708,729</u> |

b. Income tax recognized directly in equity

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Current tax | | | | |
| Derecognition of equity instruments at FVTOCI | \$ 261,415 | \$ 64,143 | \$ 350,346 | \$ 94,254 |
| Deferred tax | | | | |
| Derecognition of equity instruments at FVTOCI | (261,415) | (64,143) | (350,346) | (94,254) |
| Capital surplus | - | (1,292) | 30,088 | (1,235) |
| Retained earnings | <u>-</u> | <u>(6,726)</u> | <u>-</u> | <u>(6,726)</u> |
| Income tax recognized directly in equity | <u>\$ -</u> | <u>\$ (8,018)</u> | <u>\$ 30,088</u> | <u>\$ (7,961)</u> |

c. Income tax recognized in other comprehensive income

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|---------------------|---|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| <u>Deferred tax</u> | | | | |
| Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at FVTPL | \$ (129,810) | \$ (58,566) | \$ (207,414) | \$ (113,719) |
| Exchange differences on the translation of financial statements of foreign operations | (297,404) | 113,844 | (686,473) | 335,536 |
| Unrealized losses (gains) on financial assets at FVTOCI | 22,899,348 | 3,081,278 | 76,088,998 | 14,288,808 |
| Losses (gains) on hedging instruments | 25,165 | 2,503 | (51,486) | 22,781 |
| Property revaluation surplus | - | - | (10,677) | - |
| Remeasurement of defined benefit plans | - | - | 165 | 208 |
| Shares of associates accounted for using the equity method | (6,616) | 12,200 | 72,303 | (6,859) |
| Other comprehensive loss (income) reclassified using overlay approach | <u>1,833,939</u> | <u>1,620,479</u> | <u>18,224,644</u> | <u>1,269,874</u> |
| Income tax benefit recognized in other comprehensive income | <u>\$ 24,324,622</u> | <u>\$ 4,771,738</u> | <u>\$ 93,430,060</u> | <u>\$ 15,796,629</u> |

d. Income tax assessments

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

| | Year of Assessment | Note |
|------------------------------------|-------------------------------|---|
| The Company | 2017 | - |
| Cathay Life | 2017 | In the process of administrative remedy for 2015 to 2017. |
| Cathay United Bank | 2017 | In the process of administrative remedy for 2015 to 2017. |
| Cathay Century | 2017 | - |
| Cathay Securities | 2017 | In the process of administrative remedy for 2015. |
| Cathay Venture | 2020 | Not yet approved for 2018. In the process of administrative remedy for 2016. |
| Cathay Securities Investment Trust | 2017 | - |
| Cathay Futures | 2020 | - |
| Cathay Private Equity | 2020 | - |

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

27. EARNINGS PER SHARE

Unit: NT\$ Per Share

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--------------------------|--|----------------|---|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Basic earnings per share | <u>\$ 0.38</u> | <u>\$ 2.32</u> | <u>\$ 3.83</u> | <u>\$ 8.98</u> |

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

Net Income for the Period

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|----------------------|---|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net income for the period attributable to owners of the Company | \$ 5,086,226 | \$ 30,545,610 | \$ 53,893,886 | \$ 121,596,084 |
| Less: Dividends on preference shares | <u>-</u> | <u>-</u> | <u>(3,390,924)</u> | <u>(3,390,924)</u> |
| Earnings used in the computation of basic earnings per share | <u>\$ 5,086,226</u> | <u>\$ 30,545,610</u> | <u>\$ 50,502,962</u> | <u>\$ 118,205,160</u> |

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

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Weighted average number of ordinary shares used in the computation of basic earnings per share | <u>13,169,210</u> | <u>13,169,210</u> | <u>13,169,210</u> | <u>13,169,210</u> |

The Company may settle the compensation of employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year. The Company's compensation of employees did not cause any significant changes in the earnings and weighted average number of ordinary shares used to calculate the diluted earnings per share.

28. RELATED-PARTY TRANSACTIONS

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

| <u>Related Party Name</u> | <u>Related Party Category</u> |
|--|---------------------------------|
| Cathay Life | Subsidiary |
| Cathay United Bank | Subsidiary |
| Cathay Century | Subsidiary |
| Cathay Securities | Subsidiary |
| Cathay Securities Investment Trust | Subsidiary |
| Cathay Venture | Subsidiary |
| Cathay Lujiazui Life | Subsidiary |
| Cathay Life (Vietnam) | Subsidiary |
| Conning Asia Pacific Ltd. | Subsidiary |
| Cathay Securities Investment Consulting | Subsidiary |
| Cathay Investment | Subsidiary before February 2022 |
| Lin Yuan | Subsidiary |
| Conning Holdings Limited | Subsidiary |
| Cathay Woolgate Exchange Holding 1 Limited | Subsidiary |
| Cathay Woolgate Exchange Holding 2 Limited | Subsidiary |
| Cathay Walbrook Holding 1 Limited | Subsidiary |
| Cathay Walbrook Holding 2 Limited | Subsidiary |
| Cathay Insurance (Vietnam) | Subsidiary |
| Indovina Bank | Subsidiary |
| CUBC Bank | Subsidiary |
| CUBCN Bank | Subsidiary |
| Cathay Futures | Subsidiary |
| Cathay Private Equity | Subsidiary |
| Cathay Industrial R&D Center | Subsidiary |
| Cathay Securities (Hong Kong) Limited | Subsidiary |
| Cathay Capital (Asia) | Subsidiary |
| Taiwan Real-estate Management Corp. | Associate |
| Symphox Information Co., Ltd. | Associate |
| PSS Co., Ltd. | Associate |
| TaiYang Solar Power Co., Ltd. | Associate |
| CM Energy Co., Ltd. | Associate |
| Lin Yuan Property Management Co., Ltd. | Associate |
| Cathay Power Inc. | Associate |
| Neo Cathay Power Corp. | Associate |
| CMG International One Co., Ltd. | Associate |
| CMG International Two Co., Ltd. | Associate |
| ThrivEnergy Co., Ltd. | Associate |
| Taiwan Finance Corporation | Associate |
| Seaward Card Co., Ltd. | Other related party |
| Vietinbank | Other related party |
| Cathay Medical Care Corp. | Other related party |
| Cathay Real Estate Development Co., Ltd. | Other related party |
| Cathay Healthcare Management Co., Ltd. | Other related party |
| Cathay Hospitality Management Co., Ltd. | Other related party |
| Cathay Hospitality Consulting Co., Ltd. | Other related party |
| Cathay Real Estate Management Co., Ltd. | Other related party |

(Continued)

| Related Party Name | Related Party Category |
|---|--------------------------------------|
| Fund managed by Cathay Securities Investment Trust | Other related party |
| Private Equity Funds managed by Cathay Private Equity | Other related party |
| Funds managed by Global Evolution Holding ApS | Other related party |
| Funds managed by Octagon Credit Investors, LLC | Other related party |
| Bonds managed by Octagon Credit Investors, LLC | Other related party |
| San Ching Engineering Co., Ltd. | Other related party |
| Ally Logistic Property Co., Ltd. | Other related party |
| ThinkPower Information Co., Ltd. | Other related party |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | Other related party |
| Hong-Sui Co., Ltd. | Other related party |
| Bowl Cut Entertainment Co., Ltd. | Other related party |
| Cymlin Co., Ltd. | Other related party |
| Cymder Co., Ltd. | Other related party |
| Retail Forest Co., Ltd. | Other related party before July 2021 |
| Tien-Tai energy Co., Ltd. | Other related party |
| Cathay Cultural Foundation | Other related party |
| Cathay Charity Foundation | Other related party |
| Cathay United Bank Foundation | Other related party |
| Cathay Life Insurance Employees' Welfare Committee | Other related party |
| Cathay United Bank Employees' Welfare Committee | Other related party |
| Cathay Real Estate Development Employees' Welfare Committee | Other related party |
| Hsin Chung Co., Ltd. | Other related party |
| Tian-Ji Power Co., Ltd. | Other related party |
| Jinhua Realty Co., Ltd. | Other related party |
| Pai Hsing Investment Co., Ltd. | Other related party |
| Bannan Realty Co., Ltd. | Other related party |
| Yi Ru Capital Co., Ltd. | Other related party |
| FundRich Securities Co., Ltd. | Other related party |
| Daiwa - Cathay Capital Markets Co., Ltd. | Other related party |
| CDIB & PARTNERS Investment Holding Corporation | Other related party |
| Sanchong Realty Co., Ltd. | Other related party |
| Ann Fong Co., Ltd. | Other related party |
| Lung Chuan Water Resources Co., Ltd. | Other related party |
| Srisawad Corporation Public Company Limited | Other related party |
| Quantifeed Holdings Limited | Other related party |
| Taiwan Asset Management Corporation | Other related party |
| Taipei Forex Inc. | Other related party |
| HanTech Venture Capital Corporation | Other related party |
| Financial information service Co., Ltd. | Other related party |
| Yuhua Venture Capital Co., Ltd. | Other related party |
| Others | Other related party |

(Concluded)

b. Significant transactions with related parties were as follows:

All significant intragroup transactions have been eliminated in the consolidated financial statements. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed as follows:

1) Transactions with banks

a) Due from commercial banks

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|-----------------------------------|--------------------|-----------------|-------------------|-----------------|--------------------|-----------------|
| | Ending Balance | Interest Income | Ending Balance | Interest Income | Ending Balance | Interest Income |
| Other related party Vietinbank | \$ 77,437 | \$ 134 | \$ 53,977 | \$ 372 | \$ 36,155 | \$ 369 |

b) Due to commercial banks

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|-----------------------------------|--------------------|------------------|-------------------|------------------|--------------------|------------------|
| | Ending Balance | Interest Expense | Ending Balance | Interest Expense | Ending Balance | Interest Expense |
| Other related party Vietinbank | \$ 14,067 | \$ 1,069 | \$ 17,825 | \$ 1 | \$ 23,540 | \$ - |

c) Investments in financial debentures (financial assets at FVTOCI)

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-----------------------------------|--------------------|-------------------|--------------------|
| Other related party Vietinbank | \$ 398,614 | \$ 365,738 | \$ 367,222 |

| Name | Interest Income | | | |
|-----------------------------------|---|----------|--|-----------|
| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2022 | 2021 | 2022 | 2021 |
| Other related party Vietinbank | \$ 6,197 | \$ 5,826 | \$ 18,140 | \$ 19,056 |

2) Balance of shares issued by related parties

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Associate | | | |
| PSS Co., Ltd. | \$ 23,902 | \$ 14,038 | \$ 14,312 |
| Other related party | | | |
| Srisawad Corporation Public Company Limited | 4,558,170 | 6,424,391 | 6,873,176 |
| CDIB & PARTNERS Investment Holding Corporation | 1,364,089 | 1,761,249 | 1,795,781 |
| Cathay Real Estate Development Co., Ltd. | 1,101,778 | 1,321,447 | 1,321,447 |
| Taiwan Asset Management Corporation | 914,266 | 1,647,294 | 1,561,614 |
| Financial information service Co., Ltd. | 622,199 | 866,688 | 919,215 |
| Daiwa - Cathay Capital Markets Co., Ltd. | 144,200 | 144,600 | 143,000 |
| Cathay Healthcare Management Co., Ltd. | 103,455 | 106,920 | 144,045 |
| HanTech Venture Capital Corporation | 78,563 | 102,178 | 92,539 |
| Quantifeed Holdings Limited | 69,237 | 27,720 | 38,235 |
| Taipei Forex Inc. | 52,239 | 58,805 | 52,868 |
| Ann Fong Co., Ltd. Enterprise Co., Ltd. | 14,460 | 19,034 | 12,198 |
| | <u>9,022,656</u> | <u>12,480,326</u> | <u>12,954,118</u> |
| | <u>\$ 9,046,558</u> | <u>\$ 12,494,364</u> | <u>\$ 12,968,430</u> |

Refer to Note 13 for the balance of investment in associates.

3) Acquisition of shares issued by related parties

| Name | Nature of Transaction | For the Nine Months Ended September 30 | |
|---------------------------------|-----------------------|---|-------------------|
| | | 2022 | 2021 |
| Associate | | | |
| CMG International Two Co., Ltd. | Ordinary shares | \$ 1,125,000 | \$ - |
| CMG International One Co., Ltd. | Ordinary shares | 900,000 | - |
| Juxin Energy Co., Ltd. | Ordinary shares | 216,000 | - |
| TaiYang Solar Power Co., Ltd. | Ordinary shares | 67,500 | 189,500 |
| CM Energy Co., Ltd. | Ordinary shares | - | 135,000 |
| | | <u>\$ 2,308,500</u> | <u>\$ 324,500</u> |

4) Receivable

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Associate | | | |
| Cathay Power Inc. | \$ 4,365 | \$ 4,316 | \$ 4,316 |
| Xinritai Energy Co., Ltd. | <u>4,027</u> | <u>3,182</u> | <u>-</u> |
| | <u>8,392</u> | <u>7,498</u> | <u>4,316</u> |
| Other related party | | | |
| Fund managed by Cathay Securities Investment Trust | 248,645 | 255,172 | 235,050 |
| Cathay Medical Care Corp. | 3,820 | 277 | 4,020 |
| Tian-Ji Power Co., Ltd. | <u>-</u> | <u>5,121</u> | <u>-</u> |
| | <u>252,465</u> | <u>260,570</u> | <u>239,070</u> |
| | <u>\$ 260,857</u> | <u>\$ 268,068</u> | <u>\$ 243,386</u> |

5) Prepayments

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Other related party | | | |
| ThinkPower Information Co., Ltd. | <u>\$ 3,174</u> | <u>\$ -</u> | <u>\$ -</u> |

6) Contract liability

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Other related party | | | |
| Private equity fund managed by Cathay Pacific Private Equity | <u>\$ 21,371</u> | <u>\$ -</u> | <u>\$ 16,270</u> |

7) Loans

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|--|---------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Ending Balance | Interest Income | Ending Balance | Interest Income | Ending Balance | Interest Income |
| Associate | | | | | | |
| TaiYang Solar Power Co., Ltd. | \$ 55,960 | \$ 967 | \$ 59,939 | \$ 1,258 | \$ 61,265 | \$ 954 |
| Taiwan Real-estate Management Corp. | <u>33,000</u> | <u>455</u> | <u>33,000</u> | <u>528</u> | <u>33,000</u> | <u>395</u> |
| | <u>88,960</u> | <u>1,422</u> | <u>92,939</u> | <u>1,786</u> | <u>94,265</u> | <u>1,349</u> |
| Other related party | | | | | | |
| Cathay Real Estate Development Co., Ltd. | 1,420,000 | 4,975 | - | - | - | - |
| Tien-Tai energy Co., Ltd. | 69,806 | 1,198 | 75,465 | 1,647 | 77,352 | 1,247 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | - | - | - | 111 | 10,000 | 104 |
| Others | <u>3,381,284</u> | <u>37,626</u> | <u>3,112,399</u> | <u>41,092</u> | <u>3,115,175</u> | <u>30,911</u> |
| | <u>4,871,090</u> | <u>43,799</u> | <u>3,187,864</u> | <u>42,850</u> | <u>3,202,527</u> | <u>32,262</u> |
| | <u>\$ 4,960,050</u> | <u>\$ 45,221</u> | <u>\$ 3,280,803</u> | <u>\$ 44,636</u> | <u>\$ 3,296,792</u> | <u>\$ 33,611</u> |

8) Deposits

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|---|----------------------|-------------------|----------------------|-------------------|----------------------|------------------|
| | Ending Balance | Interest Expense | Ending Balance | Interest Expense | Ending Balance | Interest Expense |
| Subsidiary | | | | | | |
| Cathay Securities Investment Consulting | \$ 499,395 | \$ 630 | \$ 563,928 | \$ 173 | \$ 473,505 | \$ 125 |
| Associate | | | | | | |
| Lin Yuan Property Management Co., Ltd. | 208,616 | 1,095 | 267,301 | 1,178 | 154,058 | 899 |
| CMG International One Co., Ltd. | 102,707 | 145 | 120,208 | 1 | 3,784 | 1 |
| CMG International Two Co., Ltd. | 101,386 | 151 | 167,291 | 2 | 10,209 | 1 |
| Symphox Information Co., Ltd. | 92,890 | 97 | 156,393 | 132 | 119,942 | 102 |
| CM Energy Co., Ltd. | 77,233 | 47 | 116,468 | 24 | 248,238 | 20 |
| | <u>582,832</u> | <u>1,535</u> | <u>827,661</u> | <u>1,337</u> | <u>536,231</u> | <u>1,023</u> |
| Other related party | | | | | | |
| Cathay Life Insurance Employees' Welfare Committee | 2,440,783 | 17,067 | 2,381,744 | 16,982 | 2,357,316 | 12,699 |
| Cathay United Bank Employees' Welfare Committee | 791,622 | 22,563 | 760,605 | 30,847 | 802,120 | 23,126 |
| Cathay United Bank Foundation | 562,908 | 3,955 | 541,531 | 4,189 | 544,970 | 3,136 |
| Private equity fund managed by Cathay Private Equity | 512,506 | 311 | 659,967 | 36 | - | - |
| Cathay Real Estate Development Employees' Welfare Committee | 487,517 | 3,587 | 438,380 | 3,506 | 450,757 | 2,575 |
| Sanhong Realty Co., Ltd. | 434,816 | 268 | - | - | - | - |
| Bannan Realty Co., Ltd. | 374,390 | 185 | 190,289 | 30 | 297,388 | 23 |
| Cathay Charity Foundation | 305,743 | 1,949 | 281,451 | 1,918 | 284,081 | 1,434 |
| Cathay Real Estate Development Co., Ltd. | 254,175 | 38 | 290,378 | 28 | 343,361 | 23 |
| Cathay Cultural Foundation | 208,338 | 1,571 | 210,741 | 1,598 | 211,166 | 1,195 |
| Cathay Medical Care Corp. | 168,741 | 259 | 218,988 | 48 | 188,040 | 28 |
| Cathay Hospitality Management Co., Ltd. | 156,690 | 98 | 163,365 | 10 | 30,834 | 5 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | 134,547 | 113 | 121,802 | 211 | 107,443 | 188 |
| Jinhua Realty Co., Ltd. | 122,366 | 52 | 34,274 | 23 | 105,898 | 20 |
| Cathay Real Estate Management | 97,093 | 547 | 100,559 | 580 | 90,505 | 414 |
| Fund managed by Cathay Securities Investment Trust | 67,847 | 1 | 695,215 | 35 | 146,646 | - |
| Ally Logistic Property Co., Ltd. | 15,206 | 19 | 95,032 | 10 | 114,856 | 9 |
| Pai Hsing Investment Co., Ltd. | 1,683 | 75 | 142,416 | 129 | 144,581 | 101 |
| Others | <u>9,546,411</u> | <u>47,578</u> | <u>7,734,446</u> | <u>47,025</u> | <u>8,005,899</u> | <u>36,133</u> |
| | <u>16,683,382</u> | <u>100,236</u> | <u>15,061,183</u> | <u>107,205</u> | <u>14,225,861</u> | <u>81,109</u> |
| | <u>\$ 17,765,609</u> | <u>\$ 102,401</u> | <u>\$ 16,452,772</u> | <u>\$ 108,715</u> | <u>\$ 15,235,597</u> | <u>\$ 82,257</u> |

9) Property transactions

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

| Name | For the Nine Months Ended September 30 | | | |
|--|--|---------------------|--|---------------------|
| | 2022 | | 2021 | |
| | Items | Amount | Items | Amount |
| Associate | | | | |
| Pss Co., Ltd | Zhubei Shixing Building, etc. | \$ 4,307 | - | \$ - |
| Lin Yuan Property Management Co., Ltd. | Cathay Life Head Office Building, etc. | <u>2,550</u> | Cathay Life Head Office Building, etc. | <u>6,130</u> |
| | | <u>6,857</u> | | <u>6,130</u> |
| Other related party | | | | |
| San Ching Engineering Co., Ltd. | Tucheng East Building, etc. | 1,204,832 | Tucheng East Building, etc. | 907,911 |
| Ally Logistic Property Co., Ltd. | Yongmei Erchungxi Warehouse, etc. | <u>540,964</u> | Ruifang Logistics Park, etc. | <u>664,620</u> |
| | | <u>1,745,796</u> | | <u>1,572,531</u> |
| | | <u>\$ 1,752,653</u> | | <u>\$ 1,578,661</u> |

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$3,342,857 thousand, \$2,607,361 thousand and \$2,607,361 thousand, respectively.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$15,573,524 thousand, \$7,316,509 thousand and \$7,324,009 thousand, respectively.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and PSS Co., Ltd were \$7,137 thousand, \$0 and \$0, respectively.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and Lin Yuan Property Management Co., Ltd. were \$3,447 thousand, \$0 and \$2,512 thousand, respectively.

b) Real-estate rental (Cathay Life and its subsidiaries as lessor)

| Name | Rental Income | | | |
|--|--|-------------------|---|---------------------|
| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Securities Investment Consulting | \$ 2,529 | \$ 2,447 | \$ 7,588 | \$ 7,342 |
| Associates | | | | |
| Symphox Information Co., Ltd. | 8,468 | 8,220 | 25,061 | 24,640 |
| Lin Yuan Property Management Co., Ltd. | 5,405 | 4,261 | 15,271 | 15,119 |
| | <u>13,873</u> | <u>12,481</u> | <u>40,332</u> | <u>39,759</u> |
| Other related party | | | | |
| Ally Logistic Property Co., Ltd. | 248,853 | 195,969 | 715,850 | \$ 587,676 |
| Cathay Medical Care Corp. | 48,856 | 45,583 | 150,400 | 141,566 |
| Cathay Hospitality Management Co., Ltd. | 42,841 | 15,311 | 137,482 | 102,513 |
| Cathay Hospitality Consulting Co., Ltd. | 40,821 | 19,990 | 130,730 | 105,159 |
| Cathay Healthcare Management Co., Ltd. | 22,430 | 13,807 | 66,686 | 48,981 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | 4,165 | 7,221 | 24,640 | 24,640 |
| Hong-Sui Co., Ltd. | 7,106 | 6,759 | 21,204 | 21,373 |
| Cathay Real Estate Development Co., Ltd. | 4,466 | 4,617 | 13,231 | 13,742 |
| Hsin Chung Co., Ltd. | 1,076 | 1,076 | 7,527 | 7,527 |
| Cymlin Co., Ltd. | 2,143 | - | 6,428 | - |
| Cymder Co., Ltd. | 2,076 | 2,076 | 5,535 | 5,535 |
| San Ching Engineering Co., Ltd. | 1,502 | 1,628 | 4,695 | 4,845 |
| Cathay United Bank Foundation | 1,750 | 1,312 | 4,374 | 3,937 |
| | <u>428,085</u> | <u>315,349</u> | <u>1,288,782</u> | <u>1,067,494</u> |
| | <u>\$ 444,487</u> | <u>\$ 330,277</u> | <u>\$ 1,336,702</u> | <u>\$ 1,114,595</u> |

| Name | Guarantee Deposits Received | | |
|---|-----------------------------|----------------------|-----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Associates | | | |
| Symphox Information Co., Ltd. | \$ 11,679 | \$ 8,000 | \$ 8,000 |
| Other related party | | | |
| Ally Logistic Property Co., Ltd. | 210,626 | 143,424 | 143,270 |
| Cathay Hospitality Management Co., Ltd. | 190,230 | 188,597 | 188,248 |
| Cathay Hospitality Consulting Co., Ltd. | 182,996 | 182,277 | 181,185 |
| Cathay Medical Care Corp. | 61,208 | 11,447 | 11,435 |
| Cathay Healthcare Management Co., Ltd. | 21,113 | 21,113 | 21,113 |
| Hong-Sui Co., Ltd. | 4,740 | 4,740 | 4,740 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | 4,552 | 4,552 | 4,552 |
| Cathay Real Estate Development Co., Ltd. | 4,215 | 4,215 | 4,090 |
| Cymlin Co., Ltd. | 4,081 | 4,081 | 4,081 |
| Hsin Chung Co., Ltd. | 3,072 | 3,072 | 3,072 |
| Retail Forest Co., Ltd. | - | 5,745 | 5,745 |
| | <u>686,833</u> | <u>573,263</u> | <u>571,531</u> |
| | \$ 698,512 | \$ 581,263 | \$ 579,531 |

Lease periods and collection of rentals are in compliance with the lease contracts. Lease periods are usually between 2 to 5 years and rentals are collected on a monthly basis.

c) Lease arrangements

i. Acquisition of right-of-use assets

| Name | For the Nine Months Ended September 30 | |
|--|---|-----------------|
| | 2022 | 2021 |
| Other related party | | |
| Cathay Real Estate Development Co., Ltd. | \$ 32,744 | \$ - |
| Yi Ru Capital Co., Ltd. | - | 8,402 |
| | <u>\$ 32,744</u> | <u>\$ 8,402</u> |

ii. Lease liabilities

| Name | Lease Liabilities | | |
|----------------------------------|-----------------------|----------------------|-----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Other related party | | | |
| Cathay Real Estate | | | |
| Development Co., Ltd. | \$ 29,776 | \$ 13,152 | \$ 17,414 |
| Ally Logistic Property Co., Ltd. | 5,141 | 6,022 | - |
| Yi Ru Capital Co., Ltd. | <u>2,123</u> | <u>5,271</u> | <u>6,311</u> |
| | <u>\$ 37,040</u> | <u>\$ 24,445</u> | <u>\$ 23,725</u> |

iii. Guarantee deposits paid

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-----------------------|-----------------------|----------------------|-----------------------|
| Other related party | | | |
| Cathay Real Estate | | | |
| Development Co., Ltd. | <u>\$ 4,482</u> | <u>\$ 4,446</u> | <u>\$ 4,446</u> |

d) Acquisition of computer equipment and software

| Name | For the Nine Months Ended September 30 | |
|----------------------------------|---|-----------------|
| | 2022 | 2021 |
| Other related party | | |
| ThinkPower Information Co., Ltd. | <u>\$ 20,888</u> | <u>\$ 2,089</u> |

10) Guarantee deposits received

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Associate | | | |
| Lin Yuan Property Management Co., Ltd. | <u>\$ 5,000</u> | <u>\$ 5,000</u> | <u>\$ 5,000</u> |
| Other related party | | | |
| San Ching Engineering Co., Ltd. | 1,641,898 | 968,577 | 963,569 |
| Ally Logistic Property Co., Ltd. | <u>1,486,507</u> | <u>1,486,507</u> | <u>340,323</u> |
| | <u>3,128,405</u> | <u>2,455,084</u> | <u>1,303,892</u> |
| | <u>\$ 3,133,405</u> | <u>\$ 2,460,084</u> | <u>\$ 1,308,892</u> |

11) Payables

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Subsidiary | | | |
| Cathy Securities Investment Consulting | \$ 30,625 | \$ 30,963 | \$ 31,286 |
| Associate | | | |
| Symphox Information Co., Ltd. | 73,392 | 44,693 | 105,076 |
| Lin Yuan Property Management Co., Ltd. | <u>20,499</u> | <u>1,189</u> | <u>56,364</u> |
| | <u>93,891</u> | <u>45,882</u> | <u>161,440</u> |
| Other related party | | | |
| Seaward Card Co., Ltd. | 19,783 | 30,880 | 27,204 |
| Funds managed by Cathay Securities Investment Trust | <u>5,779</u> | <u>5,096</u> | <u>4,113</u> |
| | <u>25,562</u> | <u>35,976</u> | <u>31,317</u> |
| | <u>\$ 150,078</u> | <u>\$ 112,821</u> | <u>\$ 224,043</u> |

12) Balance of bonds managed by related parties

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Other related party | | | |
| Bonds managed by Octagon Credit Investors, LLC | <u>\$ 5,520,958</u> | <u>\$ 4,888,088</u> | <u>\$ 4,916,343</u> |

13) Balance of funds managed by related parties

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Other related parties | | | |
| Funds managed by Cathay Securities Investment Trust | \$ 63,377,142 | \$ 72,281,682 | \$ 64,973,269 |
| Funds managed by Global Evolution Holding ApS | 2,518,241 | 2,782,079 | 2,847,402 |
| Funds managed by Octagon Credit Investors, LLC | 2,295,598 | 2,075,270 | 2,076,089 |
| Private Equity Funds managed by Cathay Private Equity | <u>1,216,628</u> | <u>1,251,757</u> | <u>1,055,114</u> |
| | <u>\$ 69,407,609</u> | <u>\$ 78,390,788</u> | <u>\$ 70,951,874</u> |

14) Balances of related parties' discretionary management investment

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------|-----------------------|----------------------|-----------------------|
| Other related parties | | | |
| Cathay Charity Foundation | \$ 106,956 | \$ 134,136 | \$ 117,191 |
| Cathay Cultural Foundation | <u>54,372</u> | <u>61,874</u> | <u>62,147</u> |
| | <u>\$ 161,328</u> | <u>\$ 196,010</u> | <u>\$ 179,338</u> |

15) Service fee income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------|---|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Securities Investment Consulting | \$ 9,044 | \$ 11,898 | \$ 28,312 | \$ 29,048 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | <u>1,108</u> | <u>868</u> | <u>6,132</u> | <u>6,481</u> |
| | <u>\$ 10,152</u> | <u>\$ 12,766</u> | <u>\$ 34,444</u> | <u>\$ 35,529</u> |

16) Premium income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Associate | | | | |
| Cathay Power Inc. | \$ 534 | \$ 245 | \$ 9,440 | \$ 9,080 |
| Xinritai Energy Co., Ltd. | <u>447</u> | <u>10</u> | <u>8,381</u> | <u>414</u> |
| | <u>981</u> | <u>255</u> | <u>17,821</u> | <u>9,494</u> |
| Other related party | | | | |
| Cathay Medical Care Corp. | 13,537 | 24,224 | 39,313 | 42,460 |
| San Ching Engineering Co., Ltd. | 2,832 | 1,156 | 11,815 | 4,589 |
| ThinkPower Information Co., Ltd. | 2,441 | 13,979 | 6,178 | 13,994 |
| Hong-Sui Co., Ltd. | 2,211 | 1,960 | 6,080 | 4,408 |
| Cathay Real Estate Development Co., Ltd. | 2,610 | 2,244 | 4,452 | 3,443 |
| Lung Chuan Water Resources Co., Ltd. | - | 2,662 | 4,442 | 2,677 |
| Cathay Hospitality Management Co., Ltd. | 33 | 15 | 4,328 | 361 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | 1,314 | 922 | 3,748 | 2,642 |
| Ally Logistic Property Co., Ltd. | 207 | 217 | 3,010 | 1,035 |
| Others | <u>63,381</u> | <u>133,062</u> | <u>102,260</u> | <u>264,582</u> |
| | <u>88,566</u> | <u>180,441</u> | <u>185,626</u> | <u>340,191</u> |
| | <u>\$ 89,547</u> | <u>\$ 180,696</u> | <u>\$ 203,447</u> | <u>\$ 349,685</u> |

17) Net other non-interest income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|----------------------|--|-------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Other related party | | | | |
| Funds managed by | | | | |
| Cathay Securities | | | | |
| Investment Trust | \$ 753,910 | \$ 727,252 | \$ 2,263,519 | \$ 2,054,335 |
| Private Equity Funds | | | | |
| managed by Cathay | | | | |
| Private Equity | 21,292 | 16,270 | 63,818 | 48,279 |
| Cathay Hospitality | | | | |
| Consulting Co., Ltd. | 1,146 | 1,787 | 4,583 | 1,787 |
| Cathay Healthcare | | | | |
| Management Co., Ltd. | <u>976</u> | <u>923</u> | <u>3,900</u> | <u>3,691</u> |
| | <u>\$ 777,324</u> | <u>\$ 746,232</u> | <u>\$ 2,335,820</u> | <u>\$ 2,108,092</u> |

18) Operating expenses

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--------------------------|--|-------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Securities | | | | |
| Investment Consulting | <u>\$ 29,470</u> | <u>\$ 31,378</u> | <u>\$ 89,148</u> | <u>\$ 92,233</u> |
| Associate | | | | |
| Lin Yuan Property | | | | |
| Management Co., Ltd. | 250,633 | 222,647 | 738,969 | 631,009 |
| Symphox Information | | | | |
| Co., Ltd. | <u>203,757</u> | <u>161,018</u> | <u>528,547</u> | <u>546,226</u> |
| | <u>454,390</u> | <u>383,665</u> | <u>1,267,516</u> | <u>1,177,235</u> |
| Other related party | | | | |
| Seaward Card Co., Ltd. | 81,505 | 77,253 | 231,504 | 217,617 |
| Ann Fong Co., Ltd. | 30,960 | 41,992 | 133,395 | 84,047 |
| ThinkPower Information | | | | |
| Co., Ltd. | 34,122 | 26,458 | 105,716 | 47,030 |
| Bowl Cut Entertainment | | | | |
| Co., Ltd. | 20,510 | 21,030 | 40,140 | 39,900 |
| Cathay Healthcare | | | | |
| Management Co., Ltd. | 5,579 | 3,123 | 14,143 | 7,998 |
| FundRich Securities Co., | | | | |
| Ltd. | 3,814 | 2,441 | 10,633 | 5,925 |
| Cathay Real Estate | | | | |
| Development Co., Ltd. | 2,601 | 3,888 | 6,559 | 7,532 |
| San Ching Engineering | | | | |
| Co., Ltd. | 975 | 1,594 | 3,858 | 3,562 |
| Cathay Medical Care | | | | |
| Corp. | <u>588</u> | <u>18,184</u> | <u>3,436</u> | <u>31,853</u> |
| | <u>180,654</u> | <u>195,963</u> | <u>549,384</u> | <u>445,464</u> |
| | <u>\$ 664,514</u> | <u>\$ 611,006</u> | <u>\$ 1,906,048</u> | <u>\$ 1,714,932</u> |

19) Guarantees on duties and contracts

September 30, 2022

| Name | Maximum | Ending Balance | Guarantee Liability Reserve Balance | Rate | Collateral Item |
|---|------------------|------------------|-------------------------------------|-----------------|-----------------|
| Other related party Yua-Yung Marketing (Taiwan) Co., Ltd. | <u>\$ 63,513</u> | <u>\$ 57,013</u> | <u>\$ 6</u> | 0.65%- 0.80% | Demand deposits |

December 31, 2021

| Name | Maximum | Ending Balance | Guarantee Liability Reserve Balance | Rate | Collateral Item |
|---|------------------|------------------|-------------------------------------|-----------------|-----------------|
| Other related party Yua-Yung Marketing (Taiwan) Co., Ltd. | <u>\$ 63,513</u> | <u>\$ 63,513</u> | <u>\$ 43</u> | 0.65%- 0.80% | Demand deposits |

September 30, 2021

| Name | Maximum | Ending Balance | Guarantee Liability Reserve Balance | Rate | Collateral Item |
|---|------------------|------------------|-------------------------------------|-----------------|-----------------|
| Other related party Yua-Yung Marketing (Taiwan) Co., Ltd. | <u>\$ 63,513</u> | <u>\$ 63,513</u> | <u>\$ 42</u> | 0.65%- 0.80% | Demand deposits |

20) Derived financial instrument

September 30, 2022

| Name | Contract Name of Derived Financial Instrument | Contract Period | Nominal Principal | Evaluation (Loss) Income | Balance at Balance Sheet | |
|----------------------|---|-----------------------|-------------------|--------------------------|---|----------------|
| | | | | | Item | Ending Balance |
| Taiwan Finance Corp. | SWAP- Exchange between customers (USD) | 2022.08.11-2022.11.15 | \$ 95,229 | \$ 5,577 | Valuation adjustments of financial asset at fair value through profit or loss | \$ 5,577 |
| | | | | | Valuation adjustments of financial liabilities at fair value through profit or loss | - |

21) Compensation of key management personnel

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|-----------------------------------|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Short-term employee benefits | \$ 274,462 | \$ 242,757 | \$ 1,042,124 | \$ 876,229 |
| Post-employment benefits | 6,254 | 6,412 | 18,872 | 18,573 |
| Other long-term employee benefits | <u>34</u> | <u>-</u> | <u>54</u> | <u>-</u> |
| | <u>\$ 280,750</u> | <u>\$ 249,169</u> | <u>\$ 1,061,050</u> | <u>\$ 894,802</u> |

Key management personnel includes the chairman, vice chairman, directors, supervisors, general managers, senior vice general managers and vice general managers.

c. The Company

1) Cash in banks

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|----------------------------------|--------------------|-----------------|-------------------|-----------------|--------------------|-----------------|
| | Ending Balance | Interest Income | Ending Balance | Interest Income | Ending Balance | Interest Income |
| Subsidiary Cathay United Bank | <u>\$ 303,420</u> | <u>\$ 1,571</u> | <u>\$ 47,839</u> | <u>\$ 78</u> | <u>\$ 309,667</u> | <u>\$ 75</u> |

2) Receivables

| Name | Nature of Transaction | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------------------------|--|---------------------|---------------------|---------------------|
| Subsidiary Cathay United Bank | Integrated income tax, etc. | \$ 1,699,687 | \$ 513,935 | \$ - |
| Cathay Life | Subordinated corporation bonds interests, etc. | 1,008,000 | 70,989 | 1,008,000 |
| Cathay Securities | Integrated income tax | 387,177 | 373,017 | 315,656 |
| Cathay Securities Investment Trust | Integrated income tax | 306,884 | 269,811 | 175,250 |
| Cathay Century | Integrated income tax, etc. | <u>-</u> | <u>238,909</u> | <u>177,658</u> |
| | | <u>\$ 3,401,748</u> | <u>\$ 1,466,661</u> | <u>\$ 1,676,564</u> |

3) Guarantee deposits paid

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|--------------------|-------------------|--------------------|
| Subsidiary Cathay Life | <u>\$ 33,633</u> | <u>\$ 33,301</u> | <u>\$ 33,301</u> |

4) Financial assets at FVTPL

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | <u>\$ 35,000,000</u> | <u>\$ 35,000,000</u> | <u>\$ 35,000,000</u> |

5) Payable

| Name | Nature of Transaction | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|--------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | Integrated income tax | \$ 10,296,662 | \$ 5,253,915 | \$ 4,503,559 |
| Cathay Century Insurance | Integrated income tax | 2,868,918 | - | - |
| Cathay United Bank | Integrated income tax | - | - | <u>342,658</u> |
| | | <u>\$ 13,165,580</u> | <u>\$ 5,253,915</u> | <u>\$ 4,846,217</u> |

6) Lease agreements

a) Acquisition of right-of-use assets

| Name | For the Nine Months Ended September 30 | |
|---|---|-------------|
| | 2022 | 2021 |
| Other related party Cathay Real Estate Development Co., Ltd. | <u>\$ 3,253</u> | <u>\$ -</u> |

b) Lease liabilities

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | \$ 20,488 | \$ 113,076 | \$ 143,714 |
| Other related party Ally Logistic Property | <u>5,141</u> | <u>6,022</u> | <u>-</u> |
| | <u>\$ 25,629</u> | <u>\$ 119,098</u> | <u>\$ 143,714</u> |

c) Lease expense

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------|--|-----------------|---|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay Life | <u>\$ 6,528</u> | <u>\$ 6,344</u> | <u>\$ 17,448</u> | <u>\$ 10,294</u> |

7) Interest income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|-------------|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Life | \$ <u>317,589</u> | \$ <u>317,589</u> | \$ <u>942,411</u> | \$ <u>942,411</u> |

8) Operating expenses

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|------------------|---|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Life | \$ 4,243 | \$ 5,906 | \$ 12,083 | \$ 11,227 |
| Cathay United Bank | <u>656</u> | <u>-</u> | <u>949</u> | <u>6,793</u> |
| | <u>4,899</u> | <u>5,906</u> | <u>13,032</u> | <u>18,020</u> |
| Associate | | | | |
| Linyuan Apartment Building Management and Maintenance Co., Ltd. | 3,881 | 1,425 | 6,094 | 2,685 |
| Symphox Information Co., Ltd. | <u>565</u> | <u>1,169</u> | <u>2,851</u> | <u>3,184</u> |
| | <u>4,446</u> | <u>2,594</u> | <u>8,945</u> | <u>5,869</u> |
| Other related party | | | | |
| ThinkPower Information Co., Ltd. | 22,218 | 15,828 | 43,909 | 16,191 |
| Bowl Cut Entertainment Co., Ltd. | 20,510 | 21,030 | 40,140 | 39,900 |
| Seaward Card Co., Ltd. | <u>1,859</u> | <u>1,408</u> | <u>6,749</u> | <u>5,722</u> |
| | <u>44,587</u> | <u>38,266</u> | <u>90,798</u> | <u>61,813</u> |
| | \$ <u>53,932</u> | \$ <u>46,766</u> | \$ <u>112,775</u> | \$ <u>85,702</u> |

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

Significant intragroup transactions have been eliminated in the consolidated financial statements.

1) Cathay Life and its subsidiaries

a) Property transactions

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

- i. Cathay Life and its subsidiaries' significant transactions from undertaking contracted projects with related parties are listed below:

| Name | For the Nine Months Ended September 30 | | | |
|----------------------------------|--|---------------------|------------------------------|---------------------|
| | 2022 | | 2021 | |
| | Items | Amount | Items | Amount |
| Other related party | | | | |
| San Ching Engineering Co., Ltd. | Tucheng East Building etc. | \$ 1,204,832 | Tucheng East Building, etc. | \$ 907,911 |
| Ally Logistic Property Co., Ltd. | Yongmei Erchong Warehouse, etc. | <u>540,964</u> | Ruifang Logistics Park, etc. | <u>664,620</u> |
| | | <u>\$ 1,745,796</u> | | <u>\$ 1,572,531</u> |

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and Ally Logistic Property Co., Ltd. were \$3,342,857 thousand, \$2,607,361 thousand and \$2,607,361 thousand, respectively.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the total amounts of contracted projects for real estate between Cathay Life and its subsidiaries and San Ching Engineering Co., Ltd. were \$15,573,524 thousand, \$7,316,509 thousand and \$7,324,009 thousand, respectively.

- ii. Real-estate rental

| Name | Rental Income | | | |
|---|---|-------------------|--|---------------------|
| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
| | 2022 | 2021 | 2022 | 2021 |
| The company | | | | |
| Cathay Financial Holdings | <u>\$ 37,655</u> | <u>\$ 37,548</u> | <u>\$ 110,826</u> | <u>\$ 104,819</u> |
| Subsidiary | | | | |
| Cathay United Bank | <u>197,035</u> | <u>192,678</u> | <u>546,038</u> | <u>540,248</u> |
| Other related party | | | | |
| Ally Logistic Property Co., Ltd. | 248,853 | 195,969 | 715,850 | 587,676 |
| Cathay Medical Care Corp. | 48,856 | 45,583 | 150,400 | 141,566 |
| Cathay Hospitality Management Co., Ltd. | 42,841 | 15,311 | 137,482 | 102,513 |
| Cathay Hospitality Consulting Co., Ltd. | <u>40,821</u> | <u>19,990</u> | <u>130,730</u> | <u>105,159</u> |
| | <u>381,371</u> | <u>276,853</u> | <u>1,134,462</u> | <u>936,914</u> |
| | <u>\$ 616,061</u> | <u>\$ 507,079</u> | <u>\$ 1,791,326</u> | <u>\$ 1,581,981</u> |

| Name | Guarantee Deposits Received | | |
|--|-----------------------------|----------------------|-----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Subsidiary | | | |
| Cathay United Bank | \$ 191,579 | \$ 187,202 | \$ 187,202 |
| Other related party | | | |
| Ally Logistic Property Co., Ltd. | 210,626 | 143,424 | 143,270 |
| Cathay Hospitality Management Co., Ltd. | 190,230 | 188,597 | 188,248 |
| Cathay Hospitality Consulting Co., Ltd. | 182,996 | 182,277 | 181,185 |
| | <u>583,852</u> | <u>514,298</u> | <u>512,703</u> |
| | <u>\$ 775,431</u> | <u>\$ 701,500</u> | <u>\$ 699,905</u> |

Lease periods are usually between 2 to 5 years and rentals are collected on a monthly basis.

b) Acquisition of shares issued by related parties

| Name | Nature of Transaction | For the Nine Months Ended September 30 | |
|------------------------------------|-----------------------|---|-------------------|
| | | 2022 | 2021 |
| Associate | | | |
| CMG International Two Co., Ltd. | Ordinary shares | \$ 1,125,000 | \$ - |
| CMG International One Co., Ltd. | Ordinary shares | 900,000 | - |
| Juxin Energy Co., Ltd. | Ordinary shares | 216,000 | - |
| TaiYang Solar Power Co., Ltd. | Ordinary shares | 67,500 | 189,500 |
| CM Energy Co., Ltd. | Ordinary shares | - | 135,000 |
| | | <u>\$ 2,308,500</u> | <u>\$ 324,500</u> |

c) Balance of shares issued by related parties

| Name | Nature of Transaction | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|---------------------|---------------------|---------------------|
| Other related party | | | | |
| Srisawad Corporation Public Company Limited | Ordinary shares | \$ 2,264,891 | \$ 3,213,864 | \$ 3,254,349 |
| Cathay Real Estate Development Co., Ltd. | Ordinary shares | 1,101,778 | 1,321,447 | 1,321,447 |
| CDIB & PARTNERS Investment Holding Corporation | Ordinary shares | 682,020 | 880,740 | 898,020 |
| Daiwa - Cathay Capital Markets Co., Ltd. | Ordinary shares | <u>144,200</u> | <u>144,600</u> | <u>143,000</u> |
| | | <u>\$ 4,192,889</u> | <u>\$ 5,560,651</u> | <u>\$ 5,616,816</u> |

d) Cash in banks

| Name | Nature of Transaction | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--------------------|-----------------------|----------------------|----------------------|----------------------|
| Subsidiary | | | | |
| Cathay United Bank | Time deposits | \$ 1,567,585 | \$ 1,280,477 | \$ 1,270,814 |
| | Demand deposits | 36,955,314 | 42,819,111 | 27,926,847 |
| | Checking deposits | 190,014 | 209,910 | 266,177 |
| | Security deposits | <u>288,689</u> | <u>6</u> | <u>6</u> |
| | | <u>39,001,602</u> | <u>44,309,504</u> | <u>29,463,844</u> |
| Indovina Bank | Time deposits | 3,128,991 | 1,817,844 | 2,236,738 |
| | Demand deposits | <u>24,898</u> | <u>12,382</u> | <u>48,550</u> |
| | | <u>3,153,889</u> | <u>1,830,226</u> | <u>2,285,288</u> |
| | | <u>\$ 42,155,491</u> | <u>\$ 46,139,730</u> | <u>\$ 31,749,132</u> |

For the three months and nine months ended September 30, 2022 and 2021, the total amounts of interest income for Indovina Bank were \$41,636 thousand, \$44,168 thousand, \$103,531 thousand and \$102,233 thousand, respectively.

e) Loans

| Name | For the Nine Months Ended September 30, 2022 | | |
|---------------------|--|-------------|-------------------|
| | Maximum Balance | Rate | Ending Balance |
| Other related party | <u>\$ 931,831</u> | 1.19%-4.31% | <u>\$ 878,487</u> |

For the Nine Months Ended September 30, 2021

| Name | Maximum Balance | Rate | Ending Balance |
|---------------------|--------------------|-------------|-------------------|
| Other related party | <u>\$ 995,118</u> | 0.75%-3.17% | <u>\$ 846,504</u> |

f) Balance of bonds managed by related parties

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Other related party Bonds managed by Octagon Credit Investors, LLC | <u>\$ 5,520,958</u> | <u>\$ 4,888,088</u> | <u>\$ 4,916,343</u> |

g) Balance of funds managed by related parties

| Name | Item | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|--------------|-----------------------|----------------------|-----------------------|
| Other related party | | | | |
| Funds managed by Octagon Credit Investors, LLC | Market value | <u>\$ 2,295,598</u> | <u>\$ 2,075,270</u> | <u>\$ 2,076,089</u> |
| | Cost | <u>\$ 2,404,654</u> | <u>\$ 2,041,381</u> | <u>\$ 2,047,162</u> |
| Funds managed by Global Evolution Holding ApS | Market value | <u>\$ 2,518,241</u> | <u>\$ 2,782,079</u> | <u>\$ 2,847,402</u> |
| | Cost | <u>\$ 2,614,160</u> | <u>\$ 2,440,596</u> | <u>\$ 2,483,060</u> |
| Funds managed by Cathay Securities Investment Trust | Market value | <u>\$ 62,703,489</u> | <u>\$ 70,780,361</u> | <u>\$ 63,251,915</u> |
| | Cost | <u>\$ 77,704,682</u> | <u>\$ 71,263,962</u> | <u>\$ 63,349,333</u> |
| Private Equity Funds managed by Cathay Private Equity | Market value | <u>\$ 1,178,703</u> | <u>\$ 1,215,634</u> | <u>\$ 1,034,695</u> |
| | Cost | <u>\$ 1,190,055</u> | <u>\$ 1,190,055</u> | <u>\$ 989,445</u> |

h) Balance of discretionary management investments

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|-----------------------|-----------------------|
| Subsidiary Cathay Securities Investment Trust | <u>\$ 200,323,606</u> | <u>\$ 343,737,780</u> | <u>\$ 325,713,557</u> |

i) Other receivables

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| The Company Cathay Financial Holdings (Note) | <u>\$ 10,296,662</u> | <u>\$ 5,253,915</u> | <u>\$ 4,503,559</u> |

Note: The receivables are refundable taxes under the integrated income tax system.

j) Guarantee deposits paid (for future transactions)

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Futures | \$ <u>1,948,714</u> | \$ <u>2,234,611</u> | \$ <u>2,484,626</u> |

k) Guarantee deposits received

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Other related party San Ching Engineering Co., Ltd. | \$ 1,641,898 | \$ 968,577 | \$ 963,569 |
| Ally Logistic Property Co., Ltd. | <u>1,486,507</u> | <u>1,486,507</u> | <u>340,323</u> |
| | <u>\$ 3,128,405</u> | <u>\$ 2,455,084</u> | <u>\$ 1,303,892</u> |

l) Other payables

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| The Company Cathay Financial Holdings (Note) | \$ 1,008,000 | \$ 70,989 | \$ 1,008,000 |
| Subsidiary Cathay United Bank | <u>401,042</u> | <u>185,415</u> | <u>557,612</u> |
| | <u>\$ 1,409,042</u> | <u>\$ 256,404</u> | <u>\$ 1,565,612</u> |

Note: The payables are comprised of remuneration of directors and supervisors, accrued interests of bonds payable and tax payable under the integrated income tax system.

m) Bonds payable

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| The Company Cathay Financial Holdings | \$ <u>35,000,000</u> | \$ <u>35,000,000</u> | \$ <u>35,000,000</u> |

n) Premium income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|----------------------------------|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay United Bank | \$ 41,825 | \$ 36,881 | \$ 110,135 | \$ 68,100 |
| Other related party Others | <u>63,381</u> | <u>133,062</u> | <u>102,260</u> | <u>264,582</u> |
| | <u>\$ 105,206</u> | <u>\$ 169,943</u> | <u>\$ 212,395</u> | <u>\$ 332,682</u> |

o) Insurance expense

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|------------------------------|--|-----------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay Century | \$ <u>3,740</u> | \$ <u>6,404</u> | \$ <u>110,189</u> | \$ <u>104,821</u> |

p) Other operating income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay Securities Investment Trust | \$ <u>28,471</u> | \$ <u>43,700</u> | \$ <u>100,064</u> | \$ <u>127,975</u> |

q) Other operating costs

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------------------|--|-------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay United Bank | \$ 232,223 | \$ 280,523 | \$ 707,850 | \$ 837,819 |
| Cathay Securities Investment Trust | <u>101,784</u> | <u>117,312</u> | <u>321,727</u> | <u>349,877</u> |
| | \$ <u>334,007</u> | \$ <u>397,835</u> | \$ <u>1,029,577</u> | \$ <u>1,187,696</u> |

r) Finance costs

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| The Company Cathay Financial Holdings | \$ <u>317,589</u> | \$ <u>317,589</u> | \$ <u>942,411</u> | \$ <u>942,411</u> |

The finance costs consist of interest expenses accrued from bonds payable.

s) Operating expenses

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|---------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay United Bank | \$ 1,253,446 | \$ 1,881,637 | \$ 4,479,784 | \$ 4,925,699 |
| Associate | | | | |
| Lin Yuan Property Management Co., Ltd. | 230,567 | 209,591 | 691,885 | 595,967 |
| Symphox Information Co., Ltd. | 42,340 | 38,066 | 122,770 | 121,031 |
| | <u>272,907</u> | <u>247,657</u> | <u>814,655</u> | <u>716,998</u> |
| | <u>\$ 1,526,353</u> | <u>\$ 2,129,294</u> | <u>\$ 5,294,439</u> | <u>\$ 5,642,697</u> |

t) Non-operating income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--------------------|--|-------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Century | \$ 189,153 | \$ 166,822 | \$ 524,419 | \$ 489,452 |
| Cathay United Bank | 58,742 | 31,827 | 166,112 | 133,110 |
| | <u>\$ 247,895</u> | <u>\$ 198,649</u> | <u>\$ 690,531</u> | <u>\$ 622,562</u> |

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

u) Others

As of September 30, 2022, December 31, 2021 and September 30, 2021, the nominal amounts of the financial instruments transacted between Cathay Life and Cathay United Bank are summarized as follows (in thousands of each currency):

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------|-----------------------|-----------------------|-----------------------|
| SWAP | <u>US\$ 4,273,000</u> | <u>US\$ 2,885,000</u> | <u>US\$ 2,185,000</u> |
| CCS | <u>NT\$ 100,000</u> | <u>NT\$ 100,000</u> | <u>NT\$ 100,000</u> |

2) Cathay United Bank and its subsidiaries

a) Loans and deposits

Loans

September 30, 2022

| Type | Account Volume or Name of Related Party | Highest Balance | Ending Balance | Loan Classification | | Collaterals | Differences in Terms of Transaction with Those for Unrelated Parties | Bad debt Expense 01.01-09.30 | Allowance for Bad Debt Expense - Ending Balance |
|----------------------------------|--|-----------------|----------------|---------------------|---------------------|--|--|------------------------------|---|
| | | | | Normal Loans | Nonperforming Loans | | | | |
| Consumer loans | 28 | \$ 232,203 | \$ 13,654 | V | \$ - | None | None | \$ (226) | \$ 192 |
| Self-used housing mortgage loans | 255 | 2,722,141 | 2,473,860 | V | - | Real estate, securities and certificates of deposits | None | 4,092 | 30,828 |
| Other loans | Cathay Real Estate Development Co., Ltd. | 1,420,000 | 1,420,000 | V | - | Real estate | None | 14,200 | 14,200 |

December 31, 2021

| Type | Account Volume or Name of Related Party | Highest Balance | Ending Balance | Loan Classification | | Collaterals | Differences in Terms of Transaction with Those for Unrelated Parties | Bad debt Expense 01.01-12.31 | Allowance for Bad Debt Expense - Ending Balance |
|----------------------------------|---|-----------------|----------------|---------------------|---------------------|--|--|------------------------------|---|
| | | | | Normal Loans | Nonperforming Loans | | | | |
| Consumer loans | 29 | \$ 166,949 | \$ 14,126 | V | \$ - | None | None | \$ 37 | \$ 356 |
| Self-used housing mortgage loans | 267 | 2,517,693 | 2,253,770 | V | - | Real estate, certificates of time deposits and demand deposits | None | 941 | 28,127 |

September 30, 2021

| Type | Account Volume or Name of Related Party | Highest Balance | Ending Balance | Loan Classification | | Collaterals | Differences in Terms of Transaction with Those for Unrelated Parties | Bad debt Expense 01.01-09.30 | Allowance for Bad Debt Expense - Ending Balance |
|----------------------------------|---|-----------------|----------------|---------------------|---------------------|--|--|------------------------------|---|
| | | | | Normal Loans | Nonperforming Loans | | | | |
| Consumer loans | 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, securities and certificates of deposits | None | 1,994 | 27,931 |

Deposits and interest expense

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|---|--------------------|------------------|-------------------|------------------|--------------------|------------------|
| | Ending Balance | Interest Expense | Ending Balance | Interest Expense | Ending Balance | Interest Expense |
| The Company | | | | | | |
| Cathay Financial Holdings | \$ 303,420 | \$ 1,571 | \$ 47,839 | \$ 78 | \$ 309,667 | \$ 75 |
| Subsidiary | | | | | | |
| Cathay Life | 36,634,352 | 63,521 | 42,128,322 | 6,003 | 27,271,402 | 4,401 |
| Cathay Securities | 4,231,631 | 4,192 | 14,241,811 | 1,846 | 4,823,870 | 1,385 |
| Cathay Life (Vietnam) | 3,312,119 | 103,531 | 1,830,226 | 131,557 | 2,285,372 | 102,233 |
| Cathay Century | 3,252,065 | 3,365 | 2,432,503 | 415 | 2,377,478 | 315 |
| Cathay Futures | 1,641,111 | 1,913 | 360,353 | 643 | 773,295 | 613 |
| Lin Yuan | 1,600,685 | 30,041 | 1,395,380 | 38,262 | 1,399,162 | 28,306 |
| Cathay Industrial R&D Center | 525,002 | 491 | 713,251 | 228 | 720,278 | 169 |
| Cathay Securities Investment Consulting | 499,395 | 630 | 563,928 | 173 | 473,505 | 125 |
| Cathay Insurance (Vietnam) | 306,160 | 9,968 | 243,871 | 14,584 | 290,513 | 11,269 |
| Cathay Venture | 144,527 | 79 | 55,273 | 20 | 209,281 | 18 |
| Cathay Securities Investment Trust | 136,085 | 139 | 159,611 | 69 | 162,591 | 51 |
| | <u>52,283,132</u> | <u>217,870</u> | <u>64,124,529</u> | <u>193,800</u> | <u>40,786,747</u> | <u>148,885</u> |

(Continued)

| Name | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|---|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Ending Balance | Interest Expense | Ending Balance | Interest Expense | Ending Balance | Interest Expense |
| Associate | | | | | | |
| Lin Yuan Property Management Co., Ltd. | \$ 208,616 | \$ 1,095 | \$ 267,301 | \$ 1,178 | \$ 154,058 | \$ 899 |
| CMG International One Co., Ltd. | 102,707 | 145 | 120,208 | 1 | 3,784 | 1 |
| CMG International Two Co., Ltd. | 101,386 | 151 | 167,291 | 2 | 10,209 | 1 |
| Symphox Information Co., Ltd. | 92,890 | 97 | 156,393 | 132 | 119,942 | 102 |
| CM Energy Co., Ltd. | <u>77,233</u> | <u>47</u> | <u>116,468</u> | <u>24</u> | <u>248,238</u> | <u>20</u> |
| | <u>582,832</u> | <u>1,535</u> | <u>827,661</u> | <u>1,337</u> | <u>536,231</u> | <u>1,023</u> |
| Other related party | | | | | | |
| Cathay Life Insurance Employees' Welfare Committee | 2,440,783 | 17,067 | 2,381,744 | 16,982 | 2,357,316 | 12,699 |
| Cathay United Bank Employees' Welfare Committee | 791,622 | 22,563 | 760,605 | 30,847 | 802,120 | 23,126 |
| Cathay United Bank Foundation | 562,908 | 3,955 | 541,531 | 4,189 | 544,970 | 3,136 |
| Private equity fund managed by Cathay Private Equity | 512,506 | 311 | 659,967 | 36 | - | - |
| Cathay Real Estate Development Employees' Welfare Committee | 487,517 | 3,587 | 438,380 | 3,506 | 450,757 | 2,575 |
| Sanhong Realty Co., Ltd. | 434,816 | 268 | - | - | - | - |
| Bannan Realty Co., Ltd. | 374,390 | 185 | 190,289 | 30 | 297,388 | 23 |
| Cathay Charity Foundation | 305,743 | 1,949 | 281,451 | 1,918 | 284,081 | 1,434 |
| Cathay Real Estate Development Co., Ltd. | 254,175 | 38 | 290,378 | 28 | 343,361 | 23 |
| Cathay Cultural Foundation | 208,338 | 1,571 | 210,741 | 1,598 | 211,166 | 1,195 |
| Cathay Healthcare Management Co., Ltd. | 168,741 | 259 | 218,988 | 48 | 188,040 | 28 |
| Cathay Hospitality Management Co., Ltd. | 156,690 | 98 | 163,365 | 10 | 30,834 | 5 |
| Yua-Yung Marketing (Taiwan) Co., Ltd. | 134,547 | 113 | 121,802 | 211 | 107,443 | 188 |
| Jinhua Realty Co., Ltd. | 122,366 | 52 | 34,274 | 23 | 105,898 | 20 |
| Cathay Real Estate Development Co., Ltd. | 97,093 | 547 | 100,559 | 580 | 90,505 | 414 |
| Funds managed by Cathay Securities Investment Trust | 67,847 | 1 | 695,215 | 35 | 146,646 | - |
| Ally Logistic Property Co., Ltd. | 15,206 | 19 | 95,032 | 10 | 114,856 | 9 |
| Pai Hsing Investment Co., Ltd. | 1,683 | 75 | 142,416 | 129 | 144,581 | 101 |
| Others | <u>9,546,411</u> | <u>47,578</u> | <u>7,734,446</u> | <u>47,025</u> | <u>8,005,899</u> | <u>36,133</u> |
| | <u>16,683,382</u> | <u>100,236</u> | <u>15,061,183</u> | <u>107,205</u> | <u>14,225,861</u> | <u>81,109</u> |
| | <u>\$ 69,852,766</u> | <u>\$ 321,212</u> | <u>\$ 80,061,212</u> | <u>\$ 302,420</u> | <u>\$ 55,858,506</u> | <u>\$ 231,092</u> |

(Concluded)

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

b) Investments in marketable bonds (financial assets at FVTPL)

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| <u>Bond investment</u> | | | |
| Other related party | | | |
| Vietinbank | \$ 398,614 | \$ 365,738 | \$ 367,222 |
| <u>Stock investment</u> | | | |
| Other related party | | | |
| Srisawad Corporation Public Company Limited | \$ 2,293,279 | \$ 3,210,527 | \$ 3,618,827 |
| Taiwan Asset Management Corporation | 914,266 | 1,647,294 | 1,561,614 |
| CDIB & PARTNERS Investment Holding Corporation | 682,069 | 880,509 | 897,761 |
| FISC | 622,199 | 866,688 | 919,215 |
| HanTech Venture Capital Corporation | 78,563 | 102,178 | 92,539 |

c) Derivatives

September 30, 2022

| Name of Related Party | Name of Derivative Contract | Contract Period | Nominal Principal | Valuation (Loss) Gain | Balance Sheet Amount | |
|-----------------------|---|-----------------------|-------------------|-----------------------|--|--------------|
| | | | | | Account | Balance |
| Cathay Life | SWAP - exchange between customers (USD) | 2022.04.08-2023.06.06 | \$ 135,637,839 | \$ 6,204,921 | Valuation adjustment for financial assets at FVTPL | \$ 6,074,287 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (75,977) |
| | SWAP - exchange between customers (USD) | 2021.04.29-2023.05.04 | 3,174,300 | (21,143) | Valuation adjustment for financial assets at FVTPL | 169,326 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (194,150) |
| Cathay Century | SWAP - exchange between customers (USD) | 2021.10.13-2023.08.25 | 3,021,934 | 265,513 | Valuation adjustment for financial assets at FVTPL | 259,514 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | - |

December 31, 2021

| Name of Related Party | Name of Derivative Contract | Contract Period | Nominal Principal | Valuation (Loss) Gain | Balance Sheet Amount | |
|-----------------------|---|-----------------------|-------------------|-----------------------|--|-----------|
| | | | | | Account | Balance |
| Cathay Life | SWAP - exchange between customers (USD) | 2020.09.29-2022.09.28 | \$ 79,885,650 | \$ (231,691) | Valuation adjustment for financial assets at FVTPL | \$ 2,154 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (593,855) |
| | SWAP - exchange between customers (USD) | 2021.04.29-2023.05.04 | 2,769,000 | 1,481 | Valuation adjustment for financial assets at FVTPL | 8,500 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (10,551) |
| Cathay Century | SWAP - exchange between customers (USD) | 2020.10.08-2022.07.28 | 2,636,088 | (3,252) | Valuation adjustment for financial assets at FVTPL | 72 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (19,146) |

September 30, 2021

| Name of Related Party | Name of Derivative Contract | Contract Period | Nominal Principal | Valuation (Loss) Gain | Balance Sheet Amount | |
|-----------------------|---|-----------------------|-------------------|-----------------------|--|-----------|
| | | | | | Account | Balance |
| Cathay Life | SWAP - exchange between customers (USD) | 2020.09.29-2022.09.28 | \$ 60,887,210 | \$ (60,777) | Valuation adjustment for financial assets at FVTPL | \$75,204 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (464,281) |
| | SWAP - exchange between customers (USD) | 2021.04.29-2023.05.04 | 2,786,600 | 5,674 | Valuation adjustment for financial assets at FVTPL | 5,974 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (300) |
| Cathay Century | SWAP - exchange between customers (USD) | 2020.10.08-2022.07.28 | 2,652,843 | (11,307) | Valuation adjustment for financial assets at FVTPL | 2,688 |
| | | | | | Valuation adjustment for FVTPL financial liabilities | (26,749) |

d) Lease agreements

i. Acquisition of right-to-use assets

| | For the Nine Months Ended September 30 | |
|---------------------------|---|-----------------|
| | 2022 | 2021 |
| Subsidiary Cathay Life | <u>\$ 690,622</u> | <u>\$ 1,973</u> |

ii. Lease liabilities

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | <u>\$ 1,264,906</u> | <u>\$ 1,114,777</u> | <u>\$ 1,297,482</u> |

iii. Guarantee deposits paid

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | <u>\$ 191,579</u> | <u>\$ 187,202</u> | <u>\$ 187,202</u> |

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

3) Cathay Century and its subsidiaries

a) Business transactions

| Item | Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|------------------------------------|---------------------------|--|-------------------|---|-------------------|
| | | 2022 | 2021 | 2022 | 2021 |
| Premium income | Subsidiary Cathay Life | <u>\$ 3,740</u> | <u>\$ 6,404</u> | <u>\$ 110,189</u> | <u>\$ 104,821</u> |
| Operating costs Marketing costs | Subsidiary Cathay Life | <u>\$ 186,404</u> | <u>\$ 165,474</u> | <u>\$ 517,080</u> | <u>\$ 480,678</u> |

b) Receivables from related parties

| Item | Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-------------------|--|-----------------------|----------------------|-----------------------|
| Other receivables | The Company Cathay Financial Holdings (Note) | <u>\$ 2,868,918</u> | <u>\$ -</u> | <u>\$ -</u> |

Note: Including income tax receivable under the integrated income tax system.

The outstanding receivables from related parties are unsecured. For the nine months ended September 30, 2022 and 2021, no impairment losses were recognized for receivables from related parties.

c) Payables to related parties

| Item | Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------|--|-----------------------|----------------------|-----------------------|
| Other payables | The Company Cathay Financial Holdings (Note) | <u>\$ -</u> | <u>\$ 238,909</u> | <u>\$ 177,658</u> |

Note: Including income tax payable under the integrated income tax system, dividends payable and remuneration of directors and supervisors.

The outstanding payables from related parties are unsecured.

d) Cash in bank

| Item | Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------------------|----------------------------------|-------------------------------|------------------------------|-------------------------------|
| Checking deposits and demand deposits | Subsidiary Cathay United Bank | \$ 3,232,049 | \$ 2,412,487 | \$ 2,357,471 |
| | Indovina Bank | 36,884 | 10,489 | 18,489 |
| Time deposits | Subsidiary Cathay United Bank | 20,016 | 20,016 | 20,007 |
| | Indovina Bank | <u>269,276</u> | <u>233,382</u> | <u>272,024</u> |
| | | <u>\$ 3,558,225</u> | <u>\$ 2,676,374</u> | <u>\$ 2,667,991</u> |

e) Financial assets at FVTPL (mutual funds)

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| Other related party Funds managed by Cathay Securities Investment Trust | <u>\$ 421,790</u> | <u>\$ 1,112,216</u> | <u>\$ 1,352,546</u> |

f) Balance of discretionary management investments

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| Subsidiary Cathay Securities Investment Trust | <u>\$ 1,289,869</u> | <u>\$ 1,673,486</u> | <u>\$ 1,453,593</u> |

g) Lease agreements

i. Acquisition of right-to-use assets

| Name | For the Nine Months Ended September 30 | |
|---------------------------|---|-------------------|
| | 2022 | 2021 |
| Subsidiary Cathay Life | <u>\$ 300</u> | <u>\$ 201,635</u> |

ii. Lease liabilities

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-------------------------------|------------------------------|-------------------------------|
| Subsidiary Cathay Life | <u>\$ 112,353</u> | <u>\$ 203,745</u> | <u>\$ 202,047</u> |

h) SWAP

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

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--------------------|-----------------------|----------------------|-----------------------|
| Subsidiary | | | |
| Cathay United Bank | <u>US\$ 95,200</u> | <u>US\$ 95,200</u> | <u>US\$ 95,200</u> |
| | <u>EUR 1,750</u> | <u>EUR 750</u> | <u>EUR 750</u> |

4) Cathay Securities and its subsidiaries

a) Cash in bank

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--------------------|-----------------------|----------------------|-----------------------|
| Subsidiary | | | |
| Cathay United Bank | <u>\$ 4,337,481</u> | <u>\$ 14,336,986</u> | <u>\$ 4,915,456</u> |

Cash in bank includes cash and cash equivalents, and cash and cash equivalents-receipts under custody from customers' security subscription, pending settlement money and restricted assets recorded under other current assets. Restricted assets are the time deposits that were pledged as collateral.

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

b) Customer's margin accounts

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--------------------|-----------------------|----------------------|-----------------------|
| Subsidiary | | | |
| Cathay United Bank | <u>\$ 1,535,444</u> | <u>\$ 265,339</u> | <u>\$ 681,876</u> |

c) Futures trader's equity

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Subsidiary | | | |
| Cathay United Bank | \$ 2,005,331 | \$ 559,180 | \$ 548,206 |
| Cathay Life | <u>1,948,714</u> | <u>2,234,611</u> | <u>2,484,626</u> |
| | <u>3,954,045</u> | <u>2,793,791</u> | <u>3,032,832</u> |
| Cathay Securities Investment Trust (Note) | <u>1,650,511</u> | <u>1,151,933</u> | <u>1,202,091</u> |
| | <u>\$ 5,604,556</u> | <u>\$ 3,945,724</u> | <u>\$ 4,234,923</u> |

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

d) Other payables

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| The Company Cathay Financial Holdings (Note) | \$ <u>387,177</u> | \$ <u>373,017</u> | \$ <u>315,656</u> |

Note: The payables are tax payables under the integrated income tax system.

e) Lease agreements

Lease liabilities

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay Life | \$ <u>126,715</u> | \$ <u>143,275</u> | \$ <u>31,378</u> |

f) Brokerage service fee income

| Name | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|---------------------------|--|------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay Life | \$ <u>30,357</u> | \$ <u>46,952</u> | \$ <u>113,773</u> | \$ <u>180,833</u> |

g) Other operating expense

| Name | <u>For the Three Months Ended September 30</u> | | <u>For the Nine Months Ended September 30</u> | |
|----------------------------------|--|------------------|---|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Cathay United Bank | \$ <u>42,712</u> | \$ <u>87,284</u> | \$ <u>173,699</u> | \$ <u>239,833</u> |

5) Cathay Securities Investment Trust

a) Cash and cash equivalents

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay United Bank | \$ <u>128,844</u> | \$ <u>141,266</u> | \$ <u>122,946</u> |

b) Financial assets at FVTPL

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Other related party Funds managed by Cathay Securities Investment Trust | \$ <u>103,081</u> | \$ <u>71,582</u> | \$ <u>52,355</u> |

c) Accounts receivable

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| Other related party Funds managed by Cathay Securities Investment Trust | \$ <u>248,645</u> | \$ <u>255,172</u> | \$ <u>235,050</u> |

d) Accounts payable

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-----------------------|----------------------|-----------------------|
| The Company Cathay Financial Holdings (Note) | \$ <u>306,884</u> | \$ <u>269,811</u> | \$ <u>175,250</u> |

Note: The payables are tax payable under the integrated income tax system and dividends payable.

e) Balance of discretionary management investments

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------|-----------------------|-----------------------|-----------------------|
| Subsidiary | | | |
| Cathay Life | \$ 200,323,606 | \$ 343,737,780 | \$ 325,713,557 |
| Cathay Century | <u>1,289,869</u> | <u>1,673,486</u> | <u>1,453,593</u> |
| | <u>201,613,475</u> | <u>345,411,266</u> | <u>327,167,150</u> |
| Other related party | | | |
| Cathay Charity Foundation | <u>106,956</u> | <u>134,136</u> | <u>117,191</u> |
| | <u>\$ 201,720,431</u> | <u>\$ 345,545,402</u> | <u>\$ 327,284,341</u> |

f) Management fee income

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-------------------|---|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary | | | | |
| Cathay Life | \$ 101,784 | \$ 117,312 | \$ 321,727 | \$ 349,877 |
| Other related party | | | | |
| Funds managed by Cathay Securities Investment Trust | <u>753,910</u> | <u>727,252</u> | <u>2,263,519</u> | <u>2,054,335</u> |
| | <u>\$ 855,694</u> | <u>\$ 844,564</u> | <u>\$ 2,585,246</u> | <u>\$ 2,404,212</u> |

g) Operating expense

| Name | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|-----------|---|------------|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiary Conning Asia Pacific Ltd. | \$ 24,178 | \$ 37,673 | \$ 86,675 | \$ 110,233 |

6) Cathay Venture

a) Cash and cash equivalents

| Name | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Subsidiary Cathay United Bank | \$ 144,527 | \$ 55,273 | \$ 209,390 |

b) Financial assets at FVTPL

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Other related party Funds managed by Cathay Securities Investment Trust Cathay Healthcare Management Co., Ltd. | \$ 140,077 | \$ 307,563 | \$ 307,563 |
| | <u>103,455</u> | <u>106,920</u> | <u>144,045</u> |
| | <u>\$ 243,532</u> | <u>\$ 414,483</u> | <u>\$ 451,608</u> |

29. PLEDGED ASSETS

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

| Item | Description | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|--|-----------------------|----------------------|-----------------------|
| Time deposits and guarantee deposits paid | Capital guarantee, serving as deposits paid, settlement accounts, overdraft guarantee, collateral for lease of real estate, collateral for court guarantees, provisions for business and collateral | \$ 15,302,271 | \$ 15,654,179 | \$ 15,666,853 |
| Due from the Central Bank (deposit reserves - general accounts) | (Note) | - | 6,000,000 | 6,000,000 |

(Continued)

| Item | Description | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------------------------|--|-----------------------|----------------------|-------------------------------------|
| Financial assets at FVTOCI | Provisions for business and collateral | \$ 46,800,000 | \$ - | \$ 12,000,000 |
| Financial assets at amortized cost | Provisions for business and collateral | 10,996,299 | 57,689,894 | 45,684,852 |
| Investment properties | Short-term loans | <u>291,175</u> | <u>291,175</u> | <u>291,175</u> |
| | | <u>\$ 73,389,745</u> | <u>\$ 79,635,248</u> | <u>\$ 79,642,880</u> (Concluded) |

Note: Due from the Central Bank of Cathay United Banks and its subsidiaries been used as collaterals to apply for financing of project loans to small and medium enterprises affected by the COVID-19 pandemic had expired in June 2022.

30. COMMITMENTS AND CONTINGENT LIABILITIES

a. Cathay United Bank

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

b. As of September 30, 2022, December 31, 2021 and September 30, 2021 Cathay United Bank and its subsidiaries had the following material commitments for entrusted items and guarantees:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| Trust and security held for safekeeping | \$ 985,376,519 | \$ 912,272,287 | \$ 891,789,379 |
| Collection and payment on behalf of customers | 29,302,750 | 30,506,950 | 31,153,803 |
| Book-entry for government bonds and depository for short-term marketable securities under management | 435,108,761 | 388,239,044 | 375,228,609 |
| Entrusted financial management business | 15,207,952 | 11,589,694 | 11,462,784 |
| Guarantees on duties and contracts | 19,811,202 | 18,242,569 | 18,967,392 |
| Unused commercial letters of credit | 7,915,097 | 8,182,407 | 9,250,556 |
| Irrevocable loan commitments | 172,484,136 | 172,956,246 | 175,235,667 |
| Unused credit card lines commitments | 708,253,194 | 686,356,039 | 682,254,952 |
| Underwritten securities | 3,200,000 | - | 2,400,000 |
| Financial guarantee contracts | 1,582,716 | 1,568,438 | 1,674,877 |

c. As of September 30, 2022, the remaining capital commitments for the contracted private equity fund of Cathay Life was NT\$804,500 thousand, US\$4,242,431 thousand, EUR481,137 thousand and GBP1,538 thousand.

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

Cathay Financial Holding Co., Ltd.

Balance Sheets
(In Thousands of New Taiwan Dollars)

| ASSETS | September 30, 2022 (Reviewed) | December 31, 2021 (Audited) | September 30, 2021 (Reviewed) | LIABILITIES AND EQUITY | September 30, 2022 (Reviewed) | December 31, 2021 (Audited) | September 30, 2021 (Reviewed) |
|---|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| CASH AND CASH EQUIVALENTS | \$ 309,032 | \$ 633,233 | \$ 315,247 | COMMERCIAL PAPER PAYABLE, NET | \$ 72,100,000 | \$ 58,510,000 | \$ 58,810,000 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | 35,570,500 | 36,260,000 | 37,366,000 | PAYABLES | 13,692,895 | 6,024,616 | 5,496,071 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | 147,682 | 143,491 | 130,108 | CURRENT TAX LIABILITIES | 3,947,034 | 7,057,511 | 6,979,289 |
| RECEIVABLES, NET | 3,401,747 | 1,466,748 | 1,676,564 | BONDS PAYABLE | 50,000,000 | 50,000,000 | 50,000,000 |
| CURRENT TAX ASSETS | 4,741,112 | 4,102,282 | 4,318,128 | OTHER BORROWING | 7,000,000 | - | - |
| INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET | 397,875,596 | 981,855,958 | 937,253,355 | PROVISIONS | 748,992 | 749,874 | 742,786 |
| PROPERTY AND EQUIPMENT, NET | 93,040 | 55,225 | 56,330 | LEASE LIABILITIES | 41,744 | 124,980 | 157,181 |
| RIGHT-OF-USE ASSETS | 41,141 | 123,677 | 155,889 | DEFERRED TAX LIABILITIES | 266,734 | 266,714 | 266,714 |
| DEFERRED TAX ASSETS | 250,318 | 35,604 | 32,157 | OTHER LIABILITIES | 775 | 579 | 163,864 |
| OTHER ASSETS | <u>246,450</u> | <u>96,202</u> | <u>77,900</u> | Total liabilities | <u>147,798,174</u> | <u>122,734,274</u> | <u>122,615,905</u> |
| | | | | EQUITY | | | |
| | | | | Share capital | | | |
| | | | | Ordinary shares | 131,692,102 | 131,692,102 | 131,692,102 |
| | | | | Preference shares | 15,333,000 | 15,333,000 | 15,333,000 |
| | | | | Capital surplus | 177,122,144 | 177,244,388 | 177,247,370 |
| | | | | Retained earnings | | | |
| | | | | Legal reserve | 73,747,059 | 59,471,895 | 59,471,895 |
| | | | | Special reserve | 150,768,651 | 150,716,023 | 150,716,023 |
| | | | | Unappropriated earnings | 253,586,831 | 267,799,001 | 248,138,648 |
| | | | | Other equity | <u>(507,371,343)</u> | <u>99,781,737</u> | <u>76,166,735</u> |
| | | | | Total equity | <u>294,878,444</u> | <u>902,038,146</u> | <u>858,765,773</u> |
| TOTAL | <u>\$ 442,676,618</u> | <u>\$ 1,024,772,420</u> | <u>\$ 981,381,678</u> | TOTAL | <u>\$ 442,676,618</u> | <u>\$ 1,024,772,420</u> | <u>\$ 981,381,678</u> |

Cathay Financial Holding Co., Ltd.

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

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|------------------------|---|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| REVENUE | | | | |
| Share of gain of subsidiaries, associates and joint ventures accounted for using the equity method | \$ 5,706,438 | \$ 30,586,368 | \$ 59,365,734 | \$ 122,507,743 |
| Other operating income | <u>340,586</u> | <u>539,109</u> | <u>966,854</u> | <u>1,875,029</u> |
| Total revenue | <u>6,047,024</u> | <u>31,125,477</u> | <u>60,332,588</u> | <u>124,382,772</u> |
| EXPENSES AND LOSSES | | | | |
| Operating expenses | (542,756) | (504,355) | (1,358,679) | (1,290,145) |
| Other expenses and losses | <u>(288,712)</u> | <u>(140,834)</u> | <u>(1,383,490)</u> | <u>(393,671)</u> |
| Total expenses and losses | <u>(831,468)</u> | <u>(645,189)</u> | <u>(2,742,169)</u> | <u>(1,683,816)</u> |
| INCOME BEFORE TAX | 5,215,556 | 30,480,288 | 57,590,419 | 122,698,956 |
| INCOME TAX (EXPENSE) BENEFIT | <u>(129,330)</u> | <u>65,322</u> | <u>(3,696,533)</u> | <u>(1,102,872)</u> |
| NET INCOME | <u>5,086,226</u> | <u>30,545,610</u> | <u>53,893,886</u> | <u>121,596,084</u> |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Gain on equity instruments at fair value through other comprehensive income | 36 | 4,432 | 4,191 | 13,908 |
| Share of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for using the equity method for items that will not be reclassified subsequently to profit or loss | (12,076,052) | (5,631,560) | (26,100,653) | 3,416,238 |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Share of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for using the equity method for items that may be reclassified subsequently to profit or loss | <u>(137,710,804)</u> | <u>(52,251,572)</u> | <u>(585,460,795)</u> | <u>(123,130,815)</u> |
| Other comprehensive (loss) income for the period, net of income tax | <u>(149,786,820)</u> | <u>(57,878,700)</u> | <u>(611,557,257)</u> | <u>(119,700,669)</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD | <u>\$ (144,700,594)</u> | <u>\$ (27,333,090)</u> | <u>\$ (557,663,371)</u> | <u>\$ 1,895,415</u> |
| EARNINGS PER SHARE | | | | |
| Basic | <u>\$0.38</u> | <u>\$2.32</u> | <u>\$3.83</u> | <u>\$8.98</u> |

Cathay Financial Holding Co., Ltd.
 Statements of Changes in Equity
 (In Thousands of New Taiwan Dollars)
 (Reviewed, Not Audited)

| | Other Equity | | | | | | | | | | | | Total Equity | | |
|--|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-------------------------|---|---|------------------------------------|--|--|------------------------------|-------------------------|--|-----------------------|
| | Share Capital | | | Retained Earnings | | | Exchange Differences on the Translation of Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income | Gain (Loss) on Hedging Instruments | Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value Through Profit or Loss | Remeasurement of Defined Benefit Plans | Property Revaluation Surplus | | Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach | Other |
| | Ordinary Shares | Preference Shares | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | | | | | | | | | |
| BALANCE AT JANUARY 1, 2021 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,256,053 | \$ 51,967,688 | \$ 149,894,910 | \$ 169,606,342 | \$ (15,464,009) | \$ 106,207,840 | \$ 347,871 | \$ (1,478,705) | \$ (1,966,279) | \$ 11,097,089 | \$ 102,511,617 | \$ (3,944,303) | \$ 893,061,216 |
| Appropriation of 2020 earnings | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | 7,504,207 | - | (7,504,207) | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 1,025,611 | (1,025,611) | - | - | - | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (32,923,025) | - | - | - | - | - | - | - | - | (32,923,025) |
| Cash dividends on preferred shares | - | - | - | - | - | (3,390,924) | - | - | - | - | - | - | - | - | (3,390,924) |
| Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method | - | - | (8,683) | - | - | (33,629) | - | - | - | - | - | - | - | - | (42,312) |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | (554,511) | - | - | - | - | - | - | - | 719,914 | 165,403 |
| Net income for the nine months ended September 30, 2021 | - | - | - | - | - | 121,596,084 | - | - | - | - | - | - | - | - | 121,596,084 |
| Other comprehensive (loss) income for the nine months ended September 30, 2021, net of income tax | - | - | - | - | - | - | (2,851,039) | (60,903,318) | (76,202) | 454,876 | (9,557) | - | (56,315,429) | - | (119,700,669) |
| Total comprehensive income (loss) for the nine months ended September 30, 2021 | - | - | - | - | - | 121,596,084 | (2,851,039) | (60,903,318) | (76,202) | 454,876 | (9,557) | - | (56,315,429) | - | 1,895,415 |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | - | 2,098,706 | - | (2,098,706) | - | - | - | - | - | - | - |
| Other | - | - | - | - | (204,498) | 269,423 | - | - | - | - | - | (64,925) | - | - | - |
| BALANCE AT SEPTEMBER 30, 2021 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,247,370 | \$ 59,471,895 | \$ 150,716,023 | \$ 248,138,648 | \$ (18,315,048) | \$ 43,205,816 | \$ 271,669 | \$ (1,023,829) | \$ (1,975,836) | \$ 11,032,164 | \$ 46,196,188 | \$ (3,224,389) | \$ 858,765,773 |
| BALANCE AT JANUARY 1, 2022 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,244,388 | \$ 59,471,895 | \$ 150,716,023 | \$ 267,799,001 | \$ (18,652,251) | \$ 47,131,473 | \$ 335,851 | \$ (889,397) | \$ (966,130) | \$ 11,281,909 | \$ 64,764,671 | \$ (3,224,389) | \$ 902,038,146 |
| Appropriation of 2020 earnings | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | 14,275,164 | - | (14,275,164) | - | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 52,628 | (52,628) | - | - | - | - | - | - | - | - | - |
| Cash dividends on ordinary shares | - | - | - | - | - | (46,092,235) | - | - | - | - | - | - | - | - | (46,092,235) |
| Cash dividends on preferred shares | - | - | - | - | - | (3,390,924) | - | - | - | - | - | - | - | - | (3,390,924) |
| Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method | - | - | (122,244) | - | - | - | - | - | - | - | - | - | - | - | (122,244) |
| Changes in ownership interests in subsidiaries | - | - | - | - | - | (621,991) | - | - | - | - | - | - | - | 731,063 | 109,072 |
| Net income for the nine months ended September 30, 2022 | - | - | - | - | - | 53,893,886 | - | - | - | - | - | - | - | - | 53,893,886 |
| Other comprehensive (loss) income for the nine months ended September 30, 2022, net of income tax | - | - | - | - | - | - | 6,676,659 | (368,752,967) | 224,018 | 829,655 | 34,641 | 1,311,727 | (251,880,990) | - | (611,557,257) |
| Total comprehensive income (loss) for the nine months ended September 30, 2022 | - | - | - | - | - | 53,893,886 | 6,676,659 | (368,752,967) | 224,018 | 829,655 | 34,641 | 1,311,727 | (251,880,990) | - | (557,663,371) |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | - | (3,657,750) | - | 3,657,750 | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | (15,364) | - | - | - | - | - | 15,364 | - | - | - |
| BALANCE AT SEPTEMBER 30, 2022 | \$ 131,692,102 | \$ 15,333,000 | \$ 177,122,144 | \$ 73,747,059 | \$ 150,768,651 | \$ 253,586,831 | \$ (11,975,592) | \$ (317,963,744) | \$ 559,869 | \$ (59,742) | \$ (931,489) | \$ 12,609,000 | \$ (187,116,319) | \$ (2,493,326) | \$ 294,878,444 |

Cathay Financial Holding Co., Ltd.

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

| | For the Nine Months Ended | |
|--|----------------------------------|---------------------|
| | September 30 | |
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 57,590,419 | \$ 122,698,956 |
| Adjustments for: | | |
| Depreciation expenses | 108,502 | 105,934 |
| Loss (gain) on of financial assets at fair value through profit or loss | 689,500 | (920,500) |
| Interest income | (958,623) | (953,413) |
| Dividend income | (7,594) | - |
| Interest expenses | 644,424 | 374,364 |
| Share of profit of subsidiaries, associates and joint ventures accounted for using the equity method | (59,365,734) | (122,507,743) |
| Loss on disposal and retirement of property and equipment | 266 | - |
| Changes in operating assets and liabilities | | |
| Receivables | 15,900 | 15,900 |
| Other assets | (678) | 304 |
| Payables | (144,776) | 52,303 |
| Provisions | 5,935 | (913) |
| Other liabilities | 196 | (22) |
| Cash used in operations | (1,422,263) | (1,134,830) |
| Interest received | 16,300 | 11,064 |
| Dividends received | 7,594 | - |
| Interest paid | (811,201) | (499,877) |
| Income tax paid | (764,263) | (1,834,683) |
| | <u>(2,973,833)</u> | <u>(3,458,326)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of investments accounted for using equity method | (10,000,000) | - |
| Acquisition of property and equipment | (49,564) | (7,060) |
| Disposal of property and equipment | - | 127 |
| Increase in other assets | (81,402) | (8,114) |
| Dividends received | 41,771,476 | 18,722,781 |
| | <u>31,640,510</u> | <u>18,707,734</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in commercial paper payable | 13,590,000 | 20,560,000 |
| Increase in other borrowings | 7,000,000 | - |
| Repayments of the principal portion of lease liabilities | (97,719) | (95,486) |
| Dividends paid | (49,483,159) | (36,313,949) |
| | <u>(28,990,878)</u> | <u>(15,849,435)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (324,201) | (600,027) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | <u>633,233</u> | <u>915,274</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | <u>\$ 309,032</u> | <u>\$ 315,247</u> |

32. INFORMATION OF THE COMPANY'S SUBSIDIARIES

a. Condensed balance sheets and condensed statements of comprehensive income

Cathay Life Insurance Co., Ltd.

Condensed Balance Sheets (In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|---|-------------------------|-------------------------|
| | 2022 | 2021 |
| Cash and cash equivalents | \$ 144,000,635 | \$ 469,423,912 |
| Receivables | 84,640,801 | 64,947,785 |
| Financial assets at fair value through profit or loss | 1,263,300,226 | 1,420,744,040 |
| Financial assets at fair value through other comprehensive income | 1,289,038,129 | 1,315,472,227 |
| Financial assets at amortized cost | 3,088,090,411 | 2,669,295,871 |
| Financial assets for hedging | 30,037 | 244,235 |
| Investments accounted for using the equity method | 111,398,431 | 103,503,875 |
| Investment property | 486,952,477 | 474,374,169 |
| Loans | 469,854,232 | 487,766,749 |
| Reinsurance assets | 1,618,673 | 2,128,599 |
| Property and equipment | 28,712,181 | 28,218,981 |
| Right-of-use assets | 441,800 | 392,686 |
| Intangible assets | 26,266,244 | 28,060,957 |
| Deferred tax assets | 166,241,215 | 59,575,588 |
| Other assets | 133,276,865 | 28,489,056 |
| Separate account insurance product assets | <u>649,251,271</u> | <u>697,608,663</u> |
| Total | <u>\$ 7,943,113,628</u> | <u>\$ 7,850,247,393</u> |
| Liabilities | | |
| Payables | \$ 20,246,532 | \$ 37,282,264 |
| Current tax liabilities | 137,010 | 160,141 |
| Financial liabilities at fair value through profit or loss | 181,768,229 | 7,472,981 |
| Financial liabilities for hedging | 5,847,890 | 14,090 |
| Bonds payable | 80,000,000 | 80,000,000 |
| Insurance liabilities | 6,686,720,588 | 6,245,238,983 |
| Reserve for insurance contracts with the nature of financial products | 1,220,096 | 1,139,997 |
| Reserve for foreign exchange valuation | 50,551,042 | 8,042,954 |
| Provisions | 56,245 | 56,245 |
| Lease liabilities | 13,335,478 | 9,242,266 |
| Deferred tax liabilities | 77,931,907 | 52,197,865 |
| Other liabilities | 7,710,389 | 14,667,777 |
| Separate account insurance product liabilities | <u>649,251,271</u> | <u>697,608,663</u> |
| Total liabilities | <u>7,774,776,677</u> | <u>7,153,124,226</u> |
| Equity | | |
| Share capital | 58,515,274 | 58,515,274 |
| Capital surplus | 60,472,624 | 60,597,850 |
| Retained earnings | 551,125,387 | 515,288,696 |
| Other equity | <u>(501,776,334)</u> | <u>62,721,347</u> |
| Total equity | <u>168,336,951</u> | <u>697,123,167</u> |
| Total | <u>\$ 7,943,113,628</u> | <u>\$ 7,850,247,393</u> |

Cathay Life Insurance Co., Ltd.

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

| | For the Nine Months Ended | |
|-----------------------------------|----------------------------------|-------------------------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 502,190,458 | \$ 686,242,776 |
| Operating costs | (429,969,116) | (560,599,085) |
| Operating expenses | <u>(16,380,445)</u> | <u>(16,697,984)</u> |
| Operating income | 55,840,897 | 108,945,707 |
| Non-operating income and expenses | <u>1,263,558</u> | <u>1,133,098</u> |
| Profit before income tax | 57,104,455 | 110,078,805 |
| Income tax expense | <u>(10,423,819)</u> | <u>(10,406,839)</u> |
| Net income | 46,680,636 | 99,671,966 |
| Other comprehensive (loss) income | <u>(590,327,692)</u> | <u>(116,399,254)</u> |
| Total comprehensive (loss) income | <u><u>\$(543,647,056)</u></u> | <u><u>\$ (16,727,288)</u></u> |
| Basic earnings per share | <u>\$7.98</u> | <u>\$17.03</u> |

Cathay Lujiazui Life Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|--|----------------------|----------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 2,686,767 | \$ 1,999,605 |
| Receivables | 1,110,663 | 1,128,032 |
| Financial assets at fair value through profit or loss | 75,539,265 | 57,858,665 |
| Financial assets at amortized cost | 1,130,430 | 1,590,713 |
| Loans | 2,590,858 | 1,680,776 |
| Reinsurance assets | 175,012 | 130,729 |
| Property and equipment | 110,657 | 119,964 |
| Right-of-use assets | 403,997 | 469,156 |
| Intangible assets | 27,952 | 26,927 |
| Other assets | 2,747,883 | 2,653,595 |
| Separate account insurance product assets | 108,654 | 115,901 |
| Total | \$ 86,632,138 | \$ 67,774,063 |
| Liabilities | | |
| Payables | \$ 1,911,862 | \$ 1,839,666 |
| Current tax liabilities | - | 21,596 |
| Insurance liabilities | 53,560,057 | 38,863,738 |
| Reserve for insurance contracts with the nature of financial instruments | 16,643,156 | 13,606,851 |
| Lease liabilities | 404,658 | 462,572 |
| Other liabilities | 321,358 | 202,811 |
| Separate account insurance product liabilities | 108,654 | 115,901 |
| Total liabilities | 72,949,745 | 55,113,135 |
| Equity | | |
| Capital | 13,497,155 | 13,497,155 |
| Retained earnings | (358,254) | (766,928) |
| Other equity | 543,492 | (69,299) |
| Total equity | 13,682,393 | 12,660,928 |
| Total | \$ 86,632,138 | \$ 67,774,063 |

Cathay Lujiazui Life Insurance Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|----------------|
| | 2022 | 2021 |
| Operating revenue | \$ 15,644,353 | \$ 13,518,819 |
| Operating costs | (13,938,279) | (11,414,802) |
| Operating expenses | (1,477,354) | (1,441,474) |
| Operating income | 228,720 | 662,543 |
| Non-operating income and expenses | 6,927 | 3,634 |
| Profit before income tax | 235,647 | 666,177 |
| Income tax benefit (expense) | 27,174 | (32,282) |
| Net income | 262,821 | 633,895 |
| Other comprehensive income (loss) | 331,282 | (5,256) |
| Total comprehensive income | \$ 594,103 | \$ 628,639 |
| Basic earnings per share | Note | Note |

Note: Cathay Lujiazui Life is a limited company, and no information is disclosed accordingly.

Cathay Life Insurance Company (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|---|---------------------|-------------------|
| | 2022 | 2021 |
| Cash and cash equivalents | \$ 7,518,811 | \$ 8,559,461 |
| Receivables | 1,092,935 | 835,610 |
| Financial assets at fair value through profit or loss | 20,507,340 | 17,855,724 |
| Financial assets at amortized cost | 7,471,541 | 4,256,337 |
| Loans | 200,781 | 120,272 |
| Property and equipment | 11,276 | 15,673 |
| Right-of-use assets | 150,486 | 136,434 |
| Intangible assets | 2,185 | 2,991 |
| Other assets | 110,603 | 96,663 |
| Total | \$ 37,065,958 | \$ 31,879,165 |
| Liabilities | | |
| Payables | \$ 337,215 | \$ 275,941 |
| Insurance liabilities | 11,678,182 | 8,357,115 |
| Lease liabilities | 143,576 | 132,547 |
| Total liabilities | 12,158,973 | 8,765,603 |
| Equity | | |
| Capital | 20,370,930 | 20,370,930 |
| Retained earnings | 389,188 | (494,056) |
| Other equity | 4,146,867 | 3,236,688 |
| Total equity | 24,906,985 | 23,113,562 |
| Total | \$ 37,065,958 | \$ 31,879,165 |

Cathay Life Insurance Company (Vietnam)

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|-------------------|
| | 2022 | 2021 |
| Operating revenue | \$ 4,214,892 | \$ 3,342,043 |
| Operating costs | (2,112,535) | (2,117,142) |
| Operating expenses | (873,834) | (787,192) |
| Operating income | 1,228,523 | 437,709 |
| Non-operating income and expenses | 10,134 | 5,714 |
| Net income | 1,238,657 | 443,423 |
| Other comprehensive income | 892,428 | 408,402 |
| Total comprehensive income | <u>\$ 2,131,085</u> | <u>\$ 851,825</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Life (Vietnam) is a limited company, and no information is disclosed accordingly.

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

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

| | <u>September 30</u> | |
|------------------------------------|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Assets | | |
| Current assets | \$ 411,444 | \$ 298,561 |
| Financial assets at amortized cost | 1,543,944 | 1,401,368 |
| Investment property | 7,258,774 | 6,962,936 |
| Property and equipment | <u>2</u> | <u>2</u> |
| Total | <u>\$ 9,214,164</u> | <u>\$ 8,662,867</u> |
| Liabilities | | |
| Current liabilities | \$ 12,789 | \$ 10,968 |
| Deferred tax liabilities | 617,716 | 544,015 |
| Other non-current liabilities | <u>70,708</u> | <u>90,692</u> |
| Total liabilities | <u>701,213</u> | <u>645,675</u> |
| Equity | | |
| Capital | 7,223,435 | 7,223,435 |
| Retained earnings | 1,653,028 | 1,464,132 |
| Other equity | <u>(363,512)</u> | <u>(670,375)</u> |
| Total equity | <u>8,512,951</u> | <u>8,017,192</u> |
| Total | <u>\$ 9,214,164</u> | <u>\$ 8,662,867</u> |

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

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

| | <u>For the Nine Months Ended September 30</u> | |
|----------------------------|---|------------------|
| | <u>2022</u> | <u>2021</u> |
| Operating revenue | \$ 177,849 | \$ 215,693 |
| Operating expenses | <u>(29,487)</u> | <u>(31,521)</u> |
| Profit before income tax | 148,362 | 184,172 |
| Income tax expense | <u>(37,091)</u> | <u>(46,043)</u> |
| Net income | 111,271 | 138,129 |
| Other comprehensive loss | <u>253,667</u> | <u>(87,321)</u> |
| Total comprehensive income | <u>\$ 364,938</u> | <u>\$ 50,808</u> |
| Basic earnings per share | Note | Note |

Note: Lin Yuan is a limited company, and no information is disclosed accordingly.

Cathay Woolgate Exchange Holding 1 Limited

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

| | <u>September 30</u> | |
|------------------------|----------------------|----------------------|
| | <u>2022</u> | <u>2021</u> |
| Assets | | |
| Current assets | \$ 1,090,456 | \$ 3,359,621 |
| Investment property | <u>11,573,566</u> | <u>9,968,214</u> |
| Total | <u>\$ 12,664,022</u> | <u>\$ 13,327,835</u> |
| Liabilities | | |
| Current liabilities | \$ 109 | \$ 51,273 |
| Total liabilities | <u>109</u> | <u>51,273</u> |
| Equity | | |
| Capital | 16,654,013 | 16,654,013 |
| Retained earnings | 1,399,102 | 1,315,509 |
| Other equity | <u>(5,389,202)</u> | <u>(4,692,960)</u> |
| Total equity | <u>12,663,913</u> | <u>13,276,562</u> |
| Total | <u>\$ 12,664,022</u> | <u>\$ 13,327,835</u> |

Cathay Woolgate Exchange Holding 1 Limited

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

| | <u>For the Nine Months Ended September 30</u> | |
|--------------------------|---|--------------------|
| | <u>2022</u> | <u>2021</u> |
| Operating revenue | \$ 298,211 | \$ 482,835 |
| Operating expenses | <u>(128,568)</u> | <u>(58,317)</u> |
| Net income | 169,643 | 424,518 |
| Other comprehensive loss | <u>(648,319)</u> | <u>(519,650)</u> |
| Total comprehensive loss | <u>\$ (478,676)</u> | <u>\$ (95,132)</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Woolgate Exchange Holding 1 Limited is a limited company, and no information is disclosed accordingly.

Cathay Woolgate Exchange Holding 2 Limited

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

| | September 30 | |
|------------------------|---------------------|-------------------|
| | 2022 | 2021 |
| Assets | | |
| Current assets | \$ 7,957 | \$ 31,801 |
| Investment property | <u>116,905</u> | <u>100,689</u> |
| Total | <u>\$ 124,862</u> | <u>\$ 132,490</u> |
| Liabilities | | |
| Current liabilities | \$ 109 | \$ 678 |
| Total liabilities | <u>109</u> | <u>678</u> |
| Equity | | |
| Capital | 168,222 | 168,222 |
| Retained earnings | 10,758 | 10,939 |
| Other equity | <u>(54,227)</u> | <u>(47,349)</u> |
| Total equity | <u>124,753</u> | <u>131,812</u> |
| Total | <u>\$ 124,862</u> | <u>\$ 132,490</u> |

Cathay Woolgate Exchange Holding 2 Limited

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

| | For the Nine Months Ended September 30 | |
|--------------------------|---|-------------------|
| | 2022 | 2021 |
| Operating revenue | \$ 2,946 | \$ 4,872 |
| Operating expenses | <u>(2,238)</u> | <u>(1,099)</u> |
| Net income | 708 | 3,773 |
| Other comprehensive loss | <u>(6,399)</u> | <u>(5,160)</u> |
| Total comprehensive loss | <u>\$ (5,691)</u> | <u>\$ (1,387)</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Woolgate Exchange Holding 2 Limited is a limited company, and no information is disclosed accordingly.

Cathay Walbrook Holding 1 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|--------------------------|----------------------|----------------------|
| | 2022 | 2021 |
| Current assets | \$ 1,179,016 | \$ 1,729,265 |
| Investment property | 18,017,792 | 19,135,209 |
| Other assets | 238 | 250 |
| Total | \$ 19,197,046 | \$ 20,864,724 |
| Liabilities | | |
| Current liabilities | \$ 13,300 | \$ 222,446 |
| Non-current liabilities | 11,161,464 | 12,277,600 |
| Total liabilities | 11,174,764 | 12,500,046 |
| Equity | | |
| Capital | 10,189,090 | 10,189,090 |
| Retained earnings | 534,945 | 419,080 |
| Other equity | (2,701,753) | (2,243,492) |
| Total equity | 8,022,282 | 8,364,678 |
| Total | \$ 19,197,046 | \$ 20,864,724 |

Cathay Walbrook Holding 1 Limited

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

| | For the Nine Months Ended | |
|---------------------------------|----------------------------------|---------------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 299,543 | \$ 191,795 |
| Operating costs | (326,239) | (285,114) |
| Operating expenses | (11,358) | (18,024) |
| Loss before income tax | (38,054) | (111,343) |
| Income tax expense | (109,255) | (64,181) |
| Net loss | (147,309) | (175,524) |
| Other comprehensive loss | (414,049) | (327,841) |
| Total comprehensive loss | \$ (561,358) | \$ (503,365) |
| Basic earnings per share | Note | Note |

Note: Cathay Walbrook Holding 1 Limited is a limited company, and no information is disclosed accordingly.

Cathay Walbrook Holding 2 Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|-------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Current assets | \$ 62,986 | \$ 85,298 |
| Investment property | 948,305 | 1,007,116 |
| Other assets | 237 | 250 |
| Total | <u>\$ 1,011,528</u> | <u>\$ 1,092,664</u> |
| Liabilities | | |
| Current liabilities | \$ 809 | \$ 11,321 |
| Non-current liabilities | 594,355 | 646,188 |
| Total liabilities | <u>595,164</u> | <u>657,509</u> |
| Equity | | |
| Capital | 536,268 | 536,268 |
| Retained earnings | 21,547 | 16,516 |
| Other equity | (141,451) | (117,629) |
| Total equity | <u>416,364</u> | <u>435,155</u> |
| Total | <u>\$ 1,011,528</u> | <u>\$ 1,092,664</u> |

Cathay Walbrook Holding 2 Limited

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

| | For the Nine Months Ended | |
|--------------------------|----------------------------------|--------------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 15,756 | \$ 10,093 |
| Operating costs | (17,373) | (15,006) |
| Operating expenses | (1,816) | (1,698) |
| Loss before income tax | (3,433) | (6,611) |
| Income tax expense | (5,517) | (3,228) |
| Net loss | (8,950) | (9,839) |
| Other comprehensive loss | (21,506) | (17,056) |
| Total comprehensive loss | <u>\$ (30,456)</u> | <u>\$ (26,895)</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Walbrook Holding 2 Limited is a limited company, and no information is disclosed accordingly.

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

| Assets | September 30 | |
|---|---------------------|---------------|
| | 2022 | 2021 |
| Current assets | \$ 6,448,646 | \$ 5,824,996 |
| Financial assets at fair value through profit or loss | 2,188,688 | 1,271,555 |
| Financial assets for hedging | 11,562 | - |
| Financial assets at fair value through other comprehensive income | 6,729 | 4,379 |
| Property and equipment | 1,045,806 | 1,004,324 |
| Right-of-use assets | 733,044 | 767,842 |
| Intangible assets | 15,634,677 | 14,080,194 |
| Deferred tax assets | 312,928 | 240,315 |
| Other non-current assets | 426,591 | 397,856 |
| Total | \$ 26,808,671 | \$ 23,591,461 |
| Liabilities | | |
| Current liabilities | \$ 3,638,793 | \$ 3,343,101 |
| Financial liabilities for hedging | - | 28,746 |
| Lease liabilities | 851,631 | 875,964 |
| Deferred tax liabilities | 1,017,159 | 1,064,325 |
| Other non-current liabilities | 3,253,110 | 3,211,971 |
| Total liabilities | 8,760,693 | 8,524,107 |
| Equity | | |
| Capital | 99,343 | 99,343 |
| Capital surplus | 15,624,196 | 15,624,196 |
| Retained earnings | 4,546,617 | 4,108,529 |
| Other equity | (2,936,310) | (5,655,003) |
| Non-controlling interests | 714,132 | 890,289 |
| Total equity | 18,047,978 | 15,067,354 |
| Total | \$ 26,808,671 | \$ 23,591,461 |

Conning Holdings Limited

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

| | For the Nine Months Ended | |
|-----------------------------------|----------------------------------|---------------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 7,725,606 | \$ 7,829,423 |
| Operating costs | (833,967) | (662,689) |
| Operating expenses | <u>(5,279,974)</u> | <u>(4,955,983)</u> |
| Profit before income tax | 1,611,665 | 2,210,751 |
| Income tax expense | <u>(330,299)</u> | <u>(392,826)</u> |
| Net income | 1,281,366 | 1,817,925 |
| Other comprehensive income (loss) | <u>2,142,437</u> | <u>(331,531)</u> |
| Total comprehensive income | <u>\$ 3,423,803</u> | <u>\$ 1,486,394</u> |
| Basic earnings per share | Note | Note |

Note: CHL is a limited company, and no information is disclosed accordingly.

Cathay Industrial Research and Design Center Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Assets | | |
| Current assets | \$ 376,764 | \$ 571,670 |
| Investment property | 1,672,751 | 1,659,685 |
| Deferred tax assets | 30,713 | 9,373 |
| Other assets | <u>170,076</u> | <u>161,923</u> |
| Total | <u>\$ 2,250,304</u> | <u>\$ 2,402,651</u> |
| Liabilities | | |
| Current liabilities | \$ 275 | \$ 127 |
| Leased liabilities | <u>1,372,901</u> | <u>1,456,775</u> |
| Total liabilities | <u>1,373,176</u> | <u>1,456,902</u> |
| Equity | | |
| Share capital | 1,000,000 | 1,000,000 |
| Retained earnings | <u>(122,872)</u> | <u>(54,251)</u> |
| Total equity | <u>877,128</u> | <u>945,749</u> |
| Total | <u>\$ 2,250,304</u> | <u>\$ 2,402,651</u> |

Cathay Industrial Research and Design Center Co., Ltd.

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

| | From January 1 to September 30, 2022 | From January 8 to September 30, 2021 |
|-----------------------------------|---|---|
| Operating revenue | \$ - | \$ 150 |
| Operating costs | (56,925) | (59,738) |
| Operating expenses | <u>(794)</u> | <u>(4,036)</u> |
| Operating loss | (57,719) | (63,624) |
| Non-operating income and expenses | <u>(519)</u> | <u>-</u> |
| Loss before income tax | (58,238) | (63,624) |
| Income tax benefit | <u>18,348</u> | <u>9,373</u> |
| Net loss | <u>(39,890)</u> | <u>(54,251)</u> |
| Total comprehensive loss | <u>\$ (39,890)</u> | <u>\$ (54,251)</u> |
| Basic loss per share | <u>\$(0.40)</u> | <u>\$(0.54)</u> |

Note: Cathay Industrial R&D Center has been included in the consolidated financial statements as a subsidiary since January 8, 2021.

Cathay Century Insurance Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|---|-----------------------------|-----------------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 10,139,001 | \$ 11,036,977 |
| Receivables | 5,858,553 | 2,361,032 |
| Financial assets at fair value through profit or loss | 7,718,450 | 11,570,602 |
| Financial assets at fair value through other comprehensive income | 672,910 | 1,142,962 |
| Financial assets at amortized cost | 8,403,209 | 6,527,262 |
| Investments accounted for using the equity method | 3,121,557 | 2,967,965 |
| Loans | 153,192 | 183,262 |
| Reinsurance assets | 13,986,470 | 9,412,037 |
| Property and equipment | 278,490 | 184,080 |
| Right-of-use assets | 139,203 | 229,021 |
| Intangible assets | 98,705 | 78,257 |
| Deferred tax assets | 306,922 | 230,060 |
| Other assets | <u>969,597</u> | <u>912,495</u> |
| Total | <u>\$ 51,846,259</u> | <u>\$ 46,836,012</u> |
| Liabilities | | |
| Payables | \$ 3,450,706 | \$ 3,189,370 |
| Financial liabilities at fair value through profit or loss | 516,549 | 4,726 |
| Lease liabilities | 138,380 | 228,905 |
| Insurance liabilities | 34,775,932 | 28,224,722 |
| Provisions | 464,214 | 453,959 |
| Deferred tax liabilities | 363,149 | 270,948 |
| Other liabilities | <u>1,146,139</u> | <u>838,402</u> |
| Total liabilities | <u>40,855,069</u> | <u>33,211,032</u> |
| Equity | | |
| Share capital | 5,057,052 | 3,057,052 |
| Capital surplus | 8,518,326 | 518,326 |
| Retained earnings | (1,287,212) | 10,405,808 |
| Other equity | <u>(1,296,976)</u> | <u>(356,206)</u> |
| Total equity | <u>10,991,190</u> | <u>13,624,980</u> |
| Total | <u>\$ 51,846,259</u> | <u>\$ 46,836,012</u> |

Cathay Century Insurance Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|---------------------|
| | 2022 | 2021 |
| Operating revenue | \$ 17,286,743 | \$ 16,327,926 |
| Operating costs | (27,991,432) | (10,734,911) |
| Operating expenses | <u>(3,230,911)</u> | <u>(3,145,902)</u> |
| Operating (loss) profit | (13,935,600) | 2,447,113 |
| Non-operating income and expenses | <u>(3,168)</u> | <u>(1,173)</u> |
| (Loss) profit before income tax | (13,938,768) | 2,445,940 |
| Income tax expense | <u>2,815,565</u> | <u>(335,897)</u> |
| Net (loss) income | (11,123,203) | 2,110,043 |
| Other comprehensive loss | <u>(1,731,552)</u> | <u>(231,467)</u> |
| Total comprehensive (loss) income | <u>\$ (12,854,755)</u> | <u>\$ 1,878,576</u> |
| Basic earnings per share | <u>\$(29.47)</u> | <u>\$6.90</u> |

Cathay Insurance Co., Ltd. (Vietnam)

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|------------------------------------|---------------------|---------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 326,567 | \$ 290,077 |
| Receivables | 65,703 | 58,975 |
| Financial assets at amortized cost | 678,437 | 550,881 |
| Reinsurance assets | 410,376 | 241,786 |
| Property and equipment | 4,565 | 6,876 |
| Right-of-use assets | 9,128 | 14,813 |
| Intangible assets | 17,957 | 20,492 |
| Other assets | 74,962 | 59,361 |
| Total | \$ 1,587,695 | \$ 1,243,261 |
| Liabilities | | |
| Payables | \$ 258,352 | \$ 219,324 |
| Insurance liabilities | 588,779 | 363,227 |
| Lease liabilities | 9,136 | 14,836 |
| Deferred tax liabilities | 102 | 111 |
| Other liabilities | 23,163 | 15,544 |
| Total liabilities | 879,532 | 613,042 |
| Equity | | |
| Capital | 845,585 | 845,585 |
| Retained earnings | (10,653) | (32,191) |
| Other equity | (126,769) | (183,175) |
| Total equity | 708,163 | 630,219 |
| Total | \$ 1,587,695 | \$ 1,243,261 |

Cathay Insurance Co., Ltd. (Vietnam)

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|----------------------|
| | 2022 | 2021 |
| Operating revenue | \$ 335,853 | \$ 263,397 |
| Operating costs | (80,622) | (58,265) |
| Operating expenses | <u>(229,467)</u> | <u>(169,512)</u> |
| Operating income | 25,764 | 35,620 |
| Non-operating income and expenses | <u>77</u> | <u>(803)</u> |
| Profit before income tax | 25,841 | 34,817 |
| Income tax expense | <u>(6,309)</u> | <u>(9,758)</u> |
| Net income | 19,532 | 25,059 |
| Other comprehensive income (loss) | <u>61,568</u> | <u>(5,341)</u> |
| Total comprehensive income | <u>\$ 81,100</u> | <u>\$ 19,718</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Insurance (Vietnam) is a limited company, and no information is disclosed accordingly.

Cathay United Bank Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|---|--------------------------------|--------------------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 61,000,977 | \$ 39,465,997 |
| Due from the Central Bank and call loans to banks | 333,159,590 | 179,758,490 |
| Financial assets at fair value through profit or loss | 279,772,139 | 275,350,146 |
| Financial assets at fair value through other comprehensive income | 399,448,753 | 307,493,332 |
| Debt instruments at amortized cost | 477,050,128 | 557,957,829 |
| Notes and bonds purchased under resale agreements | 22,213,547 | 30,595,448 |
| Receivables | 105,214,625 | 93,501,485 |
| Loans | 1,919,717,360 | 1,726,544,944 |
| Investments accounted for using the equity method | 27,099,808 | 25,505,639 |
| Other financial assets | 4,474,563 | 8,616,599 |
| Property and equipment | 23,062,417 | 23,757,556 |
| Right-of-use assets | 3,344,986 | 3,086,476 |
| Investment property | 2,018,816 | 548,441 |
| Intangible assets | 7,808,402 | 7,675,973 |
| Deferred tax assets | 3,054,988 | 4,532,846 |
| Other assets | <u>47,207,281</u> | <u>23,419,354</u> |
| Total | <u>\$ 3,715,648,380</u> | <u>\$ 3,307,810,555</u> |
| Liabilities | | |
| Deposits from the Central Bank and banks | \$ 84,396,904 | \$ 73,725,130 |
| Due to the Central Bank and banks | - | 1,076,000 |
| Financial liabilities at fair value through profit or loss | 166,644,636 | 76,475,418 |
| Notes and bonds under repurchase agreements | 36,379,998 | 14,286,460 |
| Payables | 24,963,359 | 38,092,861 |
| Current tax liabilities | 192,319 | 78,982 |
| Deposits and remittances | 3,072,335,126 | 2,769,205,936 |
| Financial debentures payable | 37,000,000 | 46,800,000 |
| Other financial liabilities | 42,637,335 | 28,198,720 |
| Provisions | 3,537,177 | 3,703,214 |
| Lease liabilities | 3,371,068 | 3,113,899 |
| Deferred tax liabilities | 1,431,092 | 2,759,650 |
| Other liabilities | <u>11,051,440</u> | <u>8,292,694</u> |
| Total liabilities | <u>3,483,940,454</u> | <u>3,065,808,964</u> |
| Equity | | |
| Share capital | 108,598,655 | 106,985,830 |
| Capital surplus | 38,687,276 | 38,687,276 |
| Retained earnings | 100,011,993 | 93,880,597 |
| Other equity | <u>(15,589,998)</u> | <u>2,447,888</u> |
| Total equity | <u>231,707,926</u> | <u>242,001,591</u> |
| Total | <u>\$ 3,715,648,380</u> | <u>\$ 3,307,810,555</u> |

Cathay United Bank Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|---|---|--------------------------|
| | 2022 | 2021 |
| Interest income | \$ 42,186,977 | \$ 31,966,169 |
| Interest expense | <u>(9,864,880)</u> | <u>(5,572,073)</u> |
| Net interest income | 32,322,097 | 26,394,096 |
| Net income and gains other than interest income | <u>20,421,214</u> | <u>20,220,810</u> |
| Profit from operations | 52,743,311 | 46,614,906 |
| Provision for bad debt, commitments and guarantee reserve | (2,417,754) | (2,247,111) |
| Operating expenses | <u>(25,653,622)</u> | <u>(23,082,765)</u> |
| Profit before income tax | 24,671,935 | 21,285,030 |
| Income tax expense | <u>(4,034,000)</u> | <u>(2,657,000)</u> |
| Net income | 20,637,935 | 18,628,030 |
| Other comprehensive loss | <u>(19,233,246)</u> | <u>(3,391,311)</u> |
| Total comprehensive income | <u>\$ 1,404,689</u> | <u>\$ 15,236,719</u> |
| Basic earnings per share | <u>\$1.90</u> | <u>\$1.72</u> |

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

| | September 30 | |
|---|----------------------|----------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 4,446,818 | \$ 2,013,214 |
| Due from the Central Bank and call loans to banks | 4,625,625 | 4,013,504 |
| Financial assets at fair value through profit or loss | 2,063,233 | 1,840,053 |
| Financial assets at fair value through other comprehensive income | 11,135,226 | 10,683,470 |
| Notes and bonds purchased under resale agreements | 5,820,250 | 6,428,399 |
| Receivables | 646,299 | 456,078 |
| Loans | 42,120,143 | 40,509,518 |
| Property and equipment | 730,138 | 665,803 |
| Right-of-use assets | 148,093 | 161,682 |
| Intangible assets | 33,693 | 35,660 |
| Deferred tax assets | 91,788 | - |
| Other assets | <u>93,682</u> | <u>75,008</u> |
| Total | <u>\$ 71,954,988</u> | <u>\$ 66,882,389</u> |
| Liabilities | | |
| Due to the Central Bank and banks | \$ 8,652,682 | \$ 6,458,586 |
| Financial liabilities at fair value through profit or loss | 1,745 | - |
| Payables | 1,307,996 | 1,510,078 |
| Current tax liabilities | 209,874 | 73,966 |
| Deposits and remittances | 53,034,953 | 50,307,282 |
| Provisions | 4,560 | 14,611 |
| Lease liabilities | 124,754 | 151,977 |
| Deferred tax liabilities | - | 159,374 |
| Other liabilities | <u>15,678</u> | <u>16,846</u> |
| Total liabilities | <u>63,352,242</u> | <u>58,692,720</u> |
| Equity | | |
| Capital | 6,094,911 | 6,094,911 |
| Retained earnings | 1,934,427 | 1,715,158 |
| Other equity | <u>573,408</u> | <u>379,600</u> |
| Total equity | <u>8,602,746</u> | <u>8,189,669</u> |
| Total | <u>\$ 71,954,988</u> | <u>\$ 66,882,389</u> |

Indovina Bank Limited

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

| | For the Nine Months Ended September 30 | |
|---|---|-----------------------|
| | 2022 | 2021 |
| Interest income | \$ 3,043,835 | \$ 2,817,922 |
| Interest expense | <u>(1,598,259)</u> | <u>(1,670,640)</u> |
| Net interest income | 1,445,576 | 1,147,282 |
| Net income and gains other than interest income | <u>140,113</u> | <u>348,428</u> |
| Profit from operations | <u>1,585,689</u> | <u>1,495,710</u> |
| Provision for bad debt, commitments and guarantee reserve | (332,734) | (410,695) |
| Operating expenses | <u>(539,284)</u> | <u>(526,055)</u> |
| Profit before income tax | 713,671 | 558,960 |
| Income tax expense | <u>(164,043)</u> | <u>(136,377)</u> |
| Net income | 549,628 | 422,583 |
| Other comprehensive income (loss) | <u>136,950</u> | <u>(8,196)</u> |
| Total comprehensive income | <u>\$ 686,578</u> | <u>\$ 414,387</u> |
| Basic earnings per share | Note | Note |

Note: Indovina Bank is a limited company, and no information is disclosed accordingly.

Cathay United Bank (Cambodia) Corporation Limited

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|---|----------------------|----------------------|
| Assets | 2022 | 2021 |
| Cash and cash equivalents | \$ 1,730,011 | \$ 1,254,248 |
| Due from the Central Bank and call loans to banks | 1,512,423 | 1,566,530 |
| Financial assets at fair value through other comprehensive income | 812 | 713 |
| Receivables | 130,138 | 86,464 |
| Current tax assets | - | 8,601 |
| Loans | 12,602,313 | 8,245,319 |
| Property and equipment | 199,843 | 164,069 |
| Right-of-use assets | 65,797 | 78,712 |
| Intangible assets | 21,985 | 28,335 |
| Deferred tax assets | 12,557 | - |
| Other assets | 80,474 | 53,762 |
| Total | \$ 16,356,353 | \$ 11,486,753 |
| Liabilities | | |
| Deposits from the Central Bank and banks | \$ 4,651,871 | \$ 1,455,196 |
| Payables | 332,047 | 286,693 |
| Current tax liabilities | 35,180 | 32,396 |
| Deposits and remittances | 7,755,284 | 6,662,120 |
| Provisions | 2,358 | 1,609 |
| Lease liabilities | 71,795 | 83,601 |
| Deferred tax liabilities | - | 957 |
| Other liabilities | 10,460 | 6,488 |
| Total liabilities | 12,858,995 | 8,529,060 |
| Equity | | |
| Share capital | 3,020,769 | 3,020,769 |
| Retained earnings | 310,242 | 194,629 |
| Other equity | 166,347 | (257,705) |
| Total equity | 3,497,358 | 2,957,693 |
| Total | \$ 16,356,353 | \$ 11,486,753 |

Cathay United Bank (Cambodia) Corporation Limited

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

| | For the Nine Months Ended September 30 | |
|---|---|----------------------|
| | 2022 | 2021 |
| Interest income | \$ 633,389 | \$ 480,335 |
| Interest expense | <u>(161,319)</u> | <u>(114,802)</u> |
| Net interest income | 472,070 | 365,533 |
| Net income and gains other than interest income | <u>24,769</u> | <u>26,080</u> |
| Profit from operations | <u>496,839</u> | <u>391,613</u> |
| Provision for bad debt, commitments and guarantee reserve | (25,429) | (5,966) |
| Operating expenses | <u>(332,325)</u> | <u>(278,767)</u> |
| Profit before income tax | 139,085 | 106,880 |
| Income tax expense | <u>(33,390)</u> | <u>(14,676)</u> |
| Net income | 105,695 | 92,204 |
| Other comprehensive income (loss) | <u>442,974</u> | <u>(67,427)</u> |
| Total comprehensive income | <u>\$ 548,669</u> | <u>\$ 24,777</u> |
| Basic earnings per share | <u>\$1.06</u> | <u>\$0.92</u> |

Cathay United Bank (China) Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|---|-----------------------------|-----------------------------|
| | 2022 | 2021 |
| Cash and cash equivalents | \$ 394,400 | \$ 4,195,137 |
| Due from the Central Bank and call loans to banks | 18,233,273 | 18,457,271 |
| Financial assets at fair value through profit or loss | 4,025,496 | 753,763 |
| Financial assets at fair value through other comprehensive income | 19,629,796 | 23,995,775 |
| Debt instruments at amortized cost | 1,524,978 | 539,900 |
| Receivables | 4,878,879 | 9,611,164 |
| Loans | 28,196,577 | 25,115,971 |
| Current tax assets | 8,336 | 7,552 |
| Property and equipment | 226,250 | 226,886 |
| Right-of-use assets | 350,081 | 335,471 |
| Intangible assets | 131,817 | 115,665 |
| Other assets | <u>294,567</u> | <u>225,582</u> |
| Total | <u>\$ 77,894,450</u> | <u>\$ 83,580,137</u> |
| Liabilities | | |
| Deposits from the Central Bank and banks | \$ 10,517,840 | \$ 13,855,700 |
| Financial liabilities at fair value through profit or loss | 3,749,692 | 742,497 |
| Notes and bonds sold under repurchase agreements | 447,444 | 7,013,838 |
| Payables | 5,319,205 | 10,029,762 |
| Current tax liabilities | - | 20,710 |
| Deposits and remittances | 37,177,636 | 30,903,528 |
| Other financial liabilities | 2,413,650 | 4,280,380 |
| Provisions | 14,115 | 21,801 |
| Lease liabilities | 377,769 | 360,959 |
| Deferred tax liabilities | 40,317 | 18,411 |
| Other liabilities | <u>731,190</u> | <u>135,030</u> |
| Total liabilities | <u>60,788,858</u> | <u>67,382,616</u> |
| Equity | | |
| Capital | 14,377,562 | 14,377,562 |
| Capital surplus | 2,522,670 | 2,522,670 |
| Retained earnings | 974,971 | 722,382 |
| Other equity | <u>(769,611)</u> | <u>(1,425,093)</u> |
| Total equity | <u>17,105,592</u> | <u>16,197,521</u> |
| Total | <u>\$ 77,894,450</u> | <u>\$ 83,580,137</u> |

Cathay United Bank (China) Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|---|---|--------------------|
| | 2022 | 2021 |
| Interest income | \$ 1,545,277 | \$ 1,485,100 |
| Interest expense | <u>(871,594)</u> | <u>(903,568)</u> |
| Net interest income | 673,683 | 581,532 |
| Net income and gains other than interest income | <u>310,912</u> | <u>374,739</u> |
| Profit from operations | <u>984,595</u> | <u>956,271</u> |
| Reversal of (provision for) bad debt, commitments and guarantee reserve | 12,476 | (79,067) |
| Operating expenses | <u>(715,555)</u> | <u>(631,729)</u> |
| Profit before income tax | 281,516 | 245,475 |
| Income tax expense | <u>(80,570)</u> | <u>(58,602)</u> |
| Net income | 200,946 | 186,873 |
| Other comprehensive income (loss) | <u>320,382</u> | <u>(229,685)</u> |
| Total comprehensive income (loss) | <u>\$ 521,328</u> | <u>\$ (42,812)</u> |
| Basic earnings per share | Note | Note |

Note: CUBCN BANK is a limited company, and no information is disclosed accordingly.

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

| Assets | September 30 | |
|---|---------------------|-------------------|
| | 2022 | 2021 |
| Current assets | \$ 33,920,817 | \$ 40,425,041 |
| Financial assets at fair value through other comprehensive income - non-current | 297 | 319 |
| Investments accounted for using the equity method | 2,476,737 | 2,455,933 |
| Property and equipment | 270,687 | 261,532 |
| Right-of-use assets | 135,157 | 48,654 |
| Intangible assets | 51,818 | 62,199 |
| Deferred tax assets | 80,912 | 56,404 |
| Other non-current assets | 609,645 | 612,614 |
| Total | \$ 37,546,070 | \$ 43,922,696 |
| Liabilities | | |
| Current liabilities | \$ 24,692,076 | \$ 31,490,962 |
| Lease liabilities - non-current | 71,231 | 21,402 |
| Other non-current liabilities | 39,604 | 33,930 |
| Total liabilities | 24,802,911 | 31,546,294 |
| Equity | | |
| Share capital | 7,700,000 | 7,300,000 |
| Capital surplus | 898,167 | 898,167 |
| Retained earnings | 3,363,121 | 3,321,095 |
| Other equity | 781,871 | 857,140 |
| Total equity | 12,743,159 | 12,376,402 |
| Total | \$ 37,546,070 | \$ 43,922,696 |

Cathay Securities Corporation

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

| | For the Nine Months Ended September 30 | |
|---|---|--------------|
| | 2022 | 2021 |
| Revenues | \$ 4,166,758 | \$ 5,251,902 |
| Service fee expenses | (249,163) | (348,667) |
| Employee benefit expenses | (1,159,163) | (1,385,786) |
| Operating expenses | (1,381,602) | (1,438,846) |
| Share of profit of subsidiaries and associates accounted for using the equity method | (51,531) | 22,254 |
| Non-operating income and expenses | 22,111 | 36,831 |
| Profit before income tax | 1,347,410 | 2,137,688 |
| Income tax expense | (217,969) | (389,795) |
| Net income | 1,129,441 | 1,747,893 |
| Other comprehensive (loss) income | (291,252) | 311,608 |
| Total comprehensive income | \$ 838,189 | \$ 2,059,501 |
| Basic earnings per share | \$1.47 | \$2.39 |

Cathay Futures Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|---|----------------------|----------------------|
| | 2022 | 2021 |
| Current assets | \$ 13,757,889 | \$ 12,095,561 |
| Financial assets at fair value through other comprehensive income - non-current | 1,038,258 | 978,244 |
| Property and equipment | 67,286 | 67,751 |
| Investment property | 291,175 | 291,175 |
| Right-of-use assets | 12,804 | 5,274 |
| Intangible assets | 12,207 | 12,534 |
| Deferred tax assets | 252 | 181 |
| Other non-current assets | <u>159,386</u> | <u>160,683</u> |
| Total | <u>\$ 15,339,257</u> | <u>\$ 13,611,403</u> |
| Liabilities | | |
| Current liabilities | \$ 13,327,760 | \$ 11,698,837 |
| Deferred tax liabilities | 6,474 | 6,646 |
| Other non-current liabilities | <u>7,624</u> | <u>4,843</u> |
| Total liabilities | <u>13,341,858</u> | <u>11,710,326</u> |
| Equity | | |
| Share capital | 667,000 | 667,000 |
| Capital surplus | 680 | 680 |
| Retained earnings | 322,196 | 285,590 |
| Other equity | <u>1,007,523</u> | <u>947,807</u> |
| Total equity | <u>1,997,399</u> | <u>1,901,077</u> |
| Total | <u>\$ 15,339,257</u> | <u>\$ 13,611,403</u> |

Cathay Futures Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|-------------------|
| | 2022 | 2021 |
| Revenues | \$ 337,553 | \$ 287,547 |
| Operating expenses | <u>(349,174)</u> | <u>(293,969)</u> |
| Operating loss | (11,621) | (6,422) |
| Non-operating income and expenses | <u>89,811</u> | <u>58,194</u> |
| Profit before income tax | 78,190 | 51,772 |
| Income tax expense | <u>(11,403)</u> | <u>(6,493)</u> |
| Net income | 66,787 | 45,279 |
| Other comprehensive (loss) income | <u>(168,630)</u> | <u>335,165</u> |
| Total comprehensive (loss) income | <u>\$ (101,843)</u> | <u>\$ 380,444</u> |
| Basic earnings per share | <u>\$1.00</u> | <u>\$0.68</u> |

Cathay Securities (Hong Kong) Limited

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

| | September 30 | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| Assets | | |
| Current assets | \$ 1,180,298 | \$ 1,128,688 |
| Investments accounted for using the equity method | (69,313) | 23,045 |
| Property and equipment | 1,355 | 2,811 |
| Right-of-use assets | 23,964 | 33,775 |
| Intangible assets | 2,013 | 1,781 |
| Other non-current assets | 45,540 | 40,158 |
| Total | <u>\$ 1,183,857</u> | <u>\$ 1,230,258</u> |
| Liabilities | | |
| Current liabilities | \$ 694,477 | \$ 654,675 |
| Non-current liabilities | 9,855 | 20,548 |
| Total liabilities | <u>704,332</u> | <u>675,223</u> |
| Equity | | |
| Capital | 1,108,244 | 1,108,244 |
| Retained earnings | (602,617) | (466,590) |
| Other equity | (26,102) | (86,619) |
| Total equity | <u>479,525</u> | <u>555,035</u> |
| Total | <u>\$ 1,183,857</u> | <u>\$ 1,230,258</u> |

Cathay Securities (Hong Kong) Limited

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|--------------------|
| | 2022 | 2021 |
| Revenues | \$ 47,673 | \$ 66,784 |
| Service fee expenses | (2,278) | (2,534) |
| Employee benefit expenses | (35,026) | (41,997) |
| Operating expenses | (57,993) | (65,393) |
| Non-operating income and expenses | (70,688) | 20,120 |
| Net loss | (118,312) | (23,020) |
| Other comprehensive income (loss) | 64,602 | (15,807) |
| Total comprehensive loss | <u>\$ (53,710)</u> | <u>\$ (38,827)</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Securities (Hong Kong) is a limited company, and no information is disclosed accordingly.

Cathay Capital (Asia) Limited
Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|------------------------|---------------------|-------------------|
| Assets | 2022 | 2021 |
| Current assets | <u>\$ 864,297</u> | <u>\$ 849,905</u> |
| Total | <u>\$ 864,297</u> | <u>\$ 849,905</u> |
| Liabilities | | |
| Current liabilities | <u>\$ 933,611</u> | <u>\$ 826,860</u> |
| Total liabilities | <u>933,611</u> | <u>826,860</u> |
| Equity | | |
| Capital | 3,875 | 3,875 |
| Retained earnings | (68,060) | 19,640 |
| Other equity | <u>(5,129)</u> | <u>(470)</u> |
| Total equity | <u>(69,314)</u> | <u>23,045</u> |
| Total | <u>\$ 864,297</u> | <u>\$ 849,905</u> |

Cathay Capital (Asia) Limited

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

| | For the Nine Months Ended September 30 | |
|---------------------------------------|---|----------------------|
| | 2022 | 2021 |
| (Loss) revenues | \$ (40,526) | \$ 34,789 |
| Operating costs | (16,045) | (7,975) |
| Operating expenses | (14,371) | (2,822) |
| Non-operating income and expenses | <u>13</u> | <u>2</u> |
| (Loss) profit before income tax | (70,929) | 23,994 |
| Income tax expense | <u>-</u> | <u>(3,915)</u> |
| Net (loss) income | (70,929) | 20,079 |
| Other comprehensive loss | <u>(4,786)</u> | <u>(288)</u> |
| Total comprehensive (loss) income | <u>\$ (75,715)</u> | <u>\$ 19,791</u> |
| Basic earnings per share | Note | Note |

Note: Cathay Capital (Asia) is a limited company, and no information is disclosed accordingly.

Cathay Securities Investment Trust Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| | September 30 | |
|---|-------------------------|-------------------------|
| Assets | 2022 | 2021 |
| Current assets | \$ 3,651,390 | \$ 3,210,083 |
| Financial assets at fair value through other comprehensive income - non-current | 13,181 | 11,268 |
| Investments accounted for using the equity method | 413,996 | 448,715 |
| Property and equipment | 47,758 | 38,795 |
| Right-of-use assets | 67,396 | 32,435 |
| Intangible assets | 31,573 | 19,365 |
| Deferred tax assets | 34,083 | 30,311 |
| Guarantee deposits paid | 322,057 | - |
| Other non-current assets | <u>16,161</u> | <u>298,129</u> |
| Total | <u>\$ 4,597,595</u> | <u>\$ 4,089,101</u> |
| Liabilities | | |
| Current liabilities | \$ 901,861 | \$ 659,119 |
| Non-current liabilities | <u>187,734</u> | <u>165,803</u> |
| Total liabilities | <u>1,089,595</u> | <u>824,922</u> |
| Equity | | |
| Share capital | 1,500,000 | 1,500,000 |
| Capital surplus | 16,453 | 16,453 |
| Retained earnings | 2,107,428 | 1,857,426 |
| Other equity | <u>(115,881)</u> | <u>(109,700)</u> |
| Total equity | <u>3,508,000</u> | <u>3,264,179</u> |
| Total | <u>\$ 4,597,595</u> | <u>\$ 4,089,101</u> |

Cathay Securities Investment Trust Co., Ltd.

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

| | For the Nine Months Ended September 30 | |
|-----------------------------------|---|---------------------|
| | 2022 | 2021 |
| Operating revenue | \$ 3,047,665 | \$ 2,843,334 |
| Operating expenses | <u>(1,512,023)</u> | <u>(1,430,927)</u> |
| Operating profit | 1,535,642 | 1,412,407 |
| Non-operating income and expenses | <u>(38,227)</u> | <u>(32,401)</u> |
| Profit before income tax | 1,497,415 | 1,380,006 |
| Income tax expense | <u>(310,305)</u> | <u>(282,865)</u> |
| Net income | 1,187,110 | 1,097,141 |
| Other comprehensive income (loss) | <u>11,307</u> | <u>(2,805)</u> |
| Total comprehensive income | <u>\$ 1,198,417</u> | <u>\$ 1,094,336</u> |
| Basic earnings per share | <u>\$7.91</u> | <u>\$7.31</u> |

Cathay Private Equity Co., Ltd.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|-------------------------------|---------------------|-------------|
| | 2022 | 2021 |
| Current assets | \$ 76,222 | \$ 43,759 |
| Other non-current assets | 52,607 | 36,220 |
| Total | \$ 128,829 | \$ 79,979 |
| Liabilities | | |
| Current liabilities | \$ 20,696 | \$ 12,990 |
| Other non-current liabilities | 1,115 | 3,136 |
| Total liabilities | 21,811 | 16,126 |
| Equity | | |
| Share capital | 150,000 | 100,000 |
| Capital surplus | 63 | 63 |
| Retained earnings | (43,045) | (36,210) |
| Total equity | 107,018 | 63,853 |
| Total | \$ 128,829 | \$ 79,979 |

Cathay Private Equity Co., Ltd.

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

| | For the Nine Months Ended | |
|-----------------------------------|----------------------------------|-------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 35,530 | \$ 12,506 |
| Operating expenses | (31,502) | (27,972) |
| Operating profit (loss) | 4,028 | (15,466) |
| Non-operating income and expenses | (329) | (1,154) |
| Profit (loss) before income tax | 3,699 | (16,620) |
| Income tax (expense) benefit | (823) | 3,067 |
| Net income (loss) | 2,876 | (13,553) |
| Total comprehensive income (loss) | \$ 2,876 | \$ (13,553) |
| Basic earnings (loss) per share | \$ 0.19 | \$ (1.36) |

Cathay Venture Inc.

Condensed Balance Sheets
(In Thousands of New Taiwan Dollars)

| Assets | September 30 | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| Current assets | \$ 1,049,928 | \$ 1,342,230 |
| Financial assets at fair value through profit or loss - non-current | 4,792,529 | 4,597,043 |
| Investments accounted for using the equity method | 270,320 | 306,556 |
| Property and equipment | 3,438 | 2,036 |
| Right-of-use assets | 1,299 | 6,729 |
| Deferred tax assets | 44,899 | 63,433 |
| Other non-current assets | 1,944 | 1,267 |
| Total | \$ 6,164,357 | \$ 6,319,294 |
| Liabilities | | |
| Current liabilities | \$ 23,035 | \$ 42,088 |
| Non-current liabilities | 9,557 | 9,905 |
| Total liabilities | 32,592 | 51,993 |
| Equity | | |
| Share capital | 5,181,730 | 5,181,730 |
| Capital surplus | 576,668 | 576,667 |
| Retained earnings | 372,889 | 508,759 |
| Other equity | 478 | 145 |
| Total equity | 6,131,765 | 6,267,301 |
| Total | \$ 6,164,357 | \$ 6,319,294 |

Cathay Venture Inc.

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

| | For the Nine Months Ended | |
|-----------------------------------|----------------------------------|-------------------|
| | September 30 | |
| | 2022 | 2021 |
| Operating revenue | \$ 175,001 | \$ 349,715 |
| Operating costs | (33,229) | (27,872) |
| Operating expenses | (11,846) | (11,288) |
| Non-operating income and expenses | 3,591 | (1,233) |
| Profit before income tax | 133,517 | 309,322 |
| Income tax expense | (34,251) | (30,622) |
| Net income | 99,266 | 278,700 |
| Total comprehensive income | \$ 99,266 | \$ 278,700 |
| Basic earnings per share | \$0.19 | \$0.54 |

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

For the nine months ended September 30, 2022

Unit: %

| | Return on Assets | | Return on Equity | | Net Income |
|--------------------|------------------|-----------|------------------|-----------|------------|
| | Before Tax | After Tax | Before Tax | After Tax | Ratio |
| The Group | 0.60 | 0.46 | 11.61 | 8.93 | 17.78 |
| The Company | 7.85 | 7.35 | 9.62 | 9.01 | 91.42 |
| Cathay Life | 0.72 | 0.59 | 12.65 | 10.34 | 9.30 |
| Cathay Century | (27.56) | (21.99) | (109.59) | (87.45) | (64.35) |
| Cathay United Bank | 0.70 | 0.58 | 10.32 | 8.63 | 39.13 |
| Cathay Securities | 2.85 | 2.39 | 10.45 | 8.76 | 27.11 |

For the nine months ended September 30, 2021

Unit: %

| | Return on Assets | | Return on Equity | | Net Income |
|--------------------|------------------|-----------|------------------|-----------|------------|
| | Before Tax | After Tax | Before Tax | After Tax | Ratio |
| The Group | 1.24 | 1.10 | 15.56 | 13.79 | 25.62 |
| The Company | 12.36 | 12.25 | 14.01 | 13.88 | 98.07 |
| Cathay Life | 1.42 | 1.29 | 15.60 | 14.13 | 14.52 |
| Cathay Century | 5.39 | 4.65 | 18.28 | 15.77 | 12.92 |
| Cathay United Bank | 0.66 | 0.58 | 8.79 | 7.69 | 39.96 |
| Cathay Securities | 4.68 | 3.82 | 18.00 | 14.72 | 33.28 |

Note: Net income ratio = Net income/Net revenue

33. BUSINESS OR TRADING ACTIVITIES WITHIN SUBSIDIARIES

- a. Integration of business activities

In order to improve the Group's competitiveness and enhance its operation synergy, the Company integrates various services, such as banking, insurance, and securities, and builds up a full-functioning financial platform; with 692 operating location all over Taiwan and about 30 thousand professional salesperson, the Company provides comprehensive financial planning and one-stop shopping services to its clients.

- b. Cross utilization of information

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

and safe environment and provide comprehensive and integrated financial commodities and services to clients.

c. Business facilities and locations

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

- 1) Cathay United Bank is engaged in co-selling activities for securities business through its 165 branches. Cathay United Bank has been engaged in insurance agency business since April 29, 2016 and promoted life insurance products in its 165 branches.
- 2) Cathay Life is engaged in co-selling activities for banking and property and casualty insurance businesses in its service units (56 locations).
- 3) Cathay Securities sets up co-selling offices in Cathay Life's 32 branches (Zhongxiao and others) to facilitate account opening services through sharing business facilities and locations.

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

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

34. SEGMENT INFORMATION

a. General information on operating segments

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

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

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

b. Information of reporting segment income was as follows:

For the three months ended September 30, 2022

| Segment | Banking Division | Life Insurance Division | Property Insurance Division | Securities Division | Other Division | Total |
|---|------------------|-------------------------|-----------------------------|---------------------|----------------|---------------|
| Net interest income (loss) | \$ 13,116,237 | \$ 45,816,654 | \$ 156,158 | \$ 117,584 | \$ (315,825) | \$ 58,890,808 |
| Net income and gains other than interest income (loss) | 2,095,876 | 14,051,449 | (10,609,021) | 1,035,436 | 3,229,906 | 9,803,646 |
| Profit (loss) from operations | 15,212,113 | 59,868,103 | (10,452,863) | 1,153,020 | 2,914,081 | 68,694,454 |
| Provision for bad debt, commitments and guarantee reserve | (1,246,459) | 101,578 | - | (449) | - | (1,145,330) |
| Net changes in insurance liability reserve | - | (38,247,781) | 717,207 | - | - | (37,530,574) |
| Operating expenses | (9,861,950) | (8,713,217) | (901,621) | (645,407) | (2,810,906) | (22,933,101) |
| Profit (loss) from continuing operations before taxes | 4,103,704 | 13,008,682 | (10,637,276) | 507,164 | 103,175 | 7,085,449 |
| Income tax (expense) profit | (1,528,816) | (2,145,382) | 2,189,662 | (48,378) | (386,597) | (1,919,511) |
| Net income (loss) from continuing operations | 2,574,888 | 10,863,300 | (8,447,614) | 458,786 | (283,422) | 5,165,938 |

For the three months ended September 30, 2021

| Segment | Banking Division | Life Insurance Division | Property Insurance Division | Securities Division | Other Division | Total |
|---|------------------|-------------------------|-----------------------------|---------------------|----------------|---------------|
| Net interest income (loss) | \$ 9,897,017 | \$ 38,844,789 | \$ 135,720 | \$ 141,602 | \$ (158,653) | \$ 48,860,475 |
| Net income and gains other than interest income | 4,211,020 | 71,737,295 | 2,292,432 | 1,541,164 | 3,170,223 | 82,952,134 |
| Profit from operations | 14,108,037 | 110,582,084 | 2,428,152 | 1,682,766 | 3,011,570 | 131,812,609 |
| Provision for bad debt, commitments and guarantee reserve | (621,739) | (410,036) | - | (1,974) | - | (1,033,749) |
| Net changes in insurance liability reserve | - | (75,186,985) | (67,801) | - | - | (75,254,786) |
| Operating expenses | (8,632,441) | (8,657,860) | (929,756) | (821,415) | (2,592,767) | (21,634,239) |
| Profit from continuing operations before taxes | 4,853,857 | 26,327,203 | 1,430,595 | 859,377 | 418,803 | 33,889,835 |
| Income tax expense | (1,041,918) | (1,397,059) | (157,729) | (150,046) | (289,636) | (3,036,388) |
| Net income from continuing operations | 3,811,939 | 24,930,144 | 1,272,866 | 709,331 | 129,167 | 30,853,447 |

For the nine months ended September 30, 2022

| Segment | Banking Division | Life Insurance Division | Property Insurance Division | Securities Division | Other Division | Total |
|---|------------------|-------------------------|-----------------------------|---------------------|----------------|----------------|
| Net interest income (loss) | \$ 35,133,484 | \$ 128,840,354 | \$ 448,738 | \$ 411,724 | \$ (654,681) | \$ 164,179,619 |
| Net income (loss) and gains other than interest income | 8,263,935 | 128,680,948 | (7,327,903) | 3,247,413 | 9,446,707 | 142,311,100 |
| Profit (loss) from operations | 43,397,419 | 257,521,302 | (6,879,165) | 3,659,137 | 8,792,026 | 306,490,719 |
| Provision for bad debt, commitments and guarantee reserve | (2,763,441) | 406,273 | - | (1,273) | - | (2,358,441) |
| Net changes in insurance liability reserve | - | (164,868,226) | (3,475,883) | - | - | (168,344,109) |
| Operating expenses | (26,302,882) | (25,812,024) | (2,722,676) | (1,996,430) | (8,113,051) | (64,947,063) |
| Profit (loss) from continuing operations before taxes | 14,331,096 | 67,247,324 | (13,077,723) | 1,661,434 | 678,975 | 70,841,106 |
| Income tax (expense) profit | (4,314,365) | (10,124,298) | 2,809,181 | (218,123) | (4,514,169) | (16,361,774) |
| Net income (loss) from continuing operations | 10,016,731 | 57,123,026 | (10,268,542) | 1,443,311 | (3,835,194) | 54,479,332 |

For the nine months ended September 30, 2021

| Segment | Banking Division | Life Insurance Division | Property Insurance Division | Securities Division | Other Division | Total |
|---|------------------|-------------------------|-----------------------------|---------------------|----------------|----------------|
| Net interest income (loss) | \$ 28,641,056 | \$ 116,227,254 | \$ 396,044 | \$ 341,038 | \$ (432,007) | \$ 145,173,385 |
| Net income and gains other than interest income | 14,316,778 | 298,226,590 | 5,608,806 | 4,525,306 | 9,738,185 | 332,415,665 |
| Profit from operations | 42,957,834 | 414,453,844 | 6,004,850 | 4,866,344 | 9,306,178 | 477,589,050 |
| Provision for bad debt, commitments and guarantee reserve | (2,742,840) | (468,789) | - | (2,646) | - | (3,214,275) |
| Net changes in insurance liability reserve | - | (273,333,152) | (391,063) | - | - | (273,724,215) |
| Operating expenses | (23,665,266) | (26,333,650) | (2,631,649) | (2,438,388) | (7,503,418) | (62,572,371) |
| Profit from continuing operations before taxes | 16,549,728 | 114,318,253 | 2,982,138 | 2,425,310 | 1,802,760 | 138,078,189 |
| Income tax expense | (2,869,302) | (10,194,237) | (345,550) | (389,763) | (1,909,877) | (15,708,729) |
| Net income (loss) from continuing operations | 13,680,426 | 104,124,016 | 2,636,588 | 2,035,547 | (107,117) | 122,369,460 |

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

35. RISK MANAGEMENT FOR INSURANCE CONTRACTS AND FINANCIAL INSTRUMENTS

a. Cathay Life and its subsidiaries

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

a) Objectives of risk management

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

- b) Framework, organizational structure and responsibilities of risk management.
- i. The board of directors
 - i) The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and review it regularly and allocate resources in the most effective manner.
 - ii) The board of directors and senior management should consistently promote, execute risk management and keep the consistency of the operational objectives of Cathay Life as well as operational strategies and operations management.
 - iii) The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
 - iv) The board of directors should delegate authority to risk management department to deal with violation to risk limits by other departments.
 - ii. Risk management committee
 - i) The committee should propose the risk management policies, framework and organizational functions and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly and making necessary suggestions for improvement.
 - ii) The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
 - iii) The committee should assist and monitor the risk management activities.
 - iv) The committee should assist in the review of the risk limit development process.
 - v) The committee should arrange the risk category, risk limit allocation and risk taking method according to the changes in environment.
 - vi) The committee should enhance cross-department interaction and communication.
 - iii. Chief risk officer
 - i) The chief risk officer should maintain independence. Besides a position directly related to risk management and without conflict of interest, the chief risk officer should not hold a position in any profit center of Cathay Life.
 - ii) The chief risk officer should be able to access any business information which may have an impact on risk overview of Cathay Life.
 - iii) The chief risk officer should be in charge of overall risk management of Cathay Life.
 - iv) The chief risk officer should participate in Cathay Life's important decision-making process and, as appropriate, provide opinions from a risk management perspective.

iv. Risk management department

- i) The department is responsible for operational affairs such as monitoring, measuring and evaluating daily risks, which should be performed independently to business units.
- ii) The department should perform the following functions with regard to different business activities:
 - Propose and execute the risk management policies set by the board of directors.
 - Propose the risk limits based on risk appetite.
 - Summarize the risk information provided by each department, negotiate and communicate with each department to facilitate the execution of the policies and the risk limits.
 - Regularly present risk management reports.
 - Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
 - Assist to execute stress testing.
 - Execute back testing if necessary.
 - Other risk management related issues.

v. Business units

- i) Each business unit should assign a risk management coordinator to assist in execution of the risk management of each business unit.
- ii) The duties of the risk management include the following:
 - Identify and measure risks and report risk exposures and potential impacts on time.
 - Regularly review the risks and their limits and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions.
 - Assist to develop the risk model and ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.
 - Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
 - Assist to collect data related to operational risk.
 - Manager of a business unit is responsible for daily risk management and risk reporting of the unit, if necessary, and takes necessary actions to mitigate such risks.
 - Manager of a business unit should supervise the unit to submit risk management information regularly to the risk management department.

vi. Audit department

The department is responsible for the audit of each department's implementation status of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Life.

vii. Subsidiaries

Each subsidiary's risk management department or related unit should develop risk management policies based on the nature of its business and needs and report to Cathay Life's risk management committee for future reference.

c) Range and nature of risk assessment or risk reporting

Cathay Life's risk management procedures include risk identification, risk measurement, risk control and risk reporting. Cathay Life sets its management standards for market risk, credit risk, country risk, liquidity risk, operational risk, insurance risk, asset and liability matching risk, capital adequacy, information security and personal data management, emerging risk, and ESG and climate risk. Cathay Life also develops methods of assessment and evaluation, monitors its risks and regularly provides the risk management reports.

i. Market risk

Market risk is the risk of losses in value of Cathay Life's financial assets arising from the changes in market prices of financial instruments. Cathay Life adopts measurement indicators for market risk based on VaR and reviews regularly. In addition, Cathay Life performs back testing to ensure the accuracy of the market risk model regularly. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events regularly. In response to the implementation of foreign exchange valuation reserve, Cathay Life determines the ceiling of foreign exchange risk, implements warning system and monitors foreign exchange risk regularly.

ii. Credit risk

Credit risk is the risk of losses on Cathay Life's rights due to that the counterparty or debtor does not perform the contractual obligation. Cathay Life applies credit rating, credit concentration and VaR of credit as measurement indicators which are reviewed regularly. Furthermore, Cathay Life applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events regularly.

iii. Country risk

Country risk is the risk that Cathay Life suffers losses from loans, financial investments and long-term investments in a specific country as a result of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. Cathay Life adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. Cathay Life reviews and adjusts the indicator on a regular basis.

iv. Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. Cathay Life has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, a funding reporting system has been established under which the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, the cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. The cash flow analysis model is also applied to set the annual assets allocation plan to maintain appropriate liquidity of assets. Market liquidity risk is the risk of significant changes in fair values when Cathay Life sells or offsets its positions during a market disorder or a lack of sufficient market depth. Cathay Life has established a liquidity threshold for investment positions. Each investment department evaluates the market trading volumes and adequacy of positions held according to the features and objectives of its investment positions.

v. Operational risk

Operational risk is the risk caused by improper conduct or errors of internal process, personnel, system or external issues that lead to losses. Operational risk includes legal risk but excludes strategic risk and reputation risk. Cathay Life has set the standard operating procedures based on the nature of the business and established reporting system for loss events of operation risk as well as to collect and manage information with respect to losses resulting from operational risk. To maintain Cathay Life's operation and ability to provide customer services while minimizing the losses under a major crisis, Cathay Life has established business continuity management system, emergency handling mechanism and information system damage responses.

vi. Insurance risk

Cathay Life assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and Cathay Life may bear losses due to unexpected changes when paying claims and related expenses. This risk is involved with policy design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

vii. Asset and liability matching risk

This risk resulted from the differences between the changes in values of assets and those of liabilities. Cathay Life measures the risk with capital costs, duration, cash flow management and scenario analysis.

viii. Capital adequacy

Cathay Life regards RBC ratio and equity ratio as a management indicator for capital adequacy. The RBC ratio is the total capital of Cathay Life divided by its risk-based capital, as regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies. The equity ratio is Cathay Life's equity audited (or reviewed) by the auditors divided by the total assets excluding the total assets recorded in separate accounts for investment type insurance policies.

ix. Risk of information security and personal data management

The risk of information security and personal data management refers to the damage resulted from confidentiality, completeness and availability of information asset, or damage caused by stealing, tampering, damaging, losing or leaking personal data. Cathay Life has a security and personal data management policy to reduce the impact of information security incidents and personal data damages.

x. Emerging risks

Emerging risks refer to risks that are not currently revealed but may arise as a result in the changes of the environment, usually due to changes in politics, regulations, markets or the natural environment. Cathay Life conducts emerging risk management operations by reference to authority organizations, benchmarking enterprise reports, regularly identifying and measuring emerging risks as well as assessing risk response and control mechanism when compiling annual risk maps, and reports the status of emerging risk to senior management every year, which is incorporated into the risk management business implementation report and delivered to the Risk Management Committee for deliberation.

xi. ESG and climate risks

ESG risks refer to the financial losses directly or indirectly incurred by Cathay Life due to the investees who fail to pay attention to ESG issues, and ESG risks include environmental, social and corporate governance risks. Climate risk is part of the environmental risks of ESG risks and refers to the potential negative impact of climate changes, including transformation risk (a wide range of risks resulting from the trend of low-carbon economy, including policy, legal, technology and market change risks) and physical risk (the risk of financial losses due to extreme weather events). Cathay Life has established related management measures as a response.

d) The process of assuming, measuring, monitoring and controlling risks and the underwriting policies to determine the proper risk classification and premium levels

i. The process of assuming, measuring, monitoring and controlling insurance risks

- i) Stipulate Cathay Life's insurance risk management standards including the definitions and range of risks, management structure, risk management indicators and other risk management measures.
- ii) Establish methods to evaluate insurance risks.
- iii) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and for developing insurance risk management strategies.
- iv) Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the related departments should propose corresponding solutions to the risk management committee of Cathay Life and that of the Company.

- ii. The underwriting policies to determine proper risk classification and premium levels
 - i) Underwriters should comply with the rules of financial underwriting. For underwriting a new policy of an existing policyholders, the underwriter should consider previous information as well as the exceptional cases from the insurance notification database and total insured amounts in insurance enterprises, to check if the number of policies, the insured amounts and the premiums are reasonable and affordable according to the policyholder's financial resources and socioeconomic status and to determine if the policyholder is capable of paying renewal premiums.
 - ii) Cathay Life has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards
 - iii) Cathay Life has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.
- e) The scope of insurance risk assessment and management from a company-wide perspective
 - i. Insurance risk assessment covers the following risks:
 - i) Product design and pricing risk: The risk arises from improper design of products, inconsistent terms and conditions and pricing or unexpected changes.
 - ii) Underwriting risk: Unexpected losses arise from solicitation activities, underwriting and approval activities, other expenditure activities, etc.
 - iii) Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk over the limits or a reinsurer fails to fulfill its obligations such that premiums, claims or expenses cannot be reimbursed.
 - iv) Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect Cathay Life's credit rating or solvency.
 - v) Claim risk: This risk arises from mishandling claims.
 - vi) Reserve-related risk: This risk occurs when Cathay Life does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.
 - ii. The scope of management of insurance risk
 - i) Develop a risk control framework of Cathay Life's insurance risk to empower related development to execute risk management.
 - ii) Establish Cathay Life's insurance risk management standards including the definitions and types of risks, management structure, risk management indicators and other risk management measures.
 - iii) Develop related response in consideration of Cathay Life's growth strategy and changes in the domestic and global economic and financial environments.
 - iv) Determine methods to measure insurance risks.
 - v) Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.

vi) Other insurance risk management issues.

- f) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

Cathay Life limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering Cathay Life's risk taking ability, risk profiling and legal issues factors to determine whether to retain or cede a policy. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, Cathay Life has established reinsurer selection standards.

- g) Asset/liability management

i. Cathay Life established an asset/liability management committee to improve the asset/liability management structure, ensure the application of the asset/liability management policy and review the performance from strategy and practice aspect on a regular basis to reduce all types of risks Cathay Life faces.

ii. Authorized departments review the measurement of asset/liability matching risk and report to the asset/liability management committee regularly and results are also reported to the risk management committee of Cathay Life. Furthermore, the annual report is delivered to the risk management committee of the Company.

iii. When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of Cathay Life and that of the Company.

- h) The procedures to manage, monitor and control a special event for which Cathay Life is committed to assuming additional liabilities or funding addition capital

Pursuant to the applicable laws and regulations, Cathay Life's RBC ratio and equity ratio should be higher than a certain number. In order to enhance Cathay Life's capital management and to maintain a proper RBC ratio and equity ratio, Cathay Life has established a set of capital adequacy management standards as follows:

- i. Capital adequacy management

i) Regularly provide capital adequacy management reports and analysis to the finance department of the Company.

ii) Regularly provide the analysis report to the risk management committee.

iii) Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting RBC ratio and equity ratio.

iv) Regularly review RBC ratio, equity ratio and related control standards to ensure a solid capital adequacy management.

ii. Exception management process

When RBC ratio or equity ratio exceeds the internal risk control criteria or other exceptions occur, Cathay Life is required to notify the risk management department and the finance department and the risk management department of Cathay Financial Holdings, and submits the capital adequacy analysis report and actions.

i) Policies for hedge or mitigation of risk and monitoring procedures on continuous effectiveness of hedging instruments

i. Cathay Life enters into derivative transactions to reduce market risk and credit risk of the asset positions including stock index options, index futures, interest rate futures, IRS, forwards, CCS and credit default swaps for hedging the equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk from Cathay Life's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.

ii. Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. Cathay Life executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

iii. Cathay Life assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by the board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

j) The policies and procedures against the concentration of credit and investment risks

Considering the credit risk factors, Cathay Life has set up the measurement indicators for credit and investment positions by countries, industries and business groups. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, Cathay Life shall not grant loans or make investment in general. However, if Cathay Life has to undertake the business under certain circumstances, Cathay Life shall follow the internal regulations, including but not limited to "Guidelines for sovereign risk management", "Guidelines for securities investment risk limit" and "Guidelines for credit and investment risk management on conglomerate and other juristic person institute".

2) Information of insurance risk

a) Sensitivity of insurance risk - insurance contracts and financial instruments with discretionary participation features

i. Cathay Life

| For the Nine Months Ended September 30, 2022 | | | | | |
|--|---------------|------------------------------|--------------|---------------------|--------------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.05 (×0.95) | Decrease (increase) | \$ 2,532,889 | Decrease (increase) | \$ 2,026,312 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 2,113,748 | Decrease (increase) | 1,690,999 |
| Surrender rate | ×1.05 (×0.95) | Increase (decrease) | 199,290 | Increase (decrease) | 159,432 |
| Rate of return | +0.1% | Increase | 5,077,687 | Increase | 4,062,150 |
| Rate of return | -0.1% | Decrease | 5,081,436 | Decrease | 4,065,149 |

| For the Nine Months Ended September 30, 2021 | | | | | |
|--|---------------|------------------------------|--------------|---------------------|--------------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.05 (×0.95) | Decrease (increase) | \$ 2,279,020 | Decrease (increase) | \$ 1,823,216 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 2,320,065 | Decrease (increase) | 1,856,052 |
| Surrender rate | ×1.05 (×0.95) | Increase (decrease) | 154,961 | Increase (decrease) | 123,969 |
| Rate of return | +0.1% | Increase | 4,933,486 | Increase | 3,946,789 |
| Rate of return | -0.1% | Decrease | 4,937,114 | Decrease | 3,949,691 |

ii. Cathay Lujiazui Life

| For the Nine Months Ended September 30, 2022 | | | | | |
|--|---------------|------------------------------|------------|---------------------|-----------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.10 (×0.90) | Decrease (increase) | \$ 121,668 | Decrease (increase) | \$ 91,251 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 78,251 | Decrease (increase) | 58,688 |
| Surrender rate | ×1.10 (×0.90) | Increase (decrease) | 53,063 | Increase (decrease) | 39,797 |
| Rate of return | +0.25% | Increase | 191,503 | Increase | 143,627 |
| Rate of return | -0.25% | Decrease | 191,973 | Decrease | 143,980 |

| For the Nine Months Ended September 30, 2021 | | | | | |
|--|---------------|------------------------------|------------|---------------------|-----------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.10 (×0.90) | Decrease (increase) | \$ 116,709 | Decrease (increase) | \$ 87,532 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 71,201 | Decrease (increase) | 53,401 |
| Surrender rate | ×1.10 (×0.90) | Increase (decrease) | 56,461 | Increase (decrease) | 42,346 |
| Rate of return | +0.25% | Increase | 150,423 | Increase | 112,817 |
| Rate of return | -0.25% | Decrease | 150,791 | Decrease | 113,093 |

iii. Cathay Life (Vietnam)

| For the Nine Months Ended September 30, 2022 | | | | | |
|--|---------------|------------------------------|----------|---------------------|----------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.05 (×0.95) | Decrease (increase) | \$ 4,824 | Decrease (increase) | \$ 3,859 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 58,816 | Decrease (increase) | 47,053 |
| Surrender rate | ×1.10 (×0.95) | Increase (decrease) | 14,675 | Increase (decrease) | 11,740 |
| Rate of return | +0.1% | Increase | 24,485 | Increase | 19,588 |
| Rate of return | -0.1% | Decrease | 24,503 | Decrease | 19,603 |

| For the Nine Months Ended September 30, 2021 | | | | | |
|--|---------------|------------------------------|----------|---------------------|----------|
| | Scenarios | Changes in Income Before Tax | | Changes in Equity | |
| Life table/morbidity | ×1.05 (×0.95) | Decrease (increase) | \$ 2,343 | Decrease (increase) | \$ 1,875 |
| Expense | ×1.05 (×0.95) | Decrease (increase) | 53,747 | Decrease (increase) | 42,998 |
| Surrender rate | ×1.10 (×0.95) | Increase (decrease) | 11,450 | Increase (decrease) | 9,160 |
| Rate of return | +0.1% | Increase | 17,373 | Increase | 13,898 |
| Rate of return | -0.1% | Decrease | 17,386 | Decrease | 13,908 |

- i) Changes in income before tax listed above referred to the effects of income before tax for the nine months ended September 30, 2022 and 2021. The changes in equity of Cathay Life, Cathay Lujiazui Life and Cathay Life (Vietnam) were assumed that the income tax was calculated at rates of 20%, 25% and 20% of pre-tax income, respectively.
- ii) As an increase (decrease) of 0.1% in discount rates is applied to the liability adequacy test, the result of the test is still adequate for Cathay Life and there is no impact on income before tax and equity. However, if the discount rate keeps declining significantly, income before tax and equity may be affected.
- iii) Sensitivity test

- Mortality/morbidity sensitivity test is executed by multiplying the mortality rate, and the morbidity rate of injury insurance by changes in scenarios, resulting in the corresponding changes in income before tax.

- Expense sensitivity test is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by changes in scenarios, resulting in the corresponding changes in income before tax.
- Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
- Rate of return sensitivity test is executed by adjusting the rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating costs as well as general expenses, administration expenses, employee training expenses of operating expenses, and expected credit impairment losses and gains on reversal from non-investments.

Note 2: Rate of return is calculated as follows (to be annualized):

$$2 \times (\text{net investment} - \text{finance costs}) / (\text{the beginning balance of available funds} + \text{the ending balance of available funds} - \text{net incomes (losses) on investment} + \text{finance costs})$$

b) Concentration of insurance risks

Cathay Life's insurance business is mainly from the R.O.C., and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). Cathay Life reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

In principle, Cathay Life performs an evaluation on the retained risks by considering the risk characteristics and its risk bearing capacity, which is submitted for approval by authority, and engages in reinsurance business for the excess of risks over the retained. At the same time, Cathay Life considers unexpected human and natural disasters in each year to estimate the reasonable maximum of losses based on the retained risks and determines according to the risk characteristics and its bearing capacity whether to adjust the reinsured amount or purchase catastrophe reinsurance. Therefore, the insurance risks to some extent are diversified to reduce the potential impact on unexpected losses.

Furthermore, according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, special reserve for catastrophic events should be provided for huge claims and payments due to future catastrophic events, and special reserve for fluctuation of risk should be provided for abnormal changes in loss ratio and claims of each insurance type. The annual increase of special reserve for catastrophic events and fluctuation of risks should be recorded in special reserve of equity, net of tax in accordance with IAS 12.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in the specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in a specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in the specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

ii. Cathay Lujiazui Life

i) Direct business development trend

| Accident Year | Development Year | | | | | | | Expected Future Payment |
|--|------------------|---------|---------|---------|---------|---------|---------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2015Q4-2016Q3 | 263,374 | 492,558 | 538,828 | 576,088 | 576,088 | 576,088 | 576,088 | - |
| 2016Q4-2017Q3 | 270,960 | 490,634 | 535,869 | 535,869 | 535,869 | 535,869 | 535,869 | - |
| 2017Q4-2018Q3 | 289,988 | 330,091 | 464,920 | 464,920 | 464,920 | 464,920 | 464,920 | - |
| 2018Q4-2019Q3 | 370,197 | 524,449 | 708,715 | 708,715 | 708,715 | 708,715 | 708,715 | - |
| 2019Q4-2020Q3 | 387,284 | 548,651 | 795,146 | 808,323 | 808,323 | 808,323 | 808,323 | 13,177 |
| 2020Q4-2021Q3 | 433,678 | 614,377 | 783,547 | 796,533 | 796,533 | 796,533 | 796,533 | 182,156 |
| 2021Q4-2022Q3 | 424,784 | 632,442 | 806,586 | 819,953 | 819,953 | 819,953 | 819,953 | 395,169 |
| Expected future payments | | | | | | | | \$ 590,502 |
| Less: Expected claims filed but not yet paid | | | | | | | | (65,182) |
| Reserve for claims not yet filed | | | | | | | | 525,320 |
| Add: Claims filed but not yet paid | | | | | | | | 11,962 |
| Loss reserve balance | | | | | | | | <u>\$ 537,282</u> |

ii) Retained business development trend

| Accident Year | Development Year | | | | | | | Expected Future Payment |
|--|------------------|---------|-----------|-----------|-----------|-----------|-----------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2015Q4-2016Q3 | 249,260 | 479,227 | 514,344 | 514,344 | 514,344 | 514,344 | 514,344 | - |
| 2016Q4-2017Q3 | 285,196 | 457,938 | 486,338 | 491,959 | 491,959 | 491,959 | 491,959 | - |
| 2017Q4-2018Q3 | 342,080 | 368,054 | 445,810 | 445,810 | 445,810 | 445,810 | 445,810 | - |
| 2018Q4-2019Q3 | 408,572 | 753,977 | 1,061,938 | 1,061,938 | 1,061,938 | 1,061,938 | 1,061,938 | - |
| 2019Q4-2020Q3 | 400,172 | 566,914 | 833,697 | 835,565 | 835,565 | 835,565 | 835,565 | 1,868 |
| 2020Q4-2021Q3 | 451,230 | 609,160 | 775,250 | 776,987 | 776,987 | 776,987 | 776,987 | 167,827 |
| 2021Q4-2022Q3 | 443,852 | 672,116 | 855,371 | 857,287 | 857,287 | 857,287 | 857,287 | 413,435 |
| Expected future payments | | | | | | | | \$ 583,130 |
| Less: Expected claims filed but not yet paid | | | | | | | | (65,182) |
| Add: Claims filed but not yet paid | | | | | | | | 11,536 |
| Retained loss reserve balance | | | | | | | | <u>\$ 529,484</u> |

Cathay Lujiazui Life provides loss reserve for claims filed but not paid and claims not yet filed. Due to uncertainty, estimation, and judgment, there is a high degree of complexity in provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes are recognized as profit or loss as incurred. Notification to Cathay Lujiazui Life may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgment; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in a specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in a specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in a specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

iii. Cathay Life (Vietnam)

i) Direct business development trend

| Accident Year | Development Year | | | | |
|---------------|------------------|---------|---------|---------|---------|
| | 1 | 2 | 3 | 4 | 5 |
| 2017Q4-2018Q3 | 42,881 | 49,332 | 49,332 | 49,384 | 49,384 |
| 2018Q4-2019Q3 | 125,344 | 144,953 | 144,953 | 144,953 | 144,953 |
| 2019Q4-2020Q3 | 228,024 | 273,562 | 273,562 | 273,717 | 273,717 |
| 2020Q4-2021Q3 | 414,260 | 507,432 | 507,432 | 507,718 | 507,718 |
| 2021Q4-2022Q3 | 571,965 | 689,557 | 689,557 | 689,946 | 689,946 |

ii) Retained business development trend

| Accident Year | Development Year | | | | |
|---------------|------------------|---------|---------|---------|---------|
| | 1 | 2 | 3 | 4 | 5 |
| 2017Q4-2018Q3 | 42,881 | 49,332 | 49,332 | 49,384 | 49,384 |
| 2018Q4-2019Q3 | 125,344 | 144,953 | 144,953 | 144,953 | 144,953 |
| 2019Q4-2020Q3 | 228,024 | 273,562 | 273,562 | 273,717 | 273,717 |
| 2020Q4-2021Q3 | 414,260 | 507,432 | 507,432 | 507,718 | 507,718 |
| 2021Q4-2022Q3 | 571,965 | 689,557 | 689,557 | 689,946 | 689,946 |

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in a specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in a specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in a specific accident year.

Cathay Life (Vietnam) provides loss reserve for claims filed but not paid and claims not yet filed. Reserve for claims not yet filed is estimated by multiplying the loss ratio of earned premiums by loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by local authorities in Vietnam; therefore, provision for loss reserve is not determined by the above table. Estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgment; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments.

3) Credit risk, liquidity risk, and market risk for insurance contracts

a) Credit risk

The credit risk of the insurance contracts occurs as the reinsurers fail to perform the obligations of reinsurance contracts, which may result in impairment losses on reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of credit risk concentration of reinsurers. To reduce this risk, Cathay Life chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with Cathay Life's Reinsurance Risk Management Plan and Evaluation Standards for Reinsurers.

The credit ratings of Cathay Life's reinsurers are above a certain level, complying with Cathay Life's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to Cathay Life's total assets; therefore, no significant credit risk exists.

b) Liquidity risk

The table below is the analysis of the net (undiscounted) cash flow of insurance contracts and of financial instruments with discretionary participation features. The figures shown in this table are the estimated amount of the total insurance payments and expenses of valid insurance contracts in the future deducting total premium on the balance sheet date. The actual future payment amounts may differ due to the difference between the result and expected amount.

Unit: In 100 Millions of NT\$

| | Insurance Contracts and Financial Instruments with Discretionary Participation Features | | |
|--------------------|--|---------------------|---------------------|
| | Within 1 Year | 1 to 5 Years | Over 5 Years |
| September 30, 2022 | \$ 452 | \$ 4,637 | \$ 183,981 |
| December 31, 2021 | 622 | 4,829 | 175,742 |
| September 30, 2021 | 98 | 4,850 | 175,531 |

Note: Separate account products were not included.

c) Market risk

Cathay Life measures insurance liabilities by the discounted rates required by the authorities. The authorities regularly review the assumption of the discount rate for policy reserves; however, the change of the assumption may not be at the same time, in the same direction of change with the market price and interest rate, and only applied to new contracts. Therefore, the impacts of those possible changes in market risk on the provision of policy reserve for Cathay Life's valid insurance contracts are considered minor to profit or loss or equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of Cathay Life. Furthermore, the reasonably possible change in the market risk may have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities. Based on the reasonably possible changes in current market risk, it has little impact on the adequacy of recognized insurance liabilities.

b. Cathay Century and its subsidiaries

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

a) Framework, organizational structure and responsibilities

i. Board of directors

- i) The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- ii) The board of directors should establish an appropriate risk management framework and culture, ratify the appropriate risk management policy and allocate resources in the most effective manner.
- iii) The board of directors should consider the effect of the aggregated risks from Cathay Century's overall perspective; the board of directors should also follow the legal capital requirement and the relevant financial or business operating regulations that affect capital allocation.

ii. Risk management department

i) Risk management committee

- The committee should propose the risk management policies, framework, and organization functions and establish quantitative and qualitative management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly, and making necessary suggestions for improvement.
- The committee should execute the risk management policies set by the board of directors and review development, build-up and performance of overall management mechanisms regularly.
- The committee should assist and monitor the risk management activities performed by each department.
- The committee should assist in deliberating related procedures for formulating risk limits.
- The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
- The committee should enhance cross-department interaction and communication.

ii) Chief risk officer

The appointment of chief risk officers of Cathay Century and its subsidiaries should be approved by the board of directors, who should maintain independence and should not concurrently play a business or financial role nor has the right to access any information which may affect Cathay Century and its subsidiaries' risk overview.

- The chief risk officer should be in charge of the overall risk management.

- The chief risk officer should participate in the important decision making process and provide appropriate suggestions from a risk management perspective.
- The chief risk officer should be a member of the risk management committee.

iii) Risk management department

Cathay Century and its subsidiaries established a risk management department, which is responsible for monitoring, measuring and evaluating major risks, performed independently to business units.

Duties of risk management department are as follows:

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

iii. Business unit

i) The risk management duties of the manager of a business unit are as follows:

- Manage and report daily risk of the business unit and take necessary responsive actions.
- Supervise regular submission of risk management information to the risk management department.

ii) The risk management duties of a business unit are as follows:

- Identify and measure risks and report risk exposures.
- Evaluate the impacts (quantitative or qualitative) when risks occur and deliver the risk information in a timely and accurate manner.
- Regularly review the risks and their limits to ensure the effective execution of risk limits within business unit.
- Monitor risk exposures and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions of the business units.
- Assist to develop the risk model and ensure that the risk measurement, application of model, and the parameter settings are reasonable and consistent.

- Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
- Assist to collect data related to operational risk.

iv. Audit department

The department is responsible for the audit of each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of Cathay Century.

b) Risk reporting and the scope and nature of risk assessment for property insurance business

i. Risk management reports

- Each business unit should regularly deliver risk information to the risk management department, and report the excess of risk limits and responding measures when risk exposure exceeds the limit.
- The risk management department summarizes the risk information provided by each department, tracks the uses of major risk limit, submits a monthly risk management report to the chairman, and makes quarterly report to the risk management committee and the board of directors.

ii. The scope and nature of risk assessment

The risk management department of Cathay Century and its subsidiaries and the Company collaborated in building the market risk management system. The system structure was developed in consideration of the system functionality, data source, completeness of data upload, and the safety of the environment of the system. The front-end of investment department has acquired the information system related to the investment market. The risk management system focuses on risk quantification, which is needed by middle-end, and would be only authorized to risk management personnel.

c) Processes to undertake, evaluate, supervise and control insurance risk of property insurance business and underwriting policies to ensure proper risk classification and premium level

In Cathay Century and its subsidiaries, risk management department is responsible for monitoring and integrating insurance risks as a whole, and setting up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control and regularly reports execution to risk management department in accordance with laws and regulations, internal rules, and professional knowledge and experience related to its duties. The risk management department proposes the insurance risk management report to the risk management committee and the board of directors each quarter.

d) The scope of insurance risk assessment and management from a company-wide perspective

Insurance risk management of Cathay Century and its subsidiaries covers product design and pricing, underwriting, reinsurance, catastrophe, claim, and reserve. Proper management mechanisms are set up and executed thoroughly.

e) Methods to limit insurance risk exposure and avoid inappropriate concentration risk

When Cathay Century and its subsidiaries implement business, the underwriter evaluates the quality of the business based on the underwriting criteria of each insurance to decide whether to undertake the business to properly hedge and control the risk and reduce the exposure.

In addition, for reinsurance business, risk management mechanism is set up in accordance with the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms. The capabilities of undertaking risk is considered to develop reinsurance risk management plan and maximum of accumulated retained risks of each risk unit for execution.

Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

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

| Insurance Type | For the Year Ended December 31 | |
|---|---------------------------------------|--------------|
| | 2022 | 2021 |
| Fire insurance | \$ 1,200,000 | \$ 1,200,000 |
| Marine insurance | 1,200,000 | 1,200,000 |
| Engineering insurance | 1,200,000 | 1,200,000 |
| Miscellaneous insurance/liability insurance | 1,200,000 | 1,200,000 |
| Healthy and accident insurance | 1,200,000 | 1,200,000 |
| Automobile insurance | 50,000 | 50,000 |
| Liability insurance | 250,000 | 250,000 |

f) Asset-liability management

i. Asset-liability coordinated with risk identification and measurement

Financial accounting and actuarial department should identify the possible market risk, liquidity risk and insurance risk that may occur during operation. The cash inflows from assets are measured by cash flow test method (or other method) to evaluate whether the amount of inflows is sufficient to cover the cash outflow for liabilities, that is, whether the asset allocation has reasonable liquidity to pay liabilities for expenditures in future years.

ii. Asset-liability coordinated with risk response

When market risk, liquidity risk and insurance risk events occur, financial, accounting and actuarial service department should take appropriate reactions to coordinate asset-liability risk, and report to the risk management department and propose to the risk management committee evaluation of the risk.

g) Procedures to manage, monitor and control a special event for which property insurance business is committed to assuming additional liabilities or raising additional capital

Cathay Century and its subsidiaries have established a set of capital adequacy management standards, including RBC management indicators for regular review, under which RBC is calculated each quarter and RBC management report is prepared every half year as implementation of RBC management.

If the risk-based capital ratio exceeds the control criteria (risk limit) or other exceptions occur, the related departments should propose a response to the risk management committee and inform the Company to review the impact on the Group's risk-based capital.

2) Liability on policyholders' claims filed and losses not yet filed

Claims and payments recoverable for policyholders' claims filed and paid

| Insurance Type | Claims Filed and Paid | | |
|--|-----------------------|----------------------|-----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Fire insurance | \$ 70,131 | \$ 22,238 | \$ 132,723 |
| Marine insurance | 25,062 | 97,105 | 15,652 |
| Land and air insurance | 42,085 | 39,700 | 33,981 |
| Liability insurance | 77,534 | 55,275 | 59,982 |
| Guarantee insurance | 404 | 1,272 | 137 |
| Other property insurance | 32,231 | 25,750 | 25,032 |
| Accident insurance | 18,718 | 16,683 | 16,596 |
| Health insurance | 1,931,991 | 7,718 | 42,809 |
| Policy-oriented residential earthquake insurance | - | - | - |
| Compulsory automobile liability insurance | 175,494 | 200,809 | 186,552 |
| | <u>2,373,650</u> | <u>466,550</u> | <u>513,464</u> |
| Less: Loss allowance | <u>(23,736)</u> | <u>(4,665)</u> | <u>(5,135)</u> |
| Net amount | <u>\$ 2,349,914</u> | <u>\$ 461,885</u> | <u>\$ 508,329</u> |

3) Receivables and payables of insurance contracts

a) Receivables

| Insurance Type | Premiums Receivable | | |
|--|-----------------------|----------------------|-----------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Fire insurance | \$ 1,286,327 | \$ 840,311 | \$ 752,313 |
| Marine insurance | 376,051 | 335,547 | 341,528 |
| Land and air insurance | 130,639 | 182,914 | 99,494 |
| Liability insurance | 462,486 | 338,638 | 345,459 |
| Guarantee insurance | 34,867 | 31,417 | 42,187 |
| Other property insurance | 140,210 | 218,867 | 123,797 |
| Accident insurance | 123,402 | 128,059 | 118,512 |
| Health insurance | 4,418 | 4,160 | 4,308 |
| Policy-oriented residential earthquake insurance | 31,885 | 27,665 | 30,783 |
| Compulsory automobile liability insurance | 17,674 | 21,068 | 16,748 |
| | <u>2,607,959</u> | <u>2,128,646</u> | <u>1,875,129</u> |
| Less: Loss allowance | <u>(54,029)</u> | <u>(31,309)</u> | <u>(27,031)</u> |
| Net amount | <u>\$ 2,553,930</u> | <u>\$ 2,097,337</u> | <u>\$ 1,848,098</u> |

Aging analysis of receivable:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------|-------------------------------|------------------------------|-------------------------------|
| Up to 90 days | \$ 1,650,035 | \$ 1,839,532 | \$ 1,243,755 |
| Over 90 days | <u>957,924</u> | <u>289,114</u> | <u>631,374</u> |
| | <u>\$ 2,607,959</u> | <u>\$ 2,128,646</u> | <u>\$ 1,875,129</u> |

The overdue amounts as of September 30, 2022, December 31, 2021 and September 30, 2021 in the above premiums receivable were \$957,924 thousand, \$289,114 thousand and \$631,374 thousand, respectively, and loss allowance of \$36,413 thousand, \$11,894 thousand and \$13,735 thousand were provided, respectively.

b) Accounts payables

| Insurance Type | September 30, 2022 | | |
|--|-------------------------------|-------------------|-------------------|
| | Commission Payable | Others | Total |
| Fire insurance | \$ 44,640 | \$ 16,057 | \$ 60,697 |
| Marine insurance | 19,880 | 15,995 | 35,875 |
| Land and air insurance | 193,579 | 123,550 | 317,129 |
| Liability insurance | 38,794 | 32,844 | 71,638 |
| Guarantee insurance | 2,370 | 872 | 3,242 |
| Other property insurance | 12,872 | 10,604 | 23,476 |
| Accident insurance | 11,788 | 40,653 | 52,441 |
| Health insurance | 1,578 | 836 | 2,414 |
| Policy-oriented residential earthquake insurance | 301 | 3,355 | 3,656 |
| Compulsory automobile liability insurance | <u>18,394</u> | <u>-</u> | <u>18,394</u> |
| | <u>\$ 344,196</u> | <u>\$ 244,766</u> | <u>\$ 588,962</u> |

| Insurance Type | December 31, 2021 | | |
|--|-------------------------------|-------------------|-------------------|
| | Commission Payable | Others | Total |
| Fire insurance | \$ 27,292 | \$ 16,037 | \$ 43,329 |
| Marine insurance | 15,061 | 14,224 | 29,285 |
| Land and air insurance | 144,015 | 110,874 | 254,889 |
| Liability insurance | 29,591 | 34,523 | 64,114 |
| Guarantee insurance | 2,650 | 893 | 3,543 |
| Other property insurance | 8,576 | 8,718 | 17,294 |
| Accident insurance | 10,400 | 30,735 | 41,135 |
| Health insurance | 1,462 | 1,095 | 2,557 |
| Policy-oriented residential earthquake insurance | 273 | 3,508 | 3,781 |
| Compulsory automobile liability insurance | <u>19,870</u> | <u>-</u> | <u>19,870</u> |
| | <u>\$ 259,190</u> | <u>\$ 220,607</u> | <u>\$ 479,797</u> |

September 30, 2021

| Insurance Type | Commission Payable | Others | Total |
|--|---------------------------|-------------------|-------------------|
| Fire insurance | \$ 32,078 | \$ 17,348 | \$ 49,426 |
| Marine insurance | 12,554 | 13,829 | 26,383 |
| Land and air insurance | 129,381 | 137,262 | 266,643 |
| Liability insurance | 29,201 | 31,497 | 60,698 |
| Guarantee insurance | 4,861 | 615 | 5,476 |
| Other property insurance | 6,144 | 8,442 | 14,586 |
| Accident insurance | 9,828 | 38,807 | 48,635 |
| Health insurance | 1,991 | 3,159 | 5,150 |
| Policy-oriented residential earthquake insurance | 279 | 3,740 | 4,019 |
| Compulsory automobile liability insurance | <u>18,041</u> | <u>-</u> | <u>18,041</u> |
| | <u>\$ 244,358</u> | <u>\$ 254,699</u> | <u>\$ 499,057</u> |

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

| Items | September 30, 2022 | |
|--|---|---|
| | Due from Reinsurers and Ceding Companies | Due to Reinsurers and Ceding Companies |
| Non-Life Insurance Association of the R.O.C. | \$ 135,104 | \$ 233,630 |
| Marsh | 415,259 | 52,549 |
| Hannover Re Shanghai | 172,627 | 272,830 |
| Willis | 97,439 | 234,989 |
| Central Re | 45,631 | 333,865 |
| Others (individually below 5%) | <u>654,984</u> | <u>1,503,978</u> |
| | 1,521,044 | 2,631,841 |
| Less: Loss allowance | <u>(17,789)</u> | <u>-</u> |
| Net amount | <u>\$ 1,503,255</u> | <u>\$ 2,631,841</u> |

| Items | December 31, 2021 | |
|--|---|---|
| | Due from Reinsurers and Ceding Companies | Due to Reinsurers and Ceding Companies |
| Non-Life Insurance Association of the R.O.C. | \$ 129,191 | \$ 246,885 |
| AON | 76,758 | 174,100 |
| Central Re | 49,361 | 463,973 |
| Marsh | 249,530 | 94,038 |
| Willis | 79,626 | 336,647 |
| Others (individually below 5%) | <u>412,096</u> | <u>958,154</u> |
| | 996,562 | 2,273,797 |
| Less: Loss allowance | <u>(58,751)</u> | <u>-</u> |
| Net amount | <u>\$ 937,811</u> | <u>\$ 2,273,797</u> |

| Items | September 30, 2021 | |
|--|---|---|
| | Due from Reinsurers and Ceding Companies | Due to Reinsurers and Ceding Companies |
| Non-Life Insurance Association of the R.O.C. | \$ 133,676 | \$ 317,532 |
| Marsh | 253,948 | 236,194 |
| AON | 146,609 | 59,834 |
| Central Re | 34,603 | 346,920 |
| Willis | 110,153 | 78,426 |
| Others (individually below 5%) | <u>539,943</u> | <u>1,058,781</u> |
| | 1,218,932 | 2,097,687 |
| Less: Loss allowance | <u>(62,650)</u> | <u>-</u> |
| Net amount | <u>\$ 1,156,282</u> | <u>\$ 2,097,687</u> |

The overdue amounts as of September 30, 2022, December 31, 2021 and September 30, 2021 in the above due from (to) reinsurers and ceding companies were \$9,104 thousand, \$14,731 thousand and \$16,742 thousand, respectively, and loss allowances of \$2,731 thousand, \$14,731 thousand and \$16,742 thousand were provided, respectively.

Due from and due to the reinsurers and ceding companies cannot be offset, except for those meeting requirements in Article 42 of IAS 32.

4) Reserve required for specific assets

The accounting of the compulsory automobile liability insurance (“CAL Insurance”) held by Cathay Century is based on the Regulations for the Accounting Treatment and the Financial Information Reported of Compulsory Automobile Liability Insurance, which was legislated according to the Compulsory Automobile Liability Insurance Act.

Under Article 5 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, for the special reserve set aside for CAL Insurance, the insurer should purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the insurer may purchase the following domestic securities:

- a) Government bonds, not including exchangeable government bonds
- b) Financial bonds, negotiable certificates of deposit, banker’s acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only

The amount of treasury bills purchased or time deposits placed in a financial institution under the preceding paragraph shall not be less than 30% of the total amount of the insurer’s retained earned pure premiums for CAL Insurance in the most recent period, as audited or reviewed by a certified public accountant. The competent authority may raise that percentage to a level it deems appropriate based on the insurer’s operational status.

If the balance of the Group’s special reserve becomes less than the 30% of its most recent retained earned pure premiums, as audited or reviewed by an independent certified public accountant, the full amount of the special reserve should be invested in treasury bills or placed in a financial institution.

Under Article 6 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, funds, except for special reserve mentioned above, held by an insurer for this insurance (various reserve, payables and temporary receivable) should be deposited in a financial institution as special reserve in the form of demand deposits and time deposits:

- a) Treasury bills
- b) Negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution
- c) Government bonds under repurchase agreement

The amount of demand deposits placed in financial institutions, which are mentioned in the preceding paragraph, should not be less than (a) 45% of the remaining balance of the funds after subtracting the special reserves from the funds held by the Group due to the operation of CAL Insurance, or less than (b) 30% of the retained earned pure premiums for the most recent period as audited or reviewed by an independent certified public accountant. The relevant authorities may raise the percentage of demand deposits required for the Group to a level they deem appropriate on the basis of the Group's operating status.

If the total amount of unearned premium reserve and loss reserve of the Group for the CAL Insurance is less than 30% of the retained earned pure premiums of this insurance for the most recent period as audited or reviewed by an independent certified public accountant, the funds held by the Group through its provision of this insurance should be deposited in full in a financial institution in the form of demand deposits.

Under Article 11 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, the various reserves for this insurance should be transferred to the various reserves set aside for handling of this insurance by the other insurer another property and casualty insurance company if the Group suspends its business operations or ceases to provide this type of insurance. The various reserves for this insurance should be transferred to the Motor Vehicle Accident Compensation Fund if (a) the Group has been duly ordered to suspend business and undergo rehabilitation or ordered to dissolve, or (b) its permission to operate this insurance business has been revoked, and no other insurance company can sustain this insurance business.

The various reserves for this insurance should be transferred to the Motor Vehicle Accident Compensation Fund if (a) the Group has been duly ordered to suspend business and undergo rehabilitation or ordered to dissolve, or (b) its permission to operate this insurance business has been revoked, and no other insurance company can sustain this insurance business.

5) Acquisition cost of insurance contracts

| For the Three Months Ended September 30, 2022 | | | | | |
|--|----------------------------|---------------------------|--|-------------------|-------------------|
| Insurance Type | Commission Expenses | Service fee Charge | Reinsurance Commission Expenses | Others | Total |
| Fire insurance | \$ 68,809 | \$ 3,326 | \$ 12,898 | \$ 9,682 | \$ 94,715 |
| Marine insurance | 23,549 | 1 | 599 | 955 | 25,104 |
| Land and air insurance | 343,131 | 71 | 1,796 | 149,160 | 494,158 |
| Liability insurance | 76,788 | 28 | 99 | 13,622 | 90,537 |
| Guarantee insurance | 1,815 | (7) | (155) | 187 | 1,840 |
| Other property insurance | 30,471 | 386 | 4,139 | 1,985 | 36,981 |
| Accident insurance | 99,705 | 2 | 79 | 35,486 | 135,272 |
| Health insurance | 7,680 | 169 | 679 | 368 | 8,896 |
| Policy-oriented residential earthquake insurance | 2,797 | 30 | - | 3,417 | 6,244 |
| Compulsory automobile liability insurance | - | 83,073 | - | - | 83,073 |
| | <u>\$ 654,745</u> | <u>\$ 87,079</u> | <u>\$ 20,134</u> | <u>\$ 214,862</u> | <u>\$ 976,820</u> |
| For the Three Months Ended September 30, 2021 | | | | | |
| Insurance Type | Commission Expenses | Service fee Charge | Reinsurance Commission Expenses | Others | Total |
| Fire insurance | \$ 65,559 | \$ 3,002 | \$ 43,311 | \$ 10,280 | \$ 122,152 |
| Marine insurance | 15,673 | 106 | 387 | 623 | 16,789 |
| Land and air insurance | 332,358 | 1 | 2,997 | 134,323 | 469,679 |
| Liability insurance | 65,778 | 14 | 794 | 11,325 | 77,911 |
| Guarantee insurance | 2,157 | (4) | 1,394 | 172 | 3,719 |
| Other property insurance | 27,505 | 516 | 2,967 | 1,515 | 32,503 |
| Accident insurance | 92,599 | 439 | (499) | 27,585 | 120,124 |
| Health insurance | 37,497 | 229 | 1,002 | 1,015 | 39,743 |
| Policy-oriented residential earthquake insurance | 2,934 | 54 | - | 3,208 | 6,196 |
| Compulsory automobile liability insurance | - | 86,387 | - | - | 86,387 |
| | <u>\$ 642,060</u> | <u>\$ 90,744</u> | <u>\$ 52,353</u> | <u>\$ 190,046</u> | <u>\$ 975,203</u> |

For the Nine Months Ended September 30, 2022

| Insurance Type | Commission Expenses | Service fee Charge | Reinsurance | | Total |
|--|---------------------|--------------------|---------------------|-------------------|---------------------|
| | | | Commission Expenses | Others | |
| Fire insurance | \$ 174,593 | \$ 7,312 | \$ 56,418 | \$ 29,518 | \$ 267,841 |
| Marine insurance | 73,348 | 166 | 1,538 | 2,331 | 77,383 |
| Land and air insurance | 987,093 | 124 | 5,160 | 425,068 | 1,417,445 |
| Liability insurance | 191,090 | 96 | (262) | 35,908 | 226,832 |
| Guarantee insurance | 8,123 | 118 | 2,011 | 586 | 10,838 |
| Other property insurance | 112,208 | 936 | 12,829 | 5,434 | 131,407 |
| Accident insurance | 267,657 | 61 | (779) | 90,467 | 357,406 |
| Health insurance | 98,315 | 221 | 885 | 2,559 | 101,980 |
| Policy-oriented residential earthquake insurance | 8,616 | 103 | - | 9,961 | 18,680 |
| Compulsory automobile liability insurance | - | 235,136 | - | - | 235,136 |
| | <u>\$ 1,921,043</u> | <u>\$ 244,273</u> | <u>\$ 77,800</u> | <u>\$ 601,832</u> | <u>\$ 2,844,948</u> |

For the Nine Months Ended September 30, 2021

| Insurance Type | Commission Expenses | Service fee Charge | Reinsurance | | Total |
|--|---------------------|--------------------|---------------------|-------------------|---------------------|
| | | | Commission Expenses | Others | |
| Fire insurance | \$ 145,883 | \$ 14,638 | \$ 118,629 | \$ 18,415 | \$ 297,565 |
| Marine insurance | 50,515 | 454 | 3,546 | 1,396 | 55,911 |
| Land and air insurance | 915,095 | 508 | 19,010 | 349,083 | 1,283,696 |
| Liability insurance | 162,463 | 62 | 1,226 | 26,280 | 190,031 |
| Guarantee insurance | 9,328 | 71 | 2,473 | 624 | 12,496 |
| Other property insurance | 64,634 | 3,563 | 13,831 | 3,126 | 85,154 |
| Accident insurance | 255,604 | 1,235 | (390) | 64,629 | 321,078 |
| Health insurance | 175,835 | 309 | 1,322 | 1,642 | 179,108 |
| Policy-oriented residential earthquake insurance | 13,219 | 111 | - | 4,490 | 17,820 |
| Compulsory automobile liability insurance | - | 273,823 | - | - | 273,823 |
| | <u>\$ 1,792,576</u> | <u>\$ 294,774</u> | <u>\$ 159,647</u> | <u>\$ 469,685</u> | <u>\$ 2,716,682</u> |

Acquisition costs of the insurance contracts were not deferred.

6) Profit and loss analysis of the insurance business

Direct underwriting business

| For the Three Months Ended September 30, 2022 | | | | | | |
|--|---|--|--|--|------------------------------------|-----------------------|
| Insurance Type | Written Premium (Net of Premium Allowance) | Net Changes in Unearned Premium Reserve | Acquisition Cost of Insurance Contracts | Claims and Payments (Including Claim Expense) | Net Changes in Loss Reserve | Profit (Loss) |
| Fire insurance | \$ 978,745 | \$ (64,183) | \$ 81,817 | \$ 180,735 | \$ 327,293 | \$ 453,083 |
| Marine insurance | 201,428 | (64,360) | 24,505 | 130,720 | 40,548 | 70,015 |
| Land and air insurance | 3,132,258 | 95,541 | 492,361 | 1,534,325 | 282,347 | 727,684 |
| Liability insurance | 727,427 | 182,668 | 90,438 | 214,688 | (27,072) | 266,705 |
| Guarantee insurance | 21,444 | (9,814) | 1,995 | 3,367 | 1,568 | 24,328 |
| Other property insurance | 203,444 | (155,681) | 32,844 | 1,328,111 | (1,108,859) | 107,029 |
| Accident insurance | 870,029 | 22,585 | 135,192 | 240,841 | 82,448 | 388,963 |
| Health insurance | 38,084 | (120,434) | 8,218 | 13,418,140 | (1,622,571) | (11,645,269) |
| Policy-oriented residential earthquake insurance | 115,783 | (155) | 6,243 | - | - | 109,695 |
| Compulsory automobile liability insurance | <u>761,601</u> | <u>(1,213)</u> | <u>83,073</u> | <u>507,189</u> | <u>32,702</u> | <u>139,850</u> |
| | <u>\$ 7,050,243</u> | <u>\$ (115,046)</u> | <u>\$ 956,686</u> | <u>\$ 17,558,116</u> | <u>\$ (1,991,596)</u> | <u>\$ (9,357,917)</u> |

| For the Three Months Ended September 30, 2021 | | | | | | |
|--|---|--|--|--|------------------------------------|----------------------|
| Insurance Type | Written Premium (Net of Premium Allowance) | Net Changes in Unearned Premium Reserve | Acquisition Cost of Insurance Contracts | Claims and Payments (Including Claim Expense) | Net Changes in Loss Reserve | Profit (Loss) |
| Fire insurance | \$ 691,899 | \$ (200,600) | \$ 78,843 | \$ 484,655 | \$ (80,790) | \$ 409,791 |
| Marine insurance | 143,361 | (68,238) | 16,402 | 56,769 | (143,005) | 281,433 |
| Land and air insurance | 2,725,773 | 29,233 | 466,683 | 1,365,096 | (96,518) | 961,279 |
| Liability insurance | 588,939 | 159,432 | 77,118 | 218,542 | (112,429) | 246,276 |
| Guarantee insurance | 26,465 | (2,583) | 2,326 | 726 | 2,627 | 23,369 |
| Other property insurance | 208,687 | (67,608) | 29,531 | 54,839 | 43,710 | 148,215 |
| Accident insurance | 754,680 | 36,050 | 120,622 | 300,058 | 9,980 | 287,970 |
| Health insurance | 220,695 | (37,485) | 38,742 | 80,110 | 45,320 | 94,008 |
| Policy-oriented residential earthquake insurance | 110,650 | (883) | 6,196 | - | (12) | 105,349 |
| Compulsory automobile liability insurance | <u>753,965</u> | <u>485</u> | <u>86,387</u> | <u>525,363</u> | <u>18,515</u> | <u>123,215</u> |
| | <u>\$ 6,225,114</u> | <u>\$ (152,197)</u> | <u>\$ 922,850</u> | <u>\$ 3,086,158</u> | <u>\$ (312,602)</u> | <u>\$ 2,680,905</u> |

For the Nine Months Ended September 30, 2022

| Insurance Type | Written Premium (Net of Premium Allowance) | Net Changes in Unearned Premium Reserve | Acquisition Cost of Insurance Contracts | Claims and Payments (Including Claim Expense) | Net Changes in Loss Reserve | Profit (Loss) |
|--|--|---|---|---|-----------------------------|------------------------|
| Fire insurance | \$ 3,403,135 | \$ 381,239 | \$ 211,423 | \$ 1,041,386 | \$ 788,592 | \$ 980,495 |
| Marine insurance | 762,065 | 7,417 | 75,846 | 437,470 | 207,721 | 33,611 |
| Land and air insurance | 8,994,754 | 225,040 | 1,412,284 | 4,532,002 | 485,815 | 2,339,613 |
| Liability insurance | 1,695,532 | 178,850 | 227,094 | 617,012 | 49,524 | 623,052 |
| Guarantee insurance | 81,402 | (5,495) | 8,827 | (3,836) | 2,084 | 79,822 |
| Other property insurance | 1,166,332 | 53,365 | 118,578 | 1,772,449 | 308,797 | (1,086,857) |
| Accident insurance | 2,394,739 | 16,416 | 358,185 | 759,840 | 93,815 | 1,166,483 |
| Health insurance | 551,567 | (143,051) | 101,096 | 15,261,682 | 2,381,916 | (17,050,076) |
| Policy-oriented residential earthquake insurance | 346,933 | 3,145 | 18,679 | - | - | 325,109 |
| Compulsory automobile liability insurance | <u>2,152,982</u> | <u>3,894</u> | <u>235,136</u> | <u>1,488,953</u> | <u>54,611</u> | <u>370,388</u> |
| | <u>\$ 21,549,441</u> | <u>\$ 720,820</u> | <u>\$ 2,767,148</u> | <u>\$ 25,906,958</u> | <u>\$ 4,372,875</u> | <u>\$ (12,218,360)</u> |

For the Nine Months Ended September 30, 2021

| Insurance Type | Written Premium (Net of Premium Allowance) | Net Changes in Unearned Premium Reserve | Acquisition Cost of Insurance Contracts | Claims and Payments (Including Claim Expense) | Net Changes in Loss Reserve | Profit (Loss) |
|--|--|---|---|---|-----------------------------|---------------------|
| Fire insurance | \$ 2,427,098 | \$ (107,730) | \$ 178,937 | \$ 844,307 | \$ 1,401,140 | \$ 110,444 |
| Marine insurance | 583,245 | (43,103) | 52,365 | 181,465 | 109,288 | 283,230 |
| Land and air insurance | 7,941,114 | 119,510 | 1,264,687 | 4,342,478 | (30,491) | 2,244,930 |
| Liability insurance | 1,396,287 | 169,860 | 188,806 | 527,693 | (11,971) | 521,899 |
| Guarantee insurance | 92,542 | 9,372 | 10,023 | (28,331) | (8,094) | 109,572 |
| Other property insurance | 768,458 | (57,341) | 71,319 | 248,468 | (56,416) | 562,428 |
| Accident insurance | 2,149,914 | 42,594 | 321,467 | 914,543 | (12,363) | 883,673 |
| Health insurance | 976,982 | 572,404 | 177,787 | 135,864 | 62,116 | 28,811 |
| Policy-oriented residential earthquake insurance | 331,762 | (2,016) | 17,821 | - | - | 315,957 |
| Compulsory automobile liability insurance | <u>2,119,240</u> | <u>(2,004)</u> | <u>273,823</u> | <u>1,486,981</u> | <u>(82,968)</u> | <u>443,408</u> |
| | <u>\$ 18,786,642</u> | <u>\$ 701,546</u> | <u>\$ 2,557,035</u> | <u>\$ 8,653,468</u> | <u>\$ 1,370,241</u> | <u>\$ 5,504,352</u> |

Reinsurance inward business

| For the Three Months Ended September 30, 2022 | | | | | | |
|--|----------------------------|--|---------------------------------------|--------------------------|------------------------------------|----------------------|
| Insurance Type | Reinsurance Premium | Net Changes in Unearned Premium Reserve | Reinsurance Commission Expense | Reinsurance Claim | Net Changes in Loss Reserve | Profit (Loss) |
| Fire insurance | \$ 92,219 | \$ (30,499) | \$ 12,898 | \$ 101,037 | \$ 9,156 | \$ (373) |
| Marine insurance | 3,795 | (8,818) | 599 | 2,878 | 3,297 | 5,839 |
| Land and air insurance | 11,203 | (3,134) | 1,796 | 10,619 | (21) | 1,942 |
| Liability insurance | 74 | (1,314) | 99 | 73 | (252) | 1,468 |
| Guarantee insurance | 1,401 | 240 | (155) | 1,557 | (299) | 58 |
| Other property insurance | 21,901 | (3,133) | 4,139 | 12,218 | (38) | 8,715 |
| Accident insurance | 2,581 | (644) | 79 | 269 | 588 | 2,289 |
| Health insurance | 6,784 | 788 | 679 | 5,545 | 345 | (573) |
| Policy-oriented residential earthquake insurance | 14,525 | (85) | - | - | - | 14,610 |
| Compulsory automobile liability insurance | <u>187,473</u> | <u>266</u> | <u>-</u> | <u>182,698</u> | <u>(7,616)</u> | <u>12,125</u> |
| | <u>\$ 341,956</u> | <u>\$ (46,332)</u> | <u>\$ 20,134</u> | <u>\$ 316,894</u> | <u>\$ 5,160</u> | <u>\$ 46,100</u> |

| For the Three Months Ended September 30, 2021 | | | | | | |
|--|----------------------------|--|---------------------------------------|--------------------------|------------------------------------|----------------------|
| Insurance Type | Reinsurance Premium | Net Changes in Unearned Premium Reserve | Reinsurance Commission Expense | Reinsurance Claim | Net Changes in Loss Reserve | Profit (Loss) |
| Fire insurance | \$ 189,995 | \$ (9,649) | \$ 43,311 | \$ 82,555 | \$ 4,259 | \$ 69,519 |
| Marine insurance | 4,831 | (2,446) | 387 | 14,793 | (8,345) | 442 |
| Land and air insurance | 12,013 | (5,780) | 2,997 | 4,374 | 2,191 | 8,231 |
| Liability insurance | 2,117 | 668 | 793 | 143 | (49) | 562 |
| Guarantee insurance | 6,016 | 1,138 | 1,394 | 1,498 | 785 | 1,201 |
| Other property insurance | 17,750 | (11,290) | 2,968 | 32,486 | 6,186 | (12,600) |
| Accident insurance | 1,369 | (643) | (499) | 3,035 | (2,041) | 1,517 |
| Health insurance | 9,172 | 2,924 | 1,002 | 5,499 | 1,371 | (1,624) |
| Policy-oriented residential earthquake insurance | 14,588 | 911 | - | - | - | 13,677 |
| Compulsory automobile liability insurance | <u>188,284</u> | <u>(4,698)</u> | <u>-</u> | <u>163,489</u> | <u>(2,283)</u> | <u>31,776</u> |
| | <u>\$ 446,135</u> | <u>\$ (28,865)</u> | <u>\$ 52,353</u> | <u>\$ 307,872</u> | <u>\$ 2,074</u> | <u>\$ 112,701</u> |

For the Nine Months Ended September 30, 2022

| Insurance Type | Reinsurance Premium | Net Changes in Unearned Premium Reserve | Reinsurance Commission Expense | Reinsurance Claim | Net Changes in Loss Reserve | Profit (Loss) |
|---|------------------------|--|--------------------------------------|----------------------|-----------------------------------|------------------|
| Fire insurance | \$ 340,023 | \$ (92,330) | \$ 56,418 | \$ 294,372 | \$ 64,522 | \$ 17,041 |
| Marine insurance | 23,709 | (7,570) | 1,538 | 37,821 | 14,744 | (22,824) |
| Land and air insurance | 19,563 | (7,226) | 5,160 | 32,069 | 883 | (11,323) |
| Liability insurance | 1,422 | (2,416) | (262) | 252 | 38 | 3,810 |
| Guarantee insurance | 7,714 | (1,145) | 2,011 | 10,382 | (4,095) | 561 |
| Other property insurance | 56,345 | (11,934) | 12,829 | 42,346 | (26,158) | 39,262 |
| Accident insurance | 3,768 | (4,246) | (779) | 2,541 | (117) | 6,369 |
| Health insurance | 8,848 | 2,351 | 885 | 9,824 | (1,454) | (2,758) |
| Policy-oriented residential earthquake insurance | 47,479 | 3,155 | - | - | - | 44,324 |
| Compulsory automobile liability insurance | <u>565,500</u> | <u>8,550</u> | <u>-</u> | <u>538,338</u> | <u>28,425</u> | <u>(9,813)</u> |
| | <u>\$ 1,074,371</u> | <u>\$ (112,811)</u> | <u>\$ 77,800</u> | <u>\$ 967,945</u> | <u>\$ 76,788</u> | <u>\$ 64,649</u> |

For the Nine Months Ended September 30, 2021

| Insurance Type | Reinsurance Premium | Net Changes in Unearned Premium Reserve | Reinsurance Commission Expense | Reinsurance Claim | Net Changes in Loss Reserve | Profit (Loss) |
|---|------------------------|--|--------------------------------------|----------------------|-----------------------------------|--------------------|
| Fire insurance | \$ 556,894 | \$ 108,896 | \$ 118,629 | \$ 276,719 | \$ 127,497 | \$ (74,847) |
| Marine insurance | 24,157 | (1,706) | 3,546 | 38,929 | 1,229 | (17,841) |
| Land and air insurance | 110,404 | 11,740 | 19,010 | 35,136 | 13,793 | 30,725 |
| Liability insurance | 6,072 | 2,181 | 1,226 | 239 | (175) | 2,601 |
| Guarantee insurance | 8,787 | (3,881) | 2,473 | 3,288 | (295) | 7,202 |
| Other property insurance | 113,889 | (4,828) | 13,831 | 129,593 | (11,894) | (12,813) |
| Accident insurance | 9,791 | 730 | (390) | 5,705 | (1,153) | 4,899 |
| Health insurance | 12,371 | 2,439 | 1,322 | 8,477 | 2,037 | (1,904) |
| Policy-oriented residential earthquake insurance | 45,605 | 4,853 | - | - | - | 40,752 |
| Compulsory automobile liability insurance | <u>550,338</u> | <u>(7,667)</u> | <u>-</u> | <u>600,518</u> | <u>(197)</u> | <u>(42,316)</u> |
| | <u>\$ 1,438,308</u> | <u>\$ 112,757</u> | <u>\$ 159,647</u> | <u>\$ 1,098,604</u> | <u>\$ 130,842</u> | <u>\$ (63,542)</u> |

Ceded reinsurance business

| For the Three Months Ended September 30, 2022 | | | | | | |
|--|-----------------------------|--|--------------------------------------|--|--|----------------------|
| Insurance Type | Reinsurance Expenses | Net Changes in Ceded Unearned Premium Reserve | Reinsurance Commission Income | Claims and Payments (Recovered from Reinsurers) | Net Changes in Ceded Loss Reserve | (Profit) Loss |
| Fire insurance | \$ 651,662 | \$ (130,216) | \$ 73,003 | \$ 66,097 | \$ 225,247 | \$ 417,531 |
| Marine insurance | 142,511 | (60,772) | 19,326 | 79,162 | 20,508 | 84,287 |
| Land and air insurance | 118,269 | 4,917 | 26,623 | 72,512 | (11,495) | 25,712 |
| Liability insurance | 326,566 | 166,930 | 58,407 | 70,319 | (34,161) | 65,071 |
| Guarantee insurance | 21,535 | 2,601 | 3,443 | 124 | 1,501 | 13,866 |
| Other property insurance | 166,912 | (59,221) | 43,354 | 38,769 | (200,561) | 344,571 |
| Accident insurance | 88,249 | 10,457 | 19,781 | 30,641 | 10,577 | 16,793 |
| Health insurance | 1,629 | (41,105) | 542 | 1,931,524 | (458,398) | (1,430,934) |
| Policy-oriented residential earthquake insurance | 115,783 | (155) | - | - | - | 115,938 |
| Compulsory automobile liability insurance | <u>321,380</u> | <u>(727)</u> | <u>-</u> | <u>296,857</u> | <u>21,489</u> | <u>3,761</u> |
| | <u>\$ 1,954,496</u> | <u>\$ (107,291)</u> | <u>\$ 244,479</u> | <u>\$ 2,586,005</u> | <u>\$ (425,293)</u> | <u>\$ (343,404)</u> |

| For the Three Months Ended September 30, 2021 | | | | | | |
|--|-----------------------------|--|--------------------------------------|--|--|----------------------|
| Insurance Type | Reinsurance Expenses | Net Changes in Ceded Unearned Premium Reserve | Reinsurance Commission Income | Claims and Payments (Recovered from Reinsurers) | Net Changes in Ceded Loss Reserve | (Profit) Loss |
| Fire insurance | \$ 365,853 | \$ (177,796) | \$ 41,354 | \$ 435,469 | \$ (153,179) | \$ 220,005 |
| Marine insurance | 74,317 | (61,373) | 12,408 | 27,452 | (145,635) | 241,465 |
| Land and air insurance | 109,862 | 10,347 | 26,527 | 33,983 | (20,810) | 59,815 |
| Liability insurance | 230,480 | 102,624 | 39,645 | 97,749 | (67,191) | 57,653 |
| Guarantee insurance | 18,796 | 3,054 | 3,318 | (30) | 157 | 12,297 |
| Other property insurance | 136,929 | (23,824) | 27,768 | 28,639 | 25,710 | 78,636 |
| Accident insurance | 58,456 | (2,375) | 15,778 | 18,103 | 170 | 26,780 |
| Health insurance | 43,273 | (81,323) | 17,005 | 42,809 | 18,172 | 46,610 |
| Policy-oriented residential earthquake insurance | 110,650 | (883) | - | - | - | 111,533 |
| Compulsory automobile liability insurance | <u>318,143</u> | <u>292</u> | <u>-</u> | <u>309,156</u> | <u>14,121</u> | <u>(5,426)</u> |
| | <u>\$ 1,466,759</u> | <u>\$ (231,257)</u> | <u>\$ 183,803</u> | <u>\$ 993,330</u> | <u>\$ (328,485)</u> | <u>\$ 849,368</u> |

For the Nine Months Ended September 30, 2022

| Insurance Type | Reinsurance Expenses | Net Changes in Ceded Unearned Premium Reserve | Reinsurance Commission Income | Claims and Payments (Recovered from Reinsurers) | Net Changes in Ceded Loss Reserve | (Profit) Loss |
|--|----------------------|---|-------------------------------|---|-----------------------------------|-----------------------|
| Fire insurance | \$ 2,454,232 | \$ 427,833 | \$ 193,798 | \$ 447,280 | \$ 816,337 | \$ 568,984 |
| Marine insurance | 598,097 | 15,657 | 63,417 | 306,015 | 141,169 | 71,839 |
| Land and air insurance | 343,203 | 8,873 | 80,070 | 156,736 | 24,046 | 73,478 |
| Liability insurance | 566,847 | 117,134 | 118,247 | 189,807 | (58,775) | 200,434 |
| Guarantee insurance | 56,379 | 3,217 | 10,089 | (2,593) | 2,531 | 43,135 |
| Other property insurance | 861,056 | 48,153 | 134,789 | 161,876 | 124,875 | 391,363 |
| Accident insurance | 266,350 | 77,987 | 59,124 | 70,339 | 15,701 | 43,199 |
| Health insurance | 100,906 | (159,394) | 37,876 | 2,963,212 | 372,210 | (3,112,998) |
| Policy-oriented residential earthquake insurance | 346,933 | 3,145 | - | - | - | 343,788 |
| Compulsory automobile liability insurance | 903,970 | 2,336 | - | 875,097 | 29,509 | (2,972) |
| | <u>\$ 6,497,973</u> | <u>\$ 544,941</u> | <u>\$ 697,410</u> | <u>\$ 5,167,769</u> | <u>\$ 1,467,603</u> | <u>\$ (1,379,750)</u> |

For the Nine Months Ended September 30, 2021

| Insurance Type | Reinsurance Expenses | Net Changes in Ceded Unearned Premium Reserve | Reinsurance Commission Income | Claims and Payments (Recovered from Reinsurers) | Net Changes in Ceded Loss Reserve | (Profit) Loss |
|--|----------------------|---|-------------------------------|---|-----------------------------------|-------------------|
| Fire insurance | \$ 1,596,377 | \$ (7,193) | \$ 115,547 | \$ 650,691 | \$ 1,135,120 | \$ (297,788) |
| Marine insurance | 353,888 | (48,370) | 46,016 | 114,001 | 55,342 | 186,899 |
| Land and air insurance | 313,090 | 19,360 | 76,510 | 115,215 | 24,847 | 77,158 |
| Liability insurance | 407,166 | 35,773 | 83,567 | 166,907 | (1,085) | 122,004 |
| Guarantee insurance | 58,978 | 12,599 | 9,836 | (32,661) | (14,544) | 83,748 |
| Other property insurance | 570,630 | 32,586 | 91,840 | 150,722 | (42,100) | 337,582 |
| Accident insurance | 171,503 | 24,069 | 45,064 | 61,944 | 738 | 39,688 |
| Health insurance | 520,012 | 335,791 | 207,700 | 59,787 | 23,373 | (106,639) |
| Policy-oriented residential earthquake insurance | 331,762 | (2,016) | - | - | - | 333,778 |
| Compulsory automobile liability insurance | 889,113 | (1,202) | - | 870,336 | (52,360) | 72,339 |
| | <u>\$ 5,212,519</u> | <u>\$ 401,397</u> | <u>\$ 676,080</u> | <u>\$ 2,156,942</u> | <u>\$ 1,129,331</u> | <u>\$ 848,769</u> |

7) Sensitivity to insurance risk

a) Cathay Century

For the nine months ended September 30, 2022

| Insurance Type | Premium Income | Expected Loss Rate | Impact on Profit or Loss of 5% Increase in Expected Loss Rate | |
|--|----------------------|--------------------|---|-----------------------|
| | | | Before Reinsurance | After Reinsurance |
| Fire insurance | \$ 3,170,972 | 41.30% | \$ (158,549) | \$ (65,320) |
| Marine insurance | 755,902 | 50.50% | (37,795) | (15,978) |
| Land and air insurance | 8,813,778 | 60.87% | (440,689) | (430,413) |
| Liability insurance | 1,693,061 | 50.47% | (84,653) | (57,288) |
| Guarantee insurance | 81,402 | 29.05% | (4,070) | (22) |
| Other property insurance | 1,161,114 | 47.59% | (58,056) | (18,480) |
| Accident insurance | 2,363,042 | 44.30% | (118,152) | (112,098) |
| Health insurance | 551,567 | 35.14% | (27,578) | (19,664) |
| Policy-oriented residential earthquake insurance | 346,933 | 4.10% | (17,347) | (8,673) |
| Compulsory automobile liability insurance | <u>2,152,982</u> | Not applicable | <u>Not applicable</u> | <u>Not applicable</u> |
| | <u>\$ 21,090,753</u> | | <u>\$ (946,889)</u> | <u>\$ (727,936)</u> |

For the nine months ended September 30, 2021

| Insurance Type | Premium Income | Expected Loss Rate | Impact on Profit or Loss of 5% Increase in Expected Loss Rate | |
|--|----------------------|--------------------|---|-----------------------|
| | | | Before Reinsurance | After Reinsurance |
| Fire insurance | \$ 2,245,437 | 48.06% | \$ (112,272) | \$ (68,607) |
| Marine insurance | 575,894 | 45.03% | (28,795) | (13,531) |
| Land and air insurance | 7,821,746 | 62.59% | (391,087) | (382,636) |
| Liability insurance | 1,395,276 | 50.74% | (69,764) | (46,556) |
| Guarantee insurance | 92,542 | 38.81% | (4,627) | (963) |
| Other property insurance | 764,127 | 51.20% | (38,206) | (8,614) |
| Accident insurance | 2,124,112 | 43.81% | (106,206) | (101,506) |
| Health insurance | 976,982 | 32.94% | (48,849) | (39,983) |
| Policy-oriented residential earthquake insurance | 331,762 | 11.00% | (16,588) | (3,318) |
| Compulsory automobile liability insurance | <u>2,119,240</u> | Not applicable | <u>Not applicable</u> | <u>Not applicable</u> |
| | <u>\$ 18,447,118</u> | | <u>\$ (816,394)</u> | <u>\$ (665,714)</u> |

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

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Century, profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

b) Cathay Insurance (Vietnam)

For the nine months ended September 30, 2022

| Insurance Type | Premium Income | Expected Loss Rate | Impact on Profit or Loss of 5% Change in Expected Loss Rate | |
|-----------------------|-------------------|--------------------|--|--------------------|
| | | | Before Reinsurance | After Reinsurance |
| Automobile insurance | \$ 180,976 | 16.85% | \$ (9,049) | \$ (9,005) |
| Marine insurance | 6,163 | 19.80% | (308) | (111) |
| Fire insurance | 232,163 | 40.48% | (11,608) | (933) |
| Engineering insurance | 5,218 | 53.45% | (256) | (49) |
| Accident insurance | 31,697 | 36.42% | (1,585) | (1,570) |
| Liability insurance | <u>2,471</u> | 8.27% | <u>(128)</u> | <u>(50)</u> |
| | <u>\$ 458,688</u> | | <u>\$ (22,934)</u> | <u>\$ (11,718)</u> |

For the nine months ended September 30, 2021

| Insurance Type | Premium Income | Expected Loss Rate | Impact on Profit or Loss of 5% Change in Expected Loss Rate | |
|-----------------------|-------------------|--------------------|--|-------------------|
| | | | Before Reinsurance | After Reinsurance |
| Automobile insurance | \$ 119,368 | 21.52% | \$ (5,968) | \$ (5,952) |
| Marine insurance | 7,351 | 18.45% | (368) | (104) |
| Fire insurance | 181,661 | 31.49% | (9,083) | (2,007) |
| Engineering insurance | 4,331 | 65.21% | (217) | (37) |
| Accident insurance | 25,802 | 39.86% | (1,290) | (1,290) |
| Liability insurance | <u>1,011</u> | 12.16% | <u>(51)</u> | <u>(20)</u> |
| | <u>\$ 339,524</u> | | <u>\$ (16,977)</u> | <u>\$ (9,410)</u> |

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

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Insurance (Vietnam), profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

8) Risk concentration

a) Cathay Century

i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

As of September 30, 2022, commercial insurance products with low frequency of occurrence and enormous possible losses have been reviewed and discussed in compliance with the underwriting guidelines by the underwriting department, reinsurance department and risk management department or in project meeting.

ii) Exposure to unanticipated changes in trend

As of September 30, 2022, the loss rates of pandemic insurance have increased due to the huge claims and loss estimate.

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

“The Regulations for Assisting in Filing Lawsuit Cases of Cathay Century Insurance” were set up to safeguard the rights of Cathay Century and the insured and to monitor the process of insurance claim lawsuits. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of September 30, 2022, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

iv) Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Century established “points for handling teams of catastrophe and major event” and “Operation Standards under Crisis”, under which crisis handling team is set up in reaction to the event and executes emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and Cathay Century and to keep financial stability. As of September 30, 2022, measures have been taken to deal with the impact of COVID-19 on operating, insurance and investment business.

v) When a non-linear relationship as a certain key variable has approached to the extent that future cash flows may be materially influenced

Since the 3rd stage of liberalization of property insurance premium rate took effect, Cathay Century has conducted regular reviews the accordance with regulations. When the actual loss rate exceeds the expected loss rate to a certain percentage, premium rates will be properly adjusted to avoid persistent enlargement of losses. In addition, the actuarial department observes the changes in trend of loss rates of each product on irregular basis and adjusts pricing and coverage in a timely manner to effectively lower insurance risks.

For investment instruments, changes in risk indicators are monitored on a regular basis with cash flow analysis as well as stress testing, to control and manage the impact of fluctuations in major risk factors.

In addition, stress testing is performed for the overall business every year to assess the impacts on financial positions due to extreme scenarios of the assets and insurance risk and understand the major risk factors to response in advance.

vi) Concentration of geographic regions and operating segments

Cathay Century's catastrophe insurance for earthquakes and floods are mainly in the areas of Taoyuan, Hsinchu, Taichung, Chiayi, Tainan, Kaohsiung and Pingtung.

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

The following table summarizes Cathay Century's concentration of risk before and after reinsurance by insurance type:

| Insurance Type | For the Three Months Ended September 30, 2022 | | | | |
|--|---|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Fire insurance | \$ 913,732 | \$ 84,130 | \$ 585,092 | \$ 412,770 | 7.71 |
| Marine insurance | 199,057 | 2,082 | 139,428 | 61,711 | 1.15 |
| Land and air insurance | 3,069,940 | 10,867 | 118,269 | 2,962,538 | 55.33 |
| Liability insurance | 726,833 | (586) | 325,996 | 400,251 | 7.48 |
| Guarantee insurance | 21,444 | 1,401 | 21,535 | 1,310 | 0.02 |
| Other property insurance | 200,308 | 17,287 | 160,563 | 57,032 | 1.07 |
| Accident insurance | 858,884 | 2,581 | 88,249 | 773,216 | 14.44 |
| Health insurance | 38,084 | 6,784 | 1,629 | 43,239 | 0.81 |
| Policy-oriented residential earthquake insurance | 115,783 | 14,525 | 115,783 | 14,525 | 0.27 |
| Compulsory automobile liability insurance | 761,601 | 187,473 | 321,380 | 627,694 | 11.72 |
| Total | \$ 6,905,666 | \$ 326,544 | \$ 1,877,924 | \$ 5,354,286 | 100.00 |

| Insurance Type | For the Three Months Ended September 30, 2021 | | | | |
|--|---|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Fire insurance | \$ 649,292 | \$ 188,499 | \$ 326,378 | \$ 511,413 | 9.91 |
| Marine insurance | 140,812 | 4,831 | 72,594 | 73,049 | 1.42 |
| Land and air insurance | 2,695,420 | 12,014 | 109,862 | 2,597,572 | 50.34 |
| Liability insurance | 588,865 | 2,117 | 230,435 | 360,547 | 6.99 |
| Guarantee insurance | 26,465 | 6,016 | 18,796 | 13,685 | 0.27 |
| Other property insurance | 207,562 | 17,727 | 136,194 | 89,095 | 1.72 |
| Accident insurance | 745,678 | 1,332 | 58,456 | 688,554 | 13.35 |
| Health insurance | 220,695 | 9,172 | 43,273 | 186,594 | 3.62 |
| Policy-oriented residential earthquake insurance | 110,650 | 14,588 | 110,650 | 14,588 | 0.28 |
| Compulsory automobile liability insurance | 753,965 | 188,284 | 318,143 | 624,106 | 12.10 |
| Total | \$ 6,139,404 | \$ 444,580 | \$ 1,424,781 | \$ 5,159,203 | 100.00 |

| Insurance Type | For the Nine Months Ended September 30, 2022 | | | | |
|--|--|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Fire insurance | \$ 3,170,972 | \$ 339,833 | \$ 2,247,419 | \$ 1,263,386 | 7.96 |
| Marine insurance | 755,902 | 21,683 | 592,411 | 185,174 | 1.17 |
| Land and air insurance | 8,813,778 | 18,787 | 343,171 | 8,489,394 | 53.46 |
| Liability insurance | 1,693,061 | 606 | 565,511 | 1,128,156 | 7.10 |
| Guarantee insurance | 81,402 | 7,714 | 56,379 | 32,737 | 0.21 |
| Other property insurance | 1,161,114 | 49,798 | 852,709 | 358,203 | 2.25 |
| Accident insurance | 2,363,042 | 3,768 | 266,350 | 2,100,460 | 13.23 |
| Health insurance | 551,567 | 8,848 | 100,906 | 459,509 | 2.89 |
| Policy-oriented residential earthquake insurance | 346,933 | 47,479 | 346,933 | 47,479 | 0.30 |
| Compulsory automobile liability insurance | 2,152,982 | 565,500 | 903,970 | 1,814,512 | 11.43 |
| Total | \$21,090,753 | \$ 1,064,016 | \$ 6,275,759 | \$ 15,879,010 | 100.00 |

| Insurance Type | For the Nine Months Ended September 30, 2022 | | | | |
|--|--|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Fire insurance | \$ 2,245,437 | \$ 561,938 | \$ 1,434,133 | \$ 1,373,242 | 9.25 |
| Marine insurance | 575,894 | 24,157 | 349,043 | 251,008 | 1.69 |
| Land and air insurance | 7,821,746 | 110,339 | 313,072 | 7,619,013 | 51.31 |
| Liability insurance | 1,395,276 | 6,036 | 406,490 | 994,822 | 6.70 |
| Guarantee insurance | 92,542 | 8,787 | 58,978 | 42,351 | 0.29 |
| Other property insurance | 764,127 | 112,655 | 566,450 | 310,332 | 2.08 |
| Accident insurance | 2,124,112 | 9,754 | 171,503 | 1,962,363 | 13.22 |
| Health insurance | 976,982 | 12,371 | 520,012 | 469,341 | 3.16 |
| Policy-oriented residential earthquake insurance | 331,762 | 45,605 | 331,762 | 45,605 | 0.31 |
| Compulsory automobile liability insurance | 2,119,240 | 550,338 | 889,113 | 1,780,465 | 11.99 |
| Total | \$ 18,447,118 | \$ 1,441,980 | \$ 5,040,556 | \$ 14,848,542 | 100.00 |

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

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

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

b) Cathay Insurance (Vietnam)

- i. Situations that may cause concentration of insurance risk:

i) Single insurance contract or several related contracts

As of September 30, 2022, commercial insurance products with low frequency of occurrence and enormous possible losses have been reviewed and discussed in compliance with the underwriting guidelines by the underwriting department, reinsurance department and risk management department or in project meeting.

ii) Exposure to unanticipated changes in trend

As of September 30, 2022, the premium income of comprehensive travel insurance have increased compared to the same period last year due to the pandemic of COVID-19 slows down and the demand for domestic tourism increases and Cathay Insurance (Vietnam) will keep on observing risk exposure.

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

“The Procedure for Subrogation” and “The Proceedings of the Court” are set up to safeguard the rights of Cathay Insurance (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of September 30, 2022, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

- iv) Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Insurance Co., Ltd. (Vietnam) established the Points for Handling Major Events of Cathay Insurance Co., Ltd. (Vietnam) under which emergency handling team is set up in reaction to the event and executes emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to maintain financial stability. For the nine months ended September 30, 2022, there is no interaction among risks resulting from a catastrophe.

- v) Concentration of geographical regions and operating segments

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

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

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

| Insurance Type | For the Three Months Ended September 30, 2022 | | | | |
|-----------------------|---|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Automobile insurance | \$ 62,318 | \$ 336 | \$ - | \$ 62,654 | 75.11 |
| Flood insurance | 2,371 | 1,713 | 3,083 | 1,001 | 1.20 |
| Fire insurance | 65,013 | 9,234 | 67,715 | 6,532 | 7.83 |
| Engineering insurance | 3,136 | 4,614 | 6,349 | 1,401 | 1.68 |
| Accident insurance | 11,145 | - | - | 11,145 | 13.36 |
| Liability insurance | 594 | 660 | 570 | 684 | 0.82 |
| Total | \$ 144,577 | \$ 16,557 | \$ 77,717 | \$ 83,417 | 100.00 |

| Insurance Type | For the Three Months Ended September 30, 2021 | | | | |
|-----------------------|---|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Automobile insurance | \$ 30,352 | \$ - | \$ - | \$ 30,352 | 67.02 |
| Flood insurance | 2,550 | - | 1,724 | 826 | 1.82 |
| Fire insurance | 42,607 | 1,495 | 39,473 | 4,629 | 10.22 |
| Engineering insurance | 1,124 | 22 | 736 | 410 | 0.91 |
| Accident insurance | 9,002 | 36 | - | 9,038 | 19.96 |
| Liability insurance | 75 | - | 43 | 32 | 0.07 |
| Total | \$ 85,710 | \$ 1,553 | \$ 41,976 | \$ 45,287 | 100.00 |

| Insurance Type | For the Nine Months Ended September 30, 2022 | | | | |
|-----------------------|--|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Automobile insurance | \$ 180,976 | \$ 776 | \$ 32 | \$ 181,720 | 73.62 |
| Flood insurance | 6,163 | 2,026 | 5,686 | 2,503 | 1.01 |
| Fire insurance | 232,163 | 20,797 | 227,420 | 25,540 | 10.35 |
| Engineering insurance | 5,218 | 6,547 | 8,347 | 3,418 | 1.39 |
| Accident insurance | 31,697 | - | - | 31,697 | 12.84 |
| Liability insurance | 2,471 | 816 | 1,336 | 1,951 | 0.79 |
| Total | \$ 458,688 | \$ 30,962 | \$ 242,821 | \$ 246,829 | 100.00 |

| Insurance Type | For the Nine Months Ended September 30, 2021 | | | | |
|-----------------------|--|----------------------------|----------------------|--------------------|--------|
| | Premium Income | Reinsurance Premium Inward | Reinsurance Expenses | Net Premium Income | % |
| Automobile insurance | \$ 119,368 | \$ 66 | \$ 17 | \$ 119,417 | 72.86 |
| Flood insurance | 7,351 | - | 4,846 | 2,505 | 1.53 |
| Fire insurance | 181,661 | 9,898 | 177,186 | 14,373 | 8.77 |
| Engineering insurance | 4,331 | 435 | 3,472 | 1,294 | 0.79 |
| Accident insurance | 25,802 | 36 | - | 25,838 | 15.77 |
| Liability insurance | 1,011 | 834 | 1,383 | 462 | 0.28 |
| Total | \$ 339,524 | \$ 11,269 | \$ 186,904 | \$ 163,889 | 100.00 |

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

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

9) Development trends of claims

a) Cathay Century

September 30, 2022

| Accident Year | ≤ 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|--------------------------------------|------------|---------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|
| Accumulated estimated claim payments | | | | | | | | | |
| End of the underwriting year | \$ - | \$ 12,235,424 | \$ 8,134,147 | \$ 9,090,990 | \$ 10,190,448 | \$ 9,508,911 | \$ 10,259,775 | \$ 28,710,221 | |
| After the first year | - | 11,455,620 | 8,025,062 | 8,574,948 | 10,063,196 | 11,023,615 | 10,352,049 | - | |
| After the second year | - | 10,970,548 | 7,965,701 | 8,479,083 | 9,915,122 | 10,856,776 | - | - | |
| After the third year | - | 11,133,431 | 8,000,179 | 8,447,631 | 9,857,187 | - | - | - | |
| After the fourth year | - | 11,177,663 | 7,977,104 | 8,418,730 | - | - | - | - | |
| After the fifth year | - | 11,102,224 | 7,983,925 | - | - | - | - | - | |
| After the sixth year | - | 11,106,484 | - | - | - | - | - | - | |
| Final estimated claim payments | - | 11,106,484 | 7,983,925 | 8,418,730 | 9,857,187 | 10,856,776 | 10,352,049 | 28,710,221 | |
| Accumulated claims disbursed | - | 11,078,072 | 7,927,481 | 8,362,849 | 9,538,367 | 9,358,194 | 8,353,230 | 20,390,478 | |
| Adjustment | 241,318 | 28,412 | 56,444 | 55,881 | 318,820 | 1,498,582 | 1,998,819 | 8,319,743 | \$ 12,518,019 |
| Amount recognized in balance sheet | \$ 241,318 | \$ 28,412 | \$ 56,444 | \$ 55,881 | \$ 318,820 | \$ 1,498,582 | \$ 1,998,819 | \$ 8,483,701 | \$ 12,681,977 |

December 31, 2021

| Accident Year | ≤ 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|--------------------------------------|------------|--------------|---------------|--------------|--------------|---------------|--------------|---------------|--------------|
| Accumulated estimated claim payments | | | | | | | | | |
| End of the underwriting year | \$ - | \$ 7,559,012 | \$ 12,235,424 | \$ 8,134,147 | \$ 9,090,990 | \$ 10,190,448 | \$ 9,508,911 | \$ 10,259,775 | |
| After the first year | - | 7,418,703 | 11,455,620 | 8,025,062 | 8,574,948 | 10,063,196 | 11,023,615 | - | |
| After the second year | - | 7,548,387 | 10,970,548 | 7,965,701 | 8,479,083 | 9,915,122 | - | - | |
| After the third year | - | 7,495,744 | 11,133,431 | 8,000,179 | 8,447,631 | - | - | - | |
| After the fourth year | - | 7,449,663 | 11,177,663 | 7,977,104 | - | - | - | - | |
| After the fifth year | - | 7,456,430 | 11,102,224 | - | - | - | - | - | |
| After the sixth year | - | 7,452,191 | - | - | - | - | - | - | |
| Final estimated claim payments | - | 7,452,191 | 11,102,224 | 7,977,104 | 8,447,631 | 9,915,122 | 11,023,615 | 10,259,775 | |
| Accumulated claims disbursed | - | 7,422,770 | 11,057,773 | 7,905,417 | 8,312,638 | 9,361,832 | 8,584,467 | 5,410,326 | |
| Adjustment | 209,490 | 29,421 | 44,451 | 71,687 | 134,993 | 553,290 | 2,439,148 | 4,849,449 | \$ 8,331,929 |
| Amount recognized in balance sheet | \$ 209,490 | \$ 29,421 | \$ 44,451 | \$ 71,687 | \$ 134,993 | \$ 553,290 | \$ 2,439,148 | \$ 5,000,369 | \$ 8,482,849 |

September 30, 2021

| Accident Year | ≤ 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Total |
|--------------------------------------|------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Accumulated estimated claim payments | | | | | | | | | |
| End of the underwriting year | \$ - | \$ 7,559,012 | \$ 12,235,424 | \$ 8,134,147 | \$ 9,090,990 | \$ 10,190,448 | \$ 9,508,911 | \$ 7,359,606 | |
| After the first year | - | 7,418,703 | 11,455,620 | 8,025,062 | 8,574,948 | 10,063,196 | 10,985,764 | - | |
| After the second year | - | 7,548,387 | 10,970,548 | 7,965,701 | 8,479,083 | 9,906,931 | - | - | |
| After the third year | - | 7,495,744 | 11,133,431 | 8,000,179 | 8,458,053 | - | - | - | |
| After the fourth year | - | 7,449,663 | 11,177,663 | 7,978,761 | - | - | - | - | |
| After the fifth year | - | 7,456,430 | 11,094,656 | - | - | - | - | - | |
| After the sixth year | - | 7,451,630 | - | - | - | - | - | - | |
| Final estimated claim payments | - | 7,451,630 | 11,094,656 | 7,978,761 | 8,458,053 | 9,906,931 | 10,985,764 | 7,359,606 | |
| Accumulated claims disbursed | - | 7,422,209 | 11,049,960 | 7,890,893 | 8,290,463 | 9,067,074 | 8,265,657 | 3,366,383 | |
| Adjustment | 255,816 | 29,421 | 44,696 | 87,868 | 167,590 | 839,857 | 2,720,107 | 3,993,223 | \$ 8,138,578 |
| Amount recognized in balance sheet | \$ 255,816 | \$ 29,421 | \$ 44,696 | \$ 87,868 | \$ 167,590 | \$ 839,857 | \$ 2,720,107 | \$ 4,145,206 | \$ 8,290,561 |

Note 1: The upper part of table illustrates claim payments estimated in underwriting years by property insurance business. The lower part of the table illustrates the reconciliation of the accumulated claims disbursed to the balance sheet.

Note 2: The above table exclude direct loss reserve of compulsory insurance, policy-oriented residential earthquake insurance and inward loss reserve of \$1,691,359 thousand and \$1,656,845 thousand as of September 30, 2022, \$1,636,748 thousand and \$1,580,057 thousand as of December 31, 2021, \$1,555,818 thousand and \$1,372,002 thousand as of September 30, 2021.

b) Cathay Insurance (Vietnam)

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

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-----------------------|----------------------|-----------------------|
| <u>Financial assets</u> | | | |
| Financial assets at FVTPL | \$ 1,658,155,436 | \$ 1,929,395,229 | \$ 1,795,781,455 |
| Financial assets at FVTOCI | 1,724,764,282 | 1,626,821,625 | 1,662,374,427 |
| Financial assets for hedging | 41,599 | 500,642 | 244,235 |
| Financial assets at amortized cost | | | |
| Cash and cash equivalents | 192,327,910 | 467,635,057 | 476,817,293 |
| Due from the Central Bank and call loans to banks | 350,548,777 | 234,546,475 | 198,499,396 |
| Debt instruments at amortized cost | 3,584,483,630 | 3,266,686,240 | 3,240,849,350 |
| Notes and bonds purchased under resale agreements | 34,356,746 | 77,243,060 | 76,195,818 |
| Discounts and loans, net | 2,463,678,060 | 2,287,115,449 | 2,277,243,022 |
| Receivables, net | 209,371,204 | 205,480,862 | 189,383,985 |
| Other financial assets | 662,130,009 | 741,107,026 | 713,235,519 |
| Guarantee deposits paid | 160,274,090 | 36,253,079 | 34,425,482 |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at FVTPL | 348,140,012 | 79,934,187 | 84,999,867 |
| Financial liabilities for hedging | 5,847,890 | 20,956 | 42,836 |
| Financial liabilities at amortized cost | | | |
| Deposits from the Central Bank and banks | 95,969,588 | 74,605,174 | 82,603,839 |
| Due to the Central Bank and banks | - | 1,076,000 | 1,076,000 |
| Notes and bonds sold under repurchase agreements | 40,798,812 | 39,827,873 | 23,767,050 |
| Commercial paper payable, net | 72,100,000 | 63,469,166 | 62,669,737 |
| Payables | 72,634,921 | 76,870,285 | 107,446,145 |
| Deposits and remittances | 3,118,068,568 | 2,871,960,053 | 2,816,351,413 |
| Bonds payable | 132,000,000 | 141,800,000 | 141,800,000 |
| Other borrowings | 7,579,500 | 1,670,185 | 1,288,320 |
| Other financial liabilities | 703,058,049 | 763,908,198 | 737,975,535 |
| Lease liabilities | 18,822,216 | 14,721,170 | 14,633,920 |
| Guarantee deposits received | 10,053,572 | 14,457,919 | 13,001,954 |

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

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

- 1) The carrying amount of cash and cash equivalents, accounts receivable, short-term debts and accounts payable approximates their fair value due to their short maturities.
- 2) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- 3) Fair values of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of liquidity, P/E ratio of similar entities and Price-Book ratio of similar entities).
- 4) Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instruments (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).
- 5) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using the interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- 6) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experiences of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded on the Taipei Exchange.

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

1) Fair value hierarchy

| Items | September 30, 2022 | | | | December 31, 2021 | | | | September 30, 2021 | | | |
|--|--------------------|----------------|---------------|--------------|-------------------|----------------|---------------|--------------|--------------------|----------------|---------------|--------------|
| | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| <u>Non-derivative instruments</u> | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | | | | |
| Stocks | \$ 393,109,607 | \$ 385,887,175 | \$ 1,058,054 | \$ 6,164,378 | \$ 556,703,945 | \$ 538,060,770 | \$ 12,026,990 | \$ 6,616,185 | \$ 539,877,145 | \$ 520,584,609 | \$ 13,034,071 | \$ 6,258,465 |
| Bonds | 343,270,683 | 13,746,139 | 326,555,976 | 2,968,568 | 384,289,144 | 13,933,074 | 367,464,550 | 2,891,520 | 333,827,599 | 30,104,633 | 300,757,227 | 2,965,739 |
| Other | 777,518,976 | 435,089,638 | 125,409,400 | 217,019,938 | 935,660,571 | 557,774,762 | 192,388,208 | 185,497,601 | 868,912,074 | 510,623,890 | 190,375,814 | 167,912,370 |
| Financial assets at FVTOCI | | | | | | | | | | | | |
| Stocks | 169,532,617 | 159,173,401 | - | 10,359,216 | 176,155,083 | 162,871,952 | - | 13,283,131 | 153,444,859 | 138,239,529 | - | 15,205,330 |
| Bonds (Note) | 1,362,165,302 | 125,435,343 | 1,236,729,959 | - | 1,426,163,420 | 151,032,840 | 1,275,130,580 | - | 1,485,620,694 | 187,783,710 | 1,297,836,984 | - |
| Other | 206,461,507 | - | 206,461,507 | - | 25,599,336 | - | 25,599,336 | - | 24,446,594 | - | 24,446,594 | - |
| Liabilities | | | | | | | | | | | | |
| Financial liabilities at FVTPL | | | | | | | | | | | | |
| Financial liabilities designated as at FVTPL | 39,948,351 | - | 39,948,351 | - | 40,587,123 | - | 40,587,123 | - | 41,484,266 | - | 41,484,266 | - |
| Held for trading | 1,437,491 | 1,437,491 | - | - | 1,045,405 | 1,045,405 | - | - | 269,388 | 269,388 | - | - |
| <u>Derivative instruments</u> | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Financial assets at FVTPL | 144,256,170 | 509,797 | 137,664,948 | 6,081,425 | 52,741,569 | 342,275 | 48,033,674 | 4,365,620 | 53,164,637 | 282,772 | 48,513,697 | 4,368,168 |
| Financial assets for hedging | 41,599 | - | 41,599 | - | 500,642 | - | 500,642 | - | 244,235 | - | 244,235 | - |
| Liabilities | | | | | | | | | | | | |
| Financial liabilities at FVTPL | 306,754,170 | 271,989 | 300,400,756 | 6,081,425 | 38,301,659 | 660,426 | 33,275,613 | 4,365,620 | 43,246,213 | 434,357 | 38,443,688 | 4,368,168 |
| Derivative financial liabilities for hedging | 5,847,890 | - | 5,847,890 | - | 20,956 | - | 20,956 | - | 42,836 | - | 42,836 | - |

Note: Including those serving as refundable deposits.

Transfers between Level 1 and Level 2:

As of September 30, 2022, due to the availability of market quotes, Cathay Life transferred its investment of \$43,424 thousand in fair value stocks from Level 2 to Level 1.

For the nine months ended September 30, 2022 and 2021, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value.

2) Reconciliation for movements in Level 3 fair value measurements

| | For the Nine Months Ended September 30, 2022 | | |
|---|---|----------------------|------------------------------|
| | Financial Assets | | Financial Liabilities |
| | At FVTPL | At FVTOCI | At FVTPL |
| Beginning balance | \$ 199,370,926 | \$ 13,283,131 | \$ 4,365,620 |
| Recognized in profit or loss | | | |
| Gain on financial assets and liabilities at FVTPL | 35,886,927 | - | 2,898,154 |
| Loss on reclassification using the overlay approach | (18,102,340) | - | - |
| Recognized in other comprehensive income | | | |
| Exchange differences on the translation of financial statements of foreign operations | 298,977 | 108,670 | - |
| Other comprehensive income reclassified using the overlay approach | 18,102,340 | - | - |
| Gain (loss) on financial assets at FVTOCI | - | (3,102,414) | - |
| Acquisitions or issuances | 32,258,272 | 206,768 | 68,922 |
| Disposals or settlements | (35,082,229) | (136,939) | (1,251,271) |
| Transfers in of Level 3 | 280,635 | - | - |
| Transfers out of Level 3 | (779,199) | - | - |
| Ending balance | <u>\$ 232,234,309</u> | <u>\$ 10,359,216</u> | <u>\$ 6,081,425</u> |
| | For the Nine Months Ended September 30, 2021 | | |
| | Financial Assets | | Financial Liabilities |
| | At FVTPL | At FVTOCI | At FVTPL |
| Beginning balance | \$ 135,079,316 | \$ 10,037,619 | \$ 5,361,832 |
| Recognized in profit or loss | | | |
| Gain (loss) on financial assets and liabilities at FVTPL | 31,933,978 | - | (992,746) |
| Loss on reclassification using the overlay approach | (23,061,972) | - | - |
| Recognized in other comprehensive income | | | |
| Exchange differences on the translation of financial statements of foreign operations | (32,532) | (131) | - |
| Other comprehensive income reclassified using the overlay approach | 23,061,972 | - | - |
| Gain on financial assets at FVTOCI | - | 1,779,618 | - |
| Acquisitions or issuances | 37,074,214 | 3,602,885 | 294,961 |
| Disposals or settlements | (21,247,721) | (214,661) | (295,879) |
| Transfers out of Level 3 | (1,302,513) | - | - |
| Ending balance | <u>\$ 181,504,742</u> | <u>\$ 15,205,330</u> | <u>\$ 4,368,168</u> |

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2022 and 2021, unrealized gains of \$3,525,546 thousand and unrealized gains of \$680,989 thousand were related to financial assets held at the end of the period, respectively.

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2022 and 2021, unrealized losses of \$2,898,154 thousand and unrealized gains of \$992,746 thousand were related to financial liabilities held at the end of the period, respectively.

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

The significant unobservable inputs applied for recurring Level 3 fair value measurement were as follows:

Cathay Life and its subsidiaries

| September 30, 2022 | | | | | |
|--|----------------------|---|-------------------------------------|---|--|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value | |
| Financial assets at FVTPL and financial assets at FVTOCI | Equity approach | Discount for lack of liquidity | 0%-3% | The higher the discount for lack of liquidity, the lower the fair value estimates | |
| | Market approach | Discount for lack of liquidity | 10%-30% | The higher the discount for lack of liquidity, the lower the fair value estimates | |
| | Income approach | Discount for lack of liquidity, discount for minority interest. | 16%-30% | The higher the discount for lack of liquidity and control, the lower the fair value estimates | |
| | | | Growth rate of net profit after tax | (113%)-281% | The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates |
| | | | Dividend payout ratio | 58%-140% | The higher the dividend payout ratio, the higher the fair value estimates |
| December 31, 2021 | | | | | |
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value | |
| Financial assets at FVTPL and financial assets at FVTOCI | Equity approach | Discount for lack of liquidity | 0%-3% | The higher the discount for lack of liquidity, the lower the fair value estimates | |
| | Market approach | Discount for lack of liquidity | 3%-30% | The higher the discount for lack of liquidity, the lower the fair value estimates | |
| | Income approach | Discount for lack of liquidity, discount for minority interest. | 16%-30% | The higher the discount for lack of liquidity and control, the lower the fair value estimates | |
| | | | Growth rate of net profit after tax | (48%)-135% | The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates |
| | | | Dividend payout ratio | 60%-140% | The higher the dividend payout ratio, the higher the fair value estimates |

| September 30, 2021 | | | | |
|--|-----------------------------|---|------------------------------------|--|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value |
| Financial assets at FVTPL and financial assets at FVTOCI | Equity approach | Discount for lack of liquidity | 0%-3% | The higher the discount for lack of liquidity, the lower the fair value estimates |
| | Market approach | Discount for lack of liquidity | 12%-30% | The higher the discount for lack of liquidity, the lower the fair value estimates |
| | Income approach | Discount for lack of liquidity, discount for minority interest. | 17%-30% | The higher the discount for lack of liquidity and control, the lower the fair value estimates |
| | | Growth rate of net profit after tax | (82%)-552% | The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates |
| | | Dividend payout ratio | 60%-140% | The higher the dividend payout ratio, the higher the fair value estimates |

Cathay United Bank and its subsidiaries

| September 30, 2022 | | | | |
|----------------------------|------------------------------|--|------------------------------------|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value |
| Financial assets at FVTPL | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| Financial assets at FVTOCI | Market approach | Discount for lack of liquidity | 15%-30% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| | Income approach | Cost of equity rate | 6%-7% | The higher the cost of equity rate, the lower the fair value of the shares |
| | Value of net assets approach | Value of net assets | N/A | The higher the value of net assets, the higher the fair value of the shares |

| December 31, 2021 | | | | |
|----------------------------|------------------------------|--|------------------------------------|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value |
| Financial assets at FVTPL | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| Financial assets at FVTOCI | Market approach | Discount for lack of liquidity | 15%-30% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| | Income approach | Cost of equity rate | 6%-7% | The higher the cost of equity rate, the lower the fair value of the shares |
| | Value of net assets approach | Value of net assets | N/A | The higher the value of net assets, the higher the fair value of the shares |

| September 30, 2021 | | | | |
|----------------------------|------------------------------|---------------------------------|-----------------------------|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value |
| Financial assets at FVTPL | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| Financial assets at FVTOCI | Market approach | Discount for lack of liquidity | 15%-30% | The higher the discount for lack of liquidity, the lower the fair value of shares |
| | Income approach | Cost of equity rate | 6%-7% | The higher the cost of equity rate, the lower the fair value of the shares |
| | Value of net assets approach | Value of net assets | N/A | The higher the value of net assets, the higher the fair value of the shares |

Cathay Century and its subsidiaries

| September 30, 2021 | | | | |
|----------------------------|----------------------|---------------------------------|-------------------------|---|
| Financial Assets | Valuation Techniques | Significant Unobservable Inputs | Weighted Average Number | Relationship Between Inputs and Fair Value |
| Financial assets at FVTOCI | Market approach | Discount for lack of liquidity | 29% | The higher the discount for lack of liquidity, the lower the fair value of the shares |

Cathay Securities and its subsidiaries

| September 30, 2022 | | | | | |
|------------------------------|----------------------|---------------------------------|-----------------------------|---|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value | Sensitivity of the Input to Fair Value |
| Equity instruments at FVTOCI | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value | Rate of discount for lack of liquidity (3%)-3%, floating rate of fair value 3.67%-(3.67%) |

| December 31, 2021 | | | | | |
|------------------------------|----------------------|---------------------------------|-----------------------------|---|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value | Sensitivity of the Input to Fair Value |
| Equity instruments at FVTOCI | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value | Rate of discount for lack of liquidity (3%)-3%, floating rate of fair value 3.67%-(3.67%) |

| September 30, 2021 | | | | | |
|------------------------------|----------------------|---------------------------------|-----------------------------|---|---|
| Items | Valuation Techniques | Significant Unobservable Inputs | Interval (Weighted-average) | Relationship Between Inputs and Fair Value | Sensitivity of the Input to Fair Value |
| Equity instruments at FVTOCI | Market approach | Discount for lack of liquidity | 15%-20% | The higher the discount for lack of liquidity, the lower the fair value | Rate of discount for lack of liquidity (3%)-3%, floating rate of fair value 3.67%-(3.67%) |

4) Valuation process for Level 3 fair value measurements

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

d. Fair values of financial instruments not measured at fair value

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

September 30, 2022

| | Carrying Amount | Fair Value | | | Total |
|---|------------------|---------------|------------------|--------------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| <u>Financial assets</u> | | | | | |
| Debt instruments at amortized cost (Note) | \$ 3,600,320,002 | \$ 50,234,581 | \$ 2,905,192,800 | \$ 3,236,266 | \$ 2,958,663,647 |

December 31, 2021

| | Carrying Amount | Fair Value | | | Total |
|---|------------------|---------------|------------------|------------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| <u>Financial assets</u> | | | | | |
| Debt instruments at amortized cost (Note) | \$ 3,276,571,435 | \$ 35,353,661 | \$ 3,448,415,980 | \$ 650,293 | \$ 3,484,419,934 |

September 30, 2021

| | Carrying Amount | Fair Value | | | Total |
|---|------------------|---------------|------------------|--------------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| <u>Financial assets</u> | | | | | |
| Debt instruments at amortized cost (Note) | \$ 3,251,123,677 | \$ 35,928,379 | \$ 3,434,680,897 | \$ 5,357,439 | \$ 3,475,966,715 |

Note: Including those serving as refundable deposits.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with the income approach based on a discounted cash flow analysis. Significant unobservable inputs used in Level 3 fair value measurement were the discount rates that reflect the credit risk of counterparties and the cash flows that reflect the feature of early reimbursement.

e. Hedge accounting disclosures

Cathay Life and its subsidiaries

1) Cash flow hedges

The future cash flows of the bond investments held by Cathay Life and its subsidiaries may fluctuate due to the changes in market interest rates and thus lead to risks. Accordingly, Cathay Life and its subsidiaries held interest rate derivatives to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

a) Hedging instruments

| September 30, 2022 | | | | | |
|---------------------------|--|---|-------------|---|---|
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| IRS | \$ 4,813,414 | \$ 41,599 | \$ - | Financial assets for hedging | \$ (2,825) |
| December 31, 2021 | | | | | |
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| IRS | \$ 4,000,000 | \$ 90,307 | \$ - | Financial assets for hedging | \$ (8,497) |
| IRS | 865,313 | - | 20,956 | Financial liabilities for hedging | 28,176 |
| September 30, 2021 | | | | | |
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| IRS | \$ 4,000,000 | \$ 113,216 | \$ - | Financial assets for hedging | \$ 2,277 |
| IRS | 923,061 | - | 28,746 | Financial liabilities for hedging | 15,350 |

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

| | Period Till Maturity | | | | |
|---------------------------|-----------------------------|------------|-------------------|--------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>September 30, 2022</u> | | | | | |
| IRS | | | | | |
| Nominal principal | \$ - | \$ - | \$ 813,414 | \$ 4,000,000 | \$ - |
| Average fixed rate | - | - | 2.5% | 1.7% | - |

| | Period Till Maturity | | | | |
|--------------------------|----------------------|------------|----------------------|--------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>December 31, 2021</u> | | | | | |
| IRS | | | | | |
| Nominal principal | \$ - | \$ - | \$ 207,675 | \$ 4,657,638 | \$ - |
| Average fixed rate | - | - | 2.5% | 1.7%-2.5% | - |

| | Period Till Maturity | | | | |
|---------------------------|----------------------|------------|----------------------|--------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>September 30, 2021</u> | | | | | |
| IRS | | | | | |
| Nominal principal | \$ - | \$ - | \$ 208,995 | \$ 4,714,066 | \$ - |
| Average fixed rate | - | - | 2.5% | 1.7%-2.5% | - |

c) Hedged items

| | For the Nine Months Ended September 30, 2022 | | | | | | | |
|---------------------------------------|---|-------------------------|--|--|--|---|--|--|
| | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period | Cash Flow Hedge Reserve | Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable | Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income | Hedge Ineffectiveness Recognized in Profit or Loss | Line Item in Profit or Loss That Includes Hedge Ineffectiveness | Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss | Line Item Affected in Profit or Loss Because of the Reclassification |
| Floating-rate bonds | \$ 28,692 | \$ 30,038 | N/A | \$ (28,692) | \$ - | \$ - | \$ (31,577) | Net other noninterest gain |
| Payables | (25,867) | 11,561 | N/A | 25,867 | - | - | - | Net other noninterest gain |
| Discontinued hedge - bond investments | N/A | N/A | (263) | N/A | N/A | N/A | 7 | Net other noninterest gain |

| | For the Nine Months Ended September 30, 2021 | | | | | | | |
|---------------------------------------|---|-------------------------|--|--|--|---|--|--|
| | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period | Cash Flow Hedge Reserve | Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable | Change in the Value of the Hedging Instrument Recognized in Other Comprehensive Income | Hedge Ineffectiveness Recognized in Profit or Loss | Line Item in Profit or Loss That Includes Hedge Ineffectiveness | Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss | Line Item Affected in Profit or Loss Because of the Reclassification |
| Floating-rate bonds | \$ (2,277) | \$ 113,216 | N/A | \$ 2,277 | \$ - | \$ - | \$ (36,020) | Net other noninterest gain |
| Payables | (15,350) | (28,746) | N/A | 15,350 | - | - | - | Net other noninterest gain |
| Discontinued hedge - bond investments | N/A | N/A | (239) | N/A | N/A | N/A | 6 | Net other noninterest gain |

- d) Reconciliation of equity component that applied hedge accounting and related other comprehensive income is summarized below:

| | For the Nine Months Ended September 30 | |
|---|---|------------------|
| | 2022 | 2021 |
| Beginning balance | \$ 51,118 | \$ 74,960 |
| Gross amount recognized in other comprehensive income | | |
| Change in the value of the hedging instrument recognized in other comprehensive income | (2,859) | 17,634 |
| Amount reclassified from the cash flow hedge reserve to profit or loss | (31,570) | (36,014) |
| Tax effects | <u>10,501</u> | <u>6,661</u> |
| Ending balance | <u>\$ 27,190</u> | <u>\$ 63,241</u> |

2) Fair value hedges

The book value of the foreign currency denominated assets held by Cathay Life and its subsidiaries may fluctuate due to the changes in market exchange rates and thus lead to risk. Accordingly, Cathay Life and its subsidiaries held derivative instruments related to exchange rates to hedge risks arising from changes in exchange rates. Information of hedge accounting is as follows:

a) Hedging instruments

| September 30, 2022 | | | | | |
|-------------------------------|---|--|--------------------|--|--|
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| Forward | \$ 49,153,550 | \$ - | \$ 5,847,890 | Financial liabilities for hedging | \$ (6,071,300) |
| December 31, 2021 | | | | | |
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| CCS | \$ 4,687,225 | \$ 202,531 | \$ - | Financial assets for hedging | \$ 418,611 |
| Forward | 21,550,450 | 207,804 | - | Financial assets for hedging | 188,400 |
| September 30, 2021 | | | | | |
| Hedging Instrument | Nominal Amount of the Hedging Instrument | Carrying Amount of the Hedging Instrument | | Line Item in Balance Sheet Where the Hedging Instrument Is Included | Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Current Period |
| | | Assets | Liabilities | | |
| CCS | \$ 4,717,017 | \$ 106,332 | \$ - | Financial assets for hedging | \$ 298,562 |
| Forward | 10,756,850 | 24,687 | 14,090 | Financial assets for hedging/ financial liability for hedging | 14,400 |

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

| | Period Till Maturity | | | | |
|----------------------------|----------------------|------------|----------------------|---------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>September 30, 2022</u> | | | | | |
| Forward | | | | | |
| Nominal principal | \$ - | \$ - | \$ - | \$ 49,153,550 | \$ - |
| Exchange rate (USD/TWD) | - | - | - | 27.2701 | - |

| | Period Till Maturity | | | | |
|----------------------------|----------------------|------------|----------------------|------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>December 31, 2021</u> | | | | | |
| CCS | | | | | |
| Nominal principal | \$ - | \$ - | \$ - | \$ - | \$ 4,687,225 |
| Interest rate | - | - | - | - | 2.39% |
| Exchange rate (EUR/USD) | - | - | - | - | 1.1285 |
| Forward | | | | | |
| Nominal principal | - | - | - | 21,550,450 | - |
| Exchange rate (USD/TWD) | - | - | - | 26.9228 | - |

| | Period Till Maturity | | | | |
|----------------------------|----------------------|------------|----------------------|------------|--------------|
| | 1 Month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | Over 5 Years |
| <u>September 30, 2021</u> | | | | | |
| CCS | | | | | |
| Nominal principal | \$ - | \$ - | \$ - | \$ - | \$ 4,717,017 |
| Interest rate | - | - | - | - | 2.39% |
| Exchange rate (EUR/USD) | - | - | - | - | 1.1285 |
| Forward | | | | | |
| Nominal principal | - | - | - | 10,756,850 | - |
| Exchange rate (USD/TWD) | - | - | - | 26.8921 | - |

c) Hedged items

| | For the Nine Months Ended September 30, 2022 | | | | | | | |
|----------------|--|-------------|---|-------------|---|---|--|---|
| | Book Value of Hedged Item | | Cumulative Adjustment for Change in Fair Value of Hedged Item Included in the Book Value of the Hedged Item | | Line Item in Statement of Financial Position that Includes Hedged Items | Charges in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period | Ineffectiveness Recognized in Profit or Loss | Line Item in Profit or Loss That Includes the Hedge Ineffectiveness |
| | Assets | Liabilities | Assets | Liabilities | | | | |
| Overseas bonds | \$ 49,153,550 | \$ - | \$ 6,071,300 | \$ - | Financial assets at amortized cost | \$ 6,071,300 | \$ - | \$ - |

| | For the Nine Months Ended September 30, 2021 | | | | | | | |
|----------------|--|-------------|---|-------------|---|---|--|---|
| | Book Value of Hedged Item | | Cumulative Adjustment for Change in Fair Value of Hedged Item Included in the Book Value of the Hedged Item | | Line Item in Statement of Financial Position that Includes Hedged Items | Charges in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period | Ineffectiveness Recognized in Profit or Loss | Line Item in Profit or Loss That Includes the Hedge Ineffectiveness |
| | Assets | Liabilities | Assets | Liabilities | | | | |
| Overseas bonds | \$ 15,473,867 | \$ - | \$ (312,962) | \$ - | Financial assets at amortized cost | \$ (312,962) | \$ - | \$ - |

- d) Reconciliation of equity component that applied hedge accounting and related other comprehensive income were summarized below:

| | For the Nine Months Ended September 30 | |
|---|---|-------------------|
| | 2022 | 2021 |
| <u>Foreign currency basis-related period</u> | | |
| Beginning balance | \$ 284,733 | \$ 272,911 |
| Gross amount recognized in other comprehensive income | | |
| Change in the value of the hedging instrument recognized in other comprehensive income | 15,606 | (105,063) |
| Amount reclassified to profit or loss | 294,327 | 24,460 |
| Tax effects | <u>(61,987)</u> | <u>16,120</u> |
| Ending balance | <u>\$ 532,679</u> | <u>\$ 208,428</u> |

- f. Offsetting of financial assets and financial liabilities

Cathay Life and its subsidiaries

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

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

September 30, 2022

| Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|---|---|---|---|---|-----------------------------|---------------------------|
| Item | Gross Amount of Recognized Financial Assets (a) | Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b) | Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 9,124,685 | \$ - | \$ 9,124,685 | \$ 8,920,718 | \$ - | \$ 203,967 |

| Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|--|--|--|--|---|-----------------------------|---------------------------|
| Item | Gross Amount of Recognized Financial Liabilities (a) | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet (b) | Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 187,616,119 | \$ - | \$ 187,616,119 | \$ 8,920,718 | \$ 105,390,231 | \$ 73,305,170 |

December 31, 2021

| Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|---|---|--|--|---|--------------------------|------------------------|
| Item | Gross Amount of Recognized Financial Assets (a) | Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b) | Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 15,041,952 | \$ - | \$ 15,041,952 | \$ 2,978,568 | \$ 7,373,362 | \$ 4,690,022 |

| Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|--|--|---|---|---|--------------------------|------------------------|
| Item | Gross Amount of Recognized Financial Liabilities (a) | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet (b) | Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 3,019,680 | \$ - | \$ 3,019,680 | \$ 2,978,568 | \$ 42,919 | \$ (1,807) |

September 30, 2021

| Financial Assets Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|---|---|--|--|---|--------------------------|------------------------|
| Item | Gross Amount of Recognized Financial Assets (a) | Gross Amount of Offset Financial Liabilities Recognized on the Balance Sheet (b) | Net Financial Assets Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 12,756,332 | \$ - | \$ 12,756,332 | \$ 6,047,158 | \$ 5,591,608 | \$ 1,117,566 |

| Financial Liabilities Bound by Offsetting or Enforceable Master Netting Arrangements or Similar Agreement | | | | | | |
|--|--|---|---|---|--------------------------|------------------------|
| Item | Gross Amount of Recognized Financial Liabilities (a) | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet (b) | Net Financial Liabilities Recognized on the Balance Sheet (c)=(a)-(b) | Relevant Amount That Has Not Been Offset on the Balance Sheet (d) | | Net Amount (e)=(c)-(d) |
| | | | | Financial Instruments | Cash Collateral Received | |
| Derivative financial instruments | \$ 7,487,071 | \$ - | \$ 7,487,071 | \$ 6,047,158 | \$ 1,455,720 | \$ (15,807) |

Cathay United Bank and its subsidiaries

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

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

September 30, 2022

| 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 | \$ 141,056,662 | \$ - | \$ 141,056,662 | \$ 130,447,722 | \$ 5,939,130 | \$ 4,669,810 |

| 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 | \$ 130,447,722 | \$ - | \$ 130,447,722 | \$ 130,447,722 | \$ - | \$ - |
| Repurchase agreement | 36,827,441 | - | 36,827,441 | 32,031,110 | 4,796,331 | - |

December 31, 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 | \$ 38,512,412 | \$ - | \$ 38,512,412 | \$ 35,297,809 | \$ 3,214,603 | \$ - |

| 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 | \$ 35,297,809 | \$ - | \$ 35,297,809 | \$ 35,297,809 | \$ - | \$ - |
| Repurchase agreement | 37,161,652 | - | 37,161,652 | 36,593,423 | 568,229 | - |

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 | - |

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

Cathay Securities and its subsidiaries

Cathay Securities and its subsidiaries enter into secured repurchase agreements with counterparties, for which Cathay Securities and its subsidiaries provide securities as collateral. Only in the event of default, insolvency or bankruptcy, these transactions are allowed to be offset, which does not meet the offsetting criteria of financial instrument transactions, Article 42 of IFRS 32, and they are not subject to enforceable master netting arrangements or other similar agreements and should be settled at gross amounts. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

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

September 30, 2022

| Financial Liabilities | Gross Amount of Recognized Financial Liabilities | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet | Net Financial Liabilities Recognized on the Balance Sheet | Relevant Amount That Has Not Been Offset on the Balance Sheet | | Net Amount |
|-----------------------|--|---|---|---|--------------------------|-------------|
| | | | | Financial Instruments (Note) | Cash Collateral Received | |
| Repurchase bonds | \$ 3,971,371 | \$ - | \$ 3,971,371 | \$ 4,009,740 | \$ - | \$ (38,369) |

December 31, 2021

| Financial Liabilities | Gross Amount of Recognized Financial Liabilities | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet | Net Financial Liabilities Recognized on the Balance Sheet | Relevant Amount That Has Not Been Offset on the Balance Sheet | | Net Amount |
|-----------------------|--|---|---|---|--------------------------|------------|
| | | | | Financial Instruments (Note) | Cash Collateral Received | |
| Repurchase bonds | \$ 2,666,221 | \$ - | \$ 2,666,221 | \$ 2,654,273 | \$ - | \$ 11,948 |

September 30, 2021

| Financial Liabilities | Gross Amount of Recognized Financial Liabilities | Gross Amount of Offset Financial Assets Recognized on the Balance Sheet | Net Financial Liabilities Recognized on the Balance Sheet | Relevant Amount That Has Not Been Offset on the Balance Sheet | | Net Amount |
|-----------------------|--|---|---|---|--------------------------|------------|
| | | | | Financial Instruments (Note) | Cash Collateral Received | |
| Repurchase bonds | \$ 2,466,752 | \$ - | \$ 2,466,752 | \$ 2,461,628 | \$ - | \$ 5,124 |

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

g. Reclassification information

Cathay Life and its subsidiaries

Section 4.4 of IFRS 9 “Financial Instruments” provides the principles and regulations for reclassification of financial assets. For practical application, the Accounting Research and Development Foundation of the Republic of China (ARDF) provided a reference guideline on October 7, 2022 on the “Financial Asset Reclassification Concerns of an insurer arising from Changes in the Business Model for Managing Financial Assets due to Drastic Changes in the International Economic Situation”. According to the press release of the FSC, if an insurer intends to reclassify financial assets, it should follow IFRS 9 regulations and the reference guideline of the ARDF.

This year, the global financial situation has been in full turmoil, especially from late August to late September, the stock, bond and foreign exchange markets have experienced drastic changes that are rare in history. Changes are not for single market risk or specific financial asset price fluctuations, but interest rates have risen to the extreme level as defined by the International Insurance Capital Standards (ICS). The Company’s senior management adjusted its investment strategy, performance evaluation and risk management activities in relation to financial assets by September 30, 2022, in order to ensure the Company’s solvency and stable operation. The aforementioned adjustments indicate that the Company’s business model, which was to generate cash flows by both collecting contractual cash flows and selling financial assets, has been changed to a model whose objective is to hold financial assets in order to collect contractual cash flows. Therefore, on October 1, 2022, the Company reclassified its financial assets in accordance with IFRS 9, paragraphs B4.1.2B and B4.4.1 of IFRS 9.

Due to the change in business model, the Company reclassified part of the financial assets at FVTOCI to financial assets measured at amortized cost on October 1, 2022. After the reclassification, other equity increased by \$242,647,172 thousand, financial assets measured at amortized cost increased by \$1,054,624,855 thousand, financial assets at FVTOCI decreased by \$755,311,088 thousand and deferred income tax assets decreased by \$56,666,595 thousand as of October 1, 2022.

h. Transfers of financial assets

Financial assets transferred that have not been fully removed

Cathay United Bank and its subsidiaries

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

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

| September 30, 2022 | | | | | |
|------------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTOCI | | | | | |
| Repurchase agreements | \$ 25,465,662 | \$ 26,143,114 | \$ 25,465,662 | \$ 26,143,114 | \$ (677,452) |
| Debt instruments at amortized cost | | | | | |
| Repurchase agreements | 13,404,696 | 10,684,327 | 10,889,805 | 10,684,327 | 205,478 |

| December 31, 2021 | | | | | |
|------------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTPL | | | | | |
| Repurchase agreements | \$ 2,215,810 | \$ 2,148,959 | \$ 2,215,810 | \$ 2,148,959 | \$ 66,851 |
| Financial assets at FVTOCI | | | | | |
| Repurchase agreements | 28,782,456 | 27,600,460 | 28,782,456 | 27,600,460 | 1,181,996 |
| Debt instruments at amortized cost | | | | | |
| Repurchase agreements | 7,276,510 | 7,412,233 | 7,226,614 | 7,412,233 | (185,619) |

| September 30, 2021 | | | | | |
|------------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTOCI | | | | | |
| Repurchase agreements | \$ 20,475,506 | \$ 20,015,425 | \$ 20,475,506 | \$ 20,015,425 | \$ 460,081 |
| Debt instruments at amortized cost | | | | | |
| Repurchase agreements | 1,312,363 | 1,284,873 | 1,364,999 | 1,284,873 | 80,126 |

Cathay Securities and its subsidiaries

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

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

| September 30, 2022 | | | | | |
|------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTPL | | | | | |
| Repurchase agreements | \$ 377,231 | \$ 349,393 | \$ 377,231 | \$ 349,393 | \$ 27,838 |
| Financial assets at FVTOCI | | | | | |
| Repurchase bonds | 3,632,509 | 3,621,978 | 3,632,509 | 3,621,978 | 10,531 |

| December 31, 2021 | | | | | |
|------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTOCI | | | | | |
| Repurchase bonds | \$ 2,654,273 | \$ 2,666,221 | \$ 2,654,273 | \$ 2,666,221 | \$ (11,948) |

| September 30, 2021 | | | | | |
|------------------------------|--|---|--|---|----------------|
| Category of Financial Assets | Carrying Value of Transferred Financial Assets | Carrying Value of Related Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Related Financial Liabilities | Net Fair Value |
| Financial assets at FVTOCI | | | | | |
| Repurchase bonds | \$ 2,461,628 | \$ 2,466,752 | \$ 2,461,628 | \$ 2,466,752 | \$ (5,124) |

h. Financial risk management objectives and policies

Cathay Life and its subsidiaries

Cathay Life and its subsidiaries' major financial instruments include equity and debt investments, derivative instruments, receivables, payables and bonds payable. The main financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk analysis

a) Sources of market risk

Market risk is the risk that changes in market risk factors, such as the exchange rate, product price, interest rate, credit spread and stock price, may decrease Cathay Life and its subsidiaries' income or value of investment portfolio.

Cathay Life and its subsidiaries continuously utilizes market risk management instruments such as Value at Risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

i. Value at Risk

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

ii. Stress testing

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

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

i) Simple sensitivity test

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

ii) Scenario analysis

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

- Historical scenario

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

- Hypothetical scenario

Cathay Life and its subsidiaries simulate rational expectations for possible extreme market changes to evaluate the losses incurred on the investment positions by considering the fluctuations in related risk factors and the relevance between the investment targets and the risk factors.

The risk management department regularly performs stress testing with historical and hypothetical scenarios to serve as a basis for risk analysis, early warning for risk and business management.

Table of Stress Testing

| Risk Factor | Variable (+/-) | For the Nine Months Ended September 30 | |
|---|---|---|-----------------|
| | | 2022 | 2021 |
| Equity risk (stock price index) | -10% | \$ (74,385,963) | \$ (78,574,416) |
| Interest rate risk (yield curve) | +100bps | (193,248,147) | (180,501,696) |
| Foreign currency risk (foreign exchange rate) | Appreciation of NTD to all foreign currencies by 1% | (14,335,107) | (12,598,922) |

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

Note 2: Effects of hedging were considered.

Note 3: Provision or reversal of reserve for foreign exchange fluctuations was not considered in the change in profit or loss due to foreign currency risk.

Note 4: Change in equity was included in the impact on the change in profit or loss.

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

Note 6: Since the second quarter of 2022, Cathay Life's equity risk is calculated by including other financial instruments, such as unlisted stocks, hedge funds, private equity funds and infrastructure funds, and the disclosure for comparable period was revised accordingly.

iii. Sensitivity analysis

Summary of Sensitivity Analysis

For the Nine Months Ended September 30, 2022

| Risk Factor | Variable (+/-) | Change in Profit or Loss | Change in Equity |
|-----------------------|---|---------------------------------|-------------------------|
| Foreign currency risk | Appreciation of USD/NTD by 1% | \$ 7,193,962 | \$ 5,398,829 |
| | Appreciation of CNY/USD by 1% | (64,093) | 319,519 |
| | Appreciation of HKD/USD by 1% | 3,326 | 271,061 |
| | Appreciation of EUR/USD by 1% | (39,676) | 307,621 |
| | Appreciation of GBP/USD by 1% | (94,101) | 218,587 |
| Interest rate risk | Upward parallel shift of the yield curve (USD) by 1bp | - | (1,466,838) |
| | Upward parallel shift of the yield curve (CNY) by 1bp | - | (3,130) |
| | Upward parallel shift of the yield curve (EUR) by 1bp | - | (4,715) |
| | Upward parallel shift of the yield curve (GBP) by 1bp | - | (2,539) |
| | Upward parallel shift of the yield curve (NTD) by 1bp | - | (442,759) |
| | Equity price risk | Increase in equity price by 1% | 181,015 |

For the Nine Months Ended September 30, 2021

| Risk Factor | Variable (+/-) | Change in Profit or Loss | Change in Equity |
|-----------------------|---|---------------------------------|-------------------------|
| Foreign currency risk | Appreciation of USD/NTD by 1% | \$ 7,139,701 | \$ 5,278,882 |
| | Appreciation of CNY/USD by 1% | 341,131 | 308,074 |
| | Appreciation of HKD/USD by 1% | 3,703 | 255,955 |
| | Appreciation of EUR/USD by 1% | (60,242) | 262,677 |
| | Appreciation of GBP/USD by 1% | 24,143 | 270,611 |
| Interest rate risk | Upward parallel shift of the yield curve (USD) by 1bp | - | (1,477,193) |
| | Upward parallel shift of the yield curve (CNY) by 1bp | - | (44,690) |
| | Upward parallel shift of the yield curve (EUR) by 1bp | - | (5,009) |
| | Upward parallel shift of the yield curve (GBP) by 1bp | - | (3,518) |
| | Upward parallel shift of the yield curve (NTD) by 1bp | - | (385,924) |
| Equity price risk | Increase in equity price by 1% | 33,349 | 7,998,760 |

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

Note 2: Effects of hedging were considered.

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

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

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

Note 6: Starting from the second quarter of, 2022, Cathay Life's equity risk is calculated by including other financial instruments, such as unlisted stocks, hedge funds, private funds, and the disclosure for comparable period was revised accordingly.

iv. Effect of interest rate benchmark reform

In order to implement the benchmark reform of interbank offered rates, several countries are currently carrying out interest rate benchmark reform plans to implement new risk-free interest rates to replace LIBORs, such as USD London Interbank Offered Rate (USD LIBOR), and GBP London Interbank Offered Rate (GBP LIBOR). In March 2021, UK's Financial Conduct Authority announced the extension of the tenors of the overnight, one-month, three-month, six-month and 12-month USD LIBOR until June 30, 2023, in order for existing LIBOR contracts to naturally expire. Other interest rate benchmarks will expire on the original termination date of December 31, 2021, and it is recommended that relevant measures be taken as soon as possible to reduce the risks arising from the interest rate benchmark reform.

As a response to the cessation of USD LIBOR, Secured Overnight Financing Rate (SOFR) is expected to replace USD LIBOR in the future, but 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. To transit existing contracts and agreements that reference USD LIBOR to SOFR, adjustments for these differences might need to be applied to SOFR to enable the two benchmark rates to be economically equivalent.

Risks arising from interest rate benchmark reform relate to interest rate basis, hedge accounting and related operation risk as follows:

i) Interest rate basis risk

Risk arising from the transition relate principally to the potential impact of interest rate basis risks. If the bilateral negotiations with the Cathay Life and its subsidiaries' counterparties are not successfully concluded before the cessation of USD LIBOR, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

ii) Hedge accounting

If a hedged financial instrument and the related hedging derivative instrument are transited to alternative benchmark rates at different times, it could result in hedge ineffectiveness.

iii) Operation risk

If the update and adjustments for related accounting and tax system, valuation of financial instrument, and information systems as well as the testing for operational effectiveness of the systems are not finished on schedule before the cessation of USD LIBOR, operating risk may occur.

In light of the abovementioned risks, Cathay Life and its subsidiaries made a transition plan for interest rate benchmark reform toward the required adjustment and updates for risk management policies, internal process, information system, valuation model of financial instrument, and related accounting and tax system. Cathay Life and its subsidiaries have identified all required updates for information systems and internal process, and part of these updates was finished. Afterwards, Cathay Life and its subsidiaries will complete the required updates on schedule, discuss with counterparties of financial instruments modification of affected contracts, and report the progress for the cessation of USD LIBOR to the board of the directors semi-annually as required by authority.

As of September 30, 2022, the Cathay Life and its subsidiaries' financial instruments affected by the interest rate benchmark reform, which include bonds and loans (the Group's main exposure is to the USD LIBOR), are summarized in the table below (excluding the positions that would naturally expire):

| | <u>Carrying Amount</u> | |
|-------------------------|------------------------|--|
| | USD LIBOR | Other Interest Rates Benchmarks |
| <u>Financial assets</u> | | |
| Bonds | \$ 281,845,902 | \$ - |
| Loans | 1,195,512 | - |

2) Credit risk

a) Sources of credit risk

When engaged in financial transactions, Cathay Life is exposed to credit risks, including issuer credit risk, counterparty credit risk and credit risk of underlying assets:

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

b) Concentration risk

- i. Regional distribution of maximum risk exposure for Cathay Life's financial assets:

September 30, 2022

| Financial Assets | Taiwan | Asia | Europe | North America | Emerging Markets and Others | Total |
|------------------------------------|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|-------------------------|
| Cash and cash equivalents | \$ 75,191,215 | \$ 3,571,221 | \$ 107,675 | \$ 64,104,944 | \$ 1,000,000 | \$ 143,975,055 |
| Financial assets at FVTPL | 48,853,822 | 11,354,231 | 95,379,631 | 86,454,216 | 11,366,861 | 253,408,761 |
| Financial assets at FVTOCI | 21,294,119 | 48,730,301 | 142,158,323 | 541,648,966 | 383,867,985 | 1,137,699,694 |
| Financial assets for hedging | 15,141 | - | - | 14,897 | - | 30,038 |
| Financial assets at amortized cost | <u>132,133,109</u> | <u>203,261,837</u> | <u>506,533,370</u> | <u>1,564,903,523</u> | <u>681,258,572</u> | <u>3,088,090,411</u> |
| | <u>\$ 277,487,406</u> | <u>\$ 266,917,590</u> | <u>\$ 744,178,999</u> | <u>\$ 2,257,126,546</u> | <u>\$ 1,077,493,418</u> | <u>\$ 4,623,203,959</u> |
| Proportion | 6.0% | 5.8% | 16.1% | 48.8% | 23.3% | 100% |

December 31, 2021

| Financial Assets | Taiwan | Asia | Europe | North America | Emerging Markets and Others | Total |
|------------------------------------|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|-------------------------|
| Cash and cash equivalents | \$ 313,417,908 | \$ 5,659,118 | \$ 290,130 | \$ 107,274,631 | \$ 21,153,500 | \$ 447,795,287 |
| Financial assets at FVTPL | 42,559,418 | 14,886,965 | 119,731,982 | 90,480,654 | 22,906,893 | 290,565,912 |
| Financial assets at FVTOCI | 45,394,461 | 42,480,018 | 161,764,238 | 466,843,223 | 447,516,688 | 1,163,998,628 |
| Financial assets for hedging | 46,209 | - | 340,532 | 113,901 | - | 500,642 |
| Financial assets at amortized cost | 133,223,615 | 186,812,778 | 446,310,424 | 1,306,524,756 | 608,616,760 | 2,681,488,333 |
| | <u>\$ 534,641,611</u> | <u>\$ 249,838,879</u> | <u>\$ 728,437,306</u> | <u>\$ 1,971,237,165</u> | <u>\$ 1,100,193,841</u> | <u>\$ 4,584,348,802</u> |
| Proportion | 11.7% | 5.4% | 15.9% | 43.0% | 24.0% | 100% |

September 30, 2021

| Financial Assets | Taiwan | Asia | Europe | North America | Emerging Markets and Others | Total |
|------------------------------------|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|-------------------------|
| Cash and cash equivalents | \$ 346,428,611 | \$ 9,198,899 | \$ 184,019 | \$ 86,986,410 | \$ 26,600,000 | \$ 469,397,939 |
| Financial assets at FVTPL | 36,567,608 | 14,728,876 | 93,747,455 | 73,791,056 | 24,797,048 | 243,632,043 |
| Financial assets at FVTOCI | 44,307,353 | 46,739,022 | 163,555,038 | 468,525,088 | 461,392,415 | 1,184,518,916 |
| Financial assets for hedging | 58,044 | - | 110,582 | 75,609 | - | 244,235 |
| Financial assets at amortized cost | 136,747,215 | 183,391,050 | 443,426,880 | 1,297,665,216 | 608,065,510 | 2,669,295,871 |
| | <u>\$ 564,108,831</u> | <u>\$ 254,057,847</u> | <u>\$ 701,023,974</u> | <u>\$ 1,927,043,379</u> | <u>\$ 1,120,854,973</u> | <u>\$ 4,567,089,004</u> |
| Proportion | 12.4% | 5.6% | 15.3% | 42.2% | 24.5% | 100.0% |

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

September 30, 2022

| Location of Collaterals | Northern and Eastern Areas | Central Area | Southern Area | Overseas | Total |
|-------------------------|----------------------------|----------------------|----------------------|---------------------|-----------------------|
| Secured loans | \$ 190,674,862 | \$ 43,384,122 | \$ 57,951,964 | \$ 1,329,794 | \$ 293,340,742 |
| Non-accrual receivables | 578,045 | 22,862 | 33,116 | 1,687,721 | 2,321,744 |
| | <u>\$ 191,252,907</u> | <u>\$ 43,406,984</u> | <u>\$ 57,985,080</u> | <u>\$ 3,017,515</u> | <u>\$ 295,662,486</u> |
| Proportion | 64.7% | 14.7% | 19.6% | 1.0% | 100% |

December 31, 2021

| Location of Collaterals | Northern and Eastern Areas | Central Area | Southern Area | Overseas | Total |
|-------------------------|----------------------------|----------------------|----------------------|---------------------|-----------------------|
| Secured loans | \$ 204,709,374 | \$ 44,281,927 | \$ 59,430,029 | \$ 2,042,084 | \$ 310,463,414 |
| Non-accrual receivables | 606,067 | 25,133 | 37,039 | 1,976,800 | 2,645,039 |
| | <u>\$ 205,315,441</u> | <u>\$ 44,307,060</u> | <u>\$ 59,467,068</u> | <u>\$ 4,018,884</u> | <u>\$ 313,108,453</u> |
| Proportion | 65.6% | 14.2% | 19.0% | 1.2% | 100% |

September 30, 2021

| Location of Collaterals | Northern and Eastern Areas | Central Area | Southern Area | Overseas | Total |
|-------------------------|----------------------------|----------------------|----------------------|---------------------|-----------------------|
| Secured loans | \$ 204,403,874 | \$ 42,361,181 | \$ 58,965,941 | \$ 2,225,114 | \$ 307,956,110 |
| Non-accrual receivables | 597,632 | 22,522 | 33,491 | 1,989,366 | 2,643,011 |
| | <u>\$ 205,001,506</u> | <u>\$ 42,383,703</u> | <u>\$ 58,999,432</u> | <u>\$ 4,214,480</u> | <u>\$ 310,599,121</u> |
| Proportion | 66.0% | 13.6% | 19.0% | 1.4% | 100% |

c) Categories for credit risk quality

Cathay Life classified credit risk into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- i. Low credit risk indicates that an entity or a subject has a robust ability to perform financial commitment. Even though it encounters material uncertainty or exposes to unfavorable conditions, its ability to perform financial commitment obligations will be kept and maintained.
- ii. Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
- iii. High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. The capability to perform financial commitment depends on the favorability of its business environment and financial conditions.
- iv. Credit impaired indicates that an entity or a subject fails to fulfill its obligations, and Cathay Life evaluates the potential losses and determines it as impaired.

d) Determination on the credit risk that has increased significantly since initial recognition

- i. Cathay Life assesses whether there is a significant increase in credit risk of a financial instrument applicable for impairment requirements under IFRS 9 since initial recognition at each reporting date. To make this assessment, Cathay Life considers reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- ii. If the credit risk of a financial instrument is determined to be low at the reporting date, it indicates that the credit risk of the financial instrument has not increased significantly since initial recognition.

e) The definition of default and credit-impaired financial assets

Cathay Life's definition of default on financial assets is the same as that of a credit-impaired financial asset. If one or more of the following criteria are met, a financial asset is considered defaulted and credit-impaired:

- i. Quantitative factor: When the contractual payments are overdue for more than 90 days, the financial asset is considered defaulted and credit-impaired.
- ii. Qualitative factor: An evidence indicates that the issuers or borrowers cannot pay the contractual payments, or that they have significant financial difficulties, for example:
 - i) The issuers or borrowers have entered into bankruptcy or are probable to enter into bankruptcy or financial reorganization.
 - ii) The issuers or borrowers fail to pay interest or principal according to the issue terms and conditions.
 - iii) The collateral of the borrowers had been provisionally seized or enforced.
 - iv) The borrowers claim for a change of credit conditions due to financial difficulties.

iii. The abovementioned definitions of default on a financial asset and a credit-impaired financial asset are applicable to all financial assets held by Cathay Life, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

f) Measurement of expected credit loss

i. The methodology and assumptions applied

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Life measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments whose credit risk has increased significantly since initial recognition or those which have been credit-impaired, Cathay Life measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

Expected credit losses in the next 12 months and for the duration of the instrument is calculated separately for the two periods using probability of default (“PD”) of issuers, guarantee agencies or borrowers multiplied by loss given default (“LGD”) and exposure at default (“EAD”), in consideration of time value of money.

PD is the rate that a default occurs on issuers, guarantee agencies or borrowers. LGD is the loss rate that resulted from a default of issuers, guarantee agencies or borrowers. Loss given default used by Cathay Life in impairment assessment is based on information regularly issued by Moody’s. Probability of default is based on information regularly issued by Taiwan Ratings Corp. and Moody’s and is determined based upon current observable information and macroeconomic information (for example, gross domestic product and economic growth rate) with adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of financial assets.

ii. Forward-looking information considerations

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

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

i. Financial assets of Cathay Life

| | September 30, 2022 | | | | | Gross Carrying Amount |
|---------------------------------------|--|---|---|---|----------------|-----------------------|
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | Loss Allowance | |
| Investment grade | | | | | | |
| Debt instruments at FVTOCI | \$ 1,123,629,508 | \$ - | \$ - | \$ - | \$ - | \$ 1,123,629,508 |
| Financial assets at amortized cost | 3,061,506,448 | - | - | - | (1,111,150) | 3,060,395,298 |
| Non-investment grade | | | | | | |
| Debt instruments at FVTOCI | 9,099,434 | 670,455 | 4,300,297 | - | - | 14,070,186 |
| Financial assets at amortized cost | 8,601,177 | 1,531,243 | 19,436,096 | - | (1,873,403) | 27,695,113 |

h) Reconciliation for loss allowance is summarized below:

i. Debt instruments at FVTOCI

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 |
|---|---------------------------------------|---------------------------------|--|--|---|
| | | Collectively Assessed | Not Purchased or Originated Credit- impaired Financial Assets | Purchased or Originated Credit- impaired Financial Assets | |
| January 1, 2022 | \$ 345,894 | \$ - | \$ - | \$ - | \$ 345,894 |
| Changes due to financial instruments recognized as at January 1 | | | | | |
| Transferred to lifetime expected credit losses | (1,066) | 1,066 | - | - | - |
| Transferred to credit-impaired financial assets | (2,270) | - | 2,270 | - | - |
| New financial assets originated or purchased | 151,910 | - | 95 | - | 152,005 |
| Financial assets that have been derecognized during the period | (100,849) | (3,361) | - | - | (104,210) |
| Changes in models/risk parameters | 182,255 | 140,370 | 865,492 | - | 1,188,117 |
| Foreign exchange and other movements | 69,795 | 5,691 | 24,403 | - | 99,889 |
| September 30, 2022 | <u>\$ 645,669</u> | <u>\$ 143,766</u> | <u>\$ 892,260</u> | <u>\$ -</u> | <u>\$ 1,681,695</u> |

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 |
|---|---------------------------------------|---------------------------------|--|--|---|
| | | Collectively Assessed | Not Purchased or Originated Credit- impaired Financial Assets | Purchased or Originated Credit- impaired Financial Assets | |
| January 1, 2021 | \$ 690,084 | \$ 3,063 | \$ - | \$ - | \$ 693,147 |
| Changes due to financial instruments recognized as at January 1 | | | | | |
| Transferred to 12-month expected credit losses | 130 | (130) | - | - | - |
| New financial assets originated or purchased | 350,259 | - | - | - | 350,259 |
| Financial assets that have been derecognized during the period | (175,530) | (2,852) | - | - | (178,382) |
| Changes in models/risk parameters | (507,764) | (69) | - | - | (507,833) |
| Foreign exchange and other movements | (12,344) | (12) | - | - | (12,356) |
| September 30, 2021 | <u>\$ 344,835</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 344,835</u> |

iii. Secured loans and non-accrual receivables

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 | Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets | Total |
|--|---------------------------------------|---------------------------------|---|---|---|---|---------------------|
| | | Collectively Assessed | Not Purchased or Originated Credit-impaired Financial Assets | Purchased or Originated Credit-impaired Financial Assets | | | |
| January 1, 2022 | \$ 27,181 | \$ 3,679 | \$ 694,683 | \$ - | \$ 725,543 | \$ 4,423,948 | \$ 5,149,491 |
| Changes due to financial instruments recognized as at January 1 | | | | | | | |
| Transferred to lifetime expected credit losses | (2) | 71,310 | (71,308) | - | - | - | - |
| Transferred to credit-impaired financial assets | (21) | (4) | 25 | - | - | - | - |
| Transferred to 12-month expected credit losses | 99 | (15) | (84) | - | - | - | - |
| New financial assets originated or purchased | 5,302 | - | 7,764 | - | 13,066 | - | 13,066 |
| Financial assets that have been derecognized during the period | (3,449) | (2,028) | (17,820) | - | (23,297) | - | (23,297) |
| Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets | - | - | - | - | - | (844,666) | (844,666) |
| Changes in models/risk parameters | 37,915 | (66,460) | 411,575 | - | 383,030 | - | 383,030 |
| September 30, 2022 | <u>\$ 67,025</u> | <u>\$ 6,482</u> | <u>\$ 1,024,835</u> | <u>\$ -</u> | <u>\$ 1,098,342</u> | <u>\$ 3,579,282</u> | <u>\$ 4,677,624</u> |

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 | Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets | Total |
|--|---------------------------------------|---------------------------------|---|---|---|---|---------------------|
| | | Collectively Assessed | Not Purchased or Originated Credit-impaired Financial Assets | Purchased or Originated Credit-impaired Financial Assets | | | |
| January 1, 2021 | \$ 33,284 | \$ 32 | \$ 606,973 | \$ - | \$ 640,289 | \$ 4,093,427 | \$ 4,733,716 |
| Changes due to financial instruments recognized as at January 1 | | | | | | | |
| Transferred to lifetime expected credit losses | (3,154) | 68,512 | (65,358) | - | - | - | - |
| Transferred to credit-impaired financial assets | (38) | (1) | 39 | - | - | - | - |
| Transferred to 12-month expected credit losses | 1,069 | (24) | (1,045) | - | - | - | - |
| New financial assets originated or purchased | 1,698 | - | 3,372 | - | 5,070 | - | 5,070 |
| Financial assets that have been derecognized during the period | (2,180) | (4) | (33,266) | - | (35,450) | - | (35,450) |
| Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets | - | - | - | - | - | 248,090 | 248,090 |
| Changes in models/risk parameters | (9,465) | (64,579) | 237,560 | - | 163,516 | - | 163,516 |
| September 30, 2021 | <u>\$ 21,214</u> | <u>\$ 3,936</u> | <u>\$ 748,275</u> | <u>\$ -</u> | <u>\$ 773,425</u> | <u>\$ 4,341,517</u> | <u>\$ 5,114,942</u> |

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

i) Exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of Cathay Life's receivables which are in the scope of the impairment requirements under IFRS 9 are based upon the lifetime expected credit losses under the simplified approach. Loss allowance measured by a provision matrix under simplified approach is as follows:

| | Aging of Receivables Recognized | | | | |
|---------------------------------|----------------------------------|------------|------------|---------------|---------------|
| | Not Yet Due/within 1 Month | 1-3 Months | 3-6 Months | Over 6 Months | Total |
| <u>September 30, 2022</u> | | | | | |
| Gross carrying amount (Note) | \$ 23,969,098 | \$ 60,014 | \$ 307 | \$ - | \$ 24,029,419 |
| Loss rate | 0% | 2% | 10% | 50% | |
| Lifetime expected credit losses | - | 1,200 | 31 | - | 1,231 |

Note: Notes receivable of \$6,471 thousand and other receivables of \$24,022,948 thousand were included.

Aging of Receivables Recognized

| | Not Yet Due/within 1 Month | 1-3 Months | 3-6 Months | Over 6 Months | Total |
|---------------------------------|---|-------------------|-------------------|----------------------|---------------|
| <u>December 31, 2021</u> | | | | | |
| Gross carrying amount (Note) | \$ 17,514,345 | \$ 51,473 | \$ 13 | \$ - | \$ 17,565,831 |
| Loss rate | 0% | 2% | 10% | 50% | |
| Lifetime expected credit losses | - | 1,030 | 1 | - | 1,031 |

Note: Notes receivable of \$36,297 thousand and other receivables of \$17,529,534 thousand were included.

Aging of Receivables Recognized

| | Not Yet Due/within 1 Month | 1-3 Months | 3-6 Months | Over 6 Months | Total |
|---------------------------------|---|-------------------|-------------------|----------------------|---------------|
| <u>September 30, 2021</u> | | | | | |
| Gross carrying amount (Note) | \$ 19,341,675 | \$ 56,940 | \$ 300 | \$ - | \$ 19,398,915 |
| Loss rate | 0% | 2% | 10% | 50% | |
| Lifetime expected credit losses | - | 1,139 | 30 | - | 1,169 |

Note: Notes receivable of \$7,787 thousand and other receivables of \$19,391,128 thousand were included.

The movements of loss allowance were as follows:

| | For the Nine Months Ended September 30 | |
|---|---|-----------------|
| | 2022 | 2021 |
| Beginning balance | \$ 1,031 | \$ 1,611 |
| (Reversal) provision for the current period | <u>200</u> | <u>(442)</u> |
| Ending balance | <u>\$ 1,231</u> | <u>\$ 1,169</u> |

3) Liquidity risk analysis

a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Cathay Life is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. Market liquidity risk is the risk of significant changes in fair values when Cathay Life sells or offsets its positions during a market disorder or a lack of sufficient market depth.

b) Liquidity risk management

Cathay Life assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, Cathay Life manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions symmetrically.

Cathay Life uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situations. Also, for abnormal and urgent financing needs, management of Cathay Life makes an emergency operating procedure to deal with significant liquidity risks.

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

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

| | September 30, 2022 | | | | |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|---------------------|
| | Less than 6 Months | Due in 6-12 Months | Due in 1-2 Years | Due in 2-5 Years | Over 5 Years |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables | \$ 23,759,689 | \$ 1,495,104 | \$ 301,620 | \$ 178,812 | \$ - |
| Bonds payable (Note 2) | 252,000 | 926,160 | 2,715,000 | 8,145,000 | 80,600,000 |
| Lease liabilities (Note 3) | 491,032 | 358,705 | 678,057 | 2,274,822 | 33,723,476 |
| <u>Derivative financial liabilities</u> | | | | | |
| SWAP | 95,701,652 | 20,985,576 | - | - | - |
| Forward | 65,710,396 | 9,741,250 | 6,043,500 | - | - |
| CCS | 1,463,326 | 9,831,099 | 1,150,361 | - | - |
| | | | | | |
| | December 31, 2021 | | | | |
| | Less than 6 Months | Due in 6-12 Months | Due in 1-2 Years | Due in 2-5 Years | Over 5 Years |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables | \$ 21,364,786 | \$ 258,462 | \$ 942,036 | \$ 264,665 | \$ 5,410 |
| Bonds payable (Note 2) | 559,620 | 1,194,411 | 2,715,000 | 8,145,000 | 82,055,000 |
| Lease liabilities (Note 3) | 443,192 | 450,366 | 758,511 | 1,498,026 | 20,468,276 |
| <u>Derivative financial liabilities</u> | | | | | |
| SWAP | 1,493,936 | 75,585 | - | - | - |
| Forward | 2,110,718 | 1,032,946 | - | - | - |
| CCS | 30,517 | - | - | - | - |
| | | | | | |
| | September 30, 2021 | | | | |
| | Less than 6 Months | Due in 6-12 Months | Due in 1-2 Years | Due in 2-5 Years | Over 5 Years |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables (Note 1) | \$ 40,413,790 | \$ 758,598 | \$ 966,342 | \$ 211,894 | \$ - |
| Bonds payable (Note 2) | 252,000 | 926,160 | 2,715,000 | 8,145,000 | 83,315,000 |
| Lease liabilities (Note 3) | 542,277 | 228,775 | 755,961 | 1,588,025 | 20,877,262 |
| <u>Derivative financial liabilities</u> | | | | | |
| SWAP | 2,398,864 | 944,035 | - | - | - |
| Forward | 4,721,716 | 2,466,687 | 213,050 | - | - |
| CCS | - | - | 188,490 | 17,198 | - |

Note 1: Income tax payable for integrated income tax system is excluded.

Note 2: For the bonds payable without maturity dates, the contractual cash flows were calculated on the basis of 10 years starting from the issuance date.

Note 3: For lease liabilities, the remaining periods used to calculate the contractual cash flows were from 1 to 70 years.

Cathay United Bank and its subsidiaries

Cathay United Bank's risk control and hedging strategy follows the requirements of the customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, Cathay United Bank adopts different risk management methods to identify its risks and Cathay United 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.

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

- 1) To amend the risk management policies, risk appetite or risk tolerance and report the above issues to the board of directors for approval.
- 2) To manage and decide the strategy about Cathay United Bank's credit risk, market risk and operational risk.
- 3) To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- 4) To analyze the issues that Cathay United Bank's business unit brought up for discussion.
- 5) Other issues.

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

1) Credit risk

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

a) Credit risk policy and implementation

i. Cathay United Bank, Indovina Bank and CUBCN Bank

The approval unit of Cathay United Bank, Indovina Bank and CUBCN Bank's credit risk strategies and significant risk policies is the board of directors. Cathay United Bank's Risk Management Division and its subdivisions assist in reviewing and monitoring risk tolerance ability and risk control procedures; and establish credit approval processes, credit limit management, credit rating information, collateral information, periodic reviews and remedial management systems. The subdivisions include the Market Risk Management Division, Credit and Operational Management Division, Consumer Finance Credit Management Division, Corporate Finance Credit Management Division, and International Credit Management Division. Indovina Bank established the credit risk management department to perform risk management. The credit risk departments for loans, investments, and financial instruments or contracts are the executive unit of credit risk control. The credit quality of the Cathay United Bank and its subsidiaries is strictly controlled in advance. After the loan is approved, lending portfolios are reviewed according to Cathay United Bank and Indovina Bank's loan review regulations and deficiencies are tracked to strengthen post-event risk management.

Cathay United 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 Cathay United Bank, Indovina Bank and CUBCN Bank retain the legal right to foreclose on or liquidate the collateral, which effectively reduces the credit risk of Cathay United Bank, Indovina Bank and CUBCN Bank. The disclosure of the maximum credit exposure does not take into account any collateral held or other enhancements.

ii. CUBC Bank

The approval unit of CUBC Bank's credit risk policies is the board of directors, 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.

b) Judgment of significant increase in credit risk after initial recognition

i. Cathay United Bank

Cathay United 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, Cathay United 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:

i) Quantitative indicators

- Changes in credit rating

When the credit rating at the reporting date has decreased to some extent compared with that on initial recognition, credit risk is deemed to have increased significantly since initial recognition.

- Information on the overdue status of 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.

ii) Qualitative indicators

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

- Bounced checks are reported.
- Auditors have expressed significant doubt on the entity's ability to continue as a going concern.
- Auditors' opinion-adverse opinion.
- Auditors' opinion-disclaimer of opinion.
- The stock was placed in full-cash delivery stock.
- Other changes in the internal or external information on judging the credit quality changes.

Cathay United Bank established Stage 1 and Stage 2 for debt instruments based on bonds ratings. Bonds rated above investment grades are classified as low credit risks. Credit risks are deemed to have significantly increased if credit ratings decreased over specific level after initial recognition date.

ii. 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:

i) Quantitative indicators

- Changes in credit rating

When the credit rating at the reporting date has decreased to some extent compared with that on initial recognition, credit risk is deemed to have increased significantly since initial recognition.

- Information on the overdue status of 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.

ii) Qualitative indicators

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

- Any financial instruments are classified as special mention.
- Other changes in the internal or external information on judging the credit quality changes.

iii. 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:

i) Quantitative indicators

- Changes in credit rating

When the credit rating at the reporting date has decreased to some extent compared with that on initial recognition, credit risk is deemed to have increased significantly since initial recognition.

- 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.

- 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.

- 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.

ii) Qualitative indicators

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

iv. 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:

i) 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.

ii) Loan classification from National Bank of Cambodia

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

iii) 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.

c) Default and credit impairment of financial asset

i. Cathay United Bank

Cathay United 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, Cathay United Bank determines the financial assets to be subject to default and credit impairment.

i) Quantitative indicator

- Changes in credit rating

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

- 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.

ii) Qualitative indicator

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

- Bailout, reorganization, individual agreement due to debtor's financial difficulties.
- Lawsuit action has been taken.
- Debt settlement, debt negotiation.
- Other internal or external information on judging the deterioration in credit quality.

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

ii. CUBCN Bank

CUBCN Bank's criteria for determining that a financial asset is in default are 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.

i) Quantitative indicator

- Changes in credit rating

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

- 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.

ii) Qualitative indicator

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

- Any financial instruments are classified as substandard, doubtful or loss.
- The lowest credit risk is classified as substandard, doubtful or loss.
- 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.

iii. Indovina Bank

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

i) Quantitative indicator

- Changes in credit rating

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

- 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.

ii) Qualitative indicator

- Bailout, reorganization, individual agreement due to debtor's financial difficulties.
- Lawsuit action has been taken.
- Debt settlement, debt negotiation.
- The debtor has filed for bankruptcy or may apply for bankruptcy or reorganization.

- Principal or interest could not be paid as scheduled during the settlement period.
- Other internal or external information on judging the deterioration in credit quality.

iv. CUBC Bank

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

i) 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.

ii) 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.

iii) Internal credit assessment indicators

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

d) Measurement of expected credit loss

i. Cathay United Bank

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

| Credit Category | Definition |
|------------------------|---|
| Enterprise loan | Grouped by risk characteristics, enterprise size and internal 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), Cathay United 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, Cathay United Bank will measure the allowance for losses based at the lifetime expected credit losses.

For the measurement of the expected credit losses (“ECL”), Cathay United 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 Cathay United 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.).

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

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

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

ii. 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.

| Credit Category | Definition |
|--|---|
| 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 |

- i) The expected credit losses of financial instruments are measured on a case-by-case basis as follows:
 - For financial instruments in Stage 1, the allowance for losses is measured by the 12-month expected credit losses.
 - For financial instruments in Stage 2, the allowance for losses is measured by the lifetime expected credit losses.
 - 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%.
- ii) The expected credit loss parameters of financial instruments are calculated according to the following principles respectively:
 - 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.

- The LGD is based on LGD regulated in the Capital of Commercial Banks (for Trial Implementation) published by China Banking and Insurance Regulatory Commission.
- 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.

iii. 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.

| Category | Description |
|--|---|
| Loan portfolio | Grouped by counterparty type and enterprise size |
| Bond portfolio | Grouped by product category, external credit rating and payment ranks |
| Cash equivalents, due from and call loans to banks | Grouped by product category and internal/external credit rating |

i) Loan portfolio

The measurement of expected credit loss of Indovina Bank's loan portfolio is based on its product category, counterparty type and enterprise size, 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 Indovina Bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not 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.

ii) Bond portfolio

The measurement of expected credit loss of Indovina Bank's bond portfolio is based on its product category, issuer's credit rating and payment ranks. 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.

iii) Cash equivalents, deposits and interbank lending

The measurement of expected credit loss of Indovina Bank's cash equivalents, due from banks and call loans to banks is based on its counterparty type. The probabilities of default were built by Vietnam's sovereign credit ratings, and loss given default were built by the method based on Basel II and calculated by the amortized cost and interest receivable. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not 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 increase 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.

iv. CUBC Bank

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

| Category | Description |
|-----------------|--|
| Loan | Grouped by product characteristics, industry and counterparty type |
| Credit Card | Grouped by product 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 amortized cost and interest receivable. At each financial reporting date, if the above criteria for a significant increase in credit risk since initial recognition are not 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.

e) Write-off policy

Cathay United Bank and its subsidiaries 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:

- i. The recourse procedure has ceased.
- ii. The debtor's assets or income are evaluated to be insufficient to repay outstanding payments.

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

f) Consideration of forward-looking information

Cathay United Bank

Cathay United 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 Cathay United Bank in 2022 are as follows:

| Credit Category | Probability of Default (PD) |
|------------------------|---|
| Enterprise loan | Proportion of revenue less expenditures from government to GDP % Proportion of expenditures from government to GDP % |
| Consumer loan | Inflation index % 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 use the regression model to estimate the impairment parameter after the prospective adjustment.

The relevant economic factors identified by CUBCN Bank in 2022 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 2022 are as follows:

| Segment | Selected Factors |
|----------------|--|
| 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 2022 are as follows:

| Segment | Selected Factors |
|----------------|--|
| Loans | Change of inflation (%) Change of volume of imports (%) Change of GDP (%) Proportion of general government revenue of GDP (%) |
| Credit card | Change of inflation (%) Change in reserves Proportion of general government net lending/borrowing of GDP (%) |

The valuation techniques or significant assumptions used by the Cathay United Bank and its subsidiaries for assessing the expected credit losses have no significant change as of September 30, 2022.

g) Credit risk management policy

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

i. Category of credit asset

The credit risk of Cathay United 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 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, Cathay United Bank established the regulations governing the procedures to deal with non-performing loans, non-accrual loans and bad debts.

ii. Grade of credit quality

Cathay United 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 credit quality) to proceed with risk management.

In order to measure the credit risk of the clients, Cathay United Bank develops the rating model of business credit 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, Cathay United Bank also evaluates default risk of clients by using the credit rating scores developed by Cathay United Bank and the external due diligence services.

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

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

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

iii. Hedge of credit risk and easing policy

i) Collateral

Cathay United Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collateral. To ensure the creditor's rights, Cathay United Bank sets the scope 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; Cathay United Bank may reduce the limit, cut down the payback period, or deem all debts as due. Also, Cathay United Bank may use the deposits that the borrowers saved in Cathay United Bank to offset the liabilities to lower the credit risk.

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

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

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

iii) Net settlement agreement

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

iv. Maximum exposure to credit risk

Without taking into account the collateral or other credit enhancement instruments, the maximum credit risk exposures of on-balance-sheet financial assets equals their carrying amounts. The maximum credit risk exposures of off-balance-sheet items (without considering the collateral or other credit enhancement instruments) are as follows:

i) Cathay United Bank

| Off Balance Sheet Items | Maximum Exposure to Credit Risk | | |
|-------------------------------------|---------------------------------|-------------------|--------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Irrevocable loan commitments | \$ 171,089,271 | \$ 171,600,838 | \$ 174,242,300 |
| Credit card commitments | 794,986,960 | 770,929,935 | 758,701,645 |
| Unused commercial letters of credit | 6,564,542 | 6,566,178 | 7,436,618 |
| Guarantees on duties and contracts | 19,811,202 | 18,242,569 | 18,967,392 |

ii) Indovina Bank

| Off Balance Sheet Items | Maximum Exposure to Credit Risk | | |
|-------------------------------------|---------------------------------|-------------------|--------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Financial guarantee contracts | \$ 1,271,953 | \$ 1,292,761 | \$ 1,322,375 |
| Unused commercial letters of credit | 830,102 | 994,336 | 1,158,327 |
| Irrevocable loan commitments | - | - | 683 |

iii) CUBC Bank

| Off Balance Sheet Items | Maximum Exposure to Credit Risk | | |
|-------------------------------|---------------------------------|-------------------|--------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Financial guarantee contracts | \$ 23,157 | \$ 20,528 | \$ 17,635 |
| Credit card commitments | 321,190 | 269,953 | 273,549 |
| Irrevocable loan commitments | 352,444 | 338,751 | 251,727 |

iv) CUBCN Bank

| Off Balance Sheet Items | Maximum Exposure to Credit Risk | | |
|-------------------------------------|---------------------------------|-------------------|--------------------|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Financial guarantee contracts | \$ 287,606 | \$ 255,149 | \$ 334,867 |
| Unused commercial letters of credit | 520,453 | 621,893 | 655,611 |
| Irrevocable loan commitments | 1,042,421 | 1,016,657 | 740,957 |

To reduce the risk from any businesses, Cathay United 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, Cathay United 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 Cathay United Bank and its subsidiaries are able to control and minimize the credit risk exposures in off-balance-sheet items as Cathay United Bank and its subsidiaries use stricter rating procedures when extending credits and conduct reviews regularly.

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

September 30, 2022

| | Discounts and Loans | | | | Total |
|---|--|--|--|--|-------------------------|
| | Stage 1 | Stage 2 | Stage 3 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 1,955,323,216 | \$ 65,025,376 | \$ 15,688,116 | \$ - | \$ 2,036,036,708 |
| Less: Allowance impairment | (3,170,039) | (2,023,894) | (5,731,903) | - | (10,925,836) |
| Less: Difference from impairment charged in accordance with regulations | - | - | - | (22,474,479) | (22,474,479) |
| | <u>\$ 1,952,153,177</u> | <u>\$ 63,001,482</u> | <u>\$ 9,956,213</u> | <u>\$ (22,474,479)</u> | <u>\$ 2,002,636,393</u> |

| | Receivable | | | | Total |
|---|--|--|--|--|-----------------------|
| | Stage 1 | Stage 2 | Stage 3 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 105,541,053 | \$ 1,052,982 | \$ 2,021,303 | \$ - | \$ 108,615,338 |
| Less: Allowance impairment | (479,253) | (338,997) | (1,595,761) | - | (2,414,011) |
| Less: Difference from impairment charged in accordance with regulations | - | - | - | (54,325) | (54,325) |
| | <u>\$ 105,061,800</u> | <u>\$ 713,985</u> | <u>\$ 425,542</u> | <u>\$ (54,325)</u> | <u>\$ 106,147,002</u> |

December 31, 2021

| | Discounts and Loans | | | | Total |
|---|--|--|--|--|-------------------------|
| | Stage 1 | Stage 2 | Stage 3 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 1,763,964,944 | \$ 60,965,797 | \$ 12,124,070 | \$ - | \$ 1,837,054,811 |
| Less: Allowance impairment | (3,442,880) | (1,990,988) | (5,005,473) | - | (10,439,341) |
| Less: Difference from impairment charged in accordance with regulations | - | - | - | (19,538,811) | (19,538,811) |
| | <u>\$ 1,760,522,064</u> | <u>\$ 58,974,809</u> | <u>\$ 7,118,597</u> | <u>\$ (19,538,811)</u> | <u>\$ 1,807,076,659</u> |

| | Receivable | | | | Total |
|---|--|--|--|--|-----------------------|
| | Stage 1 | Stage 2 | Stage 3 | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 101,532,216 | \$ 2,692,899 | \$ 2,105,098 | \$ - | \$ 106,330,213 |
| Less: Allowance impairment | (418,248) | (288,704) | (1,658,913) | - | (2,365,865) |
| Less: Difference from impairment charged in accordance with regulations | - | - | - | (69,669) | (69,669) |
| | <u>\$ 101,113,968</u> | <u>\$ 2,404,195</u> | <u>\$ 446,185</u> | <u>\$ (69,669)</u> | <u>\$ 103,894,679</u> |

September 30, 2021

| | Discounts and Loans | | | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | Total |
|---|---------------------------------|---------------------------------|---------------------------------|---|-------------------------|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 1,762,693,124 | \$ 54,856,901 | \$ 13,062,427 | \$ - | \$ 1,830,612,452 |
| Less: Allowance impairment | (3,237,428) | (1,465,752) | (5,379,942) | - | (10,083,122) |
| Less: Difference from impairment charged in accordance with 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 | | | Difference from Impairment Charged in Accordance with Applicable Laws and Regulations | Total |
|---|---------------------------------|---------------------------------|---------------------------------|---|----------------------|
| | Stage 1 | Stage 2 | Stage 3 | | |
| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | Lifetime Expected Credit Losses | | |
| Total carrying amount | \$ 92,579,760 | \$ 1,675,703 | \$ 2,157,980 | \$ - | \$ 96,413,443 |
| Less: Allowance impairment | (410,245) | (225,997) | (1,712,015) | - | (2,348,257) |
| Less: Difference from impairment charged in accordance with 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> |

v. Credit concentration risk of Cathay United Bank and its subsidiaries

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

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

| Industry Type | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|--------------------------------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | Amount | % | Amount | % | Amount | % |
| Manufacturing | \$ 183,102,147 | 8.89 | \$ 157,020,976 | 8.45 | \$ 148,288,475 | 8.00 |
| Financial institutions and insurance | 76,981,702 | 3.74 | 85,199,467 | 4.58 | 77,866,945 | 4.20 |
| Leasing and real estate | 204,529,746 | 9.93 | 177,239,865 | 9.53 | 169,871,620 | 9.16 |
| Individuals | 1,290,060,529 | 62.63 | 1,169,015,836 | 62.89 | 1,120,862,860 | 60.47 |
| Others | <u>305,015,414</u> | <u>14.81</u> | <u>270,414,254</u> | <u>14.55</u> | <u>336,704,310</u> | <u>18.17</u> |
| | <u>\$ 2,059,689,538</u> | <u>100.00</u> | <u>\$ 1,858,890,398</u> | <u>100.00</u> | <u>\$ 1,853,594,210</u> | <u>100.00</u> |

| Geographic Region | September 30, 2022 | | December 31, 2021 | | September 30, 2021 | |
|-------------------|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | Amount | % | Amount | % | Amount | % |
| Domestic | \$ 1,778,764,218 | 86.36 | \$ 1,603,854,334 | 86.28 | \$ 1,596,084,242 | 86.11 |
| Asia | 220,112,334 | 10.69 | 197,945,764 | 10.65 | 198,476,433 | 10.71 |
| America | 44,731,958 | 2.17 | 41,734,650 | 2.25 | 41,727,209 | 2.25 |
| Others | 16,081,028 | 0.78 | 15,355,650 | 0.82 | 17,306,326 | 0.93 |
| | <u>\$ 2,059,689,538</u> | <u>100.00</u> | <u>\$ 1,858,890,398</u> | <u>100.00</u> | <u>\$ 1,853,594,210</u> | <u>100.00</u> |

2) Liquidity risk

a) Source and definition of liquidity risk

Liquidity risk means the possible losses arising from the failure of Cathay United Bank to obtain funds at a reasonable price within a reasonable time to cover the increase in assets or repay matured liabilities.

b) Liquidity risk management strategy and principles

The principle of liquidity risk management strategy of Cathay United Bank and its subsidiaries is to stabilize the liquidity of funds. The first priority of the source of funds is diversification and stability, and Cathay United Bank and its subsidiaries adopt the conservative principle to estimate the funds. The use of funds should take into account both safety and profitability, and pay attention to diversifying liquidity risks. Cathay United Bank and its subsidiaries have set up an Asset and Liability Management Committee, which is responsible for planning and monitoring liquidity risk management strategy and controlling liquidity risk with risk limits from different measuring dimensions and early warning indicators. When the liquidity has or expects significant changes, relevant authorities and responsible units jointly analyze the reasons and discuss solutions to deal with the impact of emergent events on liquidity risk. If necessary, the Asset and Liability Management Committee may be convened to discuss solutions.

c) Financial assets held to manage liquidity risk and maturity analysis of non-derivative financial liabilities.

i. Financial assets held to manage liquidity risk

Cathay United Bank and its subsidiaries holds highly marketable and diverse financial assets to meet payment obligations, i.e., 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 amortized cost, discounts and loans, and securities purchased under resell agreements.

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

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on 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, 2022 | | | | |
|--|--------------------|---------------|-----------------|-------------|---------------|
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Deposits from the Central Bank and banks | \$ 38,119,076 | \$ 30,873,516 | \$ 15,505,639 | \$ 256,274 | \$ 84,754,505 |
| Non-derivative financial liabilities at FVTPL | 410,860 | - | 267,118 | 40,948,470 | 41,626,448 |
| Notes and bonds sold under repurchase agreements | 35,337,056 | 1,151,554 | - | - | 36,488,610 |
| Payables | 11,138,032 | 8,027,436 | 1,101,125 | 399,532 | 20,666,125 |
| Deposits and remittances | 558,693,100 | 1,204,357,603 | 1,151,897,437 | 160,763,658 | 3,075,711,798 |
| Financial debentures payable | - | - | 10,179,112 | 27,100,000 | 37,279,112 |
| Lease liabilities | 139,258 | 553,317 | 684,286 | 2,024,359 | 3,401,220 |
| Other capital outflow at maturity | 14,885,079 | 21,167,919 | 5,615,818 | 1,143,756 | 42,812,572 |
| | | | | | |
| | December 31, 2021 | | | | |
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Deposits from the Central Bank and banks | \$ 19,739,865 | \$ 19,426,898 | \$ 23,321,812 | \$ 201,876 | \$ 62,690,451 |
| Central Bank and interbank lending | 1,076,000 | - | - | - | 1,076,000 |
| Non-derivative financial liabilities at FVTPL | - | - | 550,293 | 35,720,100 | 36,270,393 |
| Notes and bonds sold under repurchase agreements | 24,984,153 | 6,338,247 | - | - | 31,322,400 |
| Payables | 12,719,115 | 9,366,422 | 151,144 | 460,730 | 22,697,411 |
| Deposits and remittances | 413,504,732 | 1,148,909,532 | 1,122,164,408 | 163,228,761 | 2,847,807,433 |
| Financial debentures payable | - | 4,685,464 | 5,637,213 | 37,000,000 | 47,322,677 |
| Lease liabilities | 102,243 | 465,602 | 569,180 | 2,029,181 | 3,166,206 |
| Other capital outflow at maturity | 7,080,447 | 13,149,630 | 6,565,722 | 1,904,957 | 28,700,756 |

| | September 30, 2021 | | | | |
|--|--------------------|---------------|-----------------|-------------|---------------|
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Deposits from the Central Bank and banks | \$ 51,004,362 | \$ 14,744,552 | \$ 7,965,043 | \$ 114,737 | \$ 73,828,694 |
| Central Bank and interbank lending | - | 1,076,000 | - | - | 1,076,000 |
| Non-derivative financial liabilities at FVTPL | 363,284 | - | 231,887 | 35,947,140 | 36,542,311 |
| Notes and bonds sold under repurchase agreements | 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 |

Additional information about the maturity analysis of lease liabilities:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------|-----------------------|----------------------|-----------------------|
| Less than 1 year | \$ 1,376,861 | \$ 1,137,025 | \$ 1,169,418 |
| 1-5 years | 1,777,750 | 1,714,563 | 1,719,644 |
| 5-10 years | <u>246,609</u> | <u>314,618</u> | <u>256,565</u> |
| | <u>\$ 3,401,220</u> | <u>\$ 3,166,206</u> | <u>\$ 3,145,627</u> |

iii. Maturity analysis of derivative financial liabilities

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

- i) Foreign exchange derivative instruments: Foreign exchange options, non-delivery forwards;
- ii) Interest rate derivative instruments: Swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments 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, 2022 | | | | |
|---|---------------------|-------------------|---------------------|----------------------|----------------------|
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Derivative financial liabilities at FVTPL | | | | | |
| Foreign exchange derivative instruments | \$ 494,567 | \$ 27,821 | \$ 6,486 | \$ 28 | \$ 528,902 |
| Interest rate derivative instruments | <u>745,439</u> | <u>548,152</u> | <u>1,026,801</u> | <u>26,519,479</u> | <u>28,839,871</u> |
| | <u>\$ 1,240,006</u> | <u>\$ 575,973</u> | <u>\$ 1,033,287</u> | <u>\$ 26,519,507</u> | <u>\$ 29,368,773</u> |

| | December 31, 2021 | | | | |
|---|-------------------|-------------------|-------------------|----------------------|----------------------|
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Derivative financial liabilities at FVTPL | | | | | |
| Foreign exchange derivative instruments | \$ 24,880 | \$ 37,114 | \$ 4,574 | \$ 242 | \$ 66,810 |
| Interest rate derivative instruments | <u>33,714</u> | <u>860,300</u> | <u>585,840</u> | <u>13,799,055</u> | <u>15,278,909</u> |
| | <u>\$ 58,594</u> | <u>\$ 897,414</u> | <u>\$ 590,414</u> | <u>\$ 13,799,297</u> | <u>\$ 15,345,719</u> |

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

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

- i) Foreign exchange derivative instruments: Foreign exchange: SWAP;
- ii) Interest rate derivative instruments: Cross currency: CCS;
- 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 Cathay United Bank's gross settled derivative instruments based on the number of days remaining from the balance sheet date until the contractual maturity date. Contractual maturities are evaluated to be the most basic element for understanding all the derivative financial instruments presented on the balance sheets. The disclosed amounts are based on contractual cash flows and part of the disclosed amounts are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

| | September 30, 2022 | | | | |
|---|------------------------|------------------------|------------------------|-----------------------|------------------------|
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Derivative financial liabilities at FVTPL | | | | | |
| Foreign exchange derivative instruments | | | | | |
| Cash outflow | \$ (11,906,090) | \$ (32,812,726) | \$ (12,466,337) | \$ (493,950) | \$ (57,679,103) |
| Cash inflow | 3,704 | 29,830 | 6,064 | - | 39,598 |
| Interest rate derivative instruments | | | | | |
| Cash outflow | (40,140) | (968,078) | (1,371,745) | (661,823) | (3,041,786) |
| Cash inflow | - | - | - | - | - |
| Cash outflow subtotal | (11,946,230) | (33,780,804) | (13,838,082) | (1,155,773) | (60,720,889) |
| Cash inflow subtotal | 3,704 | 29,830 | 6,064 | - | 39,598 |
| Net cash flow | <u>\$ (11,942,526)</u> | <u>\$ (33,750,974)</u> | <u>\$ (13,832,018)</u> | <u>\$ (1,155,773)</u> | <u>\$ (60,681,291)</u> |
| | | | | | |
| | December 31, 2021 | | | | |
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Derivative financial liabilities at FVTPL | | | | | |
| Foreign exchange derivative instruments | | | | | |
| Cash outflow | \$ (1,251,076) | \$ (1,099,995) | \$ (583,172) | \$ (4,579,484) | \$ (7,513,727) |
| Cash inflow | 4,813 | 7,496 | 2,222 | - | 14,531 |
| Interest rate derivative instruments | | | | | |
| Cash outflow | (37,888) | (34,819) | (335,739) | (414,111) | (822,557) |
| Cash inflow | - | - | - | - | - |
| Cash outflow subtotal | (1,288,964) | (1,134,814) | (918,911) | (4,993,595) | (8,336,284) |
| Cash inflow subtotal | 4,813 | 7,496 | 2,222 | - | 14,531 |
| Net cash flow | <u>\$ (1,284,151)</u> | <u>\$ (1,127,318)</u> | <u>\$ (916,689)</u> | <u>\$ (4,993,595)</u> | <u>\$ (8,321,753)</u> |
| | | | | | |
| | September 30, 2021 | | | | |
| | 0-30 Days | 31-180 Days | 181 Days-1 Year | Over 1 Year | Total |
| Derivative financial liabilities at FVTPL | | | | | |
| Foreign exchange derivative instruments | | | | | |
| Cash outflow | \$ (2,300,897) | \$ (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> |

iv. Maturity analysis of off-balance sheet items

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

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

September 30, 2022

| | Not Later Than 1 Year | 1-5 Years | Later Than 5 Years | Total |
|-------------------------------|----------------------------------|------------------|-------------------------------|----------------|
| Irrevocable loan commitments | \$ 142,317,474 | \$ 23,323,475 | \$ 5,448,322 | \$ 171,089,271 |
| Credit card commitments | 36,045,458 | 205,431,995 | 553,509,507 | 794,986,960 |
| Financial guarantee contracts | 20,446,563 | 5,899,662 | 29,519 | 26,375,744 |

December 31, 2021

| | Not Later Than 1 Year | 1-5 Years | Later Than 5 Years | Total |
|-------------------------------|----------------------------------|------------------|-------------------------------|----------------|
| Irrevocable loan commitments | \$ 143,514,844 | \$ 24,884,198 | \$ 3,201,796 | \$ 171,600,838 |
| Credit card commitments | 48,902,335 | 205,372,171 | 516,655,429 | 770,929,935 |
| Financial guarantee contracts | 16,348,326 | 7,756,651 | 703,770 | 24,808,747 |

September 30, 2021

| | Not Later Than 1 Year | 1-5 Years | Later Than 5 Years | Total |
|-------------------------------|----------------------------------|------------------|-------------------------------|----------------|
| 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 |

3) Market risk

a) Source and definition of market risk

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

Cathay United Bank organized market risk management department and the committee of assets and liabilities management. The department and the committee periodically examine Cathay United 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 Cathay United 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.

b) Market risk management strategy and process

Market risk management process

i. Identification and measurement

The operations department and risk management department of Cathay United Bank 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 the 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 market risk factors.

ii. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. Cathay United Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, the relevant measures will be implemented immediately. If it meets special circumstance, the transaction department should document the responding plan. Furthermore, the department shall report to the executive management for approval and report to the board of directors regularly.

c) Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical 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.

i. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, Cathay United Bank carries out various assessment and control 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.

ii. Policy and procedure

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

iii. Valuation policy

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

iv. Method of measurement

i) The assumptions and calculation method are described in the VaR section.

ii) Cathay United Bank executes the stress testing monthly based on the following scenarios: The fluctuation of interest rate at 150bp, changes in domestic and foreign equity securities price at 15% and 20% respectively, foreign exchange rate at 5%, and reports to the risk management committee regularly.

d) Interest risk management of trading book

i. Definition of interest risk

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

ii. Interest risk management procedure of trading book

Cathay United 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, Cathay United Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment, etc.) of the trading book that are reported to the executive management or the board of directors for approval.

iii. Method of measurement

i) The assumptions and calculation method are described in the VaR section.

ii) Cathay United Bank measures the investment portfolio's interest risk exposure with DV01 monthly.

e) Interest risk management of banking book

The interest risk of banking book means that adverse changes in interest rates affect the value and cash flow of the banking book position, resulting in current or potential risks to Cathay United Bank's capital and earnings.

i. Strategy

Based on the principle of prudent operation and conservation, the first priority is on the diversification and stability of assets and liabilities, and then on safety and profitability, and Cathay United Bank and its subsidiaries should pay attention to risk diversification.

ii. Management procedure

Cathay United Bank and its subsidiaries have established interest risk indicators of banking book to control the banking book interest risk. If the indicators are abnormal, the possible offset treatment should be evaluated and reported to the Asset and Liability Management Committee to review the asset and liability structure and pricing principles, so as to reduce or control the adverse impact on earnings or net worth.

iii. Method of measurement

Measurement methods of banking book interest risk include repricing gap analysis, earnings viewpoint (Δ NII) analysis, and economic value viewpoint (Δ EVE) analysis. Cathay United Bank and its subsidiaries adopt appropriate measurement methods to manage banking book interest risk in accordance with local regulatory requirements or internal management needs.

f) Foreign exchange risk management

i. Definition of foreign exchange risk

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

ii. Policy, procedure and measurement method of foreign exchange risk management

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

For foreign exchange risk, Cathay United Bank sets the scenario at 5% fluctuation of foreign exchange rates of major currencies to execute the stress testing quarterly, and reports to the risk management committee.

g) Risk management of equity securities price

i. Definition of risk of equity securities price

The market risk of equity securities held by Cathay United Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

ii. Purpose of risk management of equity securities price

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

iii. Procedure of risk management of equity securities price

Cathay United Bank sets investment limits on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

iv. Measurement method

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

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

h) Value-at-risk of the trading books

Value-at-risk (VaR) is Cathay United Bank's tool to control market risk. VaR is a statistical measure that assesses potential losses of financial instruments caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. Cathay United Bank applies historical simulation with a statistical confidence of 99%. 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.

| September 30, 2022 | | | | |
|-------------------------------|----------------|----------------|----------------|---------------|
| Factors of Market Risk | Average | Maximum | Minimum | Ending |
| Interest rate | \$ 235,997 | \$ 292,247 | \$ 180,917 | \$ 253,229 |
| Foreign exchange | 137,897 | 227,124 | 66,109 | 99,901 |
| Equity securities price | 175,836 | 365,415 | 91,597 | 98,791 |

| December 31, 2021 | | | | |
|-------------------------------|----------------|----------------|----------------|---------------|
| Factors of Market Risk | Average | Maximum | Minimum | Ending |
| Interest rate | \$ 135,734 | \$ 215,547 | \$ 43,133 | \$ 215,547 |
| Foreign exchange | 85,389 | 162,748 | 65,675 | 84,654 |
| Equity securities price | 344,290 | 629,009 | 91,597 | 365,415 |

| September 30, 2021 | | | | |
|-------------------------------|----------------|----------------|----------------|---------------|
| Factors of Market Risk | Average | Maximum | Minimum | Ending |
| 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 |

Cathay United 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' hedging and trading needs, to manage Cathay United Bank's exposure to risks and to generate revenues through trading activities. Cathay United Bank trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank transacts derivative contracts with its clients to meet their hedging demands and also takes proprietary positions for its own accounts within the allowed market risk.

i) Market risk stress testing

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

| Stress Testing | | | | |
|---------------------------|-----------------------------|---------------------------|--------------------------|---------------------------|
| Market/Product | Scenarios | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Stock market | Major stock exchanges +15% | \$ 295,706 | \$ 2,542,569 | \$ 843,289 |
| | Major stock exchanges -15% | (295,706) | (2,542,569) | (843,289) |
| | Abroad stock exchanges +20% | - | 296,279 | 22,190 |
| | Abroad stock exchanges -20% | - | (296,279) | (22,190) |
| Interest rate/bond market | Major interest rate +150bp | (3,128,340) | (627,223) | (990,646) |
| | Major interest rate -150bp | 1,521,406 | 1,472,050 | 1,175,185 |
| Foreign exchange market | Major currencies +5% | 537,852 | 498,076 | 718,834 |
| | Major currencies -5 % | (537,852) | (498,076) | (691,736) |

Note: The information of stress testing is defined by risk market policy of the trading book.

j) Market risk sensitivity analysis

i. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate 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. Cathay United Bank’s interest rate-sensitive portfolios include government bonds, corporate bonds, interest rate swaps, forward rate agreements and interest rate collars.

ii. 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.

iii. 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% in the underlying stock prices fluctuation. Cathay United Bank’s equity portfolios include stocks and equity index options.

| | | September 30, 2022 | |
|---|-------------------------------------|--------------------------------------|------------------------------|
| Risk Factors | Changes (+/-) | Sensitivity of Profit or Loss | Sensitivity of Equity |
| Foreign exchange rate factor sensitivity (FX Delta) | Exchange rate of each currency+ 1% | \$ 107,570 | \$ - |
| | Exchange rate of each currency - 1% | (107,570) | - |
| Interest rate factor sensitivity (PVBP) | Yield curves parallel shift+1bp | (20,856) | - |
| | Yield curves parallel shift - 1bp | 10,143 | - |
| Equity securities price factor sensitivity (Equity Delta) | Equity securities price +1% | (20,676) | 40,390 |
| | Equity securities price -1% | 20,676 | (40,390) |

| | | December 31, 2021 | |
|---|-------------------------------------|--------------------------------------|------------------------------|
| Risk Factors | Changes (+/-) | Sensitivity of Profit or Loss | Sensitivity of Equity |
| Foreign exchange rate factor sensitivity (FX Delta) | Exchange rate of each currency+ 1% | \$ 99,615 | \$ - |
| | Exchange rate of each currency - 1% | (99,615) | - |
| Interest rate factor sensitivity (PVBP) | Yield curves parallel shift+1bp | (4,181) | - |
| | Yield curves parallel shift - 1bp | 9,814 | - |
| Equity securities price factor sensitivity (Equity Delta) | Equity securities price +1% | 35,274 | 149,044 |
| | Equity securities price -1% | (35,274) | (149,044) |

| | | September 30, 2021 | |
|---|-------------------------------------|--------------------------------------|------------------------------|
| Risk Factors | Changes (+/-) | Sensitivity of Profit or Loss | Sensitivity of Equity |
| Foreign exchange rate factor sensitivity (FX Delta) | Exchange rate of each currency+ 1% | \$ 143,767 | \$ - |
| | Exchange rate of each currency - 1% | (138,347) | - |
| Interest rate factor sensitivity (PVBP) | Yield curves parallel shift+1bp | (6,604) | - |
| | Yield curves parallel shift - 1bp | 7,835 | - |
| Equity securities price factor sensitivity (Equity Delta) | Equity securities price +1% | (1,015) | 58,344 |
| | Equity securities price -1% | 1,015 | (58,344) |

Note: The information of sensitivity analysis is defined by market risk management

k) Effect of interest rate benchmark reform

Cathay United 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.

Cathay United 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, 2022, 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 Cathay United 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.

Cathay United Bank

The following table contains details of non-derivative financial instruments held by Cathay United Bank as of September 30, 2022 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

| | Carrying Amount |
|--|----------------------------|
| <u>Non-derivative financial assets which are subject to the reform</u> | |
| Financial assets at FVTOCI | |
| Financial assets linked to USD LIBOR | <u>\$ 2,230,612</u> |
| Investments in debt instruments at amortised cost | |
| Financial assets linked to USD LIBOR | <u>\$ 1,235,876</u> |
| Discounts and loans | |
| Financial assets linked to USD LIBOR | \$ 60,372,825 |
| Financial assets linked to EUR LIBOR | 4,343 |
| Financial assets linked to SGD SOR | <u>2,491,162</u> |
| | <u>\$ 62,868,330</u> |

The following table contains details of derivative financial instruments held by Cathay United Bank at September 30, 2022 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 |
| Interest rate swaps Financial assets linked to USD LIBOR | \$ 37,934,071 | \$ 5,723,797 | \$ 1,140,934 |

Cathay Century and its subsidiaries

Cathay Century and its subsidiaries' major financial instruments include equity and debt investments, derivatives, receivables, payables and bonds payable. The major risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk analysis

Market risk is the risk resulting from changes in market risk factors, such as exchange rate, product price, interest rate, credit spread, and stock price, which may decrease Cathay Century and its subsidiaries' income or value of investment portfolio.

Cathay Century and its subsidiaries continues to use market risk management tools such as value at risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

a) Value at Risk

VaR is used to measure the maximum potential loss of a portfolio in a given period and confidence level when the market risk factors changes. Cathay Century and its subsidiaries calculate VaR on the next day (week or two weeks) at 99% confidence level.

b) Stress testing

In addition to the VaR model, Cathay Century and its subsidiaries periodically use stress testing to assess the potential risk of extreme and abnormal events.

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

i. Simple sensitivity test

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

ii. Scenario analysis

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

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, Cathay Century and its subsidiaries evaluate whether the event would result in losses to the current investment portfolio in the event.

ii) Hypothetical scenario

Cathay Century and its subsidiaries make reasonable assumptions for extreme market changes that may occur in the future, put related changes in related risk factors to the current investment portfolio and consider the correlation between the investment targets and risk factors.

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

| Risk Factors | Changes (+/-) | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---------------------------------------|-----------------------------------|---------------------------|--------------------------|---------------------------|
| Equity price risk (index) | -10% | \$ (639,976) | \$ (1,097,510) | \$ (992,985) |
| Interest rate risk (yield curve) | +20bps | (147,587) | (127,128) | (124,407) |
| Foreign currency risk (exchange rate) | USD exchange NTD devalue 1 dollar | (113,126) | (156,646) | (144,124) |

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects to the consolidated financial statements.

- Foreign currency risk

Cathay Century and its subsidiaries has foreign currency-denominated assets and liabilities, which expose Cathay Century and its subsidiaries to foreign currency risk.

- Interest rate risk

Cathay Century and its subsidiaries is exposed to interest rate risk because entities in the Cathay Century and its subsidiaries hold debt instrument at both fixed and floating interest rates. The risk is managed by the Cathay Century and its subsidiaries by maintaining an appropriate mix of fixed and floating rate debt instrument.

- Price risk

Cathay Century and its subsidiaries was exposed to equity price risk through its investments in listed shares and mutual funds. Equity price exposures were managed by utilizing futures. That positions of futures do not exceed the hedged positions.

c) Sensitivity analysis

| For the Nine Months Ended September 30, 2022 | | | |
|---|---|----------------------------------|-------------------------|
| Risk Factors | Variation (+/-) | Effect on Profit and Loss | Effect on Equity |
| Foreign currency risk sensitivity | USD appreciates 1% | \$ 27,279 | \$ 4,835 |
| | CNY appreciates 1% | 689 | - |
| | HKD appreciates 1% | 936 | 535 |
| | EUR appreciates 1% | 61 | 396 |
| | VND appreciates 1% | - | 7,082 |
| Interest rate risk sensitivity | Yield curve (USD): Upward parallel shift by 1bp | (4,522) | - |
| | Yield curve (CNY): Upward parallel shift by 1bp | (30) | - |
| | Yield curve (NTD): Upward parallel shift by 1bp | (1,897) | (898) |
| Equity securities price sensitivity | Increases 1% in equity price | - | 63,998 |
| For the Year Ended December 31, 2021 | | | |
| Risk Factors | Variation (+/-) | Effect on Profit and Loss | Effect on Equity |
| Foreign currency risk sensitivity | USD appreciates 1% | \$ 23,810 | \$ 10,145 |
| | CNY appreciates 1% | 2,706 | - |
| | HKD appreciates 1% | 2,039 | 2,881 |
| | EUR appreciates 1% | 24 | 511 |
| | VND appreciates 1% | - | 6,271 |
| Interest rate risk sensitivity | Yield curve (USD): Upward parallel shift by 1bp | (4,100) | - |
| | Yield curve (CNY): Upward parallel shift by 1bp | (34) | - |
| | Yield curve (NTD): Upward parallel shift by 1bp | (1,223) | (927) |
| Equity securities price sensitivity | Increases 1% in equity price | - | 109,751 |

For the Nine Months Ended September 30, 2021

| Risk Factors | Variation (+/-) | Effect on Profit and Loss | Effect on Equity |
|--|--|--|-----------------------------|
| Foreign currency risk sensitivity | USD appreciates 1% | \$ 24,105 | \$ 8,122 |
| | CNY appreciates 1% | 2,673 | - |
| | HKD appreciates 1% | 2,742 | 2,205 |
| | EUR appreciates 1% | 19 | 497 |
| | VND appreciates 1% | - | 6,302 |
| Interest rate risk sensitivity | Yield curve (USD): Upward parallel shift by 1bp | (4,371) | - |
| | Yield curve (CNY): Upward parallel shift by 1bp | (36) | - |
| | Yield curve (NTD): Upward parallel shift by 1bp | (1,192) | (643) |
| Equity securities price sensitivity | Increases 1% in equity price | - | 99,298 |

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Information of subsidiaries is not disclosed due to immaterial effects to the consolidated financial statements.

2) Credit risk

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

b) Credit concentration risk analysis

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

September 30, 2022

| Financial Assets | Taiwan | Asia | Europe | North Americas | Emerging Market and Others | Total |
|------------------------------------|---------------|------|--------------|----------------|----------------------------|---------------|
| Cash and cash equivalents | \$ 10,102,071 | \$ - | \$ - | \$ - | \$ 326,567 | \$ 10,428,638 |
| Financial assets at FVTPL | 264,771 | - | - | - | - | 264,771 |
| Financial assets at FVTOCI | 672,910 | - | - | - | - | 672,910 |
| Financial assets at amortized cost | 2,765,324 | - | 1,483,027 | 3,768,964 | 1,849,436 | 9,866,751 |
| Total | \$ 13,805,076 | \$ - | \$ 1,483,027 | \$ 3,768,964 | \$ 2,176,003 | \$ 21,233,070 |
| Proportion | 65.02% | - | 6.98% | 17.75% | 10.25% | 100.00% |

December 31, 2021

| Financial Assets | Taiwan | Asia | Europe | North Americas | Emerging Market and Others | Total |
|------------------------------------|---------------|-----------|--------------|----------------|----------------------------|---------------|
| Cash and cash equivalents | \$ 11,672,113 | \$ - | \$ - | \$ - | \$ 256,037 | \$ 11,928,150 |
| Financial assets at FVTPL | 349,701 | - | - | - | - | 349,701 |
| Financial assets at FVTOCI | 728,828 | - | - | - | - | 728,828 |
| Financial assets at amortized cost | 2,299,413 | 69,225 | 1,205,648 | 2,570,778 | 1,617,471 | 7,762,535 |
| Total | \$ 15,050,055 | \$ 69,225 | \$ 1,205,648 | \$ 2,570,778 | \$ 1,873,508 | \$ 20,769,214 |
| Proportion | 72.46% | 0.33% | 5.81% | 12.38% | 9.02% | 100.00% |

September 30, 2021

| Financial Assets | Taiwan | Asia | Europe | North Americas | Emerging Market and Others | Total |
|------------------------------------|---------------|-----------|--------------|----------------|----------------------------|---------------|
| Cash and cash equivalents | \$ 11,003,436 | \$ - | \$ - | \$ - | \$ 290,077 | \$ 11,293,513 |
| Financial assets at FVTPL | 353,632 | - | - | - | - | 353,632 |
| Financial assets at FVTOCI | 746,962 | - | - | - | - | 746,962 |
| Financial assets at amortized cost | 2,400,906 | 69,730 | 1,213,566 | 2,610,348 | 1,585,153 | 7,879,703 |
| Total | \$ 14,504,936 | \$ 69,730 | \$ 1,213,566 | \$ 2,610,348 | \$ 1,875,230 | \$ 20,273,810 |
| Proportion | 71.55% | 0.34% | 5.98% | 12.88% | 9.25% | 100.00% |

c) Determinants for whether the credit risk has increased significantly since initial recognition

- i. Cathay Century and its subsidiaries assess at each reporting date whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Century and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit ratings, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- ii. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

d) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Century and its subsidiaries is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Quantitative factor: When contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.

- ii. Qualitative factors: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers and borrowers have entered bankruptcy or are probable to enter bankruptcy or financial reorganization.
 - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - iii) The collaterals of the borrowers are seized provisionally or enforced.
 - iv) The borrowers claim for a change of credit conditions due to financial difficulties.
 - iii. The above-mentioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Century and its subsidiaries, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.
- e) Measurement of expected credit losses
- i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Century and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Century and its subsidiaries measure loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Century and its subsidiaries multiply exposure at default by the 12-month and lifetime probability of default of issuers, guarantee agencies or borrowers and loss given default. Cathay Century and its subsidiaries also consider the effect of the time value of money to calculate the 12-month and lifetime expected credit losses, respectively.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate which resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Century and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (for example, gross domestic product and economic growth rate) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

- ii. Consideration of forward-looking information

Cathay Century and its subsidiaries take forward-looking information into consideration while measuring expected credit losses of the financial assets. For example, the default rate used in the bond measurement is based on the default rate regularly published by the International Credit Rating Agency (Moody's) and adjusted according to general economic information.

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

i. Financial assets of Cathay Century and its subsidiaries

| | September 30, 2022 | | | | | |
|---------------------------------------|--|--|------------------------------------|---|----------------|--------------------------|
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| <u>Investment grade</u> | | | | | | |
| Debt instruments at FVTOCI | \$ 672,910 | \$ - | \$ - | \$ - | \$ - | \$ 672,910 |
| Financial assets at amortized cost | 9,870,645 | - | - | - | (3,894) | 9,866,751 |
| | December 31, 2021 | | | | | |
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| <u>Investment grade</u> | | | | | | |
| Debt instruments at FVTOCI | \$ 728,828 | \$ - | \$ - | \$ - | \$ - | \$ 728,828 |
| Financial assets at amortized cost | 7,764,815 | - | - | - | (2,280) | 7,762,535 |
| | September 30, 2021 | | | | | |
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| <u>Investment grade</u> | | | | | | |
| Debt instruments at FVTOCI | \$ 746,962 | \$ - | \$ - | \$ - | \$ - | \$ 746,962 |
| <u>Non-investment grade</u> | | | | | | |
| Financial assets at amortized cost | 7,881,981 | - | - | - | (2,278) | 7,879,703 |

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

ii. Secured loans of Cathay Century and its subsidiaries

| | September 30, 2022 | | | | | |
|---------------|--|--|------------------------------------|---|----------------|--------------------------|
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| Secured loans | \$ 155,232 | \$ - | \$ - | \$ - | \$ (2,040) | \$ 153,192 |
| | December 31, 2021 | | | | | |
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| Secured loans | \$ 188,921 | \$ - | \$ - | \$ - | \$ (2,458) | \$ 186,463 |
| | September 30, 2022 | | | | | |
| | Stage 1 12-month Expected Credit Losses | Stage 2 Lifetime Expected Credit Losses | Stage 3 | | Loss Allowance | Gross Carrying Amount |
| | | | Lifetime Expected Credit Losses | Purchased or Originated Credit-impaired Financial Assets | | |
| Secured loans | \$ 185,663 | \$ - | \$ - | \$ - | \$ (2,401) | \$ 183,262 |

g) Reconciliation for loss allowance is summarized below:

i. Debt instruments at FVTOCI

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 |
|--------------------------------------|---------------------------------------|---------------------------------|---|---|---|
| | | Collectively Assessed | Not Purchased or Originated Credit- impaired Financial Assets | Purchased or Originated Credit- impaired Financial Assets | |
| January 1, 2022 | \$ 19 | \$ - | \$ - | \$ - | \$ 19 |
| Changes in models/risk parameters | <u>16</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>16</u> |
| September 30, 2022 | <u>\$ 35</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35</u> |
| January 1, 2021 | \$ 91 | \$ - | \$ - | \$ - | \$ 91 |
| Changes in models/risk parameters | <u>(68)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(68)</u> |
| September 30, 2021 | <u>\$ 23</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 23</u> |

ii. Debt instruments at amortized cost

| | 12-month Expected Credit Losses | Lifetime Expected Credit Losses | | | Total of Impairment Charged in Accordance with IFRS 9 |
|--------------------------------------|---------------------------------------|---------------------------------|---|---|---|
| | | Collectively Assessed | Not Purchased or Originated Credit- impaired Financial Assets | Purchased or Originated Credit- impaired Financial Assets | |
| January 1, 2022 | \$ 2,280 | \$ - | \$ - | \$ - | \$ 2,280 |
| Changes in models/risk parameters | <u>1,614</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,614</u> |
| September 30, 2022 | <u>\$ 3,894</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,894</u> |
| January 1, 2021 | \$ 6,120 | \$ - | \$ 10,311 | \$ - | \$ 16,431 |
| Changes in models/risk parameters | <u>(3,842)</u> | <u>-</u> | <u>(10,311)</u> | <u>-</u> | <u>(14,153)</u> |
| September 30, 2021 | <u>\$ 2,278</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,278</u> |

iii. Secured loans

| | Lifetime Expected Credit Losses | | | | | Total of Impairment Charged in Accordance with IFRS 9 | Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets | Total |
|--|---------------------------------|-----------------------|--|--|--|---|--|-------|
| | 12-month Expected Credit Losses | Collectively Assessed | Not Purchased or Originated Credit-impaired Financial Assets | Purchased or Originated Credit-impaired Financial Assets | Purchased or Originated Credit-impaired Financial Assets | | | |
| January 1, 2022 | \$ 43 | \$ - | \$ - | \$ - | \$ 43 | \$ 2,415 | \$ 2,458 | |
| Changes in model/risk parameters | 39 | - | - | - | 39 | - | 39 | |
| Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets | - | - | - | - | - | (457) | (457) | |
| September 30, 2022 | <u>\$ 82</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 82</u> | <u>\$ 1,958</u> | <u>\$ 2,040</u> | |
| January 1, 2021 | \$ 22 | \$ - | \$ - | \$ - | \$ 22 | \$ 2,453 | \$ 2,475 | |
| Changes in model/risk parameters | 5 | - | - | - | 5 | - | 5 | |
| Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets | - | - | - | - | - | (79) | (79) | |
| September 30, 2021 | <u>\$ 27</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27</u> | <u>\$ 2,374</u> | <u>\$ 2,401</u> | |

There were no significant changes in loss allowance due to significant changes in the gross carrying amounts of the financial instruments.

h) Exposure to credit risk and loss allowance of receivables

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

| | September 30, 2022 | Due | Overdue | Total |
|---------------------------------|--------------------|--------------|------------|--------------|
| Carrying amount | | \$ 1,829,898 | \$ 960,656 | \$ 2,790,554 |
| Expected credit loss rate | | 1.06% | 4.07% | |
| Lifetime expected credit losses | | \$ 19,415 | \$ 39,145 | \$ 58,560 |
| | December 31, 2021 | Due | Overdue | Total |
| Carrying amount | | \$ 2,027,195 | \$ 292,113 | \$ 2,319,308 |
| Expected credit loss rate | | 1.05% | 5.10% | |
| Lifetime expected credit losses | | \$ 21,292 | \$ 14,893 | \$ 36,185 |
| | September 30, 2021 | Due | Overdue | Total |
| Carrying amount | | \$ 1,413,473 | \$ 634,208 | \$ 2,047,681 |
| Expected credit loss rate | | 1.06% | 2.61% | |
| Lifetime expected credit losses | | \$ 14,993 | \$ 16,568 | \$ 31,561 |

3) Liquidity risk

a) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as funding liquidity risk and market liquidity risk. Funding liquidity risk represents the default risk that Cathay Century and its subsidiaries is unable to turn assets into cash or obtain sufficient funds to meet matured obligations. Market liquidity risk represents the risk of significant changes in fair value that Cathay Century faces when it sells or offsets its assets during market disorder.

b) Liquidity risk management

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

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

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

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

September 30, 2022

| | Less than 6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years |
|---|-------------------------------|--------------------|------------------|------------------|-----------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables | \$ 3,651,646 | \$ 30,029 | \$ 8,089 | \$ 8,798 | \$ 6,195 |
| Lease liabilities | 76,611 | 64,554 | 6,721 | 1,212 | - |
| <u>Derivative financial liabilities</u> | | | | | |
| Swap | 516,549 | - | - | - | - |

December 31, 2021

| | Less than 6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years |
|---|-------------------------------|--------------------|------------------|------------------|-----------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables | \$ 3,871,971 | \$ 21,504 | \$ 5,263 | \$ 9,387 | \$ 4,808 |
| Lease liabilities | 74,994 | 71,072 | 93,624 | 800 | - |
| <u>Derivative financial liabilities</u> | | | | | |
| Swap | 72 | - | - | - | - |

September 30, 2021

| | Less than 6 Months | 6-12 Months | 1-2 Years | 2-5 Years | 5+ Years |
|---|-------------------------------|--------------------|------------------|------------------|-----------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Payables | \$ 3,357,577 | \$ 23,232 | \$ 7,085 | \$ 13,104 | \$ 4,808 |
| Lease liabilities | 69,973 | 63,909 | 111,128 | 2,379 | - |
| <u>Derivative financial liabilities</u> | | | | | |
| Swap | 4,726 | - | - | - | - |

Cathay Securities and its subsidiaries

1) Risk management system

a) Risk management objectives

Adhering to the risk management policies of the Company, Cathay Securities and its subsidiaries manage the risks during its operating activities in compliance with domestic and foreign regulations as well as in an efficient and flexible manner to maximize the profit.

b) Risk management policies

Cathay Securities and its subsidiaries comply with the risk management policies as a guiding principle to establish significant risk management matters such as objectives, coverage, organization duties and operating, management principles and reports.

The management policies of Cathay Securities and its subsidiaries cover different types of risk including market risk, credit risk, operating risk, liquidity risk, capital adequacy management, regulation risk and other risks related to operating activities. Before initiating a business, Cathay Securities and its subsidiaries identify relevant risks and have integrated planning of risk management mechanism and methods to ensure that such business is compliant with the management policies.

c) Risk management organization

i. Board of directors

The board of directors takes the ultimate responsibilities for risk management. The board of directors approves the risk management policy, ensures that approved risk management policies are in accordance with the nature of operating activities and types of business and cover different types of risk and monitors the effective implementation of risk management policies.

ii. Risk management committee

The risk management committee is responsible for reviewing risk management policies, principles, and rules of trading transactions, and for determining the appropriate degree of risk exposure and monitoring the implementation of the risk management policies. The risk management committee is under the board of directors and the chairman of board of directors takes chair of the committee, and the members include the general manager, finance supervisor, accounting manager, risk management supervisor, and the relevant trading department supervisor. The committee meetings are typically held quarterly and provisional meetings are called by the chairman of the board.

iii. Risk management department

The risk management department is under the board of directors. The supervisor and staff of the department are prohibited from holding positions at the trading or settlement department. Their responsibilities are to plan and implement risk management policies, principles and directions, review policies regularly to ensure that those policies are suitable for business development. The risk management department also establishes online monitoring and prevention systems and reaction mechanisms, according to the development of Cathay Securities and its subsidiaries.

iv. Business unit

Each business unit participates in the setting of the risk management mechanism and executes daily risk management and reporting to ensure that the risk model used by the business unit is implemented with the consistent credibility and is in accordance with the internal control procedures to comply with the regulations and risk management policies.

v. Auditing office

The auditing office executes risk management and internal control procedures regularly, and traces and documents findings and deviations of internal control procedures periodically to ensure that the appropriate actions of improvement have been taken in time.

vi. Finance department

The finance department participates in the setting of the risk management mechanism. The department is responsible for executing liquidity risk management and providing the liquidity risk report to the risk management department regularly.

vii. Accounting department

The accounting department participates in the setting of the risk management mechanism and provides the form of capital adequacy to the risk management department monthly.

viii. Legal affairs office

The legal affairs office executes legal risk management to ensure that business operations and risk management procedures are all in compliance with the regulations.

d) Risk management workflows

Risk management workflow for Cathay Securities and its subsidiaries includes risk identification, risk measurement, risk management mechanism, and risk reporting. Risk assessment and response strategies to each risk are addressed as follows:

i. Market risk

i) Definition

Market risk is the risk of losses in Cathay Securities and its subsidiaries' investment positions, including shares, bonds, and derivatives etc. arising from changes in the market prices of financial instruments.

ii) Controls:

Cathay Securities and its subsidiaries set up rules of trading transactions including the limits of authorization, risk limitation, stop-loss rules, and responses to the exceeded limits by each product or service line and implement those control procedures efficiently through the front desk risk control staff and on-line monitoring system. Furthermore, Cathay Securities and its subsidiaries provide the market risk management report regularly that includes market price assessments, the dollar amounts of surplus/shortfall and arbitrage, Value at Risk, and back-testing model and perform stress testing by each extreme scenario to control the risks that Cathay Securities and its subsidiaries face and manage all risks as a whole efficiently.

ii. Credit risk

i) Definition

Credit risk is the risk of loss incurred by Cathay Securities and its subsidiaries as a result of a counterparty or debtor not being able to perform its contract obligations due to deterioration of financial conditions or other factors.

ii) Controls

Cathay Securities and its subsidiaries check and review the credit position of each counterparty before trading and manage risk exposure after trading. Risks arising from securities trading are monitored and controlled based on the credit rating model. Investment concentration and risks are analyzed and documented regularly. Investment limit to each counterparty is established by its credit rating (TCRI, Taiwan Ratings, S&P, Moody's, and Fitch). In addition, the customers covered by the high-risk range of self-managed credit integrity and the credit balance of the underlying account for a certain percentage of the market credit balance are regularly reviewed and the credit risk emergency notification mechanism for the Company is established.

iii. Operational risk

i) Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategy risk and credit risk.

ii) Controls

Cathay Securities and its subsidiaries establish authority levels and the segregation of duties for the processes of front, middle and back offices. Trading, confirmation, settlement, financial accounting, and trading documents are archived for future reference. The strict processes are also established to prevent fraud and negligence. Cathay Securities and its subsidiaries request each department to establish and implement internal audit and control policies authentically. The reporting mechanism for loss events from operational risk and database are established to understand the causes of the loss.

In addition, the auditing office is established under the board of directors. The functions of the office are to implement daily process checks to establish completed internal audit control and provide internal review reports periodically to lower the loss arising from the operational failures.

iv. Liquidity risk

i) Definition

Fund liquidity refers to Cathay Securities and its subsidiaries' acquisition of funds to maintain its needed flexibility to support asset growth or to repay liabilities; market liquidity refers to the managing and avoidance of risk of loss resulting from significant changes in the market price of held positions due to the lack of market depth or market disruption.

ii) Controls

The measurement index for liquidity risk is established and Cathay Securities and its subsidiaries compiles the liquidity risk management report regularly to review the capital conditions and cash flow gap as of the balance sheet date and liquidity of overall foreign currency. Capital allocation planning is based on the compiled structure analysis as of the balance sheet date. In addition, capital liquidity simulation operations are regularly conducted to ensure that there are corresponding contingency measures in the extreme situations which can cover the funding gap. Meanwhile, credit lines of short-term financing are acquired from other financial institutions and receipts and payments are managed properly to sustain appropriate liquidity and ensure payment ability. Investment business units should conduct market liquidity risk control when buying in accordance with market liquidity management index.

v. Legal risk

i) Definition

Legal risk is the risk of loss that results from a counterparty being unable to legally enter into a contract due to the contract or eligibility of the counterparty being defective.

ii) Controls

The procedures of making and reviewing legal documentation are established. All the documents related to the contracts are required to be reviewed and approved by the legal office and may be reviewed with reference to external lawyers' opinions if needed.

vi. Capital adequacy management

i) Definition

Cathay Securities and its subsidiaries implement capital management to maintain an appropriate capital adequacy ratio, promote business growth and ensure a robust capital structure.

ii) Controls

Cathay Securities established the capital adequacy index and compiles the capital adequacy management report regularly to evaluate the appropriateness of the capital adequacy ratio and the robustness of the capital structure.

vii. Reputation risk and strategy risk

i) Definition

Reputation risk is the risk of loss resulting from negative aspects of Cathay Securities and its subsidiaries' operations, leading to the loss of customers or revenue, and the need for Cathay Securities and its subsidiaries to bear large amounts of legal fees or other losses from damages. Strategy risk is another risk of current or potential loss to revenue or capital resulting from a strategy that turns out to be defective or inappropriate, or lack of proper responses to the competitors.

ii) Controls

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

Risk management policies and principles are established based on the above-mentioned risks and management mechanisms from each risk source are set out specifically. Cathay Securities and its subsidiaries also establish the constraints for each risk and review the appropriateness of each constraint regularly. Moreover, the risk management implementation reports are reported to the risk management committee, board of directors, and risk management office of Cathay Securities and its subsidiaries every half year to assess risk tolerance and the appropriateness of the current risk management scheme.

e) Hedging and mitigation of risk strategies

The hedging and mitigation risk strategies for Cathay Securities and its subsidiaries refer to the implementation of dynamic hedging through the purchase and sale of target investment products to duplicate the same cash flows when derivatives mature. The hedging for outstanding stock warrants and structured products is based on the principle of Delta Neutral. If the prices of those investment positions fluctuate significantly in the financial markets, when the regulations for hedging operations are breached due to the impact from significant events, or when the risk personnel's implementation of hedging strategies are in violation of the regulations of hedging operations, the business department is required to explain in writing, report to the risk management department and be approved by general manager.

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

2) Market risk analysis

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

a) Sensitivity analysis

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

i. Measurement based on interest factors

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

ii. Measurement based on commodity factors

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

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

iii) Vega: Denoting the change in the value of a position given a 1% price volatility change of a certain underlying asset.

b) VaR

VaR is used to measure the risk of the largest potential loss of the investment portfolio arising from movements in market risk factors over a specific time frame and at a certain confidence level. Cathay Securities and its subsidiaries currently measure the VaR of an investment portfolio for the next day at a 99% confidence level. Also, back testing of the VaR model is performed each year to ensure the accuracy of this model.

VaR on one single trading day within the 99% confidence level

| | For the Nine Months Ended September 30, 2022 | | | |
|-----|---|----------------|---------------|----------------------|
| | Average | Highest | Lowest | End of Period |
| VaR | \$ 24,181 | \$ 39,680 | \$ 13,385 | \$ 27,775 |

| | For the Nine Months Ended September 30, 2021 | | | |
|-----|---|----------------|---------------|----------------------|
| | Average | Highest | Lowest | End of Period |
| VaR | \$ 39,130 | \$ 79,243 | \$ 26,261 | \$ 29,500 |

c) Stress testing

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

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

i. Historical Scenario

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

ii. Hypothesis Scenario

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

**For the Nine Months Ended September 30, 2022
Stress Test Table**

| Risk Factor | Changes (+/-) | Changes in Profit and Loss |
|------------------------------------|---------------|----------------------------|
| Equity risk (stock index) | -10% | \$ (255,658) |
| Interest rate risk (yield curve) | +50bps | (83,233) |
| Exchange rate risk (exchange rate) | +3% | (9,024) |
| Product risk (price) | -10% | - |

**For the Nine Months Ended September 30, 2021
Stress Test Table**

| Risk Factor | Changes (+/-) | Changes in Profit and Loss |
|------------------------------------|---------------|----------------------------|
| Equity risk (stock index) | -10% | \$ (306,735) |
| Interest rate risk (yield curve) | +100bps | (71,100) |
| Exchange rate risk (exchange rate) | +3% | 66,350 |
| Product risk (price) | -10% | - |

3) Credit risk

a) Source of credit risk

Credit risk refers to the credit risk that Cathay Securities and its subsidiaries may encounter due to engagement in financial transactions which include the credit risks from issuers, counterparties, and underlying assets:

- i. Issuer credit risk refers to the risk of financial loss that Cathay Securities and its subsidiaries may incur as a result of issuers, guarantors or banks not fulfilling their payment obligations due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk of financial loss that Cathay Securities and its subsidiaries may incur when a counterparty does not fulfill its settlement or payment obligations on the designated date.

- iii. Underlying asset credit risk refers to the risk of loss that Cathay Securities and its subsidiaries may encounter when the credit quality of the target financial instrument turns weak, credit charges increase, credit rating reduces or when the terms of the contracts are violated.

Financial assets that expose Cathay Securities and its subsidiaries to credit risk include bank accounts, debt securities, trading of over-the-counter derivatives, repurchase and resale of debts, trading from the securities lending, refundable deposits, futures deposits in banks, other refundable deposits and accounts receivable etc.

- b) Determinants for whether the credit risk has increased significantly since initial recognition
 - i. Cathay Securities and its subsidiaries assess, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, Cathay Securities and its subsidiaries consider reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
 - ii. Low credit risk: If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.
- c) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of Cathay Securities and its subsidiaries is the same as that of a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Qualitative factor: An evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers, guarantee institutions or counterparties have entered bankruptcy or are probable to close, undergo financial reorganization, file bankruptcy, dissolve or have a significant impact on the entity's ability to continue.
 - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
- ii. The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by Cathay Securities and its subsidiaries, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to the related impairment assessment model.

d) Measurement of expected credit losses

i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, Cathay Securities and its subsidiaries measure loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, Cathay Securities and its subsidiaries measure the loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, Cathay Securities and its subsidiaries multiply exposure at default by the 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. Cathay Securities and its subsidiaries also consider the effect of the time value of money when calculating the 12-month expected credit losses and the lifetime expected credit losses.

Probability of default is the rate that an issuer, guarantee agency and a borrower defaults. Loss given default is the loss rate that results from the default of issuers, guarantee agencies and borrowers. Loss given default used by Cathay Securities and its subsidiaries in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (i.e., gross domestic product and economic growth rate) after adjustments of historical data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

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

e) Loss allowance of accounts receivable

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

| | Debt Instrument Investments | Receivables | Other Receivables | Overdue Receivables | Securities Financing Receivables | Security Lending Receivables | Futures Trading Margin Receivables | Total |
|--------------------------------------|-----------------------------------|---------------|----------------------|------------------------|--|------------------------------------|---|------------------|
| Balance at | | | | | | | | |
| January 1, 2022 | \$ 342 | \$ 378 | \$ 18 | \$ 3,747 | \$ 646 | \$ 81 | \$ 74 | \$ 5,286 |
| Increase (decrease) | 1,955 | (170) | 1 | 1,770 | (330) | 2 | - | 3,228 |
| Recoveries of credits written off | - | - | - | 161 | - | - | - | 161 |
| Written off | - | - | - | (14) | - | - | - | (14) |
| Balance at September 30, 2022 | <u>\$ 2,297</u> | <u>\$ 208</u> | <u>\$ 19</u> | <u>\$ 5,664</u> | <u>\$ 316</u> | <u>\$ 83</u> | <u>\$ 74</u> | <u>\$ 8,661</u> |
| Balance at | | | | | | | | |
| January 1, 2021 | \$ 1,932 | \$ 270 | \$ 26 | \$ 92,222 | \$ 305 | \$ 28 | \$ 74 | \$ 94,857 |
| (Decrease) increase | (1,505) | (55) | (11) | 2,432 | 230 | 50 | - | 1,141 |
| Written off | - | - | - | (370) | - | - | - | (370) |
| Balance at September 30, 2021 | <u>\$ 427</u> | <u>\$ 215</u> | <u>\$ 15</u> | <u>\$ 94,284</u> | <u>\$ 535</u> | <u>\$ 78</u> | <u>\$ 74</u> | <u>\$ 95,628</u> |

4) Capital liquidity risk analysis:

Bank loans are important liquidity resource for Cathay Securities and its subsidiaries. As of September 30, 2022, December 31, 2021 and September 30, 2021, the unused credits of short-term bank loans of Cathay Securities and its subsidiaries amounted to \$7,249,739 thousand, \$8,918,105 thousand and \$8,652,738 thousand, respectively.

a) Cash flow analysis

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

| September 30, 2022 | | | | | |
|--|----------------------|-------------------|---------------------|-----------------------|----------------------|
| Cash Flows Analysis of Financial Liabilities | | | | | |
| | Payment Period | | | | Total |
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial liabilities</u> | | | | | |
| Short-term borrowings | \$ 579,500 | \$ - | \$ - | \$ - | \$ 579,500 |
| Financial liabilities at FVTPL | 1,691,649 | - | - | - | 1,691,649 |
| Liabilities for bonds with repurchase agreements | 3,971,371 | - | - | - | 3,971,371 |
| Short sale margins and payables for short sale collateral received | 236,194 | 472,388 | 708,582 | 2,834,324 | 4,251,488 |
| Securities lending margin - deposit received | 6,880 | 13,760 | 20,640 | 82,563 | 123,843 |
| Futures trader's equity | 12,617,746 | - | - | - | 12,617,746 |
| Accounts payable | 13,313,656 | - | 358,733 | 671,153 | 14,343,542 |
| Other financial liabilities | 41,517 | - | - | - | 41,517 |
| Lease liabilities | 7,540 | 15,111 | 22,843 | 41,139 | 86,633 |
| Others | 1,078,282 | - | - | - | 1,078,282 |
| Total | <u>\$ 33,544,335</u> | <u>\$ 501,259</u> | <u>\$ 1,110,798</u> | <u>\$ 3,629,179</u> | <u>\$ 38,785,571</u> |
| % to the total | <u>86.49%</u> | <u>1.29%</u> | <u>2.86%</u> | <u>9.36%</u> | <u>100%</u> |

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

| September 30, 2022 | | | | | |
|---|----------------------|-------------------|-------------------|-----------------------|----------------------|
| Cash Flow Gap | | | | | |
| | Fund Receipt Period | | | | Total |
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial assets</u> | | | | | |
| Cash and cash equivalents | \$ 3,881,400 | \$ - | \$ - | \$ - | \$ 3,881,400 |
| Financial assets at FVTPL | | | | | |
| Securities lending | 98,344 | - | - | - | 98,344 |
| Operation securities | 2,464,644 | - | - | - | 2,464,644 |
| Open-end funds and beneficiary certificates | 821,431 | - | - | - | 821,431 |
| Futures trading margin | 260,446 | - | - | - | 260,446 |
| Structured products | 5,114 | - | - | - | 5,114 |
| Financial assets at FVTOCI - current | 3,632,509 | - | - | - | 3,632,509 |
| Securities financing receivables | 397,334 | 781,310 | 1,171,965 | 4,687,860 | 7,038,469 |
| Refinancing margin and refinancing deposits receivable | 2,422 | 4,844 | 7,266 | 29,062 | 43,594 |
| Security lending receivable | 139,305 | 278,610 | 417,914 | - | 835,829 |
| Customer's margin accounts | 12,630,797 | - | - | - | 12,630,797 |
| Security lending deposits price and security lending margin deposits paid | 76,364 | 152,728 | 229,092 | 916,361 | 1,374,545 |
| Receivables | 12,706,653 | - | - | 25,247 | 12,731,900 |
| Others | 1,786,850 | - | - | 1,250,040 | 3,036,890 |
| | <u>38,903,613</u> | <u>1,217,492</u> | <u>1,826,237</u> | <u>6,908,570</u> | <u>48,855,912</u> |
| Residual cash | <u>\$ 5,359,278</u> | <u>\$ 716,233</u> | <u>\$ 715,439</u> | <u>\$ 3,279,391</u> | <u>\$ 10,070,341</u> |

December 31, 2021

Cash Flows Analysis of Financial Liabilities

| | Payment Period | | | | Total |
|--|----------------------|-------------------|-------------------|-----------------------|----------------------|
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial liabilities</u> | | | | | |
| Short-term borrowings | \$ 1,670,185 | \$ - | \$ - | \$ - | \$ 1,670,185 |
| Commercial paper payable | 4,959,166 | - | - | - | 4,959,166 |
| Financial liabilities at FVTPL | 1,613,814 | - | - | - | 1,613,814 |
| Liabilities for bonds with repurchase agreements | 2,666,221 | - | - | - | 2,666,221 |
| Short sale margins and payables for short sale collateral received | 162,394 | 324,788 | 487,182 | 1,948,735 | 2,923,099 |
| Securities lending margin - deposit received | 339 | 678 | 1,017 | 4,061 | 6,095 |
| Futures trader's equity | 10,909,517 | - | - | - | 10,909,517 |
| Accounts payable | 19,716,152 | - | 241,094 | 498,732 | 20,455,978 |
| Other financial liabilities | 101,229 | - | - | - | 101,229 |
| Lease liabilities | 6,455 | 12,929 | 19,034 | 38,323 | 76,741 |
| Others | 11,200,936 | - | - | - | 11,200,936 |
| Total | <u>\$ 53,006,408</u> | <u>\$ 338,395</u> | <u>\$ 748,327</u> | <u>\$ 2,489,851</u> | <u>\$ 56,582,981</u> |
| % to the total | <u>93.68%</u> | <u>0.60%</u> | <u>1.32%</u> | <u>4.40%</u> | <u>100%</u> |

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

December 31, 2021

Cash Flow Gap

| | Fund Receipt Period | | | | Total |
|---|----------------------|---------------------|---------------------|-----------------------|----------------------|
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial assets</u> | | | | | |
| Cash and cash equivalents | \$ 4,711,990 | \$ - | \$ - | \$ - | \$ 4,711,990 |
| Financial assets at FVTPL | | | | | |
| Operation securities | 3,702,238 | - | - | - | 3,702,238 |
| Open-end funds and beneficiary certificates | 50,146 | - | - | - | 50,146 |
| Futures trading margin | 205,263 | - | - | - | 205,263 |
| Structured products | 303 | - | - | - | 303 |
| Financial assets at FVTOCI - current | 2,654,273 | - | - | - | 2,654,273 |
| Securities financing receivables | 606,280 | 1,199,506 | 1,799,259 | 7,197,032 | 10,802,077 |
| Refinancing margin and refinancing deposits receivable | 1,933 | 3,866 | 5,799 | 23,187 | 34,785 |
| Security lending receivable | 136,191 | 272,382 | 408,574 | - | 817,147 |
| Customer's margin accounts | 10,914,357 | - | - | - | 10,914,357 |
| Security lending deposits price and security lending margin deposits paid | 66,704 | 133,408 | 200,112 | 800,452 | 1,200,676 |
| Receivables | 18,262,075 | - | - | 12,035 | 18,274,110 |
| Others | 11,915,461 | 265 | 397 | 1,600,000 | 13,516,123 |
| | <u>53,227,214</u> | <u>1,609,427</u> | <u>2,414,141</u> | <u>9,632,706</u> | <u>66,883,488</u> |
| Residual cash | <u>\$ 220,806</u> | <u>\$ 1,271,032</u> | <u>\$ 1,665,814</u> | <u>\$ 7,142,855</u> | <u>\$ 10,300,507</u> |

September 30, 2021

Cash Flows Analysis of Financial Liabilities

| | Payment Period | | | | Total |
|--|----------------------|-------------------|-------------------|-----------------------|----------------------|
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial liabilities</u> | | | | | |
| Short-term borrowings | \$ 1,288,320 | \$ - | \$ - | \$ - | \$ 1,288,320 |
| Commercial paper payable | 3,859,737 | - | - | - | 3,859,737 |
| Financial liabilities at FVTPL | 712,897 | - | - | - | 712,897 |
| Liabilities for bonds with repurchase agreements | 2,466,752 | - | - | - | 2,466,752 |
| Short sale margins and payables for short sale collateral received | 122,522 | 245,044 | 367,566 | 1,470,260 | 2,205,392 |
| Securities lending margin - deposit received | 341 | 682 | 1,023 | 4,087 | 6,133 |
| Futures trader's equity | 10,679,659 | - | - | - | 10,679,659 |
| Accounts payable | 19,107,640 | - | 490,317 | 714,165 | 20,312,122 |
| Other financial liabilities | 146,667 | - | - | - | 146,667 |
| Lease liabilities | 6,881 | 9,862 | 9,274 | 17,825 | 43,842 |
| Others | 1,958,172 | - | - | - | 1,958,172 |
| Total | <u>\$ 40,349,588</u> | <u>\$ 255,588</u> | <u>\$ 868,180</u> | <u>\$ 2,206,337</u> | <u>\$ 43,679,693</u> |
| % to the total | <u>92.38%</u> | <u>0.58%</u> | <u>1.99%</u> | <u>5.05%</u> | <u>100%</u> |

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

September 30, 2021

Cash Flow Gap

| | Fund Receipt Period | | | | Total |
|---|----------------------|---------------------|---------------------|-----------------------|---------------------|
| | Less than 1 Month | 1 to 3 Months | 3 to 6 Months | More than 6 Months | |
| <u>Financial assets</u> | | | | | |
| Cash and cash equivalents | \$ 3,834,945 | \$ - | \$ - | \$ - | \$ 3,834,945 |
| Financial assets at FVTPL | | | | | |
| Operation securities | 3,142,250 | - | - | - | 3,142,250 |
| Open-end funds and beneficiary certificates | 50,127 | - | - | - | 50,127 |
| Futures trading margin | 90,972 | - | - | - | 90,972 |
| Structured products | 1,881 | - | - | - | 1,881 |
| Financial assets at FVTOCI - current | 2,461,628 | - | - | - | 2,461,628 |
| Securities financing receivables | 499,549 | 986,212 | 1,479,318 | 5,917,274 | 8,882,353 |
| Refinancing margin and refinancing deposits receivable | 3,161 | 6,322 | 9,483 | 37,940 | 56,906 |
| Security lending receivable | 131,071 | 262,142 | 393,211 | - | 786,424 |
| Customer's margin accounts | 10,685,302 | - | - | - | 10,685,302 |
| Security lending deposits price and security lending margin deposits paid | 49,942 | 99,884 | 149,826 | 599,309 | 898,961 |
| Receivables | 18,580,317 | - | - | 8,555 | 18,588,872 |
| Others | 2,753,062 | - | - | 1,200,000 | 3,953,062 |
| | <u>42,284,207</u> | <u>1,354,560</u> | <u>2,031,838</u> | <u>7,763,078</u> | <u>53,433,683</u> |
| Residual cash | <u>\$ 1,934,619</u> | <u>\$ 1,098,972</u> | <u>\$ 1,163,658</u> | <u>\$ 5,556,741</u> | <u>\$ 9,753,990</u> |

b) Capital liquidity risk stress testing

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

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

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

1) Consolidated structured entities

The consolidated structured entities in Cathay Life and its subsidiaries consolidated financial statements are the real estate investments and management organizations. As of September 30, 2022, December 31, 2021 and September 30, 2021, Cathay Life and its subsidiaries provided loans amounting to GBP331,300, GBP331,300 and GBP345,000 thousand as financial support to the entities for operation and investment needs, respectively.

2) Unconsolidated structured entities

Cathay Life and its subsidiaries

- a) Cathay Life and its subsidiaries hold interests in structured entities which are not consolidated in Cathay Life and its subsidiaries' consolidated financial statements and Cathay Life and its subsidiaries do not provide financial support or other support to these structured entities. The maximum exposure to these structured entities is the carrying amount of the related assets held by Cathay Life and its subsidiaries. The information of these unconsolidated structured entities is disclosed as follows:

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

- b) As of September 30, 2022, December 31, 2021 and September 30, 2021, the carrying amounts of Cathay Life and its subsidiaries' assets related to its interests in unconsolidated structured entities are disclosed as follows:

| | <u>September 30, 2022</u> | |
|------------------------------------|-----------------------------|--------------------------------|
| | <u>Private Equity Funds</u> | <u>Asset-backed Securities</u> |
| Financial assets at FVTPL | \$ 216,982,013 | \$ 31,933,736 |
| Financial assets at FVTOCI | - | 65,471,596 |
| Debt instruments at amortized cost | - | 128,603,494 |
| | <u>\$ 216,982,013</u> | <u>\$ 226,008,826</u> |

| | December 31, 2021 | |
|------------------------------------|---------------------------------|------------------------------------|
| | Private Equity Funds | Asset-backed Securities |
| Financial assets at FVTPL | \$ 185,461,478 | \$ 34,862,085 |
| Financial assets at FVTOCI | - | 41,608,066 |
| Debt instruments at amortized cost | <u>-</u> | <u>107,111,263</u> |
| | <u>\$ 185,461,478</u> | <u>\$ 183,581,414</u> |

| | September 30, 2021 | |
|------------------------------------|---------------------------------|------------------------------------|
| | Private Equity Funds | Asset-backed Securities |
| Financial assets at FVTPL | \$ 167,891,951 | \$ 35,068,784 |
| Financial assets at FVTOCI | - | 45,873,634 |
| Debt instruments at amortized cost | <u>-</u> | <u>107,536,164</u> |
| | <u>\$ 167,891,951</u> | <u>\$ 188,478,582</u> |

Cathay United Bank and its subsidiaries

- a) Cathay United Bank and its subsidiaries do not provide financial support or other support to the unconsolidated structured entities. Cathay United Bank and its subsidiaries' maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets Cathay United Bank and its subsidiaries 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 securitization vehicles to receive returns | Investment in asset-backed securities issued by the entity |

- b) As of September 30, 2022, December 31, 2021 and September 30, 2021, the carrying amounts of assets recognized by Cathay United Bank and its subsidiaries' asset relating to its interests in unconsolidated structured entities are disclosed as follows:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|---|-------------------------------|------------------------------|-------------------------------|
| Financial assets at FVTOCI | \$ 8,143,749 | \$ 10,163,330 | \$ 10,111,570 |
| Investments in debt instruments measured at amortised cost | <u>65,553,783</u> | <u>40,400,178</u> | <u>49,658,067</u> |
| | <u>\$ 73,697,532</u> | <u>\$ 50,563,508</u> | <u>\$ 59,769,637</u> |

Cathay Century and its subsidiaries

- a) Cathay Century and its subsidiaries does not provide financial support or other support to the unconsolidated structured entities. Cathay Century and its subsidiaries' maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets recognized by Cathay Century and its subsidiaries. The information of the recognized unconsolidated structured entities is disclosed as follows:

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

- b) As of September 30, 2022, December 31, 2021 and September 30, 2021, the carrying amounts of assets recognized by Cathay Century and its subsidiaries relating to its interests in unconsolidated structured entities are disclosed as follows:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|------------------------------------|-------------------------------|------------------------------|-------------------------------|
| Financial assets at FVTPL | \$ 361,584 | \$ 254,142 | \$ 250,912 |
| Debt instruments at amortized cost | <u>340,137</u> | <u>318,445</u> | <u>345,854</u> |
| | <u>\$ 701,721</u> | <u>\$ 572,587</u> | <u>\$ 596,766</u> |

37. CAPITAL MANAGEMENT

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

38. OTHERS

- a. Impact of COVID-19

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

Cathay Century and its subsidiaries

Written premiums of the insurance products the Cathay Century and its subsidiaries issued for COVID-19 amounted to \$304 thousand and \$224,718 thousand, respectively, and the claims and payments were \$14,489,004 thousand and \$57,422 thousand, respectively, for the three months ended September 30, 2022 and 2021. The direct insurance premium revenues amounted to \$567,323 thousand and \$936,996 thousand, respectively, and the claims and payments were \$16,591,320 thousand and \$78,329 thousand, respectively, for the nine months ended September 30, 2022 and 2021.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the loss reserves for those insurance products amounted to \$2,596,175 thousand, \$43,458 thousand and \$35,259 thousand, respectively, and the premium deficiency reserves amounted to \$1,500,000 thousand, \$0 and \$0, respectively. Moreover, the claims and payments for those insurance products from October 1, 2022 to November 9, 2022 amounted to \$1,938,061 thousand.

The Cathay Century and its subsidiaries evaluated the economic impact resulting from COVID-19. As of the approval date of the consolidated financial statements, the Cathay Century and its subsidiaries performed the stress tests to evaluate the losses resulting from issuing insurance products for COVID-19 by stimulations of epidemic developments. Since the capital adequacy ratio under certain scenarios of stress tests was lower than the required level, the Cathay Century and its subsidiaries was approved by the FSC to increase its capital in cash by \$10,000,000 thousand on June 10, 2022 with the record date of June 24, 2022 and completed the change of registration on July 5, 2022. In addition, on October 20, 2022, the cash capital increase of \$10,000,000 was approved by the board of directors of Cathay Century, which will be fully acquired by the Company. Except for the capital increase, the Cathay Century and its subsidiaries will observe and evaluate the impact of COVID-19 epidemic continuously.

b. Significant assets and liabilities denominated in foreign currencies

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than the functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

| | September 30, 2022 | | |
|------------------------------|-----------------------------|----------------------|-------------------------------|
| | Foreign Currency | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 170,961,105 | 31.7430 | \$ 5,426,818,356 |
| AUD | 8,841,640 | 20.6393 | 182,485,260 |
| Non-monetary items | | | |
| USD | 11,956,479 | 31.7430 | 379,534,513 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 21,861,572 | 31.7430 | 693,951,880 |
| | December 31, 2021 | | |
| | Foreign Currency | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 155,093,655 | 27.6900 | \$ 4,294,543,307 |
| CNY | 35,065,355 | 4.3467 | 152,418,579 |
| AUD | 7,090,617 | 20.0919 | 142,463,968 |
| Non-monetary items | | | |
| USD | 13,627,933 | 27.6900 | 377,357,465 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 20,243,778 | 27.6900 | 560,550,213 |

| | September 30, 2021 | | |
|------------------------------|-----------------------------|----------------------|-------------------------------|
| | Foreign Currency | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 152,732,654 | 27.8660 | \$ 4,256,048,136 |
| CNY | 41,572,208 | 4.3079 | 179,088,388 |
| AUD | 7,154,681 | 20.0872 | 143,717,508 |
| Non-monetary items | | | |
| USD | 13,004,540 | 27.8660 | 362,384,512 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 20,226,766 | 27.8660 | 563,639,061 |

It is not possible to disclose foreign exchange gains (losses) of monetary financial instruments by each significant foreign currency due to the variety of the foreign currencies of the Group. The foreign currency exchange losses for the nine months ended September 30, 2022 and 2021 were gain on \$404,877,814 thousand and loss on \$59,496,247 thousand, respectively.

c. Information on discretionary investments

1) Cathay Life and its subsidiaries

- a) As of September 30, 2022, December 31, 2021 and September 30, 2021, Cathay Life entrusted securities investment trust companies to provide discretionary investment services on its behalf, and the related investments are as follows:

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|--|-------------------------------|------------------------------|-------------------------------|
| Domestic shares | \$ 134,884,593 | \$ 194,785,199 | \$ 183,648,285 |
| Overseas shares | 47,358,866 | 63,875,230 | 78,923,241 |
| Notes and bonds purchased under resale agreements | 1,570,000 | 22,665,650 | 19,963,900 |
| Cash in banks | 16,203,014 | 61,954,809 | 42,895,151 |
| Beneficiary certificates | 90,264 | 240,069 | 66,165 |
| Futures and options | <u>216,869</u> | <u>216,823</u> | <u>216,815</u> |
| | <u>\$ 200,323,606</u> | <u>\$ 343,737,780</u> | <u>\$ 325,713,557</u> |

The carrying amounts of the financial assets held under discretionary securities investment trust enterprises are equal to their fair values.

b) As of September 30, 2022, December 31, 2021 and September 30, 2021, the discretionary investments limits are as follows (in thousands of each currency):

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-----|-------------------------------|------------------------------|-------------------------------|
| NTD | \$ 43,079,839 | \$ 99,779,839 | \$ 100,979,839 |
| USD | 493,300 | 1,002,600 | 1,131,400 |
| HKD | - | 2,084 | 2,084 |

2) Cathay Century and its subsidiaries

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

| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
|-------------------------------------|-------------------------------|------------------------------|-------------------------------|
| Domestic shares | \$ 1,035,574 | \$ 2,303,141 | \$ 1,748,971 |
| Short-term transactions instruments | - | - | - |
| Cash in banks | 1,070,566 | 488,817 | 743,989 |
| Future margins | <u>38,240</u> | <u>2,012</u> | <u>2,012</u> |
| | <u>\$ 2,144,380</u> | <u>\$ 2,793,970</u> | <u>\$ 2,494,972</u> |

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

As of September 30, 2022, December 31, 2021 and September 30, 2021, Cathay Century and its subsidiaries entered into discretionary management contracts with investment limits of \$1,200,000 thousand.

d. Disclosure information as required by Article 16 of Regulations Governing the Preparation of Financial Reports by Public Banks

1) Asset quality - loans

(In Thousands of New Taiwan Dollars, %)

| Period | | September 30, 2022 | | | | | September 30, 2021 | | | | | |
|--|-----------------------------------|-----------------------------|----------------|---------------------------------------|-----------------------------|-------------------------|------------------------------|----------------|---------------------------------------|-----------------------------|-------------------------|----------|
| | | Nonperforming Loan (Note 1) | Loan | Ratio of Nonperforming Loans (Note 2) | Allowance for Credit Losses | Coverage Ratio (Note 3) | Nonperforming Loans (Note 1) | Loans | Ratio of Nonperforming Loans (Note 2) | Allowance for Credit Losses | Coverage Ratio (Note 3) | |
| Corporate banking | Secured | \$ 193,197 | \$ 339,999,723 | 0.06% | \$ 1,405,759 | 727.63% | \$ 808,673 | \$ 293,616,244 | 0.28% | \$ 1,520,018 | 187.96% | |
| | Unsecured | 356,708 | 328,626,475 | 0.11% | 9,104,691 | 2552.43% | 1,047,698 | 334,601,925 | 0.31% | 8,719,621 | 832.27% | |
| Consumer banking | Housing mortgage (Note 4) | | 240,450 | 526,258,150 | 0.05% | 8,188,766 | 3405.60% | 237,067 | 467,037,024 | 0.05% | 7,244,664 | 3055.96% |
| | Cash card | | - | - | - | - | - | - | - | - | - | - |
| | Small-scale credit loans (Note 5) | | 305,303 | 132,478,253 | 0.23% | 4,783,745 | 1566.89% | 245,768 | 111,323,530 | 0.22% | 4,386,602 | 1784.85% |
| | Other (Note 6) | Secured | 523,794 | 600,516,711 | 0.09% | 7,034,852 | 1343.06% | 716,806 | 525,981,637 | 0.14% | 6,093,518 | 850.09% |
| Unsecured | | 44,028 | 23,620,899 | 0.19% | 337,131 | 765.72% | 47,889 | 22,775,313 | 0.21% | 317,694 | 663.40% | |
| Total Loan | | 1,663,480 | 1,951,500,211 | 0.09% | 30,854,944 | 1854.84% | 3,103,901 | 1,755,335,673 | 0.18% | 28,282,117 | 911.18% | |
| | | Nonperforming Receivables | Receivables | Ratio of Nonperforming Receivables | Allowance for Credit Losses | Coverage Ratio | Nonperforming Receivables | Receivables | Ratio of Nonperforming Receivables | Allowance for Credit Losses | Coverage Ratio | |
| Credit cards | | \$ 99,416 | \$ 89,029,139 | 0.11% | \$ 2,140,453 | 2153.03% | \$ 81,554 | \$ 79,075,786 | 0.10% | \$ 2,000,088 | 2452.48% | |
| Accounts receivable factored without recourse (Note 7) | | - | 4,614,033 | - | 46,745 | - | - | 4,918,618 | - | 106,817 | - | |

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

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau’s letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

| Type | Items | September 30, 2022 | | September 30, 2021 | |
|------|--|-------------------------------------|---|-------------------------------------|---|
| | | Not Reported as Nonperforming Loans | Not Reported as Nonperforming Receivables | Not Reported as Nonperforming Loans | Not Reported as Nonperforming Receivables |
| | Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1) | \$ 760 | \$ 26,659 | \$ 1,099 | \$ 38,515 |
| | Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2) | 113,041 | 1,122,273 | 89,807 | 1,183,534 |
| | Total | \$ 113,801 | \$ 1,148,932 | \$ 90,906 | \$ 1,222,049 |

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

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

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

| September 30, 2022 | | | |
|--------------------|---|--------------------------|----------------------|
| Rank | Industry Category of Company or Group | Credit Extension Balance | % to Net Asset Value |
| 1 | Group A - other financial service activities not elsewhere classified | \$ 27,730,678 | 11.97 |
| 2 | Group B - packaging and testing of semi-conductors | 7,252,007 | 3.13 |
| 3 | Group C - other financial service activities not elsewhere classified | 6,946,873 | 3.00 |
| 4 | Group D - real estate development activities | 6,590,200 | 2.84 |
| 5 | Group E - manufacture of computers | 6,500,051 | 2.81 |
| 6 | Group F - real estate development activities | 6,392,000 | 2.76 |
| 7 | Group G - manufacture of computers | 6,160,354 | 2.66 |
| 8 | Group H - wired telecommunications activities | 5,992,251 | 2.59 |
| 9 | Group I - manufacture of computers | 5,427,419 | 2.34 |
| 10 | Group J - real estate development activities | 5,339,257 | 2.30 |

| September 30, 2021 | | | |
|--------------------|---|--------------------------|----------------------|
| Rank | Industry Category of Company or Group | Credit Extension Balance | % to Net Asset Value |
| 1 | Group A - other financial service activities not elsewhere classified | \$ 29,660,819 | 12.26 |
| 2 | Group B - packaging and testing of semi-conductors | 12,826,230 | 5.30 |
| 3 | Group C - other financial service activities not elsewhere classified | 6,870,332 | 2.84 |
| 4 | Group D - wired telecommunications activities | 6,309,642 | 2.61 |
| 5 | Group E - real estate rental 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 transport | 4,460,222 | 1.84 |

3) Information on interest rate sensitivity

Interest Rate Sensitivity (New Taiwan Dollar)

(In Thousands of New Taiwan Dollars, %)

September 30, 2022

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to One Year | Over One Year | Total |
|--|------------------|-----------------|----------------------|----------------|------------------|
| Interest rate-sensitive assets | \$ 2,169,868,150 | \$ 59,929,544 | \$ 137,275,831 | \$ 151,553,055 | \$ 2,518,626,580 |
| Interest rate-sensitive liabilities | 173,205,681 | 1,848,968,152 | 271,271,539 | 67,905,004 | 2,361,350,376 |
| Interest rate-sensitive gap | 1,996,662,469 | (1,789,038,608) | (133,995,708) | 83,648,051 | 157,276,204 |
| Net worth | | | | | 231,707,926 |
| Ratio of interest rate-sensitive assets to liabilities | | | | | 106.66% |
| Ratio of interest rate sensitivity gap to net worth | | | | | 67.88% |

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% |

Note 1: The above amounts included only New Taiwan dollar amounts held by Cathay United 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, 2022

| Items | 1 to 90 Days | 91 to 180 Days | 181 Days to One Year | Over One Year | Total |
|--|---------------|----------------|----------------------|---------------|---------------|
| Interest rate-sensitive assets | \$ 12,028,693 | \$ 1,898,805 | \$ 1,712,035 | \$ 8,960,077 | \$ 24,599,610 |
| Interest rate-sensitive liabilities | 13,301,484 | 4,484,765 | 4,286,199 | 5,319,857 | 27,392,305 |
| Interest rate-sensitive gap | (1,272,791) | (2,585,960) | (2,574,164) | 3,640,220 | (2,792,695) |
| Net worth | | | | | 7,299,497 |
| Ratio of interest rate-sensitive assets to liabilities | | | | | 89.80% |
| Ratio of interest rate sensitivity gap to net worth | | | | | (38.26%) |

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%) |

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

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

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

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

4) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities (New Taiwan Dollar)

(In Thousands of New Taiwan Dollars)

September 30, 2022

| | Total | Remaining Period to Maturity | | | | | |
|----------------------------------|------------------|------------------------------|----------------|----------------|----------------|-------------------|------------------|
| | | 0-10 Days | 11-30 Days | 31-90 Days | 91-180 Days | 181 Days - 1 Year | Over 1 Year |
| Main capital inflow on maturity | \$ 3,346,823,110 | \$ 337,454,548 | \$ 379,912,219 | \$ 386,170,187 | \$ 367,511,245 | \$ 473,769,410 | \$ 1,402,005,501 |
| Main capital outflow on maturity | 4,028,622,032 | 132,435,712 | 317,914,252 | 562,728,812 | 628,960,148 | 746,422,776 | 1,640,160,332 |
| Gap | (681,798,922) | 205,018,836 | 61,997,967 | (176,558,625) | (261,448,903) | (272,653,366) | (238,154,831) |

September 30, 2021

| | Total | Remaining Period to Maturity | | | | | |
|----------------------------------|------------------|------------------------------|----------------|----------------|----------------|-------------------|------------------|
| | | 0-10 Days | 11-30 Days | 31-90 Days | 91-180 Days | 181 Days - 1 Year | Over 1 Year |
| Main capital inflow on maturity | \$ 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) |

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

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

(In Thousands of U.S. Dollars)

September 30, 2022

| | 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 | \$ 92,173,444 | \$ 29,637,500 | \$ 21,955,566 | \$ 14,072,097 | \$ 14,887,268 | \$ 11,621,013 |
| Main capital outflow on maturity | 95,997,004 | 24,934,848 | 23,902,011 | 18,574,505 | 19,861,780 | 8,723,860 |
| Gap | (3,823,560) | 4,702,652 | (1,946,445) | (4,502,408) | (4,974,512) | 2,897,153 |

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 |

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

39. SUPPLEMENTAL DISCLOSURES

a. Information about significant transactions:

| Code | Description | Explanation |
|------|---|-------------|
| 1 | Accumulated purchases and sales balance of specific investee's marketable securities over \$300 million or 10% of the paid-in capital | None |
| 2 | Acquisition or disposal of individual real estate at prices over \$300 million or 10% of the paid-in capital | None |
| 3 | Discount on processing fee the transactions with related parties over \$5 million | None |
| 4 | Receivables from related parties over \$300 million or 10% of the paid-in capital | Table 1 |
| 5 | Disposal of nonperforming loans by subsidiaries | Table 2 |
| 6 | Related information of financial assets securitization or real estate securitization by subsidiaries | None |
| 7 | Other significant transaction which may affect the decisions of users of the financial statements | None |

b. Information on investees

| Code | Description | Explanation |
|------|---|----------------|
| 1 | Information regarding investee companies and percentage of ownership | None |
| 2 | Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital | Tables 4 and 5 |
| 3 | Discount on processing fee for transactions with related parties over \$5 million | None |
| 4 | Receivables from related parties over \$300 million or 10% of the paid-in capital | Table 1 |
| 5 | Disposal of nonperforming loans by investees | None |
| 6 | Related information of financial assets securitization or real estate securitization by investees | None |
| 7 | Other significant transaction which may affect the decisions of users of the financial statements | None |
| 8 | Financing provided to others | Note |
| 9 | Endorsements/guarantees provided | None |
| 10 | Marketable securities held as of September 30, 2022 | Table 3 (Note) |
| 11 | Marketable securities acquired or disposed of at costs or prices over \$300 million or 10% of the paid-in capital | None |
| 12 | Derivative transactions | Note 7 |

Note: Disclosure is not required for subsidiaries belonging to the financial services, insurance and securities industries, and whose principal business activities include financing provided to others, endorsements/guarantees provided, and trading of marketable securities.

- c. Investments in mainland China: Name of companies, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in investees in the mainland China area are disclosed in Table 6.
- d. The significant intercompany transactions among the Group are disclosed in Note 28 and Table 7.
- e. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 8).

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

SEPTEMBER 30, 2022

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

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|------------------------------------|------------------------------------|------------------------|--------------------------|---------------|---------|--------------|---------------------------------------|-------------------------|
| | | | | | Amount | Action Taken | | |
| Cathay Financial Holding Co., Ltd. | Cathay Life Insurance Co., Ltd. | Subsidiary | \$ 1,008,000 (Note 1) | - | \$ - | - | \$ - | \$ - |
| | Cathay United Bank Co., Ltd. | Subsidiary | 1,699,687 (Note 2) | - | - | - | - | - |
| Cathay Century Insurance Co., Ltd. | Cathay Financial Holding Co., Ltd. | The Company | 2,868,918 (Note 2) | - | - | - | - | - |
| Cathay Financial Holding Co., Ltd. | Cathay Securities Corporation | Subsidiary | 387,177 (Note 2) | - | - | - | - | - |
| | Cathay Securities Investment Trust | Subsidiary | 306,884 (Note 2) | - | - | - | - | - |
| Cathay Life Insurance Co., Ltd. | Cathay Financial Holding Co., Ltd. | The Company | 10,296,662 (Note 2) | - | - | - | - | - |
| Cathay United Bank Co., Ltd. | Cathay Life Insurance Co., Ltd. | Sibling Company | 401,042 (Note 3) | - | - | - | - | - |
| Conning Holdings Limited | Cathay Life Insurance Co., Ltd. | The Company | 330,671 (Note 4) | - | - | - | - | - |

Note 1: The ending balance is mainly comprises interest receivables of subordinated corporate bonds of Cathay Life.

Note 2: The ending balance is mainly comprised of dividends receivable.

Note 3: The ending balance is mainly comprised of receivable for insurance commission.

Note 4: The ending balance is mainly comprised of service fee receivable.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

**SALE OF NONPERFORMING LOANS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars)**

1. Summary statement:

| Trade Date | Counterparty | Loans Composition | Carrying Amount (Note) | Selling Price | Gain (or Loss) on Disposal | Terms | Relationship |
|---|--------------------------------|--------------------------|-----------------------------------|----------------------|---------------------------------------|--------------|---------------------|
| <u>Cathay United Bank</u> January 19, 2022 | SC Lowy Financial (HK) Limited | Corporate loans | \$ 173,286 | \$ 259,813 | \$ 86,527 | None | None |

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

2. Sale of nonperforming loans single batch amount over \$1 billion (excluding sales to related parties): None.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2022

(In Thousands of New Taiwan Dollars, in Thousands of Number of Shares)

| Holding Company Name | Marketable Securities Type and Name | Relationship with the Holding Company | Financial Statement Account | September 30, 2022 | | | | Note |
|---|---|--|---|--------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| Cathay Venture Inc. | <u>Corporate bonds</u> | | | | | | | |
| | A2G CB | N/A | Financial assets at fair value through profit or loss | - | \$ 1,317 | - | \$ 1,317 | |
| | Yonggu I | " | " | 342 | 32,302 | - | 32,302 | |
| | Validus CB | " | " | - | 12,510 | - | 12,510 | |
| | <u>Beneficiary certificates</u> | | | | | | | |
| | Mega Diamond Money Market Fund | " | " | 21,285 | 270,666 | - | 270,666 | |
| | Taishin 1699 Money Market Fund | " | " | 20,313 | 278,830 | - | 278,830 | |
| | Cathay Taiwan Money Market Fund | " | " | 11,125 | 140,077 | - | 140,077 | |
| | <u>Shares</u> | | | | | | | |
| | Sino Greenergy Consultancy Co., Ltd. | Investee accounted for using the equity method | Investments accounted for using the equity method | 141 | 3,646 | 28.20 | 3,646 | |
| | Tiantai II Optoelectronics Co., Ltd. | " | " | 9,780 | 131,094 | 32.28 | 131,094 | |
| | Tiantai Optoelectronics Co., Ltd | " | " | 10,125 | 135,580 | 33.64 | 135,580 | |
| | Fulgent Sun International (Holding) Co., Ltd. | N/A | Financial assets at fair value through profit or loss | 626 | 99,493 | - | 99,493 | |
| | Hiroca Holdings Ltd. | " | " | 439 | 23,843 | - | 23,843 | |
| | Senhwa Biosciences, Inc. | " | " | 615 | 30,750 | - | 30,750 | |
| | Tanvex BioPharma, Inc. | " | " | 1,250 | 61,875 | - | 61,875 | |
| | Shane Global Holdings Inc. | " | " | 3,700 | 255,279 | 3.35 | 255,279 | |
| | Brighton-Best International (Taiwan) Inc. | " | " | 3,055 | 100,662 | - | 100,662 | |
| | Nan Pao Resins Chemical Co., Ltd. | " | " | 323 | 45,101 | - | 45,101 | |
| | Ching Chan Optical Technology Co., Ltd. | " | " | 430 | 14,061 | 1.20 | 14,061 | |
| | Fusheng Precision Co., Ltd. | " | " | 800 | 146,000 | - | 146,000 | |
| | Tot Biopharm Co., Ltd | " | " | 6,909 | 83,821 | 1.15 | 83,821 | |
| | WW Holding Inc. | " | " | 1,288 | 89,387 | 2.15 | 89,387 | |
| Airmate (Cayman) International Co Limited | " | " | 612 | 10,717 | - | 10,717 | | |
| World Known MFG (Cayman) Limited | " | " | 1,478 | 47,444 | 4.36 | 47,444 | | |
| Yonggu Group Inc. | " | " | 34 | 1,740 | - | 1,740 | | |
| Easywell Biomedicals Inc. | " | " | 2,025 | 21,263 | 1.77 | 21,263 | | |
| Ta Chen Stainless Pipe Co., Ltd. | " | " | 1,321 | 50,434 | - | 50,434 | | |

(Continued)

| Holding Company Name | Marketable Securities Type and Name | Relationship with the Holding Company | Financial Statement Account | September 30, 2022 | | | | Note |
|----------------------|---|---------------------------------------|---|--------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| | Trusval Technology Co., Ltd. | N/A | Financial assets at fair value through profit or loss | 119 | \$ 7,847 | - | \$ 7,847 | |
| | Smartdisplayer Technology Co., Ltd. | " | " | 1,000 | 26,030 | 4.01 | 26,030 | |
| | Sincere Group | " | " | 204 | 8,915 | - | 8,915 | |
| | BioGend Therapeutics Co., Ltd. | " | " | 2,000 | 46,100 | 1.94 | 46,100 | |
| | Winway Technology Co., Ltd. | " | " | 424 | 159,044 | 1.23 | 159,044 | |
| | Tigerair Taiwan Co., Ltd. | " | " | 925 | 9,545 | - | 9,545 | |
| | Wendell Industrial Co., Ltd. | " | " | 540 | 42,066 | 2.26 | 42,066 | |
| | Evergreen Steel Corp. | " | " | 1,500 | 79,950 | - | 79,950 | |
| | Weblink International Inc. | " | " | 1,638 | 61,835 | 2.01 | 61,835 | |
| | EasyCard Investment Holdings Co., Ltd. | " | " | 1,430 | 6,064 | 1.37 | 6,064 | |
| | Lien-an Service Co., Ltd. | " | " | 125 | 1,510 | 5.00 | 1,510 | |
| | Koatech Technology Corp. | " | " | 401 | 3,731 | 1.32 | 3,731 | |
| | Mega Union Technology Incorporated. | " | " | 3,562 | 193,818 | 6.58 | 193,818 | |
| | Cathay Healthcare Management Co., Ltd. | " | " | 8,250 | 103,455 | 15.00 | 103,455 | |
| | Fashionguide Co., Ltd. | " | " | 714 | 15,945 | 4.26 | 15,945 | |
| | Sunmile Group Holding Co., Limited | " | " | 528 | - | 1.85 | - | |
| | NARUKO Beauty Essentials Limited | " | " | 43,252 | 50,604 | 4.02 | 50,604 | |
| | Shengzhuang Holdings | " | " | 122 | - | 1.09 | - | |
| | Bravo Ideas Digital Co., Ltd. | " | " | 3,386 | 11,207 | 6.03 | 11,207 | |
| | Episonica Holding | " | " | 2,708 | 55,884 | 11.67 | 55,884 | |
| | Andros Pharmaceuticals Co., Ltd. | " | " | 1,050 | 11,004 | 3.02 | 11,004 | |
| | Transound Electronics Co., Ltd. | " | " | 1,200 | 1,464 | 3.30 | 1,464 | |
| | Hyper Crystal Inc. | " | " | 2,000 | - | 13.80 | - | |
| | Amaryllo International B.V. | " | " | 1,000 | 6,110 | 5.00 | 6,110 | |
| | Noratech Pharmaceuticals, Inc. | " | " | 317 | 16,927 | - | 16,927 | |
| | Kuang Ming Shipping Corp. | " | " | 39 | - | - | - | |
| | Grandsys, Inc. | " | " | 1,860 | 33,220 | 6.91 | 33,220 | |
| | DTCO (Samoa) | " | " | 325 | 263 | 2.94 | 263 | |
| | Tennrich International Corp. | " | " | 1,938 | 388 | 3.19 | 388 | |
| | KKDAY | " | " | 5,668 | 27,547 | - | 27,547 | |
| | SmartGames | " | " | 164 | - | 1.35 | - | |
| | PSS Co., Ltd. | " | " | 330 | 23,902 | - | 23,902 | |
| | Anywhere2Go | " | " | 2 | 8,807 | 8.99 | 8,807 | |
| | Yikon Genomics | " | " | 1,340 | 47,396 | 3.09 | 47,396 | |
| | Rani Therapeutics, LLC | " | " | 72 | 21,791 | - | 21,791 | |
| | Mimetas B.V. | " | " | 8 | 13,139 | 2.81 | 13,139 | |
| | Xiongchuang (Samoa) | " | " | 21 | 13,995 | 4.93 | 13,995 | |
| | Acepodia Inc. | " | " | 2,454 | 70,189 | 2.02 | 70,189 | |
| | Greenway Environmental Technology Co., Ltd. | " | " | 4,375 | 22,181 | 9.51 | 22,181 | |

(Continued)

| Holding Company Name | Marketable Securities Type and Name | Relationship with the Holding Company | Financial Statement Account | September 30, 2022 | | | | Note |
|----------------------|--|---------------------------------------|---|--------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| | Emotibot Technology Limited | N/A | Financial assets at fair value through profit or loss | 2,302 | \$ 78,529 | 1.13 | \$ 78,529 | |
| | Pacific 8 Venture | " | " | - | 171,638 | 15.00 | 171,638 | |
| | Monk's hill Venture Fund | " | " | - | 92,284 | 2.50 | 92,284 | |
| | Huang Chieh Metal Composite Material Tech. Co., Ltd. | " | " | 800 | 18,184 | 1.34 | 18,184 | |
| | One Degree | " | " | 350,926 | 38,602 | 2.02 | 38,602 | |
| | Validus Investment Holdings | " | " | 145 | 49,745 | 2.18 | 49,745 | |
| | VIZIONFOCUS INC. | " | " | 1,700 | 63,240 | 3.27 | 63,240 | |
| | Finaxar Pte. Ltd. | " | " | 87 | 3,008 | 4.72 | 3,008 | |
| | aetherAI Co., Ltd. | " | " | 5,824 | 18,111 | 11.72 | 18,111 | |
| | Intudo Venture II, LP | " | " | - | 111,211 | 3.76 | 111,211 | |
| | King Point Enterprise Co., Ltd. | " | " | 1,000 | 27,590 | 2.53 | 27,590 | |
| | Cowearth Medical Holding Co., Ltd. | " | " | 3,750 | 171,176 | 1.26 | 171,176 | |
| | INNOPACK VIETNAM CO., LTD. | " | " | 1,350 | - | 9.00 | - | |
| | Pharmosa Biopharma Inc. | " | " | 4,033 | 115,061 | 4.12 | 115,061 | |
| | Transcene Corp. | " | " | 3,000 | 29,670 | 9.94 | 29,670 | |
| | Cirocomm Technology Corporation | " | " | 1,153 | 2,012 | 3.22 | 2,012 | |
| | Ampak Technology Inc. | " | " | 1,248 | 122,010 | 1.75 | 122,010 | |
| | New Garden Co., Ltd. | " | " | 5,000 | 36,250 | 10.00 | 36,250 | |
| | TMY Technology Inc. | " | " | 1,071 | 11,100 | 3.00 | 11,100 | |
| | Great Giant Fiber Garment Co., Ltd. | " | " | 353 | 40,076 | - | 40,076 | |
| | Yuen Foong Yu Consumer Products Co., Ltd. | " | " | 1,025 | 36,746 | - | 36,746 | |
| | Handa Pharmaceuticals, Inc. | " | " | 1,396 | 29,042 | 1.07 | 29,042 | |
| | Taiwan Aerospace Corp. | " | " | 1 | 14 | - | 14 | |
| | CDIB BioScience Ventures I, Inc. | " | " | - | 1 | - | 1 | |
| | Winking Entertainment Co., Ltd. | " | " | 1,426 | 52,591 | 9.08 | 52,591 | |
| | INNOPHARMAX INC. | " | " | 302 | 4,787 | - | 4,787 | |
| | Palm Drive Capital III LP (Cayman) | " | " | - | 53,085 | 2.00 | 53,085 | |
| | KEE Fresh & Safe Foodtech Co., Ltd. | " | " | 950 | 27,294 | 2.85 | 27,294 | |
| | VisEra Technologies Co., Ltd. | " | " | 580 | 141,520 | - | 141,520 | |
| | Formosa Pharmaceuticals, Inc. | " | " | 1,074 | 13,994 | - | 13,994 | |
| | Phoenix Pioneer technology Co., Ltd. | " | " | 3,000 | 59,760 | 1.01 | 59,760 | |
| | Pickupp Limited | " | " | 395 | 43,404 | 1.93 | 43,404 | |
| | Jia Wei Lifestyle, Inc | " | " | 986 | 48,413 | 1.23 | 48,413 | |
| | ANNJI PHARMACEUTICAL CO., LTD | " | " | 1,210 | 36,106 | 1.84 | 36,106 | |
| | Securitag Assembly Group Co., Ltd. | " | " | 150 | 13,275 | - | 13,275 | |
| | Morrison Optoelectronics Ltd. | " | " | 300 | 39,900 | 1.37 | 39,900 | |
| | EVERGREEN AVIATION TECHNOLOGIES CORPORATION | " | " | 973 | 66,631 | - | 66,631 | |

(Continued)

| Holding Company Name | Marketable Securities Type and Name | Relationship with the Holding Company | Financial Statement Account | September 30, 2022 | | | | Note |
|--------------------------|--|---------------------------------------|---|--------------------|-----------------|-----------------------------|------------|------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| | Intudo Venture III, LP | N/A | Financial assets at fair value through profit or loss | - | \$ 29,073 | 1.39 | \$ 29,073 | |
| | Morning Glow Holding | " | " | 4,683 | 83,821 | 9.37 | 83,821 | |
| | GRAID Technology Inc.(USA) | " | " | 682 | 33,312 | 2.67 | 33,312 | |
| | JIH SUN International Leasing & Finance Co., Ltd. | " | " | 1,500 | 46,500 | - | 46,500 | |
| | AmMax Bio, Inc. | " | " | 493 | 28,832 | 1.39 | 28,832 | |
| | Sheng He Energy Co., Ltd. | " | " | 10,000 | 100,000 | 10.00 | 100,000 | |
| | Airoha Technology Corp. | " | " | 78 | 52,357 | - | 52,357 | |
| | Cloud Mile, Inc. | " | " | 689 | 55,800 | - | 55,800 | |
| | TUNG MUNG DEVELOPMENT CO., LTD. | " | " | 7,000 | 74,200 | 1.97 | 74,200 | |
| | Power Master International Investment Holdings Co., Ltd. | " | " | 300 | 12,900 | - | 12,900 | |
| | Bioengine Capital Inc. | " | " | 200 | 9,203 | - | 9,203 | |
| | Certain Micro Application Technology Inc. | " | " | 1,200 | 33,600 | 7.45 | 33,600 | |
| | Toyo Automation Co., Ltd. | " | " | 145 | 15,215 | - | 15,215 | |
| | Partipost Pte Ltd (Singapore) | " | " | 629 | 21,784 | 1.57 | 21,784 | |
| Cathay Futures Co., Ltd. | <u>Beneficiary certificates</u> | | | | | | | |
| | JKO Pion Money Market Fund | N/A | Financial assets at fair value through profit or loss | 4,302 | 50,289 | - | 50,289 | |
| | SinoPac TWD Money Market Fund | " | " | 1,419 | 20,001 | - | 20,001 | |
| | <u>Shares</u> | | | | | | | |
| | Taiwan Futures Exchange | N/A | Financial assets at fair value through other comprehensive income | 7,299 | 1,038,258 | 1.52 | 1,038,258 | |
| Conning Inc. | <u>Preferred stock</u> | | | | | | | |
| | Centerprise Services Inc. | N/A | Financial assets at fair value through other comprehensive income | 400 | 6,729 | 1.76 | 6,729 | |

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Buyer | Property | Event Date (Note 2) | Transaction Amount (Note 1) | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty Is A Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|---------------------------------|---|------------------------|-----------------------------------|---|---|-------------------|--|--------------|---------------------|--------|-----------------------------------|------------------------|----------------|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| Cathay Life Insurance Co., Ltd. | Land located at Qingsheng Section, Zhongli Dist., Taoyuan City | 2022.03.02 | \$ 4,601,136 | Payment by installment according to the contract | ROC. (Managed by Taiwan Railway Administration) | Non-related party | - | - | - | \$ - | Valuation report of appraisers | Real estate investment | None |

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Note 2: The term "event date" refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, date of boards of directors' resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Buyer | Property | Event Date (Note 3) | Gain Date | Carrying Amount | Transaction Amount | Payment Status | Gain (or Loss) on Disposal | Counterparty | Relationship | Purpose of Disposal | Pricing Reference (Note 1) | Other Terms |
|------------------------------|--|--|--|-----------------|--------------------|--|----------------------------|-------------------------|-------------------|------------------------|--|-------------|
| Cathay United Bank Co., Ltd. | Land numbers 11-9, 11-10, 11-11, 11-18, 11-19, 11-20, 11-26, 12-4, 12-67, Pinghe Section, West District, Taichung City | 2022.01.26 (Dates of boards of directors resolutions) | Acquired in installments between 1982 and 1999 | \$ 271,823 | \$ 700,000 | Payment by installment according to the contract | \$ 428,177 | SAVE & SAFE CORPORATION | Non-related party | Real estate activation | The bargaining decision is made after the appraisal price of \$632,121 by reference to the real estate appraiser | None |

Note 1: If the disposal assets are subject to appraisal which should be stated in the column of Reference basis for price determination.

Note 2: Paid-in capital refers to the parent company's paid-in capital. If the issuer's stock has no par value or the par value per share is not NT\$10, the 10% of paid-in capital is calculated based on 10% of the equity attributable to the owners of the parent company in the balance sheet.

Note 3: The term "event date" refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, date of boards of directors' resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company | Main Business and Products | Paid-in Capital | Method of Investment (Note 1) | Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2022 | Remittance of Funds | | Accumulated Outward Remittance for Investments from Taiwan as of September 30, 2022 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Amount as of September 30, 2022 | Accumulated Repatriation of Investment Income as of September 30, 2022 |
|--|----------------------------------|-----------------|-------------------------------|--|---------------------|--------|---|-----------------------------------|--|---------------------------------|--|--|
| | | | | | Outflow | Inflow | | | | | | |
| Cathay Lujiazui Life Insurance Co., Ltd. | Life insurance | \$ 13,497,155 | a | \$ 6,748,578 | \$ - | \$ - | \$ 6,748,578 | \$ 262,821 | 50.0 | \$ 131,411 (Note 2,b,2)) | \$ 6,841,196 | \$ - |
| Cathay Century (China) | Property and casualty insurance | 12,196,844 | a | 5,908,393 | - | - | 5,908,393 | 635,443 | 49 | 311,366 (Note 2,b,3)) | 5,031,662 | - |
| Lin Yuan (Shanghai) Real Estate Co., Ltd. | Office equipment leasing company | 7,223,435 | a | 7,223,435 | - | - | 7,223,435 | 111,271 | 100 | 102,412 (Note 2,b,2)) | 8,323,306 | - |
| Cathay United Bank (China) Corporation Limited | Wholesale banking | 14,377,562 | a | 14,377,562 | - | - | 14,377,562 | 200,946 | 100 | 200,946 (Note 2,b,2)) | 17,105,591 | - |
| BSCOM Cathay Asset Management Co., Ltd. | Fund management services | 1,701,823 | a | 566,707 | - | - | 566,707 | (92,124) | 33.3 | (30,677) (Note 2,b,2)) | 306,978 | - |
| CDBS Cathay Asset Management Co., Ltd. (Beijing) (Note 4) | Assets management services | 468,290 | c | - | - | - | - | (30,467) | 33.3 | (10,146) (Note 2,b,2)) | 163,927 | - |

| Accumulated Outward Remittance for Investments in Mainland China as of September 30, 2022 | Investment Amount Authorized by the Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|---|---|--|
| \$ 34,824,675 | \$ 34,824,675 | \$ 251,307,264 |

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

- Direct investment in China.
- Reinvestment in China through companies located in a third region (please indicate the companies located in that third region).
- Others.

Note 2: The column of investment profit or loss for the period:

- It should be indicated if the entity was in the preparation stage without profit or loss on investment.
- It should be indicated if the basis of recognizing the profit or loss on investment are of the following 3 types:
 - The financial statements are reviewed and certified by international accounting firms which have partnership with R.O.C. accounting firms.
 - The financial statements are reviewed and certified by the parent company's auditors in Taiwan.
 - Other basis.

Note 3: The related figure in the schedule should be expressed in New Taiwan dollars.

(Continued)

Note 4: CDBS Cathay Asset Management Co., Ltd. invested in CDBC Cathay Asset Management Co., Ltd. (Beijing) in the amount of CNY100 million in Mainland China.

Note 5: Information on investments in mainland China:

- a. On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized Cathay Life to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand, approved by the MOEAIC on December 20, 2010. Also, MOEAIC authorized Cathay Life to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized Cathay Life to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life’s subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. Cathay Life has remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. Cathay Life injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized Cathay Life to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of September 30, 2022, Cathay Life’s remittances to the subsidiary totaled approximately CNY900,000 thousand and US\$78,210 thousand.
- b. On October 17, 2007, MOEAIC authorized Cathay Life to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on October 8, 2007. On March 6, 2008, MOEAIC authorized Cathay Life to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized Cathay Life to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized Cathay Life to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized Cathay Life to remit CNY245,000 thousand on December 6, 2018. Since the solvency of Cathay Insurance Company Ltd. (China) was compliant with the regulatory requirements, Cathay Life’s board of directors resolved to suspend capital increase on January 26, 2022. On March 3, 2022, MOEAIC authorized Cathay Life to cancel CNY245,000 thousand which was authorized by MOEAIC on November 26, 2019. As of September 30, 2022, Cathay Life’s remittances to this general insurance company amounted to approximately CNY445,000 thousand and US\$28,140 thousand.
- c. On November 1, 2011 and April 11, 2012, MOEAIC authorized Cathay Life to remit CNY300,000 (US\$47,000) thousand and CNY500,000 (US\$80,000) thousand, respectively. A total of US\$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. Cathay Life’s subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on August 15, 2012. On April 1, 2013, MOEAIC authorized Cathay Life to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of September 30, 2022, Cathay Life’s remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY1,500,000 thousand.
- d. On December 31, 2006, MOEAIC authorized Cathay Century to remit US\$28,960 thousand as the registered capital to establish an insurance subsidiary (in the form of a joint venture with Cathay Life) which was also approved by China Insurance Regulatory Commission on October 8, 2007. The joint venture company named Cathay Insurance Company Ltd. (China) established by Cathay Life and Cathay Century in Shanghai has acquired a business license of an enterprise as a legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized Cathay Life to remit CNY200,000 thousand to increase the share capital. On June 13, 2013 and March 18, 2014, a remittance of CNY100,000 thousand and CNY100,000 thousand as share capital were authorized by China Insurance Regulatory Commission. On November 23, 2018, according to No. 10700281680 document issued by the MOEAIC, Cathay Century is authorized to remit CNY245,000 thousand to increase the share capital. On November 26, 2019, according to No. 10800291980 document issued by the MOEAIC, Cathay Century is authorized to remit CNY245,000 thousand to increase the share capital. Since the solvency of Cathay Insurance Company Ltd. (China) was compliant with the regulatory requirements, Cathay Life’s board of directors resolved to suspend capital increase on January 26, 2022. On March 3, 2022, MOEAIC authorized Cathay Life to cancel CNY245,000 thousand which was authorized by MOEAIC on November 26, 2019. As of September 30, 2022, Cathay Century has remitted US\$97,292 thousand in total.
- e. MOEAIC approved Cathay United Bank to remit to China CNY400,000 (US\$60,070) thousand. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY400,000 (US\$59,770) thousand. The remaining amount of US\$300 thousand was repatriated by Shanghai Branch, Cathay United Bank on November 5, 2010. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC in January 18, 2011 and were approved on January 24, 2011. In addition, MOEAIC further approved Cathay United Bank to remit CNY600,000 (US\$95,020) thousand to China. According to the capital verification report issued by the local accountants in China, the approved working capital of Cathay United Bank’s Shanghai Branch was CNY600,000 (US\$94,930) thousand. The remaining amount of US\$90 thousand was repatriated by Cathay United Bank’s Shanghai Branch on February 1, 2012. The investment amounts were revised by Cathay United Bank by reporting to MOEAIC on March 20, 2012 and were approved on March 26, 2012. MOEAIC approved Cathay United Bank’s Shanghai Branch to increase the working capital of CNY1,000,000 (US\$164,000) thousand on February 27, 2014. and was authorized by MOEAIC, on July 10, 2014. MOEAIC agreed to the Bank to increase the working capital of the Qingdao Branch was CNY600,000 (US\$98,200) thousand on January 21, 2014, and was authorized by MOEAIC on October 30, 2014. Cathay United Bank’s obtained approval from MOEAIC to increase the working capital of Shenzhen branch by CNY400,000 (US\$60,710) thousand on January 5, 2015 and was authorized by MOEAIC on December 22, 2016.
- f. The registered capital of Cathay United Bank (China) Co., Ltd. was CNY3 billion, whose working capital was transferred from Cathay United Bank (Shanghai), Cathay United Bank (Qingdao), Cathay United Bank (Shenzhen) upon obtaining approval from the authorities.
- g. On January 9, 2012, MOEAIC authorized Cathay Securities Investments Trust to remit CNY66,600 thousand as the registered capital to establish a China-based company named CDBS Cathay Asset Management (in the form of a joint venture with China Development Bank Securities). Cathay Securities Investment Trust held 33.3% number of shares. CDBS Cathay Asset Management’s capital is CNY200,000 thousand, and has acquired a business license of an enterprise legal person on August 16, 2013. On November 9, 2016, the board of Cathay Securities Investments Trust approved to increase investment in CDBS Cathay Asset Management accounted for using the equity method as percentage of original ownership amounted to CNY53,280 thousand. The proposal was authorized by the FSC and MOEAIC on May 16, 2017 and June 9, 2017, respectively, on September 29, 2017 increase capital and will be executed after obtaining approval by the China authorities. As of September 30, 2022, Cathay Securities Investment Trust remittances to CDBS Cathay Asset Management totaled approximately CNY119,880 thousand.

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars)

| No. (Note 1) | Investee Company | Counterparty | Relationship (Note b) | Transactions Details | | | % of Total Sales or Assets (Note 3) | |
|-----------------|--------------------------|------------------------------------|--------------------------|---|---------------|--|---|------|
| | | | | Financial Statement Account | Amount | Payment Terms | | |
| 0 | Cathay Financial Holding | Cathay Life | a | Financial assets at fair value through profit or loss | \$ 35,000,000 | Not significantly different with that of third parties | 0.29 | |
| | | Cathay Life | a | Receivables | 1,008,000 | | " | 0.01 |
| | | Cathay Life | a | Payables | 10,296,662 | | " | 0.09 |
| | | Cathay Life | a | Interest income | 942,411 | | " | 0.31 |
| | | Cathay United Bank | a | Receivables | 1,699,687 | | " | 0.01 |
| | | Cathay United Bank | a | Cash and cash equivalents | 303,420 | | " | - |
| | | Cathay Century | a | Payables | 2,868,918 | | " | 0.02 |
| | | Cathay Securities | a | Receivables | 387,177 | | " | - |
| | | Cathay Securities Investment Trust | a | Receivables | 306,884 | | " | - |
| 1 | Cathay Life | Cathay Financial Holding | b | Gain on investment property | 110,826 | " | 0.04 | |
| | | Cathay United Bank | c | Guarantee deposits received | 191,579 | " | - | |
| | | Cathay United Bank | c | Cash and cash equivalents | 36,634,352 | " | 0.31 | |
| | | Cathay United Bank | c | Gain on investment property | 546,038 | " | 0.18 | |
| | | Cathay United Bank | c | Premium income | 110,135 | " | 0.04 | |
| | | Cathay United Bank | c | Other general and administrative expense | 4,479,778 | " | 1.46 | |
| | | Cathay United Bank | c | Payables | 401,042 | " | - | |
| | | Cathay United Bank | c | Service fee and commission fee expense | 707,850 | " | 0.23 | |
| | | Cathay United Bank | c | Net other non-interest gain | 166,112 | " | 0.05 | |
| | | Cathay United Bank | c | Loss on financial assets and liabilities at fair value through profit or loss | 6,183,778 | " | 2.02 | |
| | | Cathay United Bank | c | Financial liabilities at fair value through profit or loss | 5,973,486 | " | 0.05 | |
| | | Cathay Century | c | Net other non-interest gain | 524,419 | " | 0.17 | |
| | | Cathay Century | c | Other general and administrative expenses | 110,189 | " | 0.04 | |
| | | Cathay Futures | c | Guarantee deposits paid | 1,948,714 | " | 0.02 | |
| | | Cathay Securities Investment Trust | c | Service fee and commission fee expense | 321,727 | " | 0.10 | |
| | | Cathay Walbrook Holding 1 Limited | c | Loans | 11,162,961 | " | 0.09 | |
| | | Cathay Walbrook Holding 1 Limited | c | Interest income | 324,671 | " | 0.11 | |
| | | Cathay Walbrook Holding 2 Limited | c | Loans | 594,435 | " | - | |
| | | Conning holding limited | c | Payables | 330,671 | " | - | |
| | | Conning holding limited | c | Service fee and commission fee expense | 945,288 | " | 0.31 | |

(Continued)

| No. (Note 1) | Investee Company | Counterparty | Relationship (Note b) | Transactions Details | | | % of Total Sales or Assets (Note 3) | |
|-----------------------|-------------------------------|------------------------------------|--------------------------|---|--------------|--|---|------|
| | | | | Financial Statement Account | Amount | Payment Terms | | |
| 2 | Cathay United Bank | Cathay Century | c | Deposits | \$ 3,252,065 | Not significantly different with that of third parties | 0.03 | |
| | | Cathay Century | c | Service fee and commission fee expense | 155,403 | | " | 0.05 |
| | | Cathay Century | c | Gain on financial assets and liabilities at fair value through profit or loss | 264,804 | | " | 0.09 |
| | | Cathay Century | c | Financial asset at fair value through profit or loss | 259,002 | | " | - |
| | | Cathay Securities | c | Deposits | 4,231,631 | | " | 0.04 |
| | | Cathay Securities | c | Service fee and commission fee expense | 173,649 | | " | 0.06 |
| | | Cathay Venture | c | Deposits | 144,527 | | " | - |
| | | Cathay Securities Investment Trust | c | Deposits | 136,085 | | " | - |
| | | Cathay Futures | c | Deposits | 1,641,111 | | " | 0.01 |
| | | Cathay Futures | c | Guarantee deposits paid | 2,005,331 | | " | 0.02 |
| | | Lin Yuan | c | Deposits | 1,600,685 | | " | 0.01 |
| | | Cathay Industrial R&D Center | c | Deposits | 525,002 | | " | - |
| | | Indovina Bank | c | Deposits in interbank | 128,281 | | " | - |
| | | CUBC Bank | c | Call loans to banks | 2,507,697 | | " | 0.02 |
| | | CUBC Bank | c | Deposits in interbank | 540,581 | | " | - |
| | | CUBC Bank | c | Receivables | 201,118 | | " | - |
| | | CUBCN Bank | c | Interest income | 199,889 | | " | 0.07 |
| | | CUBCN Bank | c | Call loans to banks | 4,474,437 | | " | 0.04 |
| | | CUBCN Bank | c | Other financial assets | 4,474,437 | | " | 0.04 |
| | | CUBCN Bank | c | Receivables | 208,317 | | " | - |
| Cathay Life (Vietnam) | c | Deposits | 158,230 | " | - | | | |
| 3 | Indovina Bank | Cathay Insurance (Vietnam) | c | Deposits | 306,160 | " | - | |
| | | Cathay Life (Vietnam) | c | Deposits | 3,153,889 | " | 0.03 | |
| | | Cathay Life (Vietnam) | c | Interest expense | 103,531 | " | 0.03 | |
| 4 | Cathay Securities | Cathay Futures | c | Financial assets at fair value through profit or loss | 519,484 | " | - | |
| 5 | Cathay Futures | Cathay Capital (Asia) | c | Financial assets at fair value through profit or loss | 108,867 | " | - | |
| 6 | Cathay Securities (Hong Kong) | Cathay Capital (Asia) | c | Receivables | 146,388 | " | - | |

Note 1: Parent company is numbered 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

- a. Parent company to subsidiary.
- b. Subsidiary to parent company.
- c. Between subsidiaries.

(Continued)

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:

For balance sheet accounts: $\text{Transaction amount} \div \text{Total consolidated assets}$

For income statement accounts: $\text{Accumulated transaction amount} \div \text{Total consolidated profit from operations}$.

Note 4: Disclosure of the important intercompany transactions above is decided by the Company based on the materiality principle.

(Concluded)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**INFORMATION ON MAJOR SHAREHOLDERS
SEPTEMBER 30, 2022**

| Names of Major Shareholders | Shares | |
|-------------------------------|-----------------------|-----------------------------|
| | Number of Shares held | Shareholding Percentage (%) |
| Wan Pao Development Co., Ltd. | 2,331,617,689 | 15.85 |
| Lin Yuan Investment Co., Ltd. | 2,061,210,103 | 14.01 |

Note 1: Information on major shareholders in this table is regarding the shareholders who hold more than 5% of the Company's dematerialized ordinary shares and preference shares (including treasury shares) that have been registered and delivered, as calculated by the Taiwan Depository & Clearing Corporation on the last business day at the end of the quarter. The capital recorded in the Company's consolidated financial statements and the actual number of dematerialized shares that have been registered and delivered may differ due to the difference between the basis of preparation and calculation.

Note 2: If a shareholder holds its shares by trust, the information is individually presented in the above disclosures by the trustee who opened the trust account. As for the handling of insider shareholding declaration for shareholders holding more than 10% of the Company's shares in accordance with the Securities and Exchange Act, the number of shares held includes those held by trust in which the shareholder has the power to decide the allocation of trust assets. For more information regarding insider shareholding declaration, please refer to the Market Observation Post System website.