

**Cathay Life Insurance Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2019 and 2018 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

The Board of Directors and Shareholders  
Cathay Life Insurance Co., Ltd.

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. and its subsidiaries (collectively, "the Group") as of September 30, 2019, the related consolidated statements of comprehensive income for the three and nine months ended September 30, 2019, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises 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, 2019, its consolidated financial performance for the three months ended September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Other Matter**

The consolidated financial statements for the nine months ended September 30, 2018 were reviewed by other auditors, who expressed an unqualified conclusion on those statements on November 1, 2018.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

November 13, 2019

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 LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

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

ASSETS	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 36)	\$ 306,021,430	4	\$ 175,332,205	3	\$ 191,885,754	3
RECEIVABLES (Notes 4, 5, 7 and 36)	80,997,281	1	74,970,469	1	71,424,640	1
CURRENT TAX ASSETS	-	-	6,238	-	17,057	-
INVESTMENTS						
Financial assets at fair value through profit or loss (Notes 4, 5, 8, 39 and 45)	1,273,023,442	18	1,167,751,185	18	1,117,959,444	17
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9, 39 and 45)	900,420,943	13	921,968,246	14	971,907,529	15
Financial assets measured at amortized cost (Notes 4, 5, 13, 39 and 45)	2,598,476,006	37	2,258,673,041	35	2,228,627,290	34
Financial assets for hedging (Notes 4, 5 and 10)	702,253	-	216,611	-	201,416	-
Investments accounted for using the equity method (Notes 4 and 12)	44,439,316	1	40,780,828	1	39,657,461	1
Other financial assets (Notes 4, 5 and 14)	-	-	1,999,406	-	3,499,368	-
Investment property (Notes 3, 4, 5, 15 and 36)	482,318,535	7	461,352,381	7	457,435,120	7
Investment property under construction (Notes 4, 15 and 36)	3,761,541	-	2,785,640	-	6,190,808	-
Prepayments for buildings and land - investments (Notes 4 and 15)	26,617	-	722,686	-	284,424	-
Loans (Notes 4, 5, 16 and 36)	526,143,898	8	581,215,839	9	590,763,958	9
Total investments	5,829,312,551	84	5,437,465,863	84	5,416,526,818	83
REINSURANCE ASSETS (Notes 4, 17 and 25)	1,342,566	-	1,518,910	-	1,338,111	-
PROPERTY AND EQUIPMENT (Notes 4 and 18)	32,221,588	-	32,381,622	-	32,375,764	1
RIGHT-OF-USE ASSETS (Notes 3, 4 and 19)	1,713,078	-	-	-	-	-
INTANGIBLE ASSETS (Notes 4 and 20)	42,285,757	1	44,044,960	1	44,615,356	1
DEFERRED TAX ASSETS (Note 4)	23,799,293	-	38,252,456	1	33,052,995	1
OTHER ASSETS (Notes 3, 21, 36 and 39)	35,461,871	1	40,457,645	1	40,475,383	1
SEPARATE ACCOUNT INSURANCE PRODUCT ASSETS (Notes 4 and 37)	592,622,929	9	546,964,261	9	584,897,460	9
TOTAL	\$ 6,945,778,344	100	\$ 6,391,394,629	100	\$ 6,416,609,338	100
<b>LIABILITIES AND EQUITY</b>						
PAYABLES (Notes 3, 22 and 36)	\$ 38,982,297	1	\$ 32,822,268	1	\$ 25,913,889	-
CURRENT TAX LIABILITIES (Note 4)	535,637	-	636,050	-	422,948	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	19,584,896	-	27,499,106	-	34,994,991	1
FINANCIAL LIABILITIES FOR HEDGING (Notes 4, 5 and 10)	38,240	-	-	-	-	-
BONDS PAYABLE (Notes 23 and 36)	80,000,000	1	70,000,000	1	70,000,000	1
INSURANCE LIABILITIES (Notes 4, 5 and 25)						
Unearned premium reserve	17,025,855	-	16,752,317	-	16,011,888	-
Loss reserve	10,729,977	-	8,903,331	-	8,694,095	-
Policy reserve	5,490,051,784	79	5,225,589,886	82	5,123,748,114	80
Special reserve	11,084,479	-	11,084,254	-	11,084,095	-
Premium deficiency reserve	20,253,872	1	22,548,304	1	24,140,330	1
Other reserve	1,877,542	-	1,894,570	-	1,898,570	-
Total insurance liabilities	5,551,023,509	80	5,286,772,662	83	5,185,577,092	81
RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS (Notes 4 and 26)	10,514,325	-	9,318,713	-	9,086,704	-
RESERVE FOR FOREIGN EXCHANGE VALUATION (Notes 4 and 27)	22,385,769	-	17,075,289	-	15,385,068	-
PROVISIONS (Notes 4 and 29)	217,664	-	225,277	-	224,276	-
LEASE LIABILITIES (Notes 3, 4, 19 and 36)	10,636,968	-	-	-	-	-
DEFERRED TAX LIABILITIES (Note 4)	50,186,070	1	29,213,220	-	32,217,844	1
OTHER LIABILITIES (Notes 3, 30 and 36)	7,925,539	-	8,738,357	-	8,490,546	-
SEPARATE ACCOUNT INSURANCE PRODUCT LIABILITIES (Notes 4 and 37)	592,622,929	9	546,964,261	9	584,897,460	9
Total liabilities	6,384,653,843	92	6,029,265,203	94	5,967,210,818	93
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 32)						
Share capital						
Ordinary shares	57,265,274	1	57,265,274	1	57,265,274	1
Capital surplus	51,544,796	1	51,535,925	1	51,542,739	1
Retained earnings						
Legal reserve	43,338,466	1	40,466,946	1	40,466,946	1
Special reserve	287,698,496	4	277,886,402	4	276,212,417	4
Unappropriated earnings	25,702,091	-	12,683,614	-	23,870,649	-
Total retained earnings	356,739,053	5	331,036,962	5	340,550,012	5
Other equity	89,629,798	1	(83,245,452)	(1)	(5,338,114)	-
Total equity attributable to owners of the Company	555,178,921	8	356,592,709	6	444,019,911	7
NON-CONTROLLING INTERESTS (Notes 4 and 32)	5,945,580	-	5,536,717	-	5,378,609	-
Total equity	561,124,501	8	362,129,426	6	449,398,520	7
TOTAL	\$ 6,945,778,344	100	\$ 6,391,394,629	100	\$ 6,416,609,338	100

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

(With Deloitte & Touche review report dated November 13, 2019)

# CATHAY LIFE INSURANCE 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Retained earned premium (Notes 4, 28 and 36)								
Written premium	\$ 132,382,796	64	\$ 115,798,763	61	\$ 431,844,566	64	\$ 394,062,054	64
Reinsurance premium	29,745	-	(5,860)	-	91,986	-	102,001	-
Premium income	132,412,541	64	115,792,903	61	431,936,552	64	394,164,055	64
Less: Reinsurance expense	(574,318)	(1)	(424,722)	-	(1,588,704)	-	(1,443,800)	-
Net changes in unearned premium reserve (Notes 4 and 25)	(236,786)	-	(1,574)	-	(127,267)	-	211,865	-
Total retained earned premium	131,601,437	63	115,366,607	61	430,220,581	64	392,932,120	64
Reinsurance commission income	8,494	-	11,623	-	22,294	-	456,618	-
Fee income (Notes 36 and 37)	2,162,454	1	2,119,780	1	6,228,546	1	7,065,090	1
Net investment incomes (losses)								
Interest income (Notes 4, 34 and 36)	40,844,551	20	38,894,763	20	120,985,185	18	108,536,188	18
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4 and 8)	20,395,873	10	8,987,996	5	116,374,396	17	(35,423,127)	(6)
Gain on derecognition of financial assets measured at amortized cost (Notes 4 and 13)	2,463,618	1	90,321	-	3,846,626	1	3,030,065	1
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 9)	7,009,801	3	2,999,973	2	19,858,958	3	11,334,619	2
Share of (loss) profit of associates accounted for using the equity method (Notes 4 and 12)	(160,409)	-	469,776	-	597,252	-	1,000,457	-
Foreign exchange (loss) gain	(7,956,341)	(4)	(1,534,605)	(1)	17,002,848	3	43,099,150	7
Net changes in reserve for foreign exchange valuation (Notes 4 and 27)	2,496,146	1	(35,015)	-	(5,310,480)	(1)	(3,795,930)	(1)
Gain on investment property (Notes 4 and 36)	3,114,819	2	2,958,830	2	9,908,592	1	8,191,502	1
Reversal of expected credit loss (expected credit loss) on investments (Notes 4 and 34)	431,917	-	111,804	-	1,661,359	-	(36,434)	-
Other net investment income	26,461	-	84,139	-	272,508	-	238,366	-
(Loss) gain on reclassification using overlay approach (Notes 4 and 8)	(4,613,209)	(2)	5,716,158	3	(99,611,968)	(15)	41,888,069	7

(Continued)

## CATHAY LIFE INSURANCE 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Other operating revenue (Note 36)	\$ 1,462,974	1	\$ 1,411,431	1	\$ 4,406,035	1	\$ 4,037,424	1
Separate account insurance product income (Notes 4 and 37)	<u>7,629,071</u>	<u>4</u>	<u>12,618,078</u>	<u>6</u>	<u>46,299,458</u>	<u>7</u>	<u>29,680,272</u>	<u>5</u>
Total operating revenue	<u>206,917,657</u>	<u>100</u>	<u>190,271,659</u>	<u>100</u>	<u>672,762,190</u>	<u>100</u>	<u>612,234,449</u>	<u>100</u>
<b>OPERATING COSTS</b>								
Retained claims payments (Notes 4 and 28)								
Insurance claims payments	70,822,083	34	86,748,034	45	276,716,353	41	256,359,941	42
Less: Claims and payments recovered from reinsurers	<u>(321,140)</u>	<u>-</u>	<u>(273,175)</u>	<u>-</u>	<u>(861,457)</u>	<u>-</u>	<u>(757,614)</u>	<u>-</u>
Total retained claims payments	70,500,943	34	86,474,859	45	275,854,896	41	255,602,327	42
Net changes in other insurance liabilities (Notes 4, 5 and 25)								
Net changes in loss reserve	447,331	-	509,156	-	1,839,136	-	1,124,055	-
Net changes in policy reserve	96,868,403	47	61,225,628	32	256,532,964	38	241,228,488	39
Net changes in special reserve	119	-	(12)	-	225	-	277	-
Net changes in premium deficiency reserve	(811,371)	-	(543,804)	-	(2,312,177)	-	(2,195,165)	-
Net changes in other reserve	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>(17,028)</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>
Total net changes in other insurance liabilities	96,498,482	47	61,184,968	32	256,043,120	38	240,139,655	39
Net changes in reserve for insurance contracts with the nature of financial products (Notes 4 and 26)	164,796	-	(292,604)	-	505,985	-	(1,026,792)	-
Underwriting expenses (Note 34)	4,671,750	2	4,266,739	2	15,604,864	2	12,974,849	2
Commission expenses (Note 34)	4,662,316	2	4,055,343	2	14,196,623	2	11,774,631	2
Finance costs (Notes 23 and 36)	749,976	-	592,115	-	2,025,869	-	1,739,315	-
Other operating costs (Note 36)	1,464,272	1	1,735,901	1	4,374,772	1	5,705,996	1
Separate account insurance product expenses (Notes 4 and 37)	<u>7,629,071</u>	<u>4</u>	<u>12,618,078</u>	<u>7</u>	<u>46,299,458</u>	<u>7</u>	<u>29,680,272</u>	<u>5</u>
Total operating costs	<u>186,341,606</u>	<u>90</u>	<u>170,635,399</u>	<u>89</u>	<u>614,905,587</u>	<u>91</u>	<u>556,590,253</u>	<u>91</u>
<b>OPERATING EXPENSES</b>								
(Notes 34 and 36)								
General expenses	3,064,863	2	3,082,620	2	9,343,512	1	8,691,558	1
Administrative expenses	4,544,196	2	4,136,141	2	13,454,983	2	12,744,097	2
Employee training expenses	20,635	-	24,135	-	45,626	-	59,358	-
Non-investment expected credit loss (Notes 4 and 34)	<u>258</u>	<u>-</u>	<u>14,030</u>	<u>-</u>	<u>1,548</u>	<u>-</u>	<u>56,479</u>	<u>-</u>
Total operating expenses	<u>7,629,952</u>	<u>4</u>	<u>7,256,926</u>	<u>4</u>	<u>22,845,669</u>	<u>3</u>	<u>21,551,492</u>	<u>3</u>

(Continued)

## CATHAY LIFE INSURANCE 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING INCOME	\$ 12,946,099	6	\$ 12,379,334	7	\$ 35,010,934	6	\$ 34,092,704	6
NON-OPERATING INCOME AND EXPENSES (Notes 34 and 36)	<u>334,392</u>	-	<u>367,109</u>	-	<u>1,194,746</u>	-	<u>1,067,679</u>	-
PROFIT BEFORE INCOME TAX	13,280,491	6	12,746,443	7	36,205,680	6	35,160,383	6
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 35)	<u>(2,497,614)</u>	(1)	<u>(1,575,864)</u>	(1)	<u>(5,628,680)</u>	(1)	<u>1,089,093</u>	-
NET INCOME	<u>10,782,877</u>	5	<u>11,170,579</u>	6	<u>30,577,000</u>	5	<u>36,249,476</u>	6
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 32)								
Items that will not be reclassified subsequently to profit or loss:								
(Loss) gain on equity instruments at fair value through other comprehensive income	(2,037,969)	(1)	1,857,261	1	3,658,823	-	(199,901)	-
Share of other comprehensive (loss) income of associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	(107,410)	-	312,477	-	175,373	-	225,819	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 35)	138,015	-	(153,539)	-	(305,068)	-	158,160	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating financial statements of foreign operations	(1,240,194)	-	(782,044)	(1)	(554,604)	-	(452,655)	-
Gain (loss) on debt instruments at fair value through other comprehensive income	22,629,401	11	(220,219)	-	93,408,280	14	(63,287,636)	(10)
(Loss) gain on hedging instruments	(879)	-	(16,334)	-	95,549	-	(43,941)	-
Share of other comprehensive (loss) income of associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	(525,451)	-	(406,951)	-	292,768	-	(1,052,498)	-

(Continued)

## CATHAY LIFE INSURANCE 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Other comprehensive income (loss) reclassified using overlay approach	\$ 4,613,209	2	\$ (5,716,158)	(3)	\$ 99,611,968	15	\$ (41,888,069)	(7)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 35)	<u>(3,535,667)</u>	<u>(2)</u>	<u>(208,114)</u>	<u>-</u>	<u>(27,739,256)</u>	<u>(4)</u>	<u>13,949,056</u>	<u>2</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>19,933,055</u>	<u>10</u>	<u>(5,333,621)</u>	<u>(3)</u>	<u>168,643,833</u>	<u>25</u>	<u>(92,591,665)</u>	<u>(15)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<u><b>\$ 30,715,932</b></u>	<u><b>15</b></u>	<u><b>\$ 5,836,958</b></u>	<u><b>3</b></u>	<u><b>\$ 199,220,833</b></u>	<u><b>30</b></u>	<u><b>\$ (56,342,189)</b></u>	<u><b>(9)</b></u>
<b>NET PROFIT</b>								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 10,664,741	5	\$ 11,137,397	6	\$ 30,092,782	5	\$ 36,172,519	6
Non-controlling interests	<u>118,136</u>	<u>-</u>	<u>33,182</u>	<u>-</u>	<u>484,218</u>	<u>-</u>	<u>76,957</u>	<u>-</u>
	<u><b>\$ 10,782,877</b></u>	<u><b>5</b></u>	<u><b>\$ 11,170,579</b></u>	<u><b>6</b></u>	<u><b>\$ 30,577,000</b></u>	<u><b>5</b></u>	<u><b>\$ 36,249,476</b></u>	<u><b>6</b></u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>								
Owners of the Company	\$ 30,756,126	15	\$ 5,958,959	3	\$ 198,577,341	30	\$ (56,197,741)	(9)
Non-controlling interests	<u>(40,194)</u>	<u>-</u>	<u>(122,001)</u>	<u>-</u>	<u>643,492</u>	<u>-</u>	<u>(144,448)</u>	<u>-</u>
	<u><b>\$ 30,715,932</b></u>	<u><b>15</b></u>	<u><b>\$ 5,836,958</b></u>	<u><b>3</b></u>	<u><b>\$ 199,220,833</b></u>	<u><b>30</b></u>	<u><b>\$ (56,342,189)</b></u>	<u><b>(9)</b></u>
<b>EARNINGS PER SHARE</b> (Note 33)								
Basic earnings per share	<u><b>\$ 1.86</b></u>		<u><b>\$ 1.94</b></u>		<u><b>\$ 5.25</b></u>		<u><b>\$ 6.63</b></u>	

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

(With Deloitte & Touche review report dated November 13, 2019)

(Concluded)



**CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Company												Total	Non-controlling Interests	Total Equity
	Retained Earnings					Other Equity									
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) Reclassified Using Overlay Approach			
BALANCE AT JANUARY 1, 2018	\$ 53,065,274	\$ 13,767,663	\$ 33,208,919	\$ 259,379,137	\$ 34,072,057	\$ (9,958,336)	\$ -	\$ 51,550,393	\$ 203,646	\$ 110,471	\$ 188,821	\$ -	\$ 435,588,045	\$ 5,593,318	\$ 441,181,363
Effect of retrospective application and restatement	-	-	-	-	(2,914,533)	-	31,488,614	(51,550,393)	-	-	-	55,611,592	32,635,280	8,904	32,644,184
BALANCE AT JANUARY 1, 2018 AS RESTATED	53,065,274	13,767,663	33,208,919	259,379,137	31,157,524	(9,958,336)	31,488,614	-	203,646	110,471	188,821	55,611,592	468,223,325	5,602,222	473,825,547
Appropriation of 2017 earnings															
Legal reserve	-	-	7,258,027	-	(7,258,027)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	20,494,964	(20,494,964)	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(9,980,749)	-	-	-	-	-	-	-	(9,980,749)	-	(9,980,749)
Reversal of special reserve	-	-	-	(3,661,684)	3,661,684	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	(24,924)	-	-	-	-	-	-	-	-	-	-	(24,924)	-	(24,924)
Net profit for the nine months ended September 30, 2018	-	-	-	-	36,172,519	-	-	-	-	-	-	-	36,172,519	76,957	36,249,476
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	(1,091,795)	(51,850,132)	-	(42,514)	(11,055)	(1,319)	(39,373,445)	(92,370,260)	(221,405)	(92,591,665)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	36,172,519	(1,091,795)	(51,850,132)	-	(42,514)	(11,055)	(1,319)	(39,373,445)	(56,197,741)	(144,448)	(56,342,189)
Issuance of ordinary shares for cash	4,200,000	37,800,000	-	-	-	-	-	-	-	-	-	-	42,000,000	-	42,000,000
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(9,387,338)	-	9,387,338	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(79,165)	(79,165)
BALANCE AT SEPTEMBER 30, 2018	\$ 57,265,274	\$ 51,542,739	\$ 40,466,946	\$ 276,212,417	\$ 23,870,649	\$ (11,050,131)	\$ (10,974,180)	\$ -	\$ 161,132	\$ 99,416	\$ 187,502	\$ 16,238,147	\$ 444,019,911	\$ 5,378,609	\$ 449,398,520
BALANCE AT JANUARY 1, 2019	\$ 57,265,274	\$ 51,535,925	\$ 40,466,946	\$ 277,886,402	\$ 12,683,614	\$ (10,796,480)	\$ (20,547,627)	\$ -	\$ 173,288	\$ 287,100	\$ 187,503	\$ (52,549,236)	\$ 356,592,709	\$ 5,536,717	\$ 362,129,426
Appropriation of 2018 earnings															
Legal reserve	-	-	2,871,520	-	(2,871,520)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	9,820,004	(9,820,004)	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(7,910)	7,910	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	8,871	-	-	-	-	-	-	-	-	-	-	8,871	-	8,871
Net profit for the nine months ended September 30, 2019	-	-	-	-	30,092,782	-	-	-	-	-	-	-	30,092,782	484,218	30,577,000
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	(220,801)	77,796,810	-	68,796	(7,017)	-	90,846,771	168,484,559	159,274	168,643,833
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	30,092,782	(220,801)	77,796,810	-	68,796	(7,017)	-	90,846,771	198,577,341	643,492	199,220,833
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	(4,390,691)	-	4,390,691	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(234,629)	(234,629)
BALANCE AT SEPTEMBER 30, 2019	\$ 57,265,274	\$ 51,544,796	\$ 43,338,466	\$ 287,698,496	\$ 25,702,091	\$ (11,017,281)	\$ 61,639,874	\$ -	\$ 242,084	\$ 280,083	\$ 187,503	\$ 38,297,535	\$ 555,178,921	\$ 5,945,580	\$ 561,124,501

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

(With Deloitte & Touche review report dated November 13, 2019)

# CATHAY LIFE INSURANCE 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	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 36,205,680	\$ 35,160,383
Adjustments for:		
Depreciation expenses	995,208	553,966
Amortization expenses	1,957,674	1,974,241
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(94,369,466)	56,986,984
Gain on financial assets and liabilities at fair value through other comprehensive income	(18,132,873)	(9,745,830)
Gain on derecognition of financial assets measured at amortized cost	(3,846,626)	(3,030,065)
Finance costs	2,142,960	2,089,914
Interest income	(120,985,185)	(108,536,188)
Dividend income	(23,731,015)	(23,152,646)
Net changes in insurance liabilities	264,039,177	261,636,623
Net changes in reserve for insurance contracts with the nature of financial products	1,195,612	325,095
Net changes in reserve for foreign exchange valuation	5,310,480	3,795,930
(Reversal of) expected credit loss on investments	(1,661,359)	36,434
Non-investments expected credit loss	1,548	56,479
Share of profit of associates accounted for using equity method	(597,252)	(1,000,457)
Loss (gain) on reclassification using overlay approach	99,611,968	(41,888,069)
Gain on disposal and retirement of property and equipment	(13,234)	(10,524)
Loss (gain) on disposal of investment property	21,955	(14,163)
Loss on disposal of investment accounted for using equity method	-	10,773
(Gain) loss on changes in fair value of investment property	(623,960)	645,689
Net changes in operating assets and liabilities		
Decrease in financial assets at fair value through profit or loss	82,430,601	100,570,195
Decrease in financial assets at fair value through other comprehensive income	136,845,136	882,592
Increase in financial assets measured at amortized cost	(335,226,158)	(365,973,602)
Decrease in financial assets for hedging	-	1,087
Decrease in other financial assets	2,000,000	-
Decrease in premium receivable	10,005,219	9,014
Decrease in notes receivable	97,512	293,519
(Increase) decrease in other receivables	(6,988,704)	18,793,075
Increase in prepaid expenses and other prepayments	(257,426)	(584,738)
Decrease (increase) in guarantee deposits paid	4,055,508	(12,190,709)
Decrease (increase) in reinsurance assets	388,014	(579,653)
(Increase) decrease in other assets	(873,550)	83,206
Decrease in financial liabilities at fair value through profit or loss	(101,657,298)	(77,535,380)
Decrease in notes payable	(74,909)	(3,898,808)
Increase in claims payable	56,032	57,624

(Continued)

# CATHAY LIFE INSURANCE 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	
	2019	2018
Increase in other payables	\$ 6,458,430	\$ 5,300,103
Increase in due to reinsurers and ceding companies	66,321	49,185
Decrease in commissions payable	(888,655)	(1,464,115)
Increase (decrease) in advance receipts	16,605	(14,547)
Increase (decrease) in guarantee deposits received	975,793	(5,385,560)
Decrease in provisions	(7,613)	(247,726)
Decrease in deferred fee income	(11,320)	(6,434)
Decrease in other liabilities	<u>(1,793,835)</u>	<u>(3,990,951)</u>
Cash used in operations	(56,863,005)	(169,938,054)
Interest received	115,803,656	102,673,201
Dividends received	24,116,375	23,658,675
Interest paid	(1,487,297)	(1,458,194)
Income tax paid	<u>(2,251,821)</u>	<u>(3,778,963)</u>
Net cash generated from (used in) operating activities	<u>79,317,908</u>	<u>(48,843,335)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for using the equity method	(1,955,392)	(6,583,096)
Proceeds from disposal of investments accounted for using the equity method	86,149	119,873
Proceeds from return of capital from capital reduction of investments accounted for using the equity method	-	120,368
Acquisition of property and equipment	(443,130)	(1,172,679)
Proceeds from disposal of property and equipment	35,035	21,790
Acquisition of intangible assets	(94,374)	(75,051)
Decrease in loans	55,831,555	13,109,566
Acquisition of investment property	(12,464,858)	(2,738,522)
Proceeds from disposal of investment property	<u>38,990</u>	<u>453,240</u>
Net cash generated from investing activities	<u>41,033,975</u>	<u>3,255,489</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of bonds payable	10,000,000	-
Repayments of liabilities of preference shares liabilities	-	(5,000,000)
Repayments of the principle portion of lease liabilities	(302,208)	-
Dividends paid	-	(9,980,749)
Proceeds from issuance of ordinary shares	-	42,000,000
Changes in non-controlling interests	<u>(234,629)</u>	<u>(79,165)</u>
Net cash generated from financing activities	<u>9,463,163</u>	<u>26,940,086</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<u>874,179</u>	<u>(10,371)</u>

(Continued)

# CATHAY LIFE INSURANCE 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	
	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 130,689,225	\$ (18,658,131)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>175,332,205</u>	<u>210,543,885</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 306,021,430</u>	<u>\$ 191,885,754</u>

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

(With Deloitte & Touche review report dated November 13, 2019)

(Concluded)

# CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

---

### 1. GENERAL INFORMATION

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the Company Act of the Republic of China (“R.O.C.”) and mainly engages in the business of life insurance. In order to benefit from operation synergies and enhance competitiveness in financial markets, Cathay Financial Holding Co., Ltd. (“Cathay Financial Holdings”) was incorporated on December 31, 2001 through a share swap with the Company, and the Company became a wholly-owned subsidiary of Cathay Financial Holdings. The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, the R.O.C.

The Company participated in and won the bid for assets, liabilities and operations of Global Life Insurance Co., Ltd. (“Global Life”) and Singfor Life Insurance Co., Ltd. (“Singfor Life”), which was held by Taiwan Insurance Guaranty Fund. The Company entered into the general assignment and assumption agreement on March 27, 2015. The Company assumed all assets, liabilities and operations of Global Life and Singfor Life except for their reserved assets and liabilities on July 1, 2015. Upon the approval by the authorities, the Company started business on August 5, 2015 after receiving the business license for its offshore insurance unit.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on November 13, 2019.

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

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Company and its subsidiaries (collectively, “the Group”):

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

### Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

The Group recognizes right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17 and were measured at the present value of the remaining lease payments. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments, except for those that met the definition of investment property and measured at fair value on that date. The Group applies IAS 36 to all right-of-use assets, except for those that met the definition of investment property.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 20,660,492
Less: Recognition exemption for leases of low-value assets	<u>(18,449)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 20,642,043</u>
Discounted lease liabilities recognized on January 1, 2019	<u>\$ 10,690,575</u>

### The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	<b>As Originally Stated on January 1, 2019</b>	<b>Adjustments Arising from Initial Application</b>	<b>Restated on January 1, 2019</b>
Right-of-use assets	\$ -	\$ 1,975,650	\$ 1,975,650
Investment properties	461,352,381	9,014,035	470,366,416
Other assets	<u>40,457,645</u>	<u>(345,482)</u>	<u>40,112,163</u>
Total effect on assets	<u>\$ 501,810,026</u>	<u>\$ 10,644,203</u>	<u>\$ 512,454,229</u>
Payables	\$ 32,822,268	\$ (46,224)	\$ 32,776,044
Lease liabilities	-	10,690,575	10,690,575
Other liabilities	<u>8,738,357</u>	<u>(148)</u>	<u>8,738,209</u>
Total effect on liabilities	<u>\$ 41,560,625</u>	<u>\$ 10,644,203</u>	<u>\$ 52,204,828</u>

- b. The IFRSs endorsed by the FSC for application starting from 2020

<b>New IFRSs</b>	<b>Effective Date Announced by IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note)</b>
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

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

- IFRS 17 “Insurance Contracts”

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

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and are managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of:

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

The Group is not permitted to include contracts issued more than one year apart in the same group.

Recognition

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

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

Measurement on initial recognition

The Group shall include all the future cash flows within the boundary of each contract in the group. The fulfilment cash flows comprises estimates of future cash flows, an adjustment to reflect the time value of money, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit of the group of insurance contracts that the Group will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- 1) The initial recognition of an amount for the fulfilment cash flows;
- 2) The derecognition at that date of any asset or liability recognized for insurance acquisition cash flows; and
- 3) Any cash flows arising from the contracts in the group at that date.

Subsequent measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the group at that date. On subsequent measurement, if a group of insurance contracts becomes onerous or more onerous, that excess shall be recognized in profit or loss.



### Onerous contracts

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

### Premium Allocation Approach (“PAA”)

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

- 1) The Group reasonably expects that this will be a reasonable approximation of the general model,  
or
- 2) The coverage period of each contract in the group is one year or less.

At the inception, if the Group expects significant variances in the fulfilment cash flows during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

When using the PAA, the liability for remaining coverage shall be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

### Investment contracts with discretionary participation features

An investment contract with discretionary participation features is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the standard only if the issuer also issues insurance contracts. The requirements of the standard are modified for such investment contracts.

### Modification and derecognition

If the terms of an insurance contract are modified, the Group shall derecognize the original contract and recognize the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

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

### Transition

The Group shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

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

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

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. Statement of compliance**

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

##### **b. 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:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) 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
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

##### **c. 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 11, Table 1 and Table 4 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Foreign currencies

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

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

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

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

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

e. Investments in associates

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

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

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

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

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

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

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

f. 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.

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.

g. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Beginning January 1, 2019, investment properties include right-of-use assets and properties under construction if the definition of investment properties is met; before January 1, 2019, investment properties included properties under construction if the definition of investment properties was met. Investment properties also include land held for a currently undetermined future use.

Freehold investment properties are measured initially at cost, including transaction costs. Beginning January 1, 2019, investment properties acquired through leases are initially measured at cost. All investment properties are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Investment properties under construction, of which 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 from the investment properties classification 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 from the property and equipment classification 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.

h. 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.

i. Intangible assets

1) 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.

2) 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.

3) 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.

j. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

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

k. 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.

1) Financial assets

All regular transaction of financial assets are recognized and derecognized on a trade date basis.

a) 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”).

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is 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 41.

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

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

ii. 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 by 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.

iii. Investments in debt instruments at FVTOCI

Debt instruments that meet both of 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.



iv. 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.

b) 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 measured at amortized cost (including receivables and loans), investments in debt instruments at FVTOCI, and commitment off financial statements 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, credit assets are classified as normal assets (“First Category”), assets that require special attention (“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 Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- i. 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 loan assets, 10% of the Third category loan assets, as well as 50% and 100% of the Fourth and Fifth category loan assets.
- ii. 1% of the sum of all five categories of loan assets excluding life insurance policy loans, premium loans and loans to government agencies.
- iii. Total unsecured portion of non-performing loans and non-accrual loans.

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

c) 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.

d) 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 amount and there is an intention to settle on a net basis, or to realize assets and settle the liabilities simultaneously.

2) Equity instruments

Debts and equity instruments issued by an entity in 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 an entity in 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.

### 3) Financial liabilities

#### a) 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 held for trading. Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described in Note 41.

#### b) 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.

### 4) 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 are 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.

#### 1. 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.

### 1) Fair value hedges

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

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

### 2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified 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 is expired, sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that was previously recognized in other comprehensive income (from the period in which the hedge was effective) remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

### 3) 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.

### m. Separate account 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.

n. Insurance liabilities

1) The Company

Funds reserved for insurance contracts and financial instruments with or without discretionary participation feature 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. The provision of reserve for short-term group insurance is based upon the greater of premium received or calculated according to Tai-Tsai-Bao No.852367814. Provision of reserve for the other insurance liabilities is as follows:

Moreover, an insurance contract with discretionary participation feature is entirely classified as liability.

a) 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.

b) 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 with a policy period shorter one year.

c) Policy reserve

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

Starting from 2003 policy year, for in-force 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. The Company changes its accounting policy for subsequent measurement of investment property from cost method to 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.

d) 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, the Company is required to set aside 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 dividend 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.

e) Premium deficiency reserve

For life insurance, health insurance and annuity insurance 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 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.

f) 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.

g) Liability adequacy reserve

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

2) 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.

3) 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.

o. 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 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.

p. Reserve for insurance contract 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.

q. Reserve for Foreign exchange valuation

The Company provides reserve for foreign exchange valuation according to all of its foreign investments in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and Direction for Reserve for Foreign Exchange Valuation by Life Insurance Enterprises.

r. Recognition of insurance premium income and expenses

1) The Company

For the Company’s insurance contracts and financial instruments with discretionary participation features, the initial and renewal premium are recognized as revenue only when 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 preprocess expense or investment management fee 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 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 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.

#### s. Classification of insurance products

An insurance contract refers to the contract that 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 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 the contracts have discretionary participation feature or not. Discretionary participation feature refers to a contractual right to receive additional payments in addition to guaranteed payments from the contract. The contractual rights have the following characteristics:

- 1) Additional payments are significant to total contractual payments.
- 2) In accordance with the contract, the amounts and dates of payment for additional payments are at the Group's discretion.
- 3) In accordance with the contract, additional payments are based on one of the following matters:
  - a) The performance of specific contract portfolio or specific types of contracts.
  - b) Returns on investment from a portfolio of specific asset portfolio held by the Group.
  - c) Profits and losses 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.



t. 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 business, 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 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 reinsures assets, shows that the Group may not receive all amounts of receivables from the reinsurer and the unrecoverable amount can be reasonably estimated, the Group recognizes the difference between 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 risks, 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.

u. 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.

v. Leases

2019

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

1) 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.

2) 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 Note 4 g. for the accounting policies for investment properties.

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

## 2018

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.

### 1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

### 2) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease terms.

## w. Employee benefits

### 1) 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.

### 2) 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 costs (including current service cost, past service cost, as well as gains and losses on settlements) 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 effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which 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 costs for an interim period are calculated on a year-to-date basis by using the actuarially determined pension cost rate as determined at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

#### x. Taxation

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

##### 1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

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

##### 2) 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.

### 3) 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, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

### a. Estimated impairment of financial assets

The provisions for impairment of receivables, loans and investments in debt instruments are based on assumptions about probability of default and expected credit loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise. For details of the key assumptions and inputs used, refer to Note 41.

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 appropriate inputs by referring to the analyses of the financial position and the operation 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 15 and 41.

c. Valuation of policy reserve and liability adequacy test

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, interest rate, lapse rate, morbidity rate, etc. The assumptions are made based on the related laws and regulations.

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

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

## 6. CASH AND CASH EQUIVALENTS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Cash on hand	\$ 261,121	\$ 234,078	\$ 219,166
Cash in banks	123,651,644	108,749,193	98,903,707
Time deposits	142,273,304	49,111,685	72,581,881
Cash equivalents	<u>39,835,361</u>	<u>17,237,249</u>	<u>20,181,000</u>
	<u>\$ 306,021,430</u>	<u>\$ 175,332,205</u>	<u>\$ 191,885,754</u>

## 7. RECEIVABLES

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivable	\$ 194,443	\$ 291,955	\$ 208,088
Premium receivables	3,832,057	13,837,276	3,099,659
Other receivables	76,973,876	60,882,965	68,129,174
Overdue receivables	<u>13,695</u>	<u>56,340</u>	<u>45,605</u>
	81,014,071	75,068,536	71,482,526
Less: Loss allowance	<u>(16,790)</u>	<u>(98,067)</u>	<u>(57,886)</u>
	<u>\$ 80,997,281</u>	<u>\$ 74,970,469</u>	<u>\$ 71,424,640</u>

The movements in the loss allowance are as follows:

	<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 98,067	\$ 39,465
(Reversal) provision for the current period	(36,543)	56,479
Amounts written off	<u>(44,734)</u>	<u>(38,058)</u>
Ending balance	<u>\$ 16,790</u>	<u>\$ 57,886</u>

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Domestic stocks	\$ 309,045,603	\$ 373,957,880	\$ 398,309,015
Beneficiary certificates	452,575,487	277,060,915	241,233,310
Corporate bonds	-	1,021,572	1,754,675
Government bonds	-	-	99,554
Financial debentures	15,525,212	17,079,909	17,101,578
Overseas stocks	243,901,501	290,847,269	295,929,207
Real estate investment trust	15,238,370	14,213,506	13,525,257
Overseas bonds	227,367,744	188,192,375	142,717,639
Derivative financial assets (not under hedge accounting)			
Currency swap contracts (“SWAP”)	5,517,310	3,816,318	5,071,492
Foreign exchange forward contacts (“Forward”)	3,705,786	1,551,231	2,214,202
Options	<u>146,429</u>	<u>10,210</u>	<u>3,515</u>
	<u>\$ 1,273,023,442</u>	<u>\$ 1,167,751,185</u>	<u>\$ 1,117,959,444</u>

(Continued)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial liabilities held for trading</u>			
Derivative financial liabilities (not under hedge accounting)			
SWAP	\$ 17,066,075	\$ 22,636,490	\$ 32,813,142
Forward	2,365,672	4,838,945	2,154,675
Interest rate swap contracts (“IRS”)	9,020	23,671	27,174
Cross currency swap contracts (“CCS”)	542	-	-
Options	<u>143,587</u>	<u>-</u>	<u>-</u>
	<u>\$ 19,584,896</u>	<u>\$ 27,499,106</u>	<u>\$ 34,994,991</u> (Concluded)

- a. The Group elects to present the profit or loss of the designated financial assets in overlay approach under IFRS 4. Financial assets designated to apply overlay approach for investing activities relating to insurance contracts issued by the Group are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial assets mandatorily classified as at FVTPL</u>			
Domestic stocks	\$ 307,026,775	\$ 371,075,775	\$ 396,774,266
Beneficiary certificates	432,219,725	261,762,059	229,144,570
Financial debentures	15,525,212	17,079,909	17,101,578
Overseas stocks	243,197,965	285,553,447	295,228,550
Real estate investment trust	15,238,370	14,213,506	13,525,257
Overseas bonds	<u>226,672,641</u>	<u>187,795,448</u>	<u>142,512,876</u>
	<u>\$ 1,239,880,688</u>	<u>\$ 1,137,480,144</u>	<u>\$ 1,094,287,097</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply the overlay approach for the three months and nine months ended September 30, 2019 and 2018 are as follows:

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gains due to applying IFRS 9 to profit or loss	\$ 29,807,798	\$ 20,867,557	\$ 166,444,236	\$ 35,539,414
Gains if applying IAS 39 to profit or loss	<u>(25,194,589)</u>	<u>(26,583,715)</u>	<u>(66,832,268)</u>	<u>(77,427,483)</u>
Loss (gains) reclassified due to application of overlay approach	<u>\$ 4,613,209</u>	<u>\$ (5,716,158)</u>	<u>\$ 99,611,968</u>	<u>\$ (41,888,069)</u>

Due to application of overlay approach, the amount of gain or loss on financial assets and liabilities at FVTPL for the three months and nine months ended September 30, 2019 and 2018 had decreased from gain of \$20,395,873 thousand to gain of \$15,782,664 thousand, increased from gain of \$8,987,996 thousand to gain of \$14,704,154 thousand, decreased from gain of \$116,374,396 thousand to gain of \$16,762,428 thousand and increased from loss of \$35,423,127 thousand to gain of \$6,464,942 thousand, respectively.

- b. As of September 30, 2019, December 31, 2018 and September 30, 2018, structured notes accounted for financial assets at FVTPL amounted to \$103,547,949 thousand, \$74,755,376 thousand and \$33,875,964 thousand, respectively.
- c. The financial assets at FVTPL held by the Group were not pledged.

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Equity instrument investments at FVTOCI			
Domestic stocks	\$ 23,286,238	\$ 25,235,503	\$ 27,332,532
Overseas stocks	<u>7,451,142</u>	<u>5,025,643</u>	<u>7,591,332</u>
	<u>30,737,380</u>	<u>30,261,146</u>	<u>34,923,864</u>
Debt instrument investments at FVTOCI			
Government bonds	45,734,061	93,149,452	98,094,994
Overseas bonds	825,056,808	800,838,518	841,260,498
Less: Litigation deposits	(44,960)	(1,720)	(55,818)
Less: Deposits to Central Bank	(1,062,346)	(2,111,016)	(2,117,601)
Less: Derivative instrument collaterals	<u>-</u>	<u>(168,134)</u>	<u>(198,408)</u>
	<u>869,683,563</u>	<u>891,707,100</u>	<u>936,983,665</u>
	<u>\$ 900,420,943</u>	<u>\$ 921,968,246</u>	<u>\$ 971,907,529</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 still held by the Group on the balance sheet date for the three months and nine months ended September 30, 2019 and 2018 were \$1,315,928 thousand, \$1,224,959 thousand, \$1,726,085 thousand and \$1,588,789 thousand, respectively. Those related to investments derecognized during the three months and nine months ended September 30, 2019 and 2018 were \$402,652 thousand, \$220,516 thousand, \$403,132 thousand and \$22,034 thousand, respectively.
- c. In consideration of investment strategies, the Group sold equity instrument investments at FVTOCI at fair values of \$18,166,970 thousand and \$33,376,963 thousand at the time of sale, and transferred unrealized loss of \$4,390,691 thousand and \$9,387,338 thousand from other equity to retained earnings for the nine months ended September 30, 2019 and 2018, respectively.
- d. Refer to Note 39 for the financial assets at FVTOCI that were pledged.
- e. Refer to Note 41 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.



## 10. HEDGING INSTRUMENT

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial assets for hedging</u>			
IRS	\$ 203,060	\$ 216,611	\$ 201,416
CCS	<u>499,193</u>	<u>-</u>	<u>-</u>
	<u>\$ 702,253</u>	<u>\$ 216,611</u>	<u>\$ 201,416</u>
<u>Financial liabilities for hedging</u>			
IRS	<u>\$ 38,240</u>	<u>\$ -</u>	<u>\$ -</u>

The financial assets for hedging held by the Group were not pledged.

## 11. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

Investors	Investees	Business	Ownership Interest		
			<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
The Company	Cathay Lujiazui Life	Life insurance	50.00	50.00	50.00
The Company	Cathay Life (Vietnam)	Life insurance	100.00	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office leasing	100.00	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
The Company	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	100.00
The Company	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	100.00
The Company	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00	100.00
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	100.00
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00	100.00
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00	100.00
CHL	Conning Asia Pacific Ltd.	Asset management services	82.85	82.85	73.76
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	100.00
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	81.89	81.89	81.89
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding I, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding II, LLC	Fund management services	100.00	100.00	100.00
Octagon	Octagon Funding III, LLC	Fund management services	100.00	100.00	100.00

b. Subsidiaries excluded from the consolidated financial statements

Investors	Investees	Business	Ownership Interest			Notes
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Cathay Securities Investment Consulting Co., Ltd. ("Cathay Securities Investment Consulting")	Securities investment consulting services	100.00	100.00	100.00	

The consolidated financial statements did not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	September 30, 2019	December 31, 2018	September 30, 2018
Investments in unconsolidated subsidiaries	\$ 285,416	\$ 278,780	\$ 255,621
Investments in associates	<u>44,153,900</u>	<u>40,502,048</u>	<u>39,401,840</u>
	<u>\$ 44,439,316</u>	<u>\$ 40,780,828</u>	<u>\$ 39,657,461</u>

Refer to Table 1 and Table 4 for the nature of business activities, main operating locations and countries of incorporation of the unconsolidated subsidiaries and associates.

a. Investments in unconsolidated subsidiaries

	September 30, 2019	December 31, 2018	September 30, 2018
Cathay Securities Investment Consulting	<u>\$ 285,416</u>	<u>\$ 278,780</u>	<u>\$ 255,621</u>

b. Investments in associates

Aggregate information of associates that are not individually material

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
The Group' share of:				
Net (loss) income	\$ (203,332)	\$ 434,534	\$ 487,218	\$ 904,196
Other comprehensive (loss) income	<u>(462,528)</u>	<u>(94,257)</u>	<u>468,306</u>	<u>(835,680)</u>
Total comprehensive (loss) income for the period	<u>\$ (665,860)</u>	<u>\$ 340,277</u>	<u>\$ 955,524</u>	<u>\$ 68,516</u>

As the individual associates are not significant, the related financial information is disclosed aggregately. Except Cathay Venture Inc., the amount of the share of profit or loss and other comprehensive income of associates were based on non-audited financial statements.

The investments in associates were not pledged.

### 13. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Time deposits	\$ 1,373,128	\$ 611,285	\$ 611,993
Financial debentures	53,153,327	53,765,350	55,469,787
Corporate bonds	26,094,625	27,893,879	29,393,696
Government bonds	36,606,121	38,187,773	48,983,772
Overseas bonds	2,492,646,541	2,154,677,348	2,108,521,642
Asset-backed securities	1,030,048	1,143,199	1,226,145
Less: Litigation deposits	(1,344,363)	(1,345,625)	(1,346,049)
Less: Deposits to Central Bank	(7,860,267)	(7,864,253)	(7,083,140)
Less: Derivative instruments collateral	(1,719,781)	(6,075,419)	(5,500,653)
Less: Loss allowance (Note)	<u>(1,503,373)</u>	<u>(2,320,496)</u>	<u>(1,649,903)</u>
	<u>\$ 2,598,476,006</u>	<u>\$ 2,258,673,041</u>	<u>\$ 2,228,627,290</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of September 30, 2019, December 31, 2018 and September 30, 2018, the amounts were \$948 thousand, \$910 thousand and \$1,314 thousand, respectively.

- a. For the three months and nine months ended September 30, 2019 and 2018, the Group disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$1,060,877 thousand, \$691,715 thousand, \$3,063,635 thousand and \$759,851 thousand, respectively; bonds disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$3,413,708 thousand, \$804,787 thousand, \$6,514,538 thousand and \$3,826,477 thousand, respectively; bonds disposal due to other situations such as repayments at maturities resulted in gain on disposal of \$110,787 thousand, loss on disposal of \$29,285 thousand, gain on disposal of \$395,723 thousand and loss on disposal of \$45,431 thousand respectively.
- b. Refer to Note 39 for information relating to investments in financial assets at amortized cost pledged as security.
- c. Refer to Note 41 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

### 14. OTHER FINANCIAL ASSETS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Structured time deposits	\$ -	\$ 2,000,000	\$ 3,500,000
Less: Loss allowance	<u>-</u>	<u>(594)</u>	<u>(632)</u>
	<u>\$ -</u>	<u>\$ 1,999,406</u>	<u>\$ 3,499,368</u>

**15. INVESTMENT PROPERTY, INVESTMENT PROPERTY UNDER CONSTRUCTION AND PREPAYMENTS FOR BUILDINGS AND LAND - INVESTMENTS**

	Investment Property		Total	Investment Property Under Construction	Prepayments for Buildings and Land - Investments
	Land	Buildings			
January 1, 2018	\$ 346,372,382	\$ 112,803,156	\$ 459,175,538	\$ 3,541,501	\$ 690,203
Additions	38,074	6,926	45,000	2,692,555	967
Disposals	(77)	(439,000)	(439,077)	-	-
Transfers to property and equipment	-	(740,189)	(740,189)	-	-
Other reclassification	342,906	107,048	449,954	(43,248)	(406,746)
Gain (loss) on changes in fair value of investment property	126,662	(772,351)	(645,689)	-	-
Exchange differences	<u>(97,375)</u>	<u>(313,042)</u>	<u>(410,417)</u>	<u>-</u>	<u>-</u>
September 30, 2018	<u>\$ 346,782,572</u>	<u>\$ 110,652,548</u>	<u>\$ 457,435,120</u>	<u>\$ 6,190,808</u>	<u>\$ 284,424</u>
January 1, 2019	\$ 346,268,022	\$ 115,084,359	\$ 461,352,381	\$ 2,785,640	\$ 722,686
Adjustment on initial application of IFRS 16	9,014,035	-	9,014,035	-	-
Additions	-	-	-	2,934,580	9,530,278
Disposals	(28,454)	(32,491)	(60,945)	-	-
Other reclassification	10,077,711	2,092,705	12,170,416	(1,958,679)	(10,226,347)
Gain (loss) on changes in fair value of investment property	1,087,713	(463,753)	623,960	-	-
Exchange differences	<u>(248,034)</u>	<u>(533,278)</u>	<u>(781,312)</u>	<u>-</u>	<u>-</u>
September 30, 2019	<u>\$ 366,170,993</u>	<u>\$ 116,147,542</u>	<u>\$ 482,318,535</u>	<u>\$ 3,761,541</u>	<u>\$ 26,617</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Rental income from investment property	\$ 3,123,310	\$ 2,955,526	\$ 9,322,376	\$ 8,823,028
Direct operating expenses of investment property that generate rental income	(119,514)	(119,439)	(459,980)	(443,707)
Direct operating expenses of investment property that do not generate rental income	<u>(27,245)</u>	<u>(29,355)</u>	<u>(105,159)</u>	<u>(93,136)</u>
	<u>\$ 2,976,551</u>	<u>\$ 2,806,732</u>	<u>\$ 8,757,237</u>	<u>\$ 8,286,185</u>

- a. Certain parts of properties are held to earn rental or to achieve capital appreciation, and the other parts are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component couldn't be sold separately, it would be classified as investment properties only when owner occupation is lower than 5% of the property.
- b. As of on September 30, 2019, the investment properties belong to the Company amounted to \$445,436,468 thousand. The investment properties are held mainly for lease business. All the lease agreements of the Group's lease business are operating leases and the primary terms of lease agreements are the same with general lease agreement. Rents from investment property are received annually, semi-annually, quarterly, monthly or in lump sum. Investment properties held by the Group were not pledged.

- c. The ownership of the Group's investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other debts; the ownership of its trust property is not subject to restrictions. Besides, the Group are 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 has been performed by the following appraisers of joint appraisers offices meeting the qualification requirements for real estate appraisers in the R.O.C., with valuation dates at June 30, 2019, December 31, 2018 and June 30, 2018. The appraisers had reviewed the effectiveness of the original valuation reports and clarified that the fair values at June 30, 2019 and 2018 were in effect on September 30, 2019 and 2018.

Names of Appraisers Offices	June 30, 2019	December 31, 2018	June 30, 2018
DTZ Real Estate Appraiser Firm	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu	Chang-d, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang	Gunag-ping, Dai; Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang
REPro KnightFrank Real Estate Appraiser Firm	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; Yu-zhi, Gao
Shang-shang Real Estate Appraiser Firm	Hong-yuan, Wang	Hong-yuan, Wang	Hong-yuan, Wang
Sinyi Real Estate Appraiser Firm	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen	Yu-lin, Chen	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi	-	-

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. Urban renewal land with permit of construction is valued by sales comparison approach and income approach, based on the value of real estate right arises from urban renewal program.

The main inputs used are as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Direct capitalization rates (net)	0.62%-6.42%	0.62%-4.39%	0.46%-4.39%
Discount rates	3.14%-4.23%	3.14%-4.23%	3.14%-4.23%

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

Refer to Table 3 for the acquisition of individual real estate at costs at least NT\$100 million or 20% of the paid-in capital.

Reconciliations for Level 3 fair value measurements are as follows:

	<b>For the Nine Months Ended September 30</b>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 455,726,383	\$ 452,495,844
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Gain (loss) from investment property	623,960	(645,689)
Amount recognized in other comprehensive income		
Exchange differences resulting from translating the financial statements of foreign operations	(781,312)	(410,417)
Acquisitions	-	45,000
Disposals	(32,491)	(439,000)
Transfers to property and equipment	-	(740,189)
Transfers from investment property under construction	1,943,341	43,248
Transfers from prepayments for buildings and land	9,761,932	406,706
Transfers from investment property measured at cost	<u>-</u>	<u>1,053,619</u>
Ending balance	<u>\$ 476,255,848</u>	<u>\$ 451,809,122</u>

The above amounts did not include those measured at cost.

## 16. LOANS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Life insurance policy loans (a)	\$ 158,127,015	\$ 159,046,285	\$ 156,302,505
Premium loans (b)	11,963,684	11,491,146	11,419,886
Secured loans (c)	360,485,929	415,518,261	428,072,614
Non-accrual loans	<u>604,791</u>	<u>968,753</u>	<u>956,919</u>
	531,181,419	587,024,445	596,751,924
Less: Loss allowance	<u>(5,037,521)</u>	<u>(5,808,606)</u>	<u>(5,987,966)</u>
	<u>\$ 526,143,898</u>	<u>\$ 581,215,839</u>	<u>\$ 590,763,958</u>

- a. Life insurance policy loans were secured by policies issued by the Group.
- b. Policyholders may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due and interest of the premium loan (as well as the principal and interest of the life insurance policy loan, if applicable) from the policyholders' policy value reserve after the second installment becomes overdue in order to maintain the effective insurance policy. Policyholders may also inform the insurer in writing to terminate the premium loan option prior to the next due date of premium payment.
- c. Secured loans are secured by government bonds, stocks, corporate bonds or real estate. The Group applied IFRS 9 and assessed impairment in accordance with the Regulations Governing the Procedures for Insurance Enterprises to Evaluate Assets and Deal with Non-performing/Non-accrual Loans. Refer to Note 41 for related information of loss allowance for the nine-month period ended September 30, 2019 and 2018.

## 17. REINSURANCE ASSETS

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Claims and payments recoverable from reinsurers	\$ -	\$ 803	\$ 4,555
Due from reinsurers and ceding companies	118,642	505,852	403,625
Reinsurance reserve assets			
Ceded unearned premium reserve	780,839	624,337	558,170
Ceded loss reserve	20,091	22,509	8,938
Ceded policy reserve	<u>422,994</u>	<u>365,409</u>	<u>362,823</u>
	<u>\$ 1,342,566</u>	<u>\$ 1,518,910</u>	<u>\$ 1,338,111</u>

a. CNY co-reinsurance business

Authorized by the FSC under Jin Guan Bao Tsai No.10302112370, the Company signed a CNY co-reinsurance contract with Central Reinsurance Corporation in 2014. The Company discloses the succeeding information following Article 6 of the Guideline for Reinsurance with Ceded Policy Reserve by Life Insurance Enterprises.

1) Purpose, rationalization and expected benefit

In consideration of the limitation on CNY investment, the Company cedes partial of its CNY insurances through co-reinsurance to increase the Company's liquidity, enhance the capability to insure and transfer relevant risks. Under the reinsurance arrangement, the Company transfers 50% of its insurance risks to the reinsurer.

2) Reinsurance expense, claims recovered from reinsures and commission

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Reinsurance expense	\$ 71,856	\$ 74,215
Claims recovered from reinsurers	10,260	7,357
Reinsurance commission	6,121	5,868

3) Net income or loss from CNY co-reinsurance business

Net income from reinsurance of \$2,110 thousand had occurred in the nine months ended September 30, 2019 from CNY co-reinsurance business. The amount is calculated as follows:

Reinsurance commission \$6,121 thousand + Claims recovered from reinsurers \$10,260 thousand + Net changes in reinsurance reserve assets \$69,795 thousand - Foreign exchange losses \$12,210 thousand - reinsurance expense \$71,856 thousand.

4) Reason and effect to income or loss from change of co-reinsurance business or contract: None.

5) Accounting treatment for ceded CNY co-reinsurance business

On the balance sheet, the Company recognizes reinsurance reserve assets including ceded policy reserve and ceded premium deficiency reserve and provides insurance liabilities as direct business. All ceded reinsurance reserve assets should be removed at the time the co-reinsurance contract ceased.

6) Other notes designated by authorities: None.



## 18. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold Improvement	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
<b>Cost</b>									
Balance at January 1, 2018	\$ 19,940,687	\$ 21,587,872	\$ 2,612,817	\$ 276,132	\$ 359,487	\$ 11,751	\$ 3,792,098	\$ 154,477	\$ 48,735,321
Additions	84	-	173,617	-	230,326	3	62,988	705,745	1,172,763
Disposals	(6,126)	(4,896)	(42,388)	-	-	(5)	(14,276)	-	(67,691)
Reclassification	40	39,444	-	-	-	-	-	(39,444)	40
Transfers from investment property	-	740,189	-	-	-	-	-	-	740,189
Exchange differences	-	(68,263)	645	(1)	3,980	(124)	(137)	-	(63,900)
Balance at September 30, 2018	<u>\$ 19,934,685</u>	<u>\$ 22,294,346</u>	<u>\$ 2,744,691</u>	<u>\$ 276,131</u>	<u>\$ 593,793</u>	<u>\$ 11,625</u>	<u>\$ 3,840,673</u>	<u>\$ 820,778</u>	<u>\$ 50,516,722</u>
<b>Depreciation and impairment</b>									
Balance at January 1, 2018	\$ 103,134	\$ 11,633,988	\$ 2,110,426	\$ 275,876	\$ 224,457	\$ 7,768	\$ 3,302,361	\$ -	\$ 17,658,010
Depreciation expenses	-	306,136	130,070	57	35,429	664	81,610	-	553,966
Disposals	-	(3,168)	(40,438)	-	-	(5)	(12,730)	-	(56,341)
Exchange differences	-	(5,941)	(3,856)	(1)	(4,626)	(50)	(203)	-	(14,677)
Balance at September 30, 2018	<u>\$ 103,134</u>	<u>\$ 11,931,015</u>	<u>\$ 2,196,202</u>	<u>\$ 275,932</u>	<u>\$ 255,260</u>	<u>\$ 8,377</u>	<u>\$ 3,371,038</u>	<u>\$ -</u>	<u>\$ 18,140,958</u>
Carrying amounts at September 30, 2018	<u>\$ 19,831,551</u>	<u>\$ 10,363,331</u>	<u>\$ 548,489</u>	<u>\$ 199</u>	<u>\$ 338,533</u>	<u>\$ 3,248</u>	<u>\$ 469,635</u>	<u>\$ 820,778</u>	<u>\$ 32,375,764</u>
<b>Cost</b>									
Balance at January 1, 2019	\$ 20,367,187	\$ 22,364,679	\$ 2,853,292	\$ 276,136	\$ 500,722	\$ 11,656	\$ 3,901,810	\$ 396,036	\$ 50,671,518
Additions	-	-	229,068	-	19,155	-	67,904	127,003	443,130
Disposals	(12,249)	(18,562)	(12,878)	-	-	(340)	(51,170)	-	(95,199)
Reclassification	-	1,807	(63)	(276,136)	-	-	2	12,803	(261,587)
Exchange differences	-	(52,403)	(1,798)	-	(5,586)	(92)	122	-	(59,764)
Balance at September 30, 2019	<u>\$ 20,354,938</u>	<u>\$ 22,295,521</u>	<u>\$ 3,067,621</u>	<u>\$ -</u>	<u>\$ 514,291</u>	<u>\$ 11,217</u>	<u>\$ 3,918,668</u>	<u>\$ 535,842</u>	<u>\$ 50,698,098</u>
<b>Depreciation and impairment</b>									
Balance at January 1, 2019	\$ 103,134	\$ 12,036,001	\$ 2,214,752	\$ 275,959	\$ 256,141	\$ 9,549	\$ 3,394,360	\$ -	\$ 18,289,896
Depreciation expenses	-	308,341	117,195	-	40,005	632	86,257	-	552,430
Disposals	-	(11,139)	(12,736)	-	-	(340)	(49,183)	-	(73,398)
Reclassification	-	-	-	(275,959)	-	-	-	-	(275,959)
Exchange differences	-	(6,798)	(3,738)	-	(5,517)	(68)	(338)	-	(16,459)
Balance at September 30, 2019	<u>\$ 103,134</u>	<u>\$ 12,326,405</u>	<u>\$ 2,315,473</u>	<u>\$ -</u>	<u>\$ 290,629</u>	<u>\$ 9,773</u>	<u>\$ 3,431,096</u>	<u>\$ -</u>	<u>\$ 18,476,510</u>
Carrying amounts at December 31, 2018 and January 1, 2019	<u>\$ 20,264,053</u>	<u>\$ 10,328,678</u>	<u>\$ 638,540</u>	<u>\$ 177</u>	<u>\$ 244,581</u>	<u>\$ 2,107</u>	<u>\$ 507,450</u>	<u>\$ 396,036</u>	<u>\$ 32,381,622</u>
Carrying amounts at September 30, 2019	<u>\$ 20,251,804</u>	<u>\$ 9,969,116</u>	<u>\$ 752,148</u>	<u>\$ -</u>	<u>\$ 223,662</u>	<u>\$ 1,444</u>	<u>\$ 487,572</u>	<u>\$ 535,842</u>	<u>\$ 32,221,588</u>

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

Buildings and construction	5-70 years
Computer equipment	3-10 years
Leased assets	3 years
Leasehold improvements	5 years or lease term
Transportation equipment	3-5 years
Other equipment	2-15 years

Property and equipment were not pledged as collateral for bank borrowings.

## 19. LEASE ARRANGEMENTS

### a. Right-of-use assets - 2019

	<b>September 30, 2019</b>
<u>Carrying amounts</u>	
Buildings	\$ 1,681,154
Office equipment	14,992
Transportation equipment	<u>16,932</u>
	<u>\$ 1,713,078</u>
The right-of-use assets presented as investment properties	<u>\$ 8,897,732</u>

	<b>For the Three Months Ended September 30, 2019</b>	<b>For the Nine Months Ended September 30, 2019</b>
Additions to right-of-use assets	<u>\$ 94,986</u>	<u>\$ 197,149</u>
Depreciation expense for right-of-use assets		
Buildings	\$ 145,708	\$ 426,497
Office equipment	1,200	3,585
Transportation equipment	<u>3,671</u>	<u>12,696</u>
	<u>\$ 150,579</u>	<u>\$ 442,778</u>

b. Lease liabilities - 2019

	<b>September 30, 2019</b>
Carrying amounts	<u>\$ 10,636,968</u>

Range of discount rates for lease liabilities was as follows:

	<b>September 30, 2019</b>
Buildings	2.05%-8.57%
Office equipment	4.67%-4.76%
Transportation equipment	3.59%-3.66%
Investment property - right of superficies	2.82%-3.71%

## 20. INTANGIBLE ASSETS

	<u>Computer Software</u>	<u>Franchises</u>	<u>Trademarks</u>	<u>Customer Relationships</u>	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
<i>Cost</i>							
Balance at January 1, 2018	\$ 2,055,594	\$ 37,659,600	\$ 391,576	\$ 3,518,004	\$ 10,279,814	\$ 208,190	\$ 54,112,778
Additions - acquired separately	75,051	-	-	-	-	-	75,051
Exchange differences	<u>(6,115)</u>	<u>-</u>	<u>9,223</u>	<u>82,858</u>	<u>173,381</u>	<u>4,903</u>	<u>264,250</u>
Balance at September 30, 2018	<u>\$ 2,124,530</u>	<u>\$ 37,659,600</u>	<u>\$ 400,799</u>	<u>\$ 3,600,862</u>	<u>\$ 10,453,195</u>	<u>\$ 213,093</u>	<u>\$ 54,452,079</u>
<i>Amortization and impairment</i>							
Balance at January 1, 2018	\$ 1,730,537	\$ 5,198,458	\$ -	\$ 795,546	\$ -	\$ 115,292	\$ 7,839,833
Amortizations	86,514	1,559,537	-	291,268	-	36,922	1,974,241
Exchange differences	<u>(5,580)</u>	<u>-</u>	<u>-</u>	<u>24,751</u>	<u>-</u>	<u>3,478</u>	<u>22,649</u>
Balance at September 30, 2018	<u>\$ 1,811,471</u>	<u>\$ 6,757,995</u>	<u>\$ -</u>	<u>\$ 1,111,565</u>	<u>\$ -</u>	<u>\$ 155,692</u>	<u>\$ 9,836,723</u>
Carrying amounts at September 30, 2018	<u>\$ 313,059</u>	<u>\$ 30,901,605</u>	<u>\$ 400,799</u>	<u>\$ 2,489,297</u>	<u>\$ 10,453,195</u>	<u>\$ 57,401</u>	<u>\$ 44,615,356</u>
<i>Cost</i>							
Balance at January 1, 2019	\$ 2,154,016	\$ 37,659,600	\$ 403,186	\$ 3,622,314	\$ 10,498,082	\$ 214,363	\$ 54,551,561
Additions - acquired separately	94,374	-	-	-	-	-	94,374
Exchange differences	<u>(5,204)</u>	<u>-</u>	<u>4,054</u>	<u>36,419</u>	<u>76,209</u>	<u>2,155</u>	<u>113,633</u>
Balance at September 30, 2019	<u>\$ 2,243,186</u>	<u>\$ 37,659,600</u>	<u>\$ 407,240</u>	<u>\$ 3,658,733</u>	<u>\$ 10,574,291</u>	<u>\$ 216,518</u>	<u>\$ 54,759,568</u>

(Continued)

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Others	Total
<u>Amortization and impairment</u>							
Balance at January 1, 2019	\$ 1,849,404	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 10,506,601
Amortizations	81,547	1,559,537	-	301,855	-	14,735	1,957,674
Exchange differences	(4,546)	-	-	12,449	-	1,633	9,536
Balance at September 30, 2019	<u>\$ 1,926,405</u>	<u>\$ 8,837,378</u>	<u>\$ -</u>	<u>\$ 1,532,175</u>	<u>\$ -</u>	<u>\$ 177,853</u>	<u>\$ 12,473,811</u>
Carrying amounts at December 31, 2018 and January 1, 2019	<u>\$ 304,612</u>	<u>\$ 30,381,759</u>	<u>\$ 403,186</u>	<u>\$ 2,404,443</u>	<u>\$ 10,498,082</u>	<u>\$ 52,878</u>	<u>\$ 44,044,960</u>
Carrying amounts at September 30, 2019	<u>\$ 316,781</u>	<u>\$ 28,822,222</u>	<u>\$ 407,240</u>	<u>\$ 2,126,558</u>	<u>\$ 10,574,291</u>	<u>\$ 38,665</u>	<u>\$ 42,285,757</u>

(Concluded)

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

Computer software	3-8 years
Franchises	6.5 or 20 years
Customer relationships	5-15 years
Others	3-6 years

- b. As of September 30, 2019, December 31, 2018 and September 30, 2018, the book values of goodwill were \$10,574,291 thousand, \$10,498,082 thousand and \$10,453,195 thousand, respectively. The goodwill arose from the acquisition of which the Company assumed all assets, liabilities and operations of Global Life and Singfor Life except for their reserved assets and liabilities on July 1, 2015, the acquisition of 100% of Conning Holdings Limited on September 18, 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on February 1, 2016.
- c. An annual impairment test for goodwill is performed regularly. The Group 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.

## 21. OTHER ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Insurance Industry Stabilization Fund (a)	\$ 10,685,744	\$ 10,000,070	\$ 9,753,780
Less: Reserve for Insurance Industry Stabilization Fund (a)	(10,685,744)	(10,000,070)	(9,753,780)
Guarantee deposits paid (b)	27,514,178	32,195,253	33,517,679
Deferred acquisition costs (c)	3,887	10,401	12,573
Prepayments	257,366	589,888	560,487
Net defined benefit assets	5,929,706	5,709,486	5,125,734
Others	<u>1,756,734</u>	<u>1,952,617</u>	<u>1,258,910</u>
	<u>\$ 35,461,871</u>	<u>\$ 40,457,645</u>	<u>\$ 40,475,383</u>

- a. Under Tai-Tsai-Bao No.811769212 issued by the Ministry of Finance on December 31, 1992, one thousandth (1/1000) of premiums should be contributed to the Insurance Industry Stabilization Fund starting from January 1, 1993. According to the Standard of Contribution to Life and Property Insurance Stabilization Fund, starting from July 1, 2014, the contribution to the Insurance Industry Stabilization Fund of Life Insurance Enterprises should be based on the premium income and contribution rate calculated using the difference between capital adequacy ratio and management performance rating indicator. The credit account, reserve for Insurance Industry Stabilization Fund, is a contra account of the Insurance Industry Stabilization Fund.

b. Guarantee deposits paid are comprised of:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Insurance operation guarantee deposit	\$ 11,553,956	\$ 13,123,842	\$ 12,101,253
Deposit for futures and options trading	9,229,579	5,262,750	5,291,225
Deposit for derivatives trading	4,552,884	11,594,697	13,906,945
Other guarantee deposits	<u>2,177,759</u>	<u>2,213,964</u>	<u>2,218,256</u>
	<u>\$ 27,514,178</u>	<u>\$ 32,195,253</u>	<u>\$ 33,517,679</u>

The Group provided cash, time deposits and government bonds as guarantees. Refer to Note 39 for related information.

c. Deferred acquisition costs

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred acquisition costs related to investment management services of such contracts are summarized below:

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 10,401	\$ 16,659
Additions	-	2,331
Amortization	<u>(6,514)</u>	<u>(6,417)</u>
Ending balance	<u>\$ 3,887</u>	<u>\$ 12,573</u>

## 22. PAYABLES

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Notes payable	\$ 1,351,807	\$ 1,426,716	\$ 1,472,620
Claims payable	870,827	814,795	794,066
Commissions payable	1,516,821	2,405,476	1,407,830
Due to reinsurers and ceding companies	507,139	440,818	515,854
Other payables	<u>34,735,703</u>	<u>27,734,463</u>	<u>21,723,519</u>
	<u>\$ 38,982,297</u>	<u>\$ 32,822,268</u>	<u>\$ 25,913,889</u>

## 23. BONDS PAYABLE

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
First perpetual non-cumulative subordinated corporate bonds of 2016 (a)	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000
First perpetual non-cumulative subordinated corporate bonds of 2017 (b)	35,000,000	35,000,000	35,000,000
First perpetual non-cumulative subordinated corporate bonds of 2019 (c)	<u>10,000,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 80,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>

a. Pursuant to Jin Guan Bao Shou No.10502133020 by the FSC, the Company issued first perpetual non-cumulative subordinated corporate bonds on December 13, 2016 through private placement. Key terms and conditions are as follows:

- 1) Issue amount: \$35,000,000 thousand.
- 2) Principal amount and issue price: The face value is \$1,000,000 thousand each, and is issued at par.
- 3) Years to maturity: Perpetual.
- 4) Coupon rate: From the issue date to the tenth year, the coupon rate is 3.6%; from the day following the tenth year maturity and on every tenth year maturity from then on, if the bonds are not redeemed, the coupon rate will be adjusted to a fixed annual rate of Taiwan 10-y government bond plus the issue spread.
- 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date. The Company may stop making interest payments and such interest payments will not be cumulated or deferred under the following circumstances: The Company has no earnings or the earnings are insufficient to make interest payments; the Company would fail to meet the required risk-based capital ratio or other minimum requirements from the authorities if making those interest payments; the Company has other essential considerations.
- 6) Right of early redemption: The Company 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. The Company may redeem the bond once a year.
- 7) Forms of bonds: Physical certificate.
- 8) Interest expense: Interest expense amounting to \$317,589 thousand, \$317,589 thousand, \$942,411 thousand and \$942,411 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively. The expense was recorded as finance costs.

b. Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, the Company issued first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. Key terms and conditions are as follows:

- 1) Issue amount: \$35,000,000 thousand.
- 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
- 3) Years to maturity: Perpetual.

- 4) 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 maturity.
  - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
  - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company 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.
  - 7) Forms of bonds: Book-entry securities.
  - 8) Interest expense: Interest expense amounting to \$290,325 thousand, \$291,095 thousand, \$862,645 thousand and \$863,870 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively. The expense was recorded as finance costs.
- c. Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, the Company issued first perpetual non-cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$10,000,000 thousand.
  - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
  - 3) Years to maturity: Perpetual.
  - 4) Coupon rate: Fixed rate of 3%.
  - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
  - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company 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.
  - 7) Forms of bonds: Book-entry securities.
  - 8) Interest expense: Interest expense amounting to \$75,410 thousand and \$79,510 thousand for the three months and nine months ended September 30, 2019, respectively. The expense was recorded as finance costs.

## **24. PREFERENCE SHARES LIABILITY**

In accordance with the resolution made at the board of directors' meeting held on October 7, 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C preferred shares at par value of \$10 per share through private placement. The placement was approved by Insurance Bureau on October 26, 2011. Key terms and conditions of the privately offered Class C preferred shares are listed as follows:

- a. Issuance period covers from November 11, 2011, the issue date, to November 11, 2018, seven years in total.
- b. Dividend yield is 1.86% per year based on the actual issue price of \$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.
- c. The preference shares are not convertible to ordinary shares. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with the R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred shares due to force majeure, the terms of the preferred shares remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.
- d. The preference shares are not entitled to be sold back. Five years after issuance, the Company may redeem the shares with the approval from the authorities.

According to IAS 32 "Financial Instruments: Presentation", the abovementioned preference shares issued shall be reported as preference shares liability.

The Company's preferred share liability decreased \$5,000,000 thousand in 2018 due to early redemption.

## 25. INSURANCE LIABILITIES

The details of insurance contracts and financial instruments with discretionary participation feature are summarized below:

### a. The Company

#### 1) Unearned premium reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 67,351	\$ -	\$ 67,351	\$ 73,117	\$ -	\$ 73,117	\$ 104,905	\$ -	\$ 104,905
Individual injury insurance	6,624,847	-	6,624,847	6,484,348	-	6,484,348	6,175,709	-	6,175,709
Individual health insurance	8,639,379	-	8,639,379	8,797,520	-	8,797,520	8,189,384	-	8,189,384
Group insurance	1,203,297	-	1,203,297	991,397	-	991,397	1,054,297	-	1,054,297
Investment-linked insurance	113,356	-	113,356	112,153	-	112,153	109,961	-	109,961
	<u>16,648,230</u>	<u>-</u>	<u>16,648,230</u>	<u>16,458,535</u>	<u>-</u>	<u>16,458,535</u>	<u>15,634,256</u>	<u>-</u>	<u>15,634,256</u>
Less ceded unearned premium reserve:									
Individual life insurance	620,042	-	620,042	509,092	-	509,092	366,906	-	366,906
Individual injury insurance	22,605	-	22,605	9,703	-	9,703	11,252	-	11,252
Individual health insurance	135,452	-	135,452	105,542	-	105,542	179,713	-	179,713
Group insurance	2,740	-	2,740	-	-	-	299	-	299
	<u>780,839</u>	<u>-</u>	<u>780,839</u>	<u>624,337</u>	<u>-</u>	<u>624,337</u>	<u>558,170</u>	<u>-</u>	<u>558,170</u>
	<u>\$ 15,867,391</u>	<u>\$ -</u>	<u>\$ 15,867,391</u>	<u>\$ 15,834,198</u>	<u>\$ -</u>	<u>\$ 15,834,198</u>	<u>\$ 15,076,086</u>	<u>\$ -</u>	<u>\$ 15,076,086</u>



The changes in unearned premium reserve are summarized below:

	<b>For the Nine Months Ended September 30</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>
Beginning balance	\$ 16,458,535	\$ -	\$ 16,458,535	\$ 15,653,614	\$ -	\$ 15,653,614
Provision	16,648,234	-	16,648,234	15,634,265	-	15,634,265
Recovery	(16,458,535)	-	(16,458,535)	(15,653,614)	-	(15,653,614)
Foreign exchange	(4)	-	(4)	(9)	-	(9)
Ending balance	<u>16,648,230</u>	<u>-</u>	<u>16,648,230</u>	<u>15,634,256</u>	<u>-</u>	<u>15,634,256</u>
Less ceded unearned premium reserve:						
Beginning balance	624,337	-	624,337	300,568	-	300,568
Increase	<u>156,502</u>	<u>-</u>	<u>156,502</u>	<u>257,602</u>	<u>-</u>	<u>257,602</u>
Ending balance	<u>780,839</u>	<u>-</u>	<u>780,839</u>	<u>558,170</u>	<u>-</u>	<u>558,170</u>
Net ending balance	<u>\$ 15,867,391</u>	<u>\$ -</u>	<u>\$ 15,867,391</u>	<u>\$ 15,076,086</u>	<u>\$ -</u>	<u>\$ 15,076,086</u>

2) Loss reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance									
Filed but not paid	\$ 2,278,329	\$ 35,929	\$ 2,314,258	\$ 1,479,672	\$ 9,145	\$ 1,488,817	\$ 1,332,163	\$ 8,770	\$ 1,340,933
Not yet filed	55,835	-	55,835	72,309	-	72,309	80,961	-	80,961
Individual injury insurance									
Filed but not paid	41,897	-	41,897	27,337	-	27,337	37,076	-	37,076
Not yet filed	1,918,505	-	1,918,505	1,780,799	-	1,780,799	1,776,758	-	1,776,758
Individual health insurance									
Filed but not paid	1,090,090	-	1,090,090	851,238	-	851,238	828,586	-	828,586
Not yet filed	3,135,458	-	3,135,458	2,777,967	-	2,777,967	2,803,907	-	2,803,907
Group insurance									
Filed but not paid	54,243	-	54,243	38,689	-	38,689	45,810	-	45,810
Not yet filed	1,581,968	-	1,581,968	1,275,114	-	1,275,114	1,305,800	-	1,305,800
Investment-linked insurance									
Filed but not paid	156,289	-	156,289	218,680	-	218,680	148,030	-	148,030
Not yet filed	1,392	-	1,392	620	-	620	971	-	971
	<u>10,314,006</u>	<u>35,929</u>	<u>10,349,935</u>	<u>8,522,425</u>	<u>9,145</u>	<u>8,531,570</u>	<u>8,360,062</u>	<u>8,770</u>	<u>8,368,832</u>
Less ceded loss reserve									
Individual life insurance	4,201	-	4,201	8,479	-	8,479	1,508	-	1,508
Individual health insurance	979	-	979	314	-	314	535	-	535
	<u>5,180</u>	<u>-</u>	<u>5,180</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>	<u>2,043</u>	<u>-</u>	<u>2,043</u>
	<u>\$ 10,308,826</u>	<u>\$ 35,929</u>	<u>\$ 10,344,755</u>	<u>\$ 8,513,632</u>	<u>\$ 9,145</u>	<u>\$ 8,522,777</u>	<u>\$ 8,358,019</u>	<u>\$ 8,770</u>	<u>\$ 8,366,789</u>

The changes of loss reserve are summarized below:

	<b>For the Nine Months Ended September 30</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>
Beginning balance	\$ 8,522,425	\$ 9,145	\$ 8,531,570	\$ 7,238,115	\$ 2,678	\$ 7,240,793
Provision	10,312,232	35,929	10,348,161	8,354,926	8,770	8,363,696
Recovery	(8,522,426)	(9,145)	(8,531,571)	(7,238,115)	(2,678)	(7,240,793)
Foreign exchange	<u>1,775</u>	<u>-</u>	<u>1,775</u>	<u>5,136</u>	<u>-</u>	<u>5,136</u>
Ending balance	<u>10,314,006</u>	<u>35,929</u>	<u>10,349,935</u>	<u>8,360,062</u>	<u>8,770</u>	<u>8,368,832</u>
Less ceded loss reserve						
Beginning balance	8,793	-	8,793	1,955	-	1,955
Increase	-	-	-	88	-	88
Decrease	<u>(3,613)</u>	<u>-</u>	<u>(3,613)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>5,180</u>	<u>-</u>	<u>5,180</u>	<u>2,043</u>	<u>-</u>	<u>2,043</u>
Net ending balance	<u>\$ 10,308,826</u>	<u>\$ 35,929</u>	<u>\$ 10,344,755</u>	<u>\$ 8,358,019</u>	<u>\$ 8,770</u>	<u>\$ 8,366,789</u>

3) Policy reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance (Note 1)	\$ 4,729,688,295	\$ 4,807	\$ 4,729,693,102	\$ 4,519,398,687	\$ 8,236	\$ 4,519,406,923	\$ 4,435,233,202	\$ 15,067	\$ 4,435,248,269
Injury insurance	7,310,426	-	7,310,426	7,446,584	-	7,446,584	7,416,325	-	7,416,325
Health insurance	704,820,706	-	704,820,706	652,473,787	-	652,473,787	635,219,953	-	635,219,953
Annuity insurance	1,397,689	22,435,216	23,832,905	1,395,567	25,839,454	27,235,021	1,396,276	27,465,413	28,861,689
Investment-linked insurance	452,111	-	452,111	438,045	-	438,045	439,393	-	439,393
Total (Note 2)	5,443,669,227	22,440,023	5,466,109,250	5,181,152,670	25,847,690	5,207,000,360	5,079,705,149	27,480,480	5,107,185,629
Less ceded policy reserve									
Life insurance	422,994	-	422,994	365,409	-	365,409	362,823	-	362,823
	<u>\$ 5,443,246,233</u>	<u>\$ 22,440,023</u>	<u>\$ 5,465,686,256</u>	<u>\$ 5,180,787,261</u>	<u>\$ 25,847,690</u>	<u>\$ 5,206,634,951</u>	<u>\$ 5,079,342,326</u>	<u>\$ 27,480,480</u>	<u>\$ 5,106,822,806</u>

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

Note 2: Total policy reserve after including policy-reserve payables to the insured amounted to \$5,466,570,662 thousand, \$5,207,460,951 thousand and \$5,107,446,369 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

The changes of policy reserve are summarized below:

	<b>For the Nine Months Ended September 30</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>
Beginning balance	\$ 5,181,152,670	\$ 25,847,690	\$ 5,207,000,360	\$ 4,816,868,641	\$ 32,918,998	\$ 4,849,787,639
Provision	478,538,626	987,334	479,525,960	447,788,848	202,601	447,991,449
Recovery	(224,427,463)	(4,394,957)	(228,822,420)	(206,456,269)	(5,615,734)	(212,072,003)
Foreign exchange	8,405,394	(44)	8,405,350	21,503,929	(25,385)	21,478,544
Ending balance	<u>5,443,669,227</u>	<u>22,440,023</u>	<u>5,466,109,250</u>	<u>5,079,705,149</u>	<u>27,480,480</u>	<u>5,107,185,629</u>
Less ceded policy reserve						
Beginning balance	365,409	-	365,409	301,806	-	301,806
Increase	69,794	-	69,794	73,372	-	73,372
Foreign exchange	(12,209)	-	(12,209)	(12,355)	-	(12,355)
Ending balance	<u>422,994</u>	<u>-</u>	<u>422,994</u>	<u>362,823</u>	<u>-</u>	<u>362,823</u>
Net ending balance	<u>\$ 5,443,246,233</u>	<u>\$ 22,440,023</u>	<u>\$ 5,465,686,256</u>	<u>\$ 5,079,342,326</u>	<u>\$ 27,480,480</u>	<u>\$ 5,106,822,806</u>

#### 4) Special reserve

	September 30, 2019				December 31, 2018				September 30, 2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Participating policies dividends reserve	\$ (61,387)	\$ -	\$ -	\$ (61,387)	\$ (62,254)	\$ -	\$ -	\$ (62,254)	\$ (61,935)	\$ -	\$ -	\$ (61,935)
Dividend risk reserve	62,542	-	-	62,542	63,184	-	-	63,184	62,706	-	-	62,706
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>	<u>\$ 771</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,095</u>

The changes of special reserve are summarized below:

	For the Nine Months Ended September 30							
	2019				2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254	\$ 889	\$ -	\$ 11,083,324	\$ 11,084,213
Effects of retrospective application and restatement of IFRS 9	-	-	-	-	(395)	-	-	(395)
Beginning balance, as adjusted	930	-	11,083,324	11,084,254	494	-	11,083,324	11,083,818
Provision for participating policies dividends reserve	12,613	-	-	12,613	5,808	-	-	5,808
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)	(7,990)	-	-	(7,990)
Provision for dividend risk reserve	(642)	-	-	(642)	2,459	-	-	2,459
Ending balance	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>	<u>\$ 771</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,095</u>

5) Premium deficiency reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature		Insurance Contracts	Financial Instruments with Discretionary Participation Feature		Insurance Contracts	Financial Instruments with Discretionary Participation Feature	
		Total	Total		Total	Total			
Individual life insurance	\$ 18,728,820	\$ -	\$ 18,728,820	\$ 20,966,673	\$ -	\$ 20,966,673	\$ 22,471,301	\$ -	\$ 22,471,301
Individual injury insurance	1,103	-	1,103	1,229	-	1,229	1,252	-	1,252
Individual health insurance	1,400,809	-	1,400,809	1,508,079	-	1,508,079	1,554,974	-	1,554,974
Group insurance	123,140	-	123,140	72,323	-	72,323	112,803	-	112,803
	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>	<u>\$ 24,140,330</u>	<u>\$ -</u>	<u>\$ 24,140,330</u>

The changes of premium deficiency reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	318,820	-	318,820	179,181	-	179,181
Recovery	(2,630,997)	-	(2,630,997)	(2,374,346)	-	(2,374,346)
Foreign exchange	17,745	-	17,745	103,178	-	103,178
Ending balance	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>	<u>\$ 24,140,330</u>	<u>\$ -</u>	<u>\$ 24,140,330</u>

6) Other reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Other	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>	<u>\$ 1,898,570</u>	<u>\$ -</u>	<u>\$ 1,898,570</u>

The changes of other reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>	<u>(18,000)</u>	<u>-</u>	<u>(18,000)</u>
Ending balance	<u>\$ 1,877,542</u>	<u>\$ -</u>	<u>\$ 1,877,542</u>	<u>\$ 1,898,570</u>	<u>\$ -</u>	<u>\$ 1,898,570</u>



7) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Feature</b>		
	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Unearned premium reserve	\$ 16,648,230	\$ 16,458,535	\$ 15,634,256
Policy reserve	5,466,570,662	5,207,000,360	5,107,185,629
Premium deficiency reserve	20,253,872	22,548,304	24,140,330
Other reserve	<u>1,877,542</u>	<u>1,894,570</u>	<u>1,898,570</u>
Book value of insurance liabilities	<u>\$ 5,505,350,306</u>	<u>\$ 5,247,901,769</u>	<u>\$ 5,148,858,785</u>
Estimated present value of cash flows	<u>\$ 4,358,297,478</u>	<u>\$ 4,230,271,471</u>	<u>\$ 4,194,231,036</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

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

Liability adequacy testing methodology is listed as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
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			
i. 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.

(Continued)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
ii. Discount rate	Under assets allocation plan on June 30, 2019, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on June 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.  (Concluded)

b. Cathay Lujiazui Life

The details of insurance contracts and financial instruments with discretionary participation feature are summarized below:

1) Unearned premium reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual injury insurance	\$ 5,790	\$ -	\$ 5,790	\$ 5,911	\$ -	\$ 5,911	\$ 7,100	\$ -	\$ 7,100
Individual health insurance	49,943	-	49,943	38,600	-	38,600	38,788	-	38,788
Group insurance	<u>296,744</u>	<u>-</u>	<u>296,744</u>	<u>234,496</u>	<u>-</u>	<u>234,496</u>	<u>319,803</u>	<u>-</u>	<u>319,803</u>
	<u>\$ 352,477</u>	<u>\$ -</u>	<u>\$ 352,477</u>	<u>\$ 279,007</u>	<u>\$ -</u>	<u>\$ 279,007</u>	<u>\$ 365,691</u>	<u>\$ -</u>	<u>\$ 365,691</u>

The changes of unearned premium reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 279,007	\$ -	\$ 279,007	\$ 315,955	\$ -	\$ 315,955
Provision	299,543	-	299,543	378,458	-	378,458
Recovery	(215,777)	-	(215,777)	(316,720)	-	(316,720)
Foreign exchange	<u>(10,296)</u>	<u>-</u>	<u>(10,296)</u>	<u>(12,002)</u>	<u>-</u>	<u>(12,002)</u>
Ending balance	<u>\$ 352,477</u>	<u>\$ -</u>	<u>\$ 352,477</u>	<u>\$ 365,691</u>	<u>\$ -</u>	<u>\$ 365,691</u>

2) Loss reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance									
Filed but not paid	\$ -	\$ -	\$ -	\$ 1,323	\$ -	\$ 1,323	\$ -	\$ -	\$ -
Not yet filed	11,526	-	11,526	5,984	-	5,984	606	-	606
Individual injury insurance									
Filed but not paid	17	-	17	25	-	25	10	-	10
Not yet filed	1,124	-	1,124	229	-	229	237	-	237
Individual health insurance									
Filed but not paid	6,640	-	6,640	15,129	-	15,129	2,684	-	2,684
Not yet filed	43,546	-	43,546	35,035	-	35,035	21,407	-	21,407
Group insurance									
Filed but not paid	6,715	-	6,715	12,774	-	12,774	3,133	-	3,133
Not yet filed	<u>305,565</u>	<u>-</u>	<u>305,565</u>	<u>297,007</u>	<u>-</u>	<u>297,007</u>	<u>294,639</u>	<u>-</u>	<u>294,639</u>
	<u>375,133</u>	<u>-</u>	<u>375,133</u>	<u>367,506</u>	<u>-</u>	<u>367,506</u>	<u>322,716</u>	<u>-</u>	<u>322,716</u>
Less ceded loss reserve									
Individual life insurance	440	-	440	-	-	-	-	-	-
Individual injury insurance	392	-	392	-	-	-	-	-	-
Individual health insurance	14,059	-	14,059	13,716	-	13,716	6,895	-	6,895
Group insurance	<u>20</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>14,911</u>	<u>-</u>	<u>14,911</u>	<u>13,716</u>	<u>-</u>	<u>13,716</u>	<u>6,895</u>	<u>-</u>	<u>6,895</u>
	<u>\$ 360,222</u>	<u>\$ -</u>	<u>\$ 360,222</u>	<u>\$ 353,790</u>	<u>\$ -</u>	<u>\$ 353,790</u>	<u>\$ 315,821</u>	<u>\$ -</u>	<u>\$ 315,821</u>

The changes of loss reserve are summarized below:

	<b>For the Nine Months Ended September 30</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Feature</b>	<b>Total</b>
Beginning balance	\$ 367,506	\$ -	\$ 367,506	\$ 332,627	\$ -	\$ 332,627
Provision	387,348	-	387,348	326,553	-	326,553
Recovery	(369,538)	-	(369,538)	(326,002)	-	(326,002)
Foreign exchange	<u>(10,183)</u>	<u>-</u>	<u>(10,183)</u>	<u>(10,462)</u>	<u>-</u>	<u>(10,462)</u>
Ending balance	<u>375,133</u>	<u>-</u>	<u>375,133</u>	<u>322,716</u>	<u>-</u>	<u>322,716</u>
Less ceded loss reserve						
Beginning balance	13,716	-	13,716	7,729	-	7,729
Increase	42,387	-	42,387	-	-	-
Decrease	(40,777)	-	(40,777)	(611)	-	(611)
Foreign exchange	<u>(415)</u>	<u>-</u>	<u>(415)</u>	<u>(223)</u>	<u>-</u>	<u>(223)</u>
Ending balance	<u>14,911</u>	<u>-</u>	<u>14,911</u>	<u>6,895</u>	<u>-</u>	<u>6,895</u>
Net ending balance	<u>\$ 360,222</u>	<u>\$ -</u>	<u>\$ 360,222</u>	<u>\$ 315,821</u>	<u>\$ -</u>	<u>\$ 315,821</u>

3) Policy reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance	\$ 17,915,999	\$ -	\$ 17,915,999	\$ 13,750,483	\$ -	\$ 13,750,483	\$ 12,123,355	\$ -	\$ 12,123,355
Health insurance	1,577,334	-	1,577,334	1,156,197	-	1,156,197	1,045,764	-	1,045,764
Investment-linked insurance	2,511	-	2,511	2,496	-	2,496	2,941	-	2,941
	<u>\$ 19,495,844</u>	<u>\$ -</u>	<u>\$ 19,495,844</u>	<u>\$ 14,909,176</u>	<u>\$ -</u>	<u>\$ 14,909,176</u>	<u>\$ 13,172,060</u>	<u>\$ -</u>	<u>\$ 13,172,060</u>

The changes of policy reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 14,909,176	\$ -	\$ 14,909,176	\$ 9,387,494	\$ -	\$ 9,387,494
Provision	5,825,513	-	5,825,513	4,581,990	-	4,581,990
Recovery	(663,592)	-	(663,592)	(360,282)	-	(360,282)
Foreign exchange	(575,253)	-	(575,253)	(437,142)	-	(437,142)
Ending balance	<u>\$ 19,495,844</u>	<u>\$ -</u>	<u>\$ 19,495,844</u>	<u>\$ 13,172,060</u>	<u>\$ -</u>	<u>\$ 13,172,060</u>

4) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Feature</b>		
	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Unearned premium reserve	\$ 352,477	\$ 279,007	\$ 365,691
Policy reserve	<u>19,495,844</u>	<u>14,909,176</u>	<u>13,172,060</u>
Book value of insurance liabilities	<u>\$ 19,848,321</u>	<u>\$ 15,188,183</u>	<u>\$ 13,537,751</u>
Estimated present value of cash flows	<u>\$ 15,878,657</u>	<u>\$ 12,150,546</u>	<u>\$ 10,830,201</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

Note 3: There is no merger or transfer of insurance contract for Cathay Lujiazui Life. Thus, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology is listed as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
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			
i. 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.
ii. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

c. Cathay Life (Vietnam)

The details of insurance contracts and financial instruments with discretionary participation feature are summarized below:

1) Unearned premium reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual injury insurance	\$ 12,208	\$ -	\$ 12,208	\$ 7,312	\$ -	\$ 7,312	\$ 5,918	\$ -	\$ 5,918
Individual health insurance	<u>12,940</u>	<u>-</u>	<u>12,940</u>	<u>7,463</u>	<u>-</u>	<u>7,463</u>	<u>6,023</u>	<u>-</u>	<u>6,023</u>
	<u>\$ 25,148</u>	<u>\$ -</u>	<u>\$ 25,148</u>	<u>\$ 14,775</u>	<u>\$ -</u>	<u>\$ 14,775</u>	<u>\$ 11,941</u>	<u>\$ -</u>	<u>\$ 11,941</u>

The changes of unearned premium reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 14,775	\$ -	\$ 14,775	\$ 8,630	\$ -	\$ 8,630
Provision	10,304	-	10,304	3,348	-	3,348
Foreign exchange	<u>69</u>	<u>-</u>	<u>69</u>	<u>(37)</u>	<u>-</u>	<u>(37)</u>
Ending balance	<u>\$ 25,148</u>	<u>\$ -</u>	<u>\$ 25,148</u>	<u>\$ 11,941</u>	<u>\$ -</u>	<u>\$ 11,941</u>



2) Loss reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance									
Filed but not paid	\$ 1,065	\$ -	\$ 1,065	\$ 1,417	\$ -	\$ 1,417	\$ 631	\$ -	\$ 631
Individual injury insurance									
Filed but not paid	27	-	27	483	-	483	137	-	137
Not yet filed	1,204	-	1,204	826	-	826	778	-	778
Individual health insurance									
Filed but not paid	1,310	-	1,310	665	-	665	198	-	198
Not yet filed	<u>1,303</u>	<u>-</u>	<u>1,303</u>	<u>864</u>	<u>-</u>	<u>864</u>	<u>803</u>	<u>-</u>	<u>803</u>
	<u>\$ 4,909</u>	<u>\$ -</u>	<u>\$ 4,909</u>	<u>\$ 4,255</u>	<u>\$ -</u>	<u>\$ 4,255</u>	<u>\$ 2,547</u>	<u>\$ -</u>	<u>\$ 2,547</u>

The changes of loss reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 4,255	\$ -	\$ 4,255	\$ 2,477	\$ -	\$ 2,477
Provision	2,733	-	2,733	78	-	78
Foreign exchange	<u>(2,079)</u>	<u>-</u>	<u>(2,079)</u>	<u>(8)</u>	<u>-</u>	<u>(8)</u>
Ending balance	<u>\$ 4,909</u>	<u>\$ -</u>	<u>\$ 4,909</u>	<u>\$ 2,547</u>	<u>\$ -</u>	<u>\$ 2,547</u>

3) Policy reserve

	September 30, 2019			December 31, 2018			September 30, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance	\$ 3,855,291	\$ -	\$ 3,855,291	\$ 3,219,759	\$ -	\$ 3,219,759	\$ 3,129,685	\$ -	\$ 3,129,685
Investment-linked insurance	<u>129,987</u>	<u>-</u>	<u>129,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,985,278</u>	<u>\$ -</u>	<u>\$ 3,985,278</u>	<u>\$ 3,219,759</u>	<u>\$ -</u>	<u>\$ 3,219,759</u>	<u>\$ 3,129,685</u>	<u>\$ -</u>	<u>\$ 3,129,685</u>

The changes of policy reserve are summarized below:

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 3,219,759	\$ -	\$ 3,219,759	\$ 1,978,535	\$ -	\$ 1,978,535
Provision	737,297	-	737,297	1,160,706	-	1,160,706
Foreign exchange	<u>28,222</u>	<u>-</u>	<u>28,222</u>	<u>(9,556)</u>	<u>-</u>	<u>(9,556)</u>
Ending balance	<u>\$ 3,985,278</u>	<u>\$ -</u>	<u>\$ 3,985,278</u>	<u>\$ 3,129,685</u>	<u>\$ -</u>	<u>\$ 3,129,685</u>

4) Liability adequacy reserve

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Feature</b>		
	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Unearned premium reserve	\$ 25,148	\$ 14,775	\$ 11,941
Policy reserve	<u>3,985,278</u>	<u>3,219,759</u>	<u>3,129,685</u>
Book value of insurance liabilities	<u>\$ 4,010,426</u>	<u>\$ 3,234,534</u>	<u>\$ 3,141,626</u>
Estimated present value of cash flows	<u>\$ 2,577,505</u>	<u>\$ 1,885,077</u>	<u>\$ 1,646,321</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

Note 3: There is no merger or transfer of insurance contract for Cathay Life (Vietnam). Thus, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

## 26. RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS

The Company and Cathay Lujiazui Life issued financial instruments without discretionary participation feature and recognized reserve for insurance contracts with the nature of financial products. As of September 30, 2019, December 31, 2018 and September 30, 2018, reserve for insurance contracts with the nature of financial products is summarized and reconciled below:

a. The Company

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
	Life insurance	\$ 77,755	\$ 87,604
Investment-linked insurance	<u>914,162</u>	<u>843,050</u>	<u>754,809</u>
	<u>\$ 991,917</u>	<u>\$ 930,654</u>	<u>\$ 873,143</u>
		<b>For the Nine Months Ended September 30</b>	
		<b>2019</b>	<b>2018</b>
Beginning balance		\$ 930,654	\$ 472,573
Claims and payments		(156,148)	(106,395)
Net provision of statutory reserve		215,217	503,361
Foreign exchange		<u>2,194</u>	<u>3,604</u>
Ending balance		<u>\$ 991,917</u>	<u>\$ 873,143</u>

b. Cathay Lujiazui Life

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Life insurance	\$ 9,522,408	\$ 8,388,059	\$ 8,213,561
		<b>For the Nine Months Ended September 30</b>	
		<u>2019</u>	<u>2018</u>
Beginning balance		\$ 8,388,059	\$ 8,289,036
Premiums received		2,955,034	1,837,214
Claims and payments		(1,842,638)	(115,849)
Net reserve (recovery) of statutory reserve		290,768	(1,530,153)
Foreign exchange		<u>(268,815)</u>	<u>(266,687)</u>
Ending balance		<u>\$ 9,522,408</u>	<u>\$ 8,213,561</u>

**27. RESERVE FOR FOREIGN EXCHANGE VALUATION**

a. The hedge strategy and risk exposure

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

b. Reconciliation for reserve for foreign exchange valuation

	<b>For the Nine Months Ended September 30</b>	
	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision		
Compulsory reserve	6,543,982	4,337,403
Additional reserve	<u>12,174,679</u>	<u>5,221,010</u>
	18,718,661	9,558,413
Reversal	<u>(13,408,181)</u>	<u>(5,762,483)</u>
Ending balance	<u>\$ 22,385,769</u>	<u>\$ 15,385,068</u>

c. Effects due to reserve for foreign exchange valuation

	<b>For the Nine Months Ended September 30, 2019</b>		
Items	<u>Inapplicable Amount (1)</u>	<u>Applicable Amount (2)</u>	<u>Effects (2) - (1)</u>
Net income attributable to owners of the Company	\$ 34,341,167	\$ 30,092,782	\$ (4,248,385)
Earnings per share	6.00	5.25	(0.75)
Reserve for foreign exchange valuation	-	22,385,769	22,385,769
Equity attributable to owners of the Company	569,484,640	555,178,921	(14,305,719)

Items	For the Nine Months Ended September 30, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income attributable to owners of the Company	\$ 39,209,263	\$ 36,172,519	\$ (3,036,744)
Earnings per share	7.19	6.63	(0.56)
Reserve for foreign exchange valuation	-	15,385,068	15,385,068
Equity attributable to owners of the Company	452,725,069	444,019,911	(8,705,158)

## 28. RETAINED EARNED PREMIUM AND RETAINED CLAIM PAYMENTS

### a. Retained earned premium

#### 1) The Company

	For the Three Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 129,158,612	\$ 87,488	\$ 129,246,100	\$ 113,030,032	\$ 127,143	\$ 113,157,175
Reinsurance premium	29,745	-	29,745	(5,860)	-	(5,860)
Premium income	129,188,357	87,488	129,275,845	113,024,172	127,143	113,151,315
Less: Reinsurance expenses	(542,923)	-	(542,923)	(398,825)	-	(398,825)
Net changes in unearned premium reserve	(140,059)	-	(140,059)	98,580	-	98,580
Retained earned premium	<u>\$ 128,505,375</u>	<u>\$ 87,488</u>	<u>\$ 128,592,863</u>	<u>\$ 112,723,927</u>	<u>\$ 127,143</u>	<u>\$ 112,851,070</u>

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 420,896,264	\$ 1,039,299	\$ 421,935,563	\$ 385,456,861	\$ 213,265	\$ 385,670,126
Reinsurance premium	91,986	-	91,986	102,001	-	102,001
Premium income	420,988,250	1,039,299	422,027,549	385,558,862	213,265	385,772,127
Less: Reinsurance expenses	(1,486,547)	-	(1,486,547)	(1,370,299)	-	(1,370,299)
Net changes in unearned premium reserve	(33,197)	-	(33,197)	276,951	-	276,951
Retained earned premium	<u>\$ 419,468,506</u>	<u>\$ 1,039,299</u>	<u>\$ 420,507,805</u>	<u>\$ 384,465,514</u>	<u>\$ 213,265</u>	<u>\$ 384,678,779</u>

#### 2) Cathay Lujiazui Life

	For the Three Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 2,770,855	\$ -	\$ 2,770,855	\$ 2,396,757	\$ -	\$ 2,396,757
Reinsurance premium	-	-	-	-	-	-
Premium income	2,770,855	-	2,770,855	2,396,757	-	2,396,757
Less: Reinsurance expenses	(31,395)	-	(31,395)	(25,897)	-	(25,897)
Net changes in unearned premium reserve	(92,790)	-	(92,790)	(98,732)	-	(98,732)
Retained earned premium	<u>\$ 2,646,670</u>	<u>\$ -</u>	<u>\$ 2,646,670</u>	<u>\$ 2,272,128</u>	<u>\$ -</u>	<u>\$ 2,272,128</u>

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 8,922,975	\$ -	\$ 8,922,975	\$ 7,753,722	\$ -	\$ 7,753,722
Reinsurance premium	-	-	-	-	-	-
Premium income	8,922,975	-	8,922,975	7,753,722	-	7,753,722
Less: Reinsurance expenses	(102,157)	-	(102,157)	(73,501)	-	(73,501)
Net changes in unearned premium reserve	(83,766)	-	(83,766)	(61,738)	-	(61,738)
Retained earned premium	<u>\$ 8,737,052</u>	<u>\$ -</u>	<u>\$ 8,737,052</u>	<u>\$ 7,618,483</u>	<u>\$ -</u>	<u>\$ 7,618,483</u>

### 3) Cathay Life (Vietnam)

	For the Three Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 365,841	\$ -	\$ 365,841	\$ 244,831	\$ -	\$ 244,831
Reinsurance premium	-	-	-	-	-	-
Premium income	365,841	-	365,841	244,831	-	244,831
Less: Reinsurance expenses	-	-	-	-	-	-
Net changes in unearned premium reserve	(3,937)	-	(3,937)	(1,422)	-	(1,422)
Retained earned premium	<u>\$ 361,904</u>	<u>\$ -</u>	<u>\$ 361,904</u>	<u>\$ 243,409</u>	<u>\$ -</u>	<u>\$ 243,409</u>

	For the Nine Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 986,028	\$ -	\$ 986,028	\$ 638,206	\$ -	\$ 638,206
Reinsurance premium	-	-	-	-	-	-
Premium income	986,028	-	986,028	638,206	-	638,206
Less: Reinsurance expenses	-	-	-	-	-	-
Net changes in unearned premium reserve	(10,304)	-	(10,304)	(3,348)	-	(3,348)
Retained earned premium	<u>\$ 975,724</u>	<u>\$ -</u>	<u>\$ 975,724</u>	<u>\$ 634,858</u>	<u>\$ -</u>	<u>\$ 634,858</u>

### b. Retained claim payments

#### 1) The Company

	For the Three Months Ended September 30					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 69,011,626	\$ 1,312,614	\$ 70,324,240	\$ 84,338,473	\$ 1,998,632	\$ 86,337,105
Reinsurance claim payments	14,460	-	14,460	31,121	-	31,121
Insurance claim payments	69,026,086	1,312,614	70,338,700	84,369,594	1,998,632	86,368,226
Less: Claims recovered from reinsurers	(286,204)	-	(286,204)	(248,184)	-	(248,184)
Retained claim payments	<u>\$ 68,739,882</u>	<u>\$ 1,312,614</u>	<u>\$ 70,052,496</u>	<u>\$ 84,121,410</u>	<u>\$ 1,998,632</u>	<u>\$ 86,120,042</u>

**For the Nine Months Ended September 30**

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 270,452,141	\$ 4,852,961	\$ 275,305,102	\$ 249,747,044	\$ 5,417,923	\$ 255,164,967
Reinsurance claim payments	<u>34,931</u>	<u>-</u>	<u>34,931</u>	<u>113,776</u>	<u>-</u>	<u>113,776</u>
Insurance claim payments	270,487,072	4,852,961	275,340,033	249,860,820	5,417,923	255,278,743
Less: Claims recovered from reinsures	<u>(776,481)</u>	<u>-</u>	<u>(776,481)</u>	<u>(694,438)</u>	<u>-</u>	<u>(694,438)</u>
Retained claim payments	<u>\$ 269,710,591</u>	<u>\$ 4,852,961</u>	<u>\$ 274,563,552</u>	<u>\$ 249,166,382</u>	<u>\$ 5,417,923</u>	<u>\$ 254,584,305</u>

2) Cathay Lujiazui Life

**For the Three Months Ended September 30**

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 439,907	\$ -	\$ 439,907	\$ 357,398	\$ -	\$ 357,398
Reinsurance claim payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance claim payments	439,907	-	439,907	357,398	-	357,398
Less: Claims recovered from reinsures	<u>(34,936)</u>	<u>-</u>	<u>(34,936)</u>	<u>(24,991)</u>	<u>-</u>	<u>(24,991)</u>
Retained claim payments	<u>\$ 404,971</u>	<u>\$ -</u>	<u>\$ 404,971</u>	<u>\$ 332,407</u>	<u>\$ -</u>	<u>\$ 332,407</u>

**For the Nine Months Ended September 30**

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 1,270,756	\$ -	\$ 1,270,756	\$ 1,019,004	\$ -	\$ 1,019,004
Reinsurance claim payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance claim payments	1,270,756	-	1,270,756	1,019,004	-	1,019,004
Less: Claims recovered from reinsures	<u>(84,976)</u>	<u>-</u>	<u>(84,976)</u>	<u>(63,176)</u>	<u>-</u>	<u>(63,176)</u>
Retained claim payments	<u>\$ 1,185,780</u>	<u>\$ -</u>	<u>\$ 1,185,780</u>	<u>\$ 955,828</u>	<u>\$ -</u>	<u>\$ 955,828</u>

3) Cathay Life (Vietnam)

**For the Three Months Ended September 30**

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 43,476	\$ -	\$ 43,476	\$ 22,410	\$ -	\$ 22,410
Reinsurance claim payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance claim payments	43,476	-	43,476	22,410	-	22,410
Less: Claims recovered from reinsures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Retained claim payments	<u>\$ 43,476</u>	<u>\$ -</u>	<u>\$ 43,476</u>	<u>\$ 22,410</u>	<u>\$ -</u>	<u>\$ 22,410</u>

**For the Nine Months Ended September 30**

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Insurance claim payments	\$ 105,564	\$ -	\$ 105,564	\$ 62,194	\$ -	\$ 62,194
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	105,564	-	105,564	62,194	-	62,194
Less: Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	<u>\$ 105,564</u>	<u>\$ -</u>	<u>\$ 105,564</u>	<u>\$ 62,194</u>	<u>\$ -</u>	<u>\$ 62,194</u>

**29. PROVISIONS**

**For the Nine Months Ended  
September 30**

	2019	2018
Beginning balance	\$ 225,277	\$ 472,002
Provision	-	164,632
Reversal	-	(392,196)
Foreign exchange	<u>(7,613)</u>	<u>(20,162)</u>
Ending balance	<u>\$ 217,664</u>	<u>\$ 224,276</u>

**30. OTHER LIABILITIES**

	September 30, 2019	December 31, 2018	September 30, 2018
Advance receipts	\$ 409,268	\$ 392,663	\$ 350,750
Deferred fee income	7,465	18,785	22,126
Guarantee deposits received	3,874,950	2,899,157	3,017,200
Others	<u>3,633,856</u>	<u>5,427,752</u>	<u>5,100,470</u>
	<u>\$ 7,925,539</u>	<u>\$ 8,738,357</u>	<u>\$ 8,490,546</u>

Deferred fee income

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred fee income related to investment management services of such contracts are summarized below:

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 18,785	\$ 28,560
Amortization	(10,949)	(5,188)
Foreign exchange	<u>(371)</u>	<u>(1,246)</u>
Ending balance	<u>\$ 7,465</u>	<u>\$ 22,126</u>



### 31. RETIREMENT BENEFIT PLANS

Pension expense under defined benefit plans for the three months and nine months ended September 30, 2019 and 2018 were calculated by using the actuarially determined pension cost rate at the end of the prior financial year and recognized in below:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
General expenses	<u>\$ 56,897</u>	<u>\$ 52,961</u>	<u>\$ 170,693</u>	<u>\$ 158,884</u>

### 32. EQUITY

#### a. Share capital

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Shares authorized	<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,726,527</u>	<u>5,726,527</u>	<u>5,726,527</u>
Shares issued	<u>\$ 57,265,274</u>	<u>\$ 57,265,274</u>	<u>\$ 57,265,274</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right a dividend.

For boosting regulatory capital and Risk-Based capital, on August 15, 2019, the Company's board of directors (on behalf of the shareholders) resolved to increase its capital by issuing 125,000 thousand shares of ordinary shares and at issue price of \$80 per share through private placement. Total capital raised will be \$10,000,000 thousand.

#### b. Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
Additional paid-in capital	\$ 50,800,000	\$ 50,800,000	\$ 50,800,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142	29,142
Changes in amount of associates accounted for using the equity method	<u>715,654</u>	<u>706,783</u>	<u>713,597</u>
	<u>\$ 51,544,796</u>	<u>\$ 51,535,925</u>	<u>\$ 51,542,739</u>

The capital surplus arising from shares issued in excess of par and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus). According to Jin Guan Bao Tsai No.10202501991 issued by the FSC on February 8, 2013, if a life insurance enterprise intends to distribute its capital surplus by cash to its shareholders in proportion to the number of shares being held by each of them in accordance with Article 241 of the Company Act, it should be approved by the FSC before the shareholders' meeting.

The capital surplus arising from investments accounted for using the equity method may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in No. 37 of the Company's Article of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, the payment of preferred dividends also takes precedence in accordance with the dividends policy of the preferred share, and then any remaining profit 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. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 34 d.

In order for the Company to continue to expand its scale and increase profitability in line with its long-term financial strategy, future demand for capital and meet the dividend needs of ordinary shareholders, the Company adopted a dividend policy in framing a proposal for the distribution of annual earnings for the purpose of sustainable development, whereby share dividends, if declared, shall not be less than 50% of the total ordinary share dividends declared for the year. However, the Company may adjust dividend policy moderately based on the capital needs of business and investment, the approval of dividend appropriation or major regulation amendments, etc.

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. 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. Pursuant to Jin Guan Bao Tsai No.10202501991, if a life insurance enterprise intends to appropriate legal reserve under Article 145-1 of the Insurance Act and to distribute, in accordance with Article 241 of the Company Act, its legal reserve and capital surplus by cash to its shareholders in proportion to the number of shares being held by each of them, it should be approved by the FSC before shareholders' meeting.

According to Jin Guan Bao Tsai No.10804501381, starting January 1, 2019, a life insurance enterprise should provide a special reserve as gains or losses after a tax of 20% on disposal of the following immature debts instruments, which should be released to distributable earnings in the remaining maturity periods of the disposed debt instruments or in 10 years for those whose remaining maturity periods cannot be determined:

- 1) Financial assets not measured at fair value.
- 2) Financial assets measured at FVTOCI.
- 3) Financial assets measured at FVTPL using overlay approach.

The abovementioned special reserve will be provided after the resolution of the board of directors (on behalf of the shareholders) in 2020.

According to Jin Guan Bao Tsai No.10202501992, a life insurance enterprise intending to distribute cash dividends from earnings (not including dividends for preference share liabilities) should notify the FSC and then the FSC approves the distribution of earnings based on its financial position.

The appropriations of earnings for 2018 and 2017 had been approved by the board of directors (on behalf of shareholders) on May 3, 2019 and on April 25, 2018. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		
	<b>For the Year Ended December 31</b>		
	<b>2018</b>	<b>2017</b>	
Legal reserve	\$ 2,871,520	\$ 7,258,027	
Special reserve	12,730,041	22,713,045	
<b>d. Special reserves</b>			
	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Special reserve for catastrophic events and fluctuation of risks (1)	\$ 14,165,457	\$ 14,165,457	\$ 14,220,653
Special reserve for the foreign exchange valuation reserve (2)	11,731,067	9,948,187	9,948,187
Special reserve appropriated at the first-time adoption of IFRSs (3)	47,327,860	47,327,860	47,327,860
Special reserve for investment properties at fair value model in subsequent measurement (4)	147,568,965	147,359,748	147,359,748
Others (5)	<u>66,905,147</u>	<u>59,085,150</u>	<u>57,355,969</u>
	<u>\$ 287,698,496</u>	<u>\$ 277,886,402</u>	<u>\$ 276,212,417</u>

1) Special reserve for catastrophic events and fluctuation of risks

According to the revised Regulations Governing the setting aside of Various Reserves by Insurance Enterprise on February 7, 2012, the Company transferred the balance of special reserve for catastrophic events and for fluctuation of risks, net of tax, from liability to special reserve under retained earnings.

In accordance with the rules submitted to the authorities and relevant regulations, the Company reserves special reserve for catastrophic events and special reserve for fluctuation of risks for retained insurance policies with policy periods shorter than one year and injury insurance policies with policy periods longer than one year as follows:

a) Special reserve for catastrophic events

All types of insurance should follow the reserve rates for catastrophic events set by the authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of \$30,000 thousand can be withdrawn from the special reserve. If the reserve has been set aside for over 15 years, the Company could plan the recovering process of the reserve through assessment by certified actuarial professionals and submit the plan to the authorities for reference. The post-tax amount of the recovery determined in accordance with IAS 12 "Income Taxes" can be recorded in the special capital reserve for catastrophic events under equity.

b) Special reserve for fluctuation of risks

When the actual claim payment less the offsetting amount from special reserve for catastrophic events is less than the anticipated claim amount, 15% of this difference should be provided in special reserve for fluctuation of risks.

When the actual claim payment less the offsetting amount from special reserve for catastrophic events is greater than the anticipated claim amount, the exceeded amount can be used to write down the special reserve for fluctuation of risks. If the total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for fluctuation of risks for other types of insurance can be used, and the type of insurance and total amount written-down should be reported to the authority. When accumulative amount of special reserve for fluctuation of risks exceeds 30% of retained earned premium at that year, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authorities may designate or restrict the use of the abovementioned recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS 12 “Income Taxes” can be recorded in the special capital reserve for fluctuation of risks under equity.

For abovementioned special reserves, the annual provision should be recorded in special reserve under equity, net of tax in accordance with IAS 12 “Income Taxes”.

According to Article 23-2 of the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, Life Insurance Enterprise should recognize the amount equals to initial amount of reserve for foreign exchange valuation transferred from liabilities as special reserve in three years, starting from implementation. Above mentioned special reserve includes the reduced recover amounts of special reserve for catastrophic events and special reserve for fluctuation of risks, which are calculated in accordance with Article 19 and 20, due to transferring to the initial amount of reserve for foreign exchange valuation.

According to Jin Guan Bao Tsai No.09802513192: The revised Regulations Governing the Setting Aside of Various Reserve by Insurance Enterprise, issued on December 28, 2009, the provision for special reserve for catastrophic events and for fluctuation of risks is recognized at the end of the year, and should not be distributed as dividends or be used for any other purposes. The related account balances are summarized as follows:

	<b>September 30, 2019</b>		
	<b>Insurance Contracts</b>	<b>Financial Instruments with Discretionary Participation Features</b>	<b>Total</b>
Life insurance	\$ 110,364	\$ -	\$ 110,364
Injury insurance	4,762,465	-	4,762,465
Health insurance	5,240,790	-	5,240,790
Group insurance	<u>4,051,838</u>	<u>-</u>	<u>4,051,838</u>
	<u>\$ 14,165,457</u>	<u>\$ -</u>	<u>\$ 14,165,457</u>

	<b>December 31, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Participation Features</b>	<b>Total</b>
Life insurance	\$ 110,364	\$ -	\$ 110,364
Injury insurance	4,762,465	-	4,762,465
Health insurance	5,240,790	-	5,240,790
Group insurance	<u>4,051,838</u>	<u>-</u>	<u>4,051,838</u>
	<u>\$ 14,165,457</u>	<u>\$ -</u>	<u>\$ 14,165,457</u>
	<b>September 30, 2018</b>		
	<b>Financial Instruments with Discretionary Participation Features</b>		
	<b>Insurance Contracts</b>	<b>Participation Features</b>	<b>Total</b>
Life insurance	\$ 166,349	\$ -	\$ 166,349
Injury insurance	4,867,975	-	4,867,975
Health insurance	5,251,241	-	5,251,241
Group insurance	<u>3,935,088</u>	<u>-</u>	<u>3,935,088</u>
	<u>\$ 14,220,653</u>	<u>\$ -</u>	<u>\$ 14,220,653</u>

2) Special reserve for foreign exchange valuation reserve

According to Jin Guan Bao Tsai No.10102501551 issued on February 7, 2012 and Article 9 of the Direction for Reserve for Foreign Exchange Reserve, the Company should appropriate a special reserve of 10% of the profit after tax in order to strengthen the foreign exchange reserve and capital.

According to Jin Guan Bao Tsai No.10102501551 and Jin Guan Bao Tsai No.10402026901 issued on May 8, 2015 and Article 8 of the Direction for Reserve for Foreign Exchange Reserve, the Company should set aside special reserve as the amount of hedging expense saved. This special reserve should set aside in later years if there is no enough earnings, and it should only be used for transferring to capital or offsetting deficit.

3) Special reserves appropriated at the first-time adoption of IFRSs

At the first-time adoption of IFRSs, the Company chose to use fair values as the deemed costs of investment properties and 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 at 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. According to 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.

In accordance with Jin Guan Bao Tsai No.10102515281, special reserves under liabilities due to the first-time adoption of IFRSs are allowed to recover 80% in five years and transferred to special reserve under equity. The limitation of the recoverable amount is \$10 billion per year.

4) Special reserve for investment properties at fair value model in subsequent measurement

In accordance with Jin Guan Bao Tsai No.10402501001, the Company set aside special reserve based on net effect for the first-time adoption of fair value model in subsequent measurement less additional policy reserve of effective contracts, which was measured by the fair value and approved by the authorities, and accumulated net gain on subsequent fair value measurements.

Special reserve for net effect for the first-time adoption of fair value model in subsequent measurement less additional policy reserve of effective contracts, can only be used for compensating deficit of policy reserve of effective contracts, which was measured by fair value and approved by the authorities, and stabilizing future adoption of the second stage of IFRS 4, which means that the Company can only transfer this special reserve with the approval by the authorities to provide enough liabilities in accordance of the second stage of IFRS 4.

When the Company disposes relevant assets, special reserve for accumulated net gain of subsequent fair value measurements could be reversed in the proportion of initial recognition. The earnings appropriation regarding the reversal of special reserve should be arranged in accordance with Jin Guan Bao Tsai No.10202501992.

5) Other special reserve mainly included the amount of \$34,764,311 thousand transferred from insurance liabilities in accordance with Jin Guan Bao Tsai No.10402029590.

e. Other equity

1) Exchange differences on translating financial statements of foreign operations

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ (10,796,480)	\$ (9,958,336)
Recognized for the period	(413,012)	(313,233)
Share of associates accounted for using the equity method	292,768	(1,052,498)
Tax effects	(100,557)	273,936
Other comprehensive income (loss) recognized for the period	(220,801)	(1,091,795)
Ending balance	<u>\$ (11,017,281)</u>	<u>\$ (11,050,131)</u>

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (20,547,627)	\$ 31,488,614
Recognized for the period	115,199,976	(53,741,707)
Share of associate accounted for using the equity method	184,144	234,559
Reclassification adjustment		
Disposal of investments in debt instruments	(18,132,873)	(9,745,830)
Tax effects	<u>(19,454,437)</u>	<u>11,402,846</u>
Other comprehensive income (loss) recognized for the period	<u>77,796,810</u>	<u>(51,850,132)</u>
Cumulative unrealized gain/loss of equity instruments transferred to retained earnings due to disposal	<u>4,390,691</u>	<u>9,387,338</u>
Ending balance	<u>\$ 61,639,874</u>	<u>\$ (10,974,180)</u>

3) Gain (loss) on hedging instruments

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 173,288	\$ 203,646
Recognized for the period	144,884	23,025
Reclassification adjustment		
Hedged item that affects profit or loss	(49,335)	(66,966)
Tax effects	<u>(26,753)</u>	<u>1,427</u>
Other comprehensive income (loss) recognized for the period	<u>68,796</u>	<u>(42,514)</u>
Ending balance	<u>\$ 242,084</u>	<u>\$ 161,132</u>

4) Remeasurement of defined benefit plans

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 287,100	\$ 110,471
Share of associate accounted for using the equity method	(8,771)	(8,740)
Tax effects	<u>1,754</u>	<u>(2,315)</u>
Other comprehensive income (loss) recognized for the period	<u>(7,017)</u>	<u>(11,055)</u>
Ending balance	<u>\$ 280,083</u>	<u>\$ 99,416</u>

5) Property revaluation surplus

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 187,503	\$ 188,821
Tax effects	<u>-</u>	<u>(1,319)</u>
Ending balance	<u>\$ 187,503</u>	<u>\$ 187,502</u>

6) Other comprehensive income (loss) on reclassification using overlay approach

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ (52,549,236)	\$ 55,611,592
Recognized for the period	126,021,215	4,607,332
Reclassification adjustment		
Disposal of investments in financial instruments	(26,710,113)	(46,413,418)
Tax effects	<u>(8,464,331)</u>	<u>2,432,641</u>
Other comprehensive income (loss) recognized for the period	<u>90,846,771</u>	<u>(39,373,445)</u>
Ending balance	<u>\$ 38,297,535</u>	<u>\$ 16,238,147</u>

f. Non-controlling interests

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance per IFRS 9	\$ 5,536,717	\$ 5,602,222
Net income attributed to non-controlling interests		
Net profit for the period	484,218	76,957
Other comprehensive income (loss) for the period		
Exchange differences on translating financial statements of foreign operations	(141,592)	(139,422)
Other comprehensive income (loss) reclassified using overlay approach	300,866	(81,983)
Others	<u>(234,629)</u>	<u>(79,165)</u>
Ending balance	<u>\$ 5,945,580</u>	<u>\$ 5,378,609</u>

**33. EARNINGS PER SHARE**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Basic earnings per share	<u>\$ 1.86</u>	<u>\$ 1.94</u>	<u>\$ 5.25</u>	<u>\$ 6.63</u>

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

**Net Profit for the Period**

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Earnings used in the computation of basic earnings per share	<u>\$ 10,664,741</u>	<u>\$ 11,137,397</u>	<u>\$ 30,092,782</u>	<u>\$ 36,172,519</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	
	2019	2018	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share	<u>5,726,527</u>	<u>5,726,527</u>	<u>5,726,527</u>	<u>5,452,681</u>

If reserve for foreign exchange valuation was not applied, basic earnings per share would be \$1.52, \$1.95, \$6.00 and \$7.19 for the three months and nine months ended September 30, 2019 and 2018, respectively.

### 34. NET PROFIT FOR THE PERIOD

#### a. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Financial assets at FVTOCI	\$ 8,483,271	\$ 9,950,813	\$ 27,221,992	\$ 28,323,294
Financial assets measured at amortized cost	27,310,263	23,766,320	78,605,014	65,031,229
Loans	4,100,441	4,411,368	12,471,567	13,144,327
Others	<u>950,576</u>	<u>766,262</u>	<u>2,686,612</u>	<u>2,037,338</u>
	<u>\$ 40,844,551</u>	<u>\$ 38,894,763</u>	<u>\$ 120,985,185</u>	<u>\$ 108,536,188</u>

#### b. Expected credit impairment losses and gains on reversal

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Operating revenues - expected credit impairment losses and gains on reversal from investments				
Debt instrument investments at FVTOCI	\$ 154	\$ (24,557)	\$ 99,502	\$ (615)
Financial assets measured at amortized cost	219,235	(34,802)	801,649	(191,359)
Other financial assets	667	1,599	594	269
Loans	<u>211,861</u>	<u>169,564</u>	<u>759,614</u>	<u>155,271</u>
	431,917	111,804	1,661,359	(36,434)
Operating expenses - expected credit impairment losses on non-investments				
Receivables	<u>(258)</u>	<u>(14,030)</u>	<u>(1,548)</u>	<u>(56,479)</u>
	<u>\$ 431,659</u>	<u>\$ 97,774</u>	<u>\$ 1,659,811</u>	<u>\$ (92,913)</u>

c. Employee benefits expense

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Short-term benefits				
Salaries	\$ 9,451,821	\$ 8,230,453	\$ 30,353,652	\$ 24,774,767
Labor and health insurance expenses	742,405	742,331	2,386,535	2,229,926
Post-employment benefits				
Defined contribution plans	186,134	246,881	765,824	768,308
Defined benefit plans (Note 31)	56,897	52,961	170,693	158,884
Remuneration of directors	6,857	6,893	31,004	31,575
Other employee benefits	<u>250,368</u>	<u>203,776</u>	<u>928,751</u>	<u>707,450</u>
	<u>\$ 10,694,482</u>	<u>\$ 9,483,295</u>	<u>\$ 34,636,459</u>	<u>\$ 28,670,910</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 8,001,775	\$ 7,091,456	\$ 26,125,581	\$ 21,411,147
Operating expenses	<u>2,692,707</u>	<u>2,391,839</u>	<u>8,510,878</u>	<u>7,259,763</u>
	<u>\$ 10,694,482</u>	<u>\$ 9,483,295</u>	<u>\$ 34,636,459</u>	<u>\$ 28,670,910</u>

As of September 30, 2019 and 2018, the total numbers of the Group's employees were 40,007 and 38,444, respectively, including 15 and 17 non-executive directors, respectively.

d. Employees' compensation and remuneration of directors and supervisors

According to the Company's Articles of Incorporation, 0.01% to 0.1% of profit of the current year is distributable as employees' compensation and no more than 0.1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered. Employees' compensation shall be paid in cash or in shares and have been resolved by the board of directors, when no less than two-thirds of the members presented and over half of the presented agreed, and reported to shareholders.

In compliance with the Company's Articles of Incorporation, the Company accrued employees' compensation and remuneration of directors and supervisors for the three months and nine months ended September 30, 2019 and 2018, respectively, as follows:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Employees' compensation	\$ 1,313	\$ 1,260	\$ 3,541	\$ 3,450
Remuneration of directors and supervisors	1,425	1,425	4,275	4,275

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

The compensation and remuneration of directors and supervisors for the years ended 2018 and 2017, which were resolved by the board of directors on March 21, 2019 and March 15, 2018, respectively, are as follows:

	<u>2018</u>	<u>2017</u>
Employees' compensation	\$ 2,760	\$ 3,382
Remuneration of directors and supervisors	5,700	5,700

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

e. Depreciation and amortization

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Property and equipment	\$ 181,287	\$ 184,523	\$ 552,430	\$ 553,966
Right-of-use assets	150,579	-	442,778	-
Intangible assets	<u>653,404</u>	<u>657,757</u>	<u>1,957,674</u>	<u>1,974,241</u>
	<u>\$ 985,270</u>	<u>\$ 842,280</u>	<u>\$ 2,952,882</u>	<u>\$ 2,528,207</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 331,866</u>	<u>\$ 184,523</u>	<u>\$ 995,208</u>	<u>\$ 553,966</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 653,404</u>	<u>\$ 657,757</u>	<u>\$ 1,957,674</u>	<u>\$ 1,974,241</u>

f. Non-operating income and expenses

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Gain (loss) on disposal of property and equipment	\$ 7,326	\$ (10,303)	\$ 13,234	\$ (10,524)
Dividend on preference share liabilities	-	(4,586)	-	(50,704)
Other	<u>327,066</u>	<u>381,998</u>	<u>1,181,512</u>	<u>1,128,907</u>
	<u>\$ 334,392</u>	<u>\$ 367,109</u>	<u>\$ 1,194,746</u>	<u>\$ 1,067,679</u>

### 35. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax (expense) income were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ 541,076	\$ 2,304,429	\$ 2,004,846	\$ (1,876,997)
Adjustments for prior years	297	(144)	(211,108)	(27,779)
Deferred tax				
In respect of the current period	(3,141,086)	(5,005,612)	(7,026,900)	(992,206)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-	-	3,420,102
Other				
Additional income tax under the alternative minimum tax	-	949,058	-	(40,876)
Tax effect under integrated income tax systems	<u>102,099</u>	<u>176,405</u>	<u>(395,518)</u>	<u>606,849</u>
Income tax (expense) benefits recognized in profit or loss	<u>\$ (2,497,614)</u>	<u>\$ (1,575,864)</u>	<u>\$ (5,628,680)</u>	<u>\$ 1,089,093</u>

Foreign withholding taxes of \$460,587 thousand, \$467,720 thousand, \$1,230,859 thousand and \$1,119,318 thousand were recognized in tax expense for the three months and nine months ended September 30, 2019 and 2018, respectively, since the Company evaluated that foreign withholding taxes were not tax-deductible. The Income Tax Act in the R.O.C. was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings had been reduced from 10% to 5%.

b. Income tax recognized directly in equity

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
Derecognition of equity instruments at FVTOCI	\$ 261,406	\$ 76,047	\$ 370,871	\$ 643,556
Deferred tax				
Effect of changes in tax rate	-	-	-	(26,633)
Derecognition of equity instruments at FVTOCI	(261,406)	(76,047)	(370,871)	(643,556)
Capital surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Total income tax benefit recognized directly in equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,636)</u>

c. Income tax recognized in other comprehensive income

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Deferred tax</u>				
In respect of the current period:				
Effect of changes in tax rate	\$ -	\$ -	\$ -	\$ (2,053,402)
Translation of foreign operations	57,938	-	(100,557)	-
Losses (gains) on hedging instruments	(1,123)	3,265	(26,753)	8,786
Fair value changes of equity instruments at FVTOCI	131,280	(144,103)	(281,651)	(23,944)
Losses (gains) on debt instruments at FVTOCI	(4,489,380)	317,644	(19,147,615)	12,628,984
Shares of associates and joint ventures accounted for using the equity method	6,735	70,719	(23,417)	231,120
Other comprehensive income (loss) reclassified using overlay approach	<u>896,898</u>	<u>(609,178)</u>	<u>(8,464,331)</u>	<u>3,315,672</u>
Total income tax recognized in other comprehensive income	<u>\$ (3,397,652)</u>	<u>\$ (361,653)</u>	<u>\$ (28,044,324)</u>	<u>\$ 14,107,216</u>

d. Income tax assessments

The tax returns through 2014 have been assessed by the tax authorities. The Company has filed administrative remedial due to disagreements on assessment of the foreign withholding tax for fiscal years 2011 and 2012, respectively.

### 36. TRANSACTIONS WITH RELATED PARTIES

a. Related party name and category

Balances, transactions, revenues and expenses between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

<u>Related Party Name</u>	<u>Related Party Category</u>
Cathay Financial Holdings	The Company's parent company
Cathay Securities Investment Consulting	Subsidiary
Cathay Insurance Company Limited (China)	Associate
Rizal Commercial Banking Corporation	Associate
PT Band Mayapada International Tbk	Associate
Symphox Information Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Global Evolution Holding ApS	Subsidiary's associate
Ally Logistic Property Co., Ltd.	Subsidiary of associate
Seaward Card Co., Ltd.	Subsidiary of associate
ThinkPower Information Co., Ltd.	Subsidiary of associate
Cathay United Bank Co., Ltd.	Fellow subsidiary
Cathay Century Insurance Co., Ltd.	Fellow subsidiary
Cathay Securities Corporation	Fellow subsidiary
Cathay Venture Inc.	Fellow subsidiary
Cathay Securities Investment Trust Co., Ltd.	Fellow subsidiary
Indovina Bank Limited	Subsidiary of fellow subsidiaries
Cathay Private Equity Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Futures Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Securities (Hong Kong) Limited	Subsidiary of fellow subsidiaries
Cathay Charity Foundation	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party
Other (including directors, supervisors, key management personnel and their spouses and relatives within the second-degree of kinship)	Other related party

b. Significant transactions with related parties:

1) Property transactions

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

a) Significant transactions of undertaking contracted projects with related parties are listed below:

Name	For the Nine Months Ended September 30, 2019		For the Nine Months Ended September 30, 2018	
	Items	Amounts	Items	Amounts
Subsidiary of associate Ally Logistic Property Co., Ltd.	Logistic Republic Yangmei, etc.	\$ 580,443	Wuri E-commerce Building, etc.	\$ 678,864
Other related party Lin Yuan Property Management Co., Ltd.	Cathay Headquarters, etc.	8,636	Cathay Land Mark, etc.	13,203
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,682,430	THSR Taoyuan Commercial Park, etc.	985,320
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	306,419	Minsheng Jingguo Building, etc.	413,919
		<u>1,997,485</u>		<u>1,412,442</u>
		<u>\$ 2,577,928</u>		<u>\$ 2,091,306</u>

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between the Group and Ally Logistic Property Co., Ltd. were \$383,381 thousand, \$3,383,783 thousand and \$3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between the Group and San Ching Engineering Co., Ltd. were \$7,058,781 thousand, \$1,838,045 thousand and 1,838,045 thousand, respectively.

The total amounts of contracted projects for real estate as of September 30, 2019, December 31, 2018 and September 30, 2018, between the Group and Cathay Real Estate Development Co., Ltd. were \$2,744,673 thousand, \$1,742,250 thousand and \$1,742,250 thousand, respectively.

b) Real-estate rental income (from related parties)

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Parent company				
Cathay Financial Holdings	\$ 32,958	\$ 14,978	\$ 76,744	\$ 44,643
Subsidiary				
Cathay Securities				
Investment Consulting	2,291	2,225	6,872	6,675
Associate and its subsidiary				
Symphox Information Co., Ltd.	13,287	10,270	36,499	30,661
Ally Logistic Property Co., Ltd.	139,779	116,026	422,227	357,883
Cathay Insurance Company Limited (China)	-	7,203	6,060	21,153
	<u>153,066</u>	<u>133,499</u>	<u>464,786</u>	<u>409,697</u>
Fellow subsidiaries and its subsidiary				
Cathay United Bank Co., Ltd.	169,181	174,007	465,145	509,207
Cathay Century Insurance Co., Ltd.	26,913	27,131	80,412	81,438
Cathay Securities Investment Trust Co., Ltd.	12,163	12,265	36,603	35,800
Cathay Securities Corporation	10,659	9,817	31,048	29,190
Cathay Venture Inc.	1,218	1,183	3,654	3,548
Cathay Futures Co., Ltd.	1,759	1,552	5,242	4,656
	<u>221,893</u>	<u>225,955</u>	<u>622,104</u>	<u>663,839</u>
Other related party				
Cathay Medical Care Corp.	44,777	45,211	138,025	137,985
Cathay Real Estate Development Co., Ltd.	4,462	4,300	12,991	13,511
Cathay Healthcare Management Co., Ltd.	17,308	14,126	51,368	42,321
Cathay Hospitality Management Co., Ltd.	48,516	53,744	145,452	169,960
San Ching Engineering Co., Ltd.	1,422	1,402	4,227	4,207
Cathay Hospitality Consulting Co., Ltd.	23,348	-	75,196	-
Lin Yuan Property Management Co., Ltd.	1,743	-	3,652	-
	<u>141,576</u>	<u>118,783</u>	<u>430,911</u>	<u>367,984</u>
	<u>\$ 551,784</u>	<u>\$ 495,440</u>	<u>\$ 1,601,417</u>	<u>\$ 1,492,838</u>



Name	Guarantee Deposits Received		
	September 30, 2019	December 31, 2018	September 30, 2018
Parent company			
Cathay Financial Holdings	\$ 30,071	\$ 12,588	\$ 12,588
Associate and its subsidiary			
Symphox Information Co., Ltd.	12,996	10,363	9,798
Ally Logistic Property Co., Ltd.	124,168	57,040	56,752
Cathay Insurance Company Limited (China)	-	7,030	6,973
	<u>137,164</u>	<u>74,433</u>	<u>73,523</u>
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	175,220	189,738	187,119
Cathay Century Insurance Co., Ltd.	25,167	25,167	25,798
Cathay Securities Investment Trust Co., Ltd.	10,991	10,991	10,991
Cathay Securities Corporation	10,858	9,393	9,393
	<u>222,236</u>	<u>235,289</u>	<u>233,301</u>
Other related party			
Cathay Medical Care Corp.	11,369	11,260	11,260
Cathay Real Estate Development Co., Ltd.	3,971	3,803	3,837
Cathay Healthcare Management Co., Ltd.	16,198	15,628	14,084
Cathay Hospitality Management Co., Ltd.	184,602	206,166	218,708
	<u>216,140</u>	<u>236,857</u>	<u>247,889</u>
	<u>\$ 605,611</u>	<u>\$ 559,167</u>	<u>\$ 567,301</u>

Lease periods and terms of rental income received are in compliance with the lease contracts. Lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

c) Lease arrangements

Name	Lease Liabilities		
	September 30, 2019	December 31, 2018	September 30, 2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	\$ 24,503	\$ -	\$ -

Name	Rental Expense			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries				
Cathay United Bank Co., Ltd.	\$ 2,408	\$ 12,057	\$ 6,685	\$ 40,688
Other related party				
Cathay Real Estate Development Co., Ltd.	-	1,853	-	5,559
	<u>\$ 2,408</u>	<u>\$ 13,910</u>	<u>\$ 6,685</u>	<u>\$ 46,247</u>

Name	Guarantee Deposits Paid		
	September 30, 2019	December 31, 2018	September 30, 2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	<u>\$ 12,019</u>	<u>\$ 12,019</u>	<u>\$ 12,019</u>

d) Acquisition of equipment

Computer equipment and software

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary of associate				
ThinkPower Information Co., Ltd.	<u>\$ 867</u>	<u>\$ -</u>	<u>\$ 11,052</u>	<u>\$ -</u>

e) Disposal of building decoration equipment

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Other related party				
Cathay Hospitality Management Co., Ltd.	<u>\$ -</u>	<u>\$ 452,540</u>	<u>\$ -</u>	<u>\$ 452,540</u>

Gain on disposal of building decoration equipment to Cathay Hospitality Management Co., Ltd. for the three months and nine months ended September 30, 2019 and 2018 were \$0 thousand, \$13,540 thousand, \$0 thousand and \$13,540 thousand, respectively.

2) Shares transactions

a) Issuance of shares for cash by the Company

Name	Items	For the Nine Months Ended September 30	
		2019	2018
Parent company			
Cathay Financial Holdings	Ordinary shares	\$ -	\$ 42,000,000

b) Acquisition of shares issued by related parties

Name	Items	For the Nine Months Ended September 30	
		2019	2018
Associate			
Rizal Commercial Banking Corporation	Ordinary shares	\$ -	\$ 1,992,264
PT Bank Mayapada Internasional Tbk	Ordinary shares	-	898,860
Greenhealth Water Resources Co., Ltd.	Ordinary shares	387,816	-
PSS Co., Ltd.	Ordinary shares	-	407,671
		<u>387,816</u>	<u>3,298,795</u>
Fellow subsidiary			
Cathay Venture Inc.	Ordinary shares	<u>1,567,574</u>	-
		<u>\$ 1,955,390</u>	<u>\$ 3,298,795</u>

3) Cash in banks

Name	Items	September 30, 2019	December 31, 2018	September 30, 2018
Fellow subsidiaries				
Cathay United Bank Co., Ltd.	Time deposit	\$ 1,139,620	\$ 2,715,620	\$ 2,523,338
	Demand deposit	18,301,410	28,726,895	18,368,021
	Checking accounts	242,919	268,337	202,821
	Security accounts	232,756	6	6
Subsidiary of fellow subsidiaries				
Indovina Bank Limited	Time deposit	368,619	1,536,338	2,435,945
	Demand deposit	<u>26,062</u>	<u>8,344</u>	<u>5,847</u>
		<u>\$ 20,311,386</u>	<u>\$ 33,255,540</u>	<u>\$ 23,535,978</u>

Interest income from Cathay United Bank Co., Ltd. for the three months and nine months ended September 30, 2019 and 2018 were \$13,799 thousand, \$16,307 thousand, \$48,110 thousand and \$42,311 thousand, respectively.

Interest income from Indovina Bank Limited for the three months and nine months ended September 30, 2019 and 2018 were \$13,293 thousand, \$20,920 thousand, \$52,452 thousand and \$21,111 thousand, respectively.

As of September 30, 2019, December 31, 2018 and September 30, 2018, amounts of time deposit pledged were \$0 thousand, \$3,000 thousand and \$3,000 thousand, respectively.

4) Loans

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

  

Name	For the Nine Months Ended September 30, 2018		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 944,336</u>	1.03%-3.44%	<u>\$ 814,891</u>

Interest income from other related parties for the three months and nine months ended September 30, 2019 and 2018 were \$4,038 thousand, \$5,959 thousand, \$11,265 thousand and \$18,536 thousand, respectively.

5) Balance of beneficiary certificates purchased from related parties

Name	Item	Guarantee Deposits Paid		
		September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary's associate				
Global Evolution Holding ApS	Market value	<u>\$ 2,861,244</u>	<u>\$ 2,138,492</u>	<u>\$ -</u>
	Cost	<u>\$ 2,694,249</u>	<u>\$ 2,142,144</u>	<u>\$ -</u>
Fellow subsidiaries				
Cathay Securities Investment trust Co., Ltd.	Market value	<u>\$ 45,714,165</u>	<u>\$ -</u>	<u>\$ -</u>
	Cost	<u>\$ 42,784,798</u>	<u>\$ -</u>	<u>\$ -</u>
Subsidiary of fellow subsidiaries				
Cathay Private Equity Co., Ltd.	Market value	<u>\$ 245,276</u>	<u>\$ -</u>	<u>\$ -</u>
	Cost	<u>\$ 245,425</u>	<u>\$ -</u>	<u>\$ -</u>

6) Discretionary account management balance

Name	September 30, 2019	December 31, 2018	September 30, 2018
Subsidiary's associate			
Global Evolution Holding ApS	\$ 7,081,553	\$ 6,494,247	\$ 6,556,024
Fellow subsidiaries			
Cathay Securities Investment Trust Co., Ltd.	<u>219,887,784</u>	<u>210,965,710</u>	<u>257,443,695</u>
	<u>\$ 226,969,337</u>	<u>\$ 217,459,957</u>	<u>\$ 263,999,719</u>

## 7) Other receivables

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Parent company			
Cathay Financial Holdings (Note)	\$ 12,934,473	\$ 8,998,563	\$ 3,896,598
Fellow subsidiaries			
Cathay Century Insurance Co., Ltd.	89,238	60,668	78,335
Cathay Securities Investment Trust Co., Ltd.	46,318	48,365	51,249
Cathay United Bank Co., Ltd.	15,936	-	-
Indovina Bank Limited	<u>26,135</u>	<u>-</u>	<u>-</u>
	<u>177,627</u>	<u>109,033</u>	<u>129,584</u>
	<u>\$ 13,112,100</u>	<u>\$ 9,107,596</u>	<u>\$ 4,026,182</u>

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

## 8) Prepayments for investments

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Associate			
Cathay Insurance Company Limited (China)	<u>\$ -</u>	<u>\$ 1,100,344</u>	<u>\$ -</u>

## 9) Guarantee deposits paid (deposits for future transactions)

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Fellow subsidiaries			
Cathay Futures Co., Ltd.	<u>\$ 3,069,414</u>	<u>\$ 1,511,584</u>	<u>\$ 1,930,649</u>

## 10) Guarantee deposits received

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Associate and its subsidiary			
Ally Logistic Property Co., Ltd.	<u>\$ 151,080</u>	<u>\$ 139,386</u>	<u>\$ 303,386</u>
Other related party			
Lin Yuan Property Management Co., Ltd.	5,000	5,000	5,000
San Ching Engineering Co., Ltd.	453,225	440,700	443,535
Cathay Hospitality Management Co., Ltd.	235,319	256,883	104,537
Cathay Hospitality Consulting Co., Ltd.	<u>107,074</u>	<u>107,074</u>	<u>-</u>
	<u>800,618</u>	<u>809,657</u>	<u>553,072</u>
	<u>\$ 951,698</u>	<u>\$ 949,043</u>	<u>\$ 856,458</u>

11) Other payables

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Parent company			
Cathay Financial Holdings (Note)	\$ 1,008,000	\$ 65,589	\$ 1,008,000
Subsidiaries			
Cathay Securities Investment Consulting	<u>8,894</u>	<u>-</u>	<u>-</u>
Associate			
Symphox Information Co., Ltd.	<u>40,745</u>	<u>9,718</u>	<u>28,128</u>
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	339,336	89,605	368,730
Cathay Century Insurance Co., Ltd.	1,699	7,372	9,515
Cathay Securities Investment Trust Co., Ltd.	<u>13,028</u>	<u>13,166</u>	<u>10,948</u>
	<u>354,063</u>	<u>110,143</u>	<u>389,193</u>
Other related party			
Lin Yuan Property Management Co., Ltd.	<u>58,633</u>	<u>-</u>	<u>47,823</u>
	<u>\$ 1,470,335</u>	<u>\$ 185,450</u>	<u>\$ 1,473,144</u>

Note: The payables consist of interest expenses accrued from bonds payable.

12) Bonds payable

Name	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Parent company			
Cathay Financial Holdings	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

13) Premium income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Parent company				
Cathay Financial Holdings	\$ 1,747	\$ 572	\$ 3,413	\$ 2,228
Fellow subsidiaries				
Cathay United Bank Co., Ltd.	26,268	11,690	51,842	39,503
Cathay Century Insurance Co., Ltd.	5,080	4,923	13,531	14,821
Cathay Securities Corporation	<u>2,163</u>	<u>1,964</u>	<u>6,189</u>	<u>5,935</u>
	<u>33,511</u>	<u>18,577</u>	<u>71,562</u>	<u>60,259</u>
Other related party				
Cathay Medical Care Corp.	11,477	10,924	30,097	33,045
Other	<u>143,734</u>	<u>82,199</u>	<u>318,642</u>	<u>216,171</u>
	<u>155,211</u>	<u>93,123</u>	<u>348,739</u>	<u>249,216</u>
	<u>\$ 190,469</u>	<u>\$ 112,272</u>	<u>\$ 423,714</u>	<u>\$ 311,703</u>

## 14) Fee income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries Cathay Securities Investment Trust Co., Ltd.	\$ 16,503	\$ 16,976	\$ 47,927	\$ 53,443

## 15) Insurance expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries Cathay Century Insurance Co., Ltd.	\$ 4,861	\$ 8,797	\$ 98,668	\$ 96,567

## 16) Indemnity income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries Cathay Century Insurance Co., Ltd.	\$ 12,710	\$ 791	\$ 12,710	\$ 17,115

## 17) Other operating revenue

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Fellow subsidiaries Cathay Securities Investment Trust Co., Ltd.	\$ 35,714	\$ 34,263	\$ 102,189	\$ 97,203

## 18) Other operating costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiary's associate Global Evolution Holding ApS	\$ -	\$ -	\$ 10,127	\$ -
Fellow subsidiaries Cathay United Bank Co., Ltd.	271,561	251,257	880,639	760,119
Cathay Securities Investment Trust Co., Ltd.	46,441	99,908	138,228	303,518
	<u>318,002</u>	<u>351,165</u>	<u>1,018,867</u>	<u>1,063,637</u>
	\$ 318,002	\$ 351,165	\$ 1,028,994	\$ 1,063,637

19) Finance costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Parent company				
Cathay Financial Holdings	<u>\$ 317,589</u>	<u>\$ 317,589</u>	<u>\$ 942,411</u>	<u>\$ 942,411</u>

Finance costs consist of interest expenses accrued from bond payable.

20) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Subsidiaries				
Cathay Securities Investment Consulting	<u>\$ 8,888</u>	<u>\$ -</u>	<u>\$ 8,888</u>	<u>\$ -</u>
Associate and its subsidiary				
Symphox Information Co., Ltd.	56,187	31,076	182,824	178,969
ThinkPower Information Co., Ltd.	785	-	5,075	-
Seaward Card Co., Ltd.	<u>24,112</u>	<u>20,863</u>	<u>57,671</u>	<u>59,169</u>
	<u>81,084</u>	<u>51,939</u>	<u>245,570</u>	<u>238,138</u>
Fellow subsidiaries				
Cathay United Bank Co., Ltd.	1,301,858	1,514,435	4,821,580	4,596,133
Cathay Venture Inc.	11,765	-	11,765	5,928
Cathay Securities (Hong Kong) Limited	1,577	-	4,692	-
Cathay Futures Co., Ltd.	<u>2,768</u>	<u>247</u>	<u>4,932</u>	<u>1,525</u>
	<u>1,317,968</u>	<u>1,514,682</u>	<u>4,842,969</u>	<u>4,603,586</u>
Other related party				
Cathay Medical Care Corp.	746	1,054	3,158	2,953
Lin Yuan Property Management Co., Ltd.	192,688	200,114	577,298	590,312
Cathay Real Estate Development Co., Ltd.	1,307	1,480	3,857	3,416
Cathay Healthcare Management Co., Ltd.	11,395	7,450	30,279	24,973
Cathay Charity Foundation	<u>5,300</u>	<u>-</u>	<u>5,300</u>	<u>5,300</u>
	<u>211,436</u>	<u>210,098</u>	<u>619,892</u>	<u>626,954</u>
	<u>\$ 1,619,376</u>	<u>\$ 1,776,719</u>	<u>\$ 5,717,319</u>	<u>\$ 5,468,678</u>



21) Non-operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Parent company				
Cathay Financial Holdings	\$ 1,541	\$ 650	\$ 5,497	\$ 3,103
Fellow subsidiaries				
Cathay Century Insurance Co., Ltd.	175,544	156,396	496,909	438,174
Cathay United Bank Co., Ltd.	36,535	43,511	120,352	136,336
Cathay Securities Investment Trust Co., Ltd.	4,382	5,929	12,783	17,494
Cathay Securities Corporation	8,072	2,935	20,127	9,564
	<u>224,533</u>	<u>208,771</u>	<u>650,171</u>	<u>601,568</u>
Other related party				
Cathay Healthcare Management Co., Ltd.	927	820	3,705	3,216
	<u>\$ 227,001</u>	<u>\$ 210,241</u>	<u>\$ 659,373</u>	<u>\$ 607,887</u>

Non-operating income is mainly generated from the Group's integrated marketing activities.

22) Non-operating expense

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Parent company				
Cathay Financial Holdings	\$ -	\$ 4,586	\$ -	\$ 50,704

Non-operating expenses are interest expenses accrued from preference share liabilities.

23) Other

As of September 30, 2019, December 31, 2018 and September 30, 2018, the nominal amounts of the financial instruments transactions with Cathay United Bank Co., Ltd. are summarized as follows (in thousands of USD):

Item	September 30, 2019	December 31, 2018	September 30, 2018
SWAP	<u>US\$ 3,335,000</u>	<u>US\$ 3,752,000</u>	<u>US\$ 3,237,000</u>

c. Key management personnel compensation

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 13,970	\$ 12,815	\$ 59,429	\$ 54,407
Post-employment benefits	624	445	1,871	1,334
	<u>\$ 14,594</u>	<u>\$ 13,260</u>	<u>\$ 61,300</u>	<u>\$ 55,741</u>

The management of the Company includes chairman, directors, president, senior executive vice president and senior vice general managers.

### 37. SEPARATE ACCOUNT INSURANCE PRODUCTS

a. The related accounts of the Company were summarized as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>	
<u>Separate account insurance product assets</u>				
Cash in bank	\$ 571,499	\$ 888,274	\$ 1,153,427	
Financial assets at FVTPL	587,898,370	539,874,109	577,688,527	
Other receivables	<u>4,038,108</u>	<u>6,090,351</u>	<u>5,933,190</u>	
	<u>\$ 592,507,977</u>	<u>\$ 546,852,734</u>	<u>\$ 584,775,144</u>	
<u>Separate account insurance product liabilities</u>				
Other payables	\$ 721,308	\$ 743,442	\$ 851,617	
Reserve for separate account - insurance contracts	237,722,883	220,038,873	229,788,826	
Reserve for separate account - investment contracts	<u>354,063,786</u>	<u>326,070,419</u>	<u>354,134,701</u>	
	<u>\$ 592,507,977</u>	<u>\$ 546,852,734</u>	<u>\$ 584,775,144</u>	
	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Separate account insurance product income</u>				
Premium income	\$ 8,117,998	\$ 12,677,562	\$ 23,864,315	\$ 31,378,028
Interest income	362	772	1,153	1,885
Gains (losses) from financial assets and liabilities at FVTPL	1,010,222	114,372	21,758,010	(4,305,415)
Foreign exchange gains	<u>(1,502,502)</u>	<u>(173,061)</u>	<u>660,420</u>	<u>2,607,912</u>
	<u>\$ 7,626,080</u>	<u>\$ 12,619,645</u>	<u>\$ 46,283,898</u>	<u>\$ 29,682,410</u>

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Separate account insurance product expenses</u>				
Claims and payments	\$ 2,198,308	\$ 2,936,891	\$ 7,018,859	\$ 17,265,686
Cash surrender value	6,357,352	6,153,048	19,007,986	24,264,295
Dividends	2	3	4	9
(Recovery) reserve of separate account reserve	(1,795,825)	2,624,457	17,642,196	(14,555,441)
Administrative expenses	903,371	937,335	2,720,485	2,797,678
Non-operating income and expenses	(37,128)	(32,089)	(105,632)	(89,817)
	<u>\$ 7,626,080</u>	<u>\$ 12,619,645</u>	<u>\$ 46,283,898</u>	<u>\$ 29,682,410</u>
				(Concluded)

The commission earned for the sales of separate account insurance products from counterparties recorded under fee income for the three months and nine months ended September 30, 2019 and 2018 were \$231,255 thousand, \$252,426 thousand, \$686,622 thousand and \$787,491 thousand, respectively.

- b. The related accounts of Cathay Lujiazui Life were summarized as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 6,279	\$ 17,902	\$ 12,899
Financial assets at FVTPL	108,617	94,126	109,769
Interest receivables	55	55	49
Other	1	(556)	(401)
	<u>\$ 114,952</u>	<u>\$ 111,527</u>	<u>\$ 122,316</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ (463)	\$ 8	\$ 8
Reserve for separate account	115,415	98,690	109,166
Other	-	12,829	13,142
	<u>\$ 114,952</u>	<u>\$ 111,527</u>	<u>\$ 122,316</u>

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<u>Separate account insurance product income</u>				
Premium income	\$ 52	\$ 91	\$ 179	\$ 377
Gains (losses) from financial assets and liabilities at FVTPL	2,914	(1,765)	15,247	(3,757)
Interest income	25	38	134	141
Tax expenses	<u>-</u>	<u>69</u>	<u>-</u>	<u>1,101</u>
	<u>\$ 2,991</u>	<u>\$ (1,567)</u>	<u>\$ 15,560</u>	<u>\$ (2,138)</u>
<u>Separate account insurance product expenses</u>				
Cash surrender value	\$ 4,036	\$ 2,674	\$ 8,398	\$ 7,913
Reserve (recovery) of separate account reserve	(1,584)	(4,660)	5,148	(11,375)
Administrative expenses	374	419	1,136	1,324
Tax expenses	<u>165</u>	<u>-</u>	<u>878</u>	<u>-</u>
	<u>\$ 2,991</u>	<u>\$ (1,567)</u>	<u>\$ 15,560</u>	<u>\$ (2,138)</u>

### **38. THE ALLOCATION OF REVENUE AND EXPENSES ARISING FROM BUSINESS TRANSACTIONS, PROMOTION ACTIVITIES AND INFORMATION SHARING BETWEEN PARENT COMPANY AND OTHER SUBSIDIARIES**

To elaborate the benefits of economic scale, Cathay Financial Holdings and its subsidiaries cooperate to launch promotion activities, and the related expenses are allocated to each subsidiary directly by the nature of business or on other reasonable basis.

### **39. PLEDGED ASSETS**

#### **a. The Company**

The Company provided cash, time deposits and government bonds as guarantees of renting real estate and litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the insurance operation guarantee deposits. Pledged assets are summarized based on the net carrying amounts as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Guarantee deposits paid - government bonds	\$ 10,311,030	\$ 11,321,833	\$ 16,300,355
Guarantee deposits paid - time deposits	492,000	495,000	481,000
Guarantee deposits paid - others	<u>45,525</u>	<u>80,461</u>	<u>64,161</u>
	<u>\$ 10,848,555</u>	<u>\$ 11,897,294</u>	<u>\$ 16,845,516</u>

b. Cathay Lujiazui Life

According to the requirement by the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. Details are as follows (in thousands of CNY):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Guarantee deposits paid - time deposits	<u>CNY 600,000</u>	<u>CNY 700,000</u>	<u>CNY 650,000</u>

c. Cathay Life (Vietnam)

According to the requirement by the Ministry of Finance of Vietnam, the guaranteed deposit is 2% of the legal capital. Details are as follows (in thousands of VND):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Guarantee deposits paid - time deposits	<u>VND 12,000,000</u>	<u>VND 12,000,000</u>	<u>VND 12,000,000</u>

#### 40. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. The Company has its own formal control and response policies to manage legal claims. Once the losses can be reasonably estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial figures resulting from the claims.
- b. As of September 30, 2019, the remaining capital commitments for the contracted private equity fund of the Company were NT\$1,950,900 thousand, US\$2,635,211 thousand, EUR442,744 thousand and GBP1,558 thousand.

#### 41. FINANCIAL INSTRUMENTS

- a. The methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between 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 and accounts payable approximate 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 value of equity instruments without an active market (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and P/B ratio of similar entities).

- 4) Fair value of debt instruments without an active market is determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by Taipei Exchange, average prices for fixed rate commercial paper published by Reuters and credit risk information).
- 5) The fair values of derivatives which are not options and without an active market is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivatives 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 determine their credit value adjustment by multiplying three factors, specifically 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 their debit value adjustment by multiplying three factors, specifically 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 experience 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 at Taipei Exchange.
- b. Financial instruments not measured at fair value

Other than cash and cash equivalents, receivables, loans, guarantee deposits paid, payables, bonds payable, preferred share liability and guarantee deposits received, the items whose carrying amounts approximate their fair value, the fair values of the Group' financial instruments which are not measured at fair value are listed in the table below:

September 30, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 2,609,399,469	\$ 96,413,541	\$ 2,714,611,707	\$ -	\$ 2,811,025,248

December 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 2,273,957,428	\$ 74,806,524	\$ 2,105,780,720	\$ -	\$ 2,180,587,244
Other financial assets	1,999,406	-	2,009,973	-	2,009,973

September 30, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 2,242,555,818	\$ 70,161,769	\$ 2,103,093,294	\$ -	\$ 2,173,255,063
Other financial assets	3,499,368	-	3,520,134	-	3,520,134

Note: Guarantee deposits paid in bonds are included.

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis. Significant unobservable inputs used in Level 3 fair value measurement were the discount rates that reflect the credit risk of counterparties and the cash flows that reflect the feature of early reimbursement.

c. Fair value of financial instruments that are measured at fair value - recurring measurements

1) Fair value hierarchy

Items	September 30, 2019				December 31, 2018				September 30, 2018			
	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	\$ 552,947,104	\$ 472,712,137	\$ 76,606,471	\$ 3,628,496	\$ 664,805,149	\$ 587,635,828	\$ 72,200,110	\$ 4,969,211	\$ 694,238,222	\$ 612,549,010	\$ 76,879,997	\$ 4,809,215
Bonds	242,892,956	1,801,404	239,228,917	1,862,635	206,293,856	2,488,966	202,301,743	1,503,147	161,673,446	4,143,624	156,579,241	950,581
Other	467,813,857	365,844,741	12,636,760	89,332,356	291,274,421	194,722,071	19,550,417	77,001,933	254,758,567	163,507,006	18,952,663	72,298,898
Financial assets at FVTOCI												
Stocks	30,737,380	26,264,319	-	4,473,061	30,261,146	26,030,760	154,309	4,076,077	34,923,864	30,849,373	180,446	3,894,045
Bonds (Note)	870,790,869	46,539,518	824,251,351	-	893,987,970	29,684,763	864,303,207	-	939,355,492	51,573,952	887,781,540	-
<u>Derivative instruments</u>												
Assets												
Financial assets at FVTPL	9,369,525	146,429	9,223,096	-	5,377,759	10,210	5,367,549	-	7,289,209	3,515	7,285,694	-
Financial assets for hedging	702,253	-	702,253	-	216,611	-	216,611	-	201,416	-	201,416	-
Liabilities												
Financial liabilities at FVTPL	19,584,896	143,587	19,441,309	-	27,499,106	-	27,499,106	-	34,994,991	-	34,994,991	-
Financial liabilities for hedging	38,240	-	38,240	-	-	-	-	-	-	-	-	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

For the nine months ended September 30, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value on a recurring basis. For the nine months ended September 30, 2018, the Group transferred stocks mandatorily classified as FVTPL of \$240,195 thousand from Level 2 to Level 1 due to the availability of market prices.



2) Reconciliation of Level 3 fair value measurements of financial instruments:

	<b>For the Nine Months Ended September 30, 2019</b>	
	<b>Financial Assets at FVTPL</b>	<b>Financial Assets at FVTOCI</b>
Beginning balance	\$ 83,474,291	\$ 4,076,077
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	5,546,670	-
Loss on reclassification using overlay approach	(1,553,915)	-
Recognized in other comprehensive income		
Exchange differences on translating financial statements of foreign operations	14,595	37
Other comprehensive loss reclassified using overlay approach	1,553,915	-
Gains on changes in fair value of FVTOCI	-	307,701
Purchases	18,172,396	108,400
Disposals	(12,362,842)	(19,154)
Transfers out of Level 3	<u>(21,623)</u>	<u>-</u>
Ending balance	<u>\$ 94,823,487</u>	<u>\$ 4,473,061</u>

	<b>For the Nine Months Ended September 30, 2018</b>	
	<b>Financial Assets at FVTPL</b>	<b>Financial Assets at FVTOCI</b>
Beginning balance	\$ 59,420,556	\$ 4,631,596
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	8,358,780	-
Loss on reclassification using overlay approach	(5,704,885)	-
Recognized in other comprehensive income		
Exchange differences on translating financial statements of foreign operations	4,427	83
Other comprehensive loss reclassified using overlay approach	5,704,885	-
Gains on changes in fair value of FVTOCI	-	(785,023)
Purchases	19,280,320	73,500
Disposals	(6,938,079)	-
Transfers into Level 3	407,340	-
Transfers out of Level 3	<u>(2,474,650)</u>	<u>(26,111)</u>
Ending balance	<u>\$ 78,058,694</u>	<u>\$ 3,894,045</u>

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2019 and 2018, unrealized losses of \$612,940 thousand and unrealized gains of \$764,378 thousand were related to financial assets 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:

<b>September 30, 2019</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	4%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	23%-39%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-20%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates
<b>December 31, 2018</b>				
<b>Items</b>	<b>Valuation Techniques</b>	<b>Significant Unobservable Inputs</b>	<b>Interval (Weighted-average)</b>	<b>Relationship Between Inputs and Fair Value</b>
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	22%-37%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48%)-36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	70%-140%	The higher the dividend payout ratio, the higher the fair value estimates

September 30, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of marketability, the lower the fair value estimates
	Market approach	Discount for lack of marketability	11%-30%	The higher the discount for lack of marketability, the lower the fair value estimates
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	15%-48%	The higher the discount for lack of marketability and control, the lower the fair value estimates
		Growth rate of net profit after tax	(63%)-61%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	80%-140%	The higher the dividend payout ratio, the higher the fair value estimates

#### 4) Valuation process for Level 3 fair value measurement

The Group's risk management department is responsible for validating the fair value measurements of financial assets and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. To ensure the fair value measurement is reasonable, the department analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed at each reporting date according to the Group's accounting policies.

#### d. Categories of financial instruments

Items	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,273,023,442	\$ 1,167,751,185	\$ 1,117,959,444
Financial assets at FVTOCI	900,420,943	921,968,246	971,907,529
Measured at amortized cost			
Cash and cash equivalents (Note)	305,760,309	175,098,127	191,666,588
Receivables	80,997,281	74,970,469	71,424,640
Financial assets measured at amortized cost	2,598,476,006	2,258,673,041	2,228,627,290
Other financial assets	-	1,999,406	3,499,368
Loans	526,143,898	581,215,839	590,763,958
Guarantee deposits paid	27,514,178	32,195,253	33,517,679
Financial assets for hedging	702,253	216,611	201,416

(Continued)

<u>Items</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	\$ 19,584,896	\$ 27,499,106	\$ 34,994,991
Financial liabilities at amortized cost			
Payables	38,982,297	32,822,268	25,913,889
Bonds payable	80,000,000	70,000,000	70,000,000
Preferred share liability	3,874,950	2,899,157	3,017,200
Guarantee deposits received			
Financial liabilities for hedging	38,240	-	-
			(Concluded)

Note: Excluded cash on hand.

e. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, derivative instruments, receivables, payables and bonds payable. The main financial risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Sources of market risk

Market risk is the risk that changes in market risk factors, such as exchange rate, product price, interest rate, credit spread and stock price, may decrease the Group's income or value of investment portfolio.

The Group assesses, monitors, and manages market risks completely and effectively by applying Value at Risk ("VaR") and stress testing consistently.

a) Value at Risk

VaR is the maximum potential loss on the portfolio at a given confidence level and over a given period. Currently, the Group adopts one-week VaR at 95% and 99% confidence level to measure market risk.

b) Stress testing

The Group evaluates the potential risks occurred in extreme and abnormal events regularly in addition to VaR models.

The Group performs stress testing on positions regularly by applying simple sensitivity test and scenario analysis. Such tests cover the losses on positions resulted from a change in specific risk factors in various kinds of historical scenarios.

i. Simple sensitivity test

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

ii. Scenario analysis

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

i) Historical scenario

By considering the fluctuations in risk factors during a specific historical event, the Group evaluates that losses would be incurred for the current investment portfolio in the event.

ii) Hypothetical scenario

The Group simulates rational expectations for the possible extreme market changes to evaluate the losses incurred for the investment positions by considering the fluctuations in related risk factors and the relevance between the investment targets and the risk factors.

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

**Table of Stress Testing**

<b>Risk Factors</b>	<b>Changes (+/-)</b>	<b>For the Nine Months Ended September 30</b>	
		<b>2019</b>	<b>2018</b>
Equity risk (stock price index)	-10%	\$ (52,805,101)	\$ (72,802,064)
Interest rate risk (yield curve)	+100bps	(112,396,873)	(114,349,099)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(11,619,149)	(8,770,112)

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

c) Sensitivity analysis

<b>Summary of Sensitivity Analysis</b>			
<b>For the Nine Months Ended September 30, 2019</b>			
<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Profit or Loss</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 7,233,836	\$ 4,501,505
	CNY (CNH)/USD appreciates 1%	1,203,259	355,500
	HKD/USD appreciates 1%	(2,788)	382,262
	EUR/USD appreciates 1%	140,302	162,308
	GBP/USD appreciates 1%	(116,155)	278,723
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	(75)	(921,129)
	Yield curve (CNY) parallel shifts up 1bp	-	(16,566)
	Yield curve (EUR) parallel shifts up 1bp	99	(13,294)
	Yield curve (GBP) parallel shifts up 1bp	-	(7,619)
	Yield curve (NTD) parallel shifts up 1bp	249	(85,528)
	Equity price risk	Equity price increases 1%	(145,643)
<b>For the Nine Months Ended September 30, 2018</b>			
<b>Risk Factors</b>	<b>Variables (+/-)</b>	<b>Changes in Profit or Loss</b>	<b>Changes in Equity</b>
Foreign currency risk	USD/NTD appreciates 1%	\$ 3,835,512	\$ 5,022,301
	CNY (CNH)/USD appreciates 1%	800,684	506,268
	HKD/USD appreciates 1%	1,564	591,675
	EUR/USD appreciates 1%	81,724	210,300
	GBP/USD appreciates 1%	48,207	255,153
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	(1,395)	(922,490)
	Yield curve (AUD) parallel shifts up 1bp	-	-
	Yield curve (EUR) parallel shifts up 1bp	1,172	(9,895)
	Yield curve (NTD) parallel shifts up 1bp	583	(171,436)
Equity price risk	Equity price increases 1%	26,378	7,263,324

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Impacts of changes in profit or loss are not included in those of changes in equity.

Note 4: Provision or reversal of reserve for foreign exchange valuation changes is not considered in profit or loss due to foreign currency risk.

Note 5: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

## 2) Credit risk

### a) Sources of credit risk

When engaged in financial transactions, the Company 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 the Company 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 the Company 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 the Company 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 of credit risk

- i. Regional distribution of maximum risk exposure for the Company's financial assets:

September 30, 2019						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 214,498,960	\$ 14,172,956	\$ 135,652	\$ 68,471,407	\$ 57,253	\$ 297,336,228
Financial assets at FVTPL	33,670,230	32,290,066	104,008,821	40,984,794	88,929,421	299,883,332
Financial assets at FVTOCI	44,626,755	44,110,032	173,118,907	370,741,910	237,085,959	869,683,563
Financial assets for hedging	94,992	-	499,193	108,068	-	702,253
Financial assets measured at amortized cost	187,136,416	172,314,161	433,064,135	1,149,918,125	654,670,041	2,597,102,878
	<u>\$ 480,027,353</u>	<u>\$ 262,887,215</u>	<u>\$ 710,826,708</u>	<u>\$ 1,630,224,304</u>	<u>\$ 980,742,674</u>	<u>\$ 4,064,708,254</u>
Proportion	11.8%	6.5%	17.5%	40.1%	24.1%	100%

December 31, 2018						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 108,663,821	\$ 598,577	\$ 136,389	\$ 54,671,101	\$ 201,744	\$ 164,271,632
Financial assets at FVTPL	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at FVTOCI	90,868,582	31,038,900	168,157,801	359,145,961	242,495,856	891,707,100
Financial assets for hedging	96,344	-	-	120,267	-	216,611
Financial assets measured at amortized cost	183,624,214	140,559,799	382,921,822	1,001,042,809	549,913,112	2,258,061,756
Other financial assets	-	-	1,999,406	-	-	1,999,406
	<u>\$ 419,474,044</u>	<u>\$ 198,888,638</u>	<u>\$ 639,964,843</u>	<u>\$ 1,449,097,022</u>	<u>\$ 874,770,956</u>	<u>\$ 3,582,195,503</u>
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100.0%

September 30, 2018						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 118,093,718	\$ 714,999	\$ 140,484	\$ 61,553,226	\$ 99,728	\$ 180,602,155
Financial assets at FVTPL	37,035,475	22,902,626	62,089,583	21,064,772	84,037,549	227,130,005
Financial assets at FVTOCI	95,723,167	32,892,871	177,841,472	387,926,008	242,600,147	936,983,665
Financial assets for hedging	88,482	-	-	112,934	-	201,416
Financial assets measured at amortized cost	195,220,081	138,829,398	368,213,528	980,733,587	543,204,265	2,226,200,859
Other financial assets	-	-	3,499,368	-	-	3,499,368
	<u>\$ 446,160,923</u>	<u>\$ 195,339,894</u>	<u>\$ 611,784,435</u>	<u>\$ 1,451,390,527</u>	<u>\$ 869,941,689</u>	<u>\$ 3,574,617,468</u>
Proportion	12.5%	5.5%	17.1%	40.6%	24.3%	100.0%

ii. Regional distribution of maximum risk exposure for the Company's secured loans:

<b>September 30, 2019</b>					
<b>Location of Collaterals</b>	<b>Northern and Eastern Areas</b>	<b>Central Area</b>	<b>Southern Area</b>	<b>Overseas</b>	<b>Total</b>
Secured loans	\$ 245,145,911	\$ 42,158,168	\$ 65,797,795	\$ 7,384,055	\$ 360,485,929
Non-accrual receivables	<u>417,306</u>	<u>72,575</u>	<u>114,910</u>	<u>-</u>	<u>604,791</u>
	<u>\$ 245,563,217</u>	<u>\$ 42,230,743</u>	<u>\$ 65,912,705</u>	<u>\$ 7,384,055</u>	<u>\$ 361,090,720</u>
Proportion	68.0%	11.7%	18.3%	2.0%	100%
<b>December 31, 2018</b>					
<b>Location of Collaterals</b>	<b>Northern and Eastern Areas</b>	<b>Central Area</b>	<b>Southern Area</b>	<b>Overseas</b>	<b>Total</b>
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
Non-accrual receivables	<u>878,642</u>	<u>36,044</u>	<u>54,067</u>	<u>-</u>	<u>968,753</u>
	<u>\$ 288,319,462</u>	<u>\$ 48,528,186</u>	<u>\$ 71,445,373</u>	<u>\$ 8,193,993</u>	<u>\$ 416,487,014</u>
Proportion	69.2%	11.6%	17.2%	2.0%	100%
<b>September 30, 2018</b>					
<b>Location of Collaterals</b>	<b>Northern and Eastern Areas</b>	<b>Central Area</b>	<b>Southern Area</b>	<b>Overseas</b>	<b>Total</b>
Secured loans	\$ 302,274,856	\$ 46,447,230	\$ 74,209,520	\$ 5,141,008	\$ 428,072,614
Non-accrual receivables	<u>871,218</u>	<u>31,426</u>	<u>54,275</u>	<u>-</u>	<u>956,919</u>
	<u>\$ 303,146,074</u>	<u>\$ 46,478,656</u>	<u>\$ 74,263,795</u>	<u>\$ 5,141,008</u>	<u>\$ 429,029,533</u>
Proportion	70.7%	10.8%	17.3%	1.2%	100%

iii. Categories for credit risk quality

The Company 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 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 the 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 the Company evaluates the potential losses and determines it as impaired.



iv. Determination on the credit risk that has increased significantly since initial recognition

- i) The Company 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, the Company 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.

v. The definition of default and credit-impaired financial assets

The Company'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:
  - The issuers or borrowers have entered into bankruptcy or are probable to enter into bankruptcy or financial reorganization.
  - The issuers fail to pay interest or principal according to the issue terms and conditions.
  - The collaterals of the borrowers are provisionally seized or enforced.
  - 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 the Company, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

vi. Measurement of expected credit loss

- i) The methodology and assumption applied

For financial instruments on which the credit risk has not increased significantly since initial recognition, the Company 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, the Company measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

In the measurement of expected credit losses, 12-month and lifetime expected credit losses are the multiply of exposure at default (“EAD”), loss given default (“LGD”) and probability of default (“PD”) of issuers, guarantee agencies or borrowers for 12 months and the lifetime, respectively, in consideration of time value of money.

PD is the rate that a default occurs on issuers, guarantee agencies or borrowers. LGD is the loss rate resulted from a default of issuers, guarantee agencies or borrowers. Loss given default used by the Company 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

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

vii. Gross carrying amounts of maximum credit risk exposure and categories for credit quality

i) Financial assets of the Company

	September 30, 2019					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 854,603,526	\$ -	\$ -	\$ -	\$ -	\$ 854,603,526
Financial assets measured at amortized cost	2,565,457,577	-	-	-	(1,003,240)	2,564,454,337
Non-investment grade						
Debt instruments at FVTOCI	14,652,849	427,188	-	-	-	15,080,037
Financial assets measured at amortized cost	27,195,565	5,953,109	-	-	(500,133)	32,648,541
	December 31, 2018					
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 868,624,804	\$ -	\$ -	\$ -	\$ -	\$ 868,624,804
Financial assets measured at amortized cost	2,221,201,714	-	-	-	(853,594)	2,220,348,120
Other financial assets	2,000,000	-	-	-	(594)	1,999,406
Non-investment grade						
Debt instruments at FVTOCI	22,790,603	215,072	76,621	-	-	23,082,296
Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636

	September 30, 2018					
	Stage 1		Stage 2		Stage 3	
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Gross Carrying Amount
Investment grade Debt instruments at FVTOCI	\$ 912,901,924	\$ -	\$ -	\$ -	\$ -	\$ 912,901,924
Financial assets measured at amortized cost	2,193,435,325	-	-	-	(857,711)	2,192,577,614
Other financial assets	3,500,000	-	-	-	(632)	3,499,368
Non-investment grade Debt instruments at FVTOCI	23,863,159	218,582	-	-	-	24,081,741
Financial assets measured at amortized cost	26,051,177	8,364,260	-	-	(792,192)	33,623,245

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

ii) Secured loans and non-accrual loans of the Company

	September 30, 2019						
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 353,626,032	\$ 696,661	\$ 6,768,027	\$ -	\$ (947,403)	\$ (4,090,118)	\$ 356,053,199

	December 31, 2018						
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 411,821,024	\$ 111,237	\$ 4,554,753	\$ -	\$ (682,254)	\$ (5,126,352)	\$ 410,678,408

	September 30, 2018						
	Stage 1		Stage 2		Stage 3		
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
Secured loans and non-accrual loans	\$ 424,156,170	\$ 429,711	\$ 4,443,652	\$ -	\$ (665,131)	\$ (5,322,835)	\$ 423,041,567

viii. Reconciliation for loss allowance is summarized below:

i) Debt instrument investments at FVTOCI

	<u>Lifetime Expected Credit Losses</u>				<b>Total of Impairment Accrued in Accordance with IFRS 9</b>
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit- impaired Financial Asset</b>	<b>Purchased or Originated Credit- impaired Financial Assets</b>	
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(2,661)	2,661	-	-	-
New financial assets originated or purchased	121,537	-	7	-	121,544
Financial assets that have been derecognized during the period	(223,009)	(64,281)	(12,462)	-	(299,752)
Changes in models/risk parameters	7,208	67,000	-	-	74,208
Foreign exchange and other movements	<u>4,256</u>	<u>709</u>	<u>116</u>	<u>-</u>	<u>5,081</u>
September 30, 2019	<u>\$ 375,611</u>	<u>\$ 23,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,749</u>

	<u>Lifetime Expected Credit Losses</u>				<b>Total of Impairment Charged in Accordance with IFRS 9</b>
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit- impaired Financial Asset</b>	<b>Purchased or Originated Credit- impaired Financial Assets</b>	
January 1, 2018	\$ 455,064	\$ 96,965	\$ -	\$ -	\$ 552,029
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(1,209)	1,209	-	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	209,736	-	-	-	209,736
Financial assets that have been derecognized during the period	(178,116)	(138,140)	-	-	(316,256)
Changes in models/risk parameters	38,902	57,464	-	-	96,366
Foreign exchange and other movements	<u>10,578</u>	<u>190</u>	<u>-</u>	<u>-</u>	<u>10,768</u>
September 30, 2018	<u>\$ 535,082</u>	<u>\$ 17,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 552,643</u>

ii) Financial assets measured at amortized cost

	<b>Lifetime Expected Credit Losses</b>				
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit- impaired Financial Asset</b>	<b>Purchased or Originated Credit- impaired Financial Assets</b>	<b>Total of Impairment Accrued in Accordance with IFRS 9</b>
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(542)	542	-	-	-
New financial assets originated or purchased	380,587	-	-	-	380,587
Financial assets that have been derecognized during the period	(297,146)	(236,044)	(658,551)	-	(1,191,741)
Changes in models/risk parameters	66,882	(35,921)	-	-	30,961
Foreign exchange and other movements	6,934	8,029	(51,893)	-	(36,930)
September 30, 2019	<u>\$ 1,061,145</u>	<u>\$ 442,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,503,373</u>
	<b>Lifetime Expected Credit Losses</b>				
	<b>12-month Expected Credit Losses</b>	<b>Collectively Assessed</b>	<b>Not Purchased or Originated Credit- impaired Financial Asset</b>	<b>Purchased or Originated Credit- impaired Financial Assets</b>	<b>Total of Impairment Accrued in Accordance with IFRS 9</b>
January 1, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
New financial assets originated or purchased	207,269	-	-	-	207,269
Financial assets that have been derecognized during the period	(72,843)	(364,160)	-	-	(437,003)
Changes in models/risk parameters	24,706	360,190	-	-	384,896
Foreign exchange and other movements	18,503	16,380	-	-	34,883
September 30, 2018	<u>\$ 927,138</u>	<u>\$ 722,765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,649,903</u>

iii) Other financial assets

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

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	<u>(269)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(269)</u>
September 30, 2018	<u>\$ 632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 632</u>

iv) Secured loans and non-accrual loans

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Accrued in Accordance with IFRS 9	Difference from Impairment Accrued in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2019	\$ 90,567	\$ 201	\$ 591,486	\$ -	\$ 682,254	\$ 5,126,352	\$ 5,808,606
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(608)	608	-	-	-	-	-
Transfer to credit-impaired financial assets	(1,302)	(93)	1,395	-	-	-	-
Transfer to 12-month expected credit losses	1,662	(77)	(1,585)	-	-	-	-
New financial assets originated or purchased	1,782	-	7,903	-	9,685	-	9,685
Financial assets that have been derecognized during the period	(10,067)	(26)	(102,255)	-	(112,348)	-	(112,348)
Difference from impairment accrued in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(1,036,234)	(1,036,234)
Changes in models/risk parameters	<u>(6,608)</u>	<u>69</u>	<u>374,351</u>	<u>-</u>	<u>367,812</u>	<u>-</u>	<u>367,812</u>
September 30, 2019	<u>\$ 75,426</u>	<u>\$ 682</u>	<u>\$ 871,295</u>	<u>\$ -</u>	<u>\$ 947,403</u>	<u>\$ 4,090,118</u>	<u>\$ 5,037,521</u>

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Regulations Governing the Procedures to Evaluate Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2018	\$ 108,879	\$ 1,211	\$ 601,271	\$ -	\$ 711,361	\$ 5,438,078	\$ 6,149,439
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(799)	1,493	(694)	-	-	-	-
Transfer to credit-impaired financial assets	(182)	(86)	268	-	-	-	-
Transfer to 12-month expected credit losses	1,213	(1,057)	(156)	-	-	-	-
New financial assets originated or purchased	16,140	20	9,824	-	25,984	-	25,984
Financial assets that have been derecognized during the period	(8,468)	(52)	(52,043)	-	(60,563)	-	(60,563)
Difference from impairment accrued in accordance with Regulations Governing the Procedures to Evaluate Assets	-	-	-	-	-	(115,243)	(115,243)
Changes in models/risk parameters	(6,911)	(992)	(3,748)	-	(11,651)	-	(11,651)
September 30, 2018	<u>\$ 109,872</u>	<u>\$ 537</u>	<u>\$ 554,722</u>	<u>\$ -</u>	<u>\$ 665,131</u>	<u>\$ 5,322,835</u>	<u>\$ 5,987,966</u>

There is no significant change in loss allowance due to significant changes in the carrying amounts of financial instruments.

ix. Exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of the Company's receivables which are in the scope of the impairment requirements under IFRS 9 are based upon the lifetime expected credit losses under simplified approach. Loss allowance measured by a provision matrix under simplified approach is as follows:

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

Note: Notes receivable of \$7,206 thousand and other receivables of \$20,202,759 thousand were included.

	Recognition				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>December 31, 2018</u>					
Gross carrying amounts (Note)	\$ 11,311,658	\$ 111,076	\$ 1,219	\$ 3	\$ 11,423,956
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	2,222	123	1	2,346

Note: Notes receivable of \$72,825 thousand and other receivables in the amount of \$11,351,131 thousand were included.

	<b>Recognition</b>				<b>Total</b>
	<b>Not Yet Due/within 1 Month</b>	<b>1-3 Months</b>	<b>3-6 Months</b>	<b>Over 6 Months</b>	
<u>September 30, 2018</u>					
Gross carrying amounts (Note)	\$ 22,432,621	\$ 115,542	\$ 906	\$ 72	\$ 22,549,141
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	2,313	92	36	2,441

Note: Notes receivable of \$5,433 thousand and other receivables of \$22,543,708 thousand were included.

The movements of loss allowance were as follows:

	<b>For the Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 2,346	\$ 2,175
Provision for the period	<u>385</u>	<u>266</u>
Ending balance	<u>\$ 2,731</u>	<u>\$ 2,441</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 the Company 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 the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth.

#### b) Liquidity risk management

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions symmetrically.

The Company 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 the Company makes an emergency operating procedure to deal with significant liquidity risks.

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



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

<b>September 30, 2019</b>					
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 36,599,222	\$ 801,654	\$ 348,610	\$ 1,191,520	\$ 41,291
Bonds payables (Note)	252,000	927,385	2,715,000	8,145,000	88,745,000
<u>Derivative financial liabilities</u>					
SWAP	20,979,468	128,655	-	-	-
Forward	2,818,552	93,300	-	-	-
IRS	2,297	1,480	3,574	2,045	-
Option	143,587	-	-	-	-
CCS	-	-	542	-	-
<b>December 31, 2018</b>					
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 31,044,618	\$ 239,517	\$ 285,769	\$ 1,242,728	\$ 9,636
Bonds payables (Note)	414,540	1,194,411	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
SWAP	23,555,917	10,107,225	-	-	-
Forward	5,538,893	53,900	-	-	-
IRS	14,230	3,686	3,978	2,587	-
<b>September 30, 2018</b>					
	<b>Less than 6 Months</b>	<b>Due in 6-12 Months</b>	<b>Due in 1-2 Years</b>	<b>Due in 2-5 Years</b>	<b>Over 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Payables	\$ 23,722,338	\$ 645,821	\$ 257,543	\$ 1,280,802	\$ 7,385
Bonds payable (Note)	252,000	705,670	2,415,000	7,245,000	79,660,000
<u>Derivative financial liabilities</u>					
SWAP	34,816,201	8,008,982	-	-	-
Forward	3,123,279	-	-	-	-
IRS	14,251	8,944	4,163	845	-

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

f. Hedge accounting disclosures

Cash flow hedges

The future cash flows of the floating-rate assets held by the Group may fluctuate due to the changes in market interest rates and thus lead to risks. Accordingly, the Group held IRS to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

1) Hedging instruments

<b>September 30, 2019</b>					
<u>Hedging Instrument</u>	<u>Nominal Amount of the Hedging Instrument</u>	<u>Carrying Amounts of the Hedging Instrument</u>		<u>Line Items in Balance Sheet Where the Hedging Instrument Is Included</u>	<u>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period</u>
		<u>Assets</u>	<u>Liabilities</u>		
IRS	\$ 6,800,000	\$ 203,060	\$ -	Financial assets for hedging	\$ 35,784
IRS	1,358,088	-	38,240	Financial liabilities for hedging	(38,214)

  

<b>December 31, 2018</b>					
<u>Hedging Instrument</u>	<u>Nominal Amount of the Hedging Instrument</u>	<u>Carrying Amounts of the Hedging Instrument</u>		<u>Line Items in Balance Sheet Where the Hedging Instrument Is Included</u>	<u>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period</u>
		<u>Assets</u>	<u>Liabilities</u>		
IRS	\$ 6,800,000	\$ 216,611	\$ -	Financial assets for hedging	\$ 54,891

  

<b>September 30, 2018</b>					
<u>Hedging Instrument</u>	<u>Nominal Amount of the Hedging Instrument</u>	<u>Carrying Amounts of the Hedging Instrument</u>		<u>Line Items in Balance Sheet Where the Hedging Instrument Is Included</u>	<u>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period</u>
		<u>Assets</u>	<u>Liabilities</u>		
IRS	\$ 6,800,000	\$ 201,416	\$ -	Financial assets for hedging	\$ 23,025

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

	<b>Due in</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>September 30, 2019</u>					
IRS					
Nominal principal	\$ -	\$ -	\$ 677,605	\$ 7,480,483	\$ -
Average fixed rate	-	-	1.7%-2.5%	1.6%-2.5%	-

  

	<b>Due in</b>				
	<b>1 Month</b>	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>December 31, 2018</u>					
IRS					
Nominal principal	\$ -	\$ -	\$ -	\$ 3,800,000	\$ 3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

	Due in					
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years	
<u>September 30, 2018</u>						
IRS						
Nominal principal	\$	-	\$	-	\$ 2,800,000	\$ 4,000,000
Average fixed rate		-	-	-	1.6%	1.7%

3) Hedged items

For the Nine Months Ended September 30, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes 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 Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (35,784)	\$ 203,060	N/A	\$ 35,784	\$ -	\$ -	\$ (49,335)	Finance costs
Payables	38,214	(38,240)	N/A	(38,214)	-	-	-	Finance costs
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ -	N/A	N/A	N/A	-	Finance costs

For the Nine Months Ended September 30, 2018								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes 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 Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (23,025)	\$ 201,416	N/A	\$ 23,025	\$ -	\$ -	\$ (68,053)	Finance costs
Discontinued hedge - floating-rate bonds	N/A	N/A	\$ -	N/A	N/A	N/A	1,087	Finance costs

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

	For the Nine Months Ended September 30	
	2019	2018
Beginning balance	\$ 173,288	\$ 203,646
Gross amounts recognized in other comprehensive income		
Changes in the values of the hedging instruments recognized in other comprehensive income	(2,430)	23,025
Amount reclassified from cash flow hedge reserve to profit or loss	(49,335)	(66,966)
Income tax	<u>2,710</u>	<u>1,427</u>
Ending balance	<u>\$ 124,233</u>	<u>\$ 161,132</u>

## Fair value hedges

The book value of the foreign currency denominated assets held by the Company may fluctuate due to the changes in market exchange rates and thus lead to risk. Accordingly, the Company held derivative instruments related to exchange rates to hedge risks arising from changes in exchange rates. Information of hedge accounting is as follows:

### 1) Hedging instruments

September 30, 2019					
<u>Hedging Instrument</u>	<u>Nominal Amount of the Hedging Instrument</u>	<u>Carrying Amounts of the Hedging Instrument</u>		<u>Line Items in Balance Sheet Where the Hedging Instrument Is Included</u>	<u>Changes in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period</u>
		<u>Assets</u>	<u>Liabilities</u>		
CCS	\$ 10,044,893	\$ 499,193	\$ -	Financial assets for hedging	\$ 351,879

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

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

### 3) Hedged items

For the Nine Months Ended September 30, 2019								
	<u>Book Value of Hedged Items</u>		<u>Cumulative Adjustment for Changes in Fair value of Hedged Items included in Book Value of Hedged Items</u>		<u>Line item in Statement of Financial Position that includes Hedged items</u>	<u>Charges in Fair Value Used for Calculating Hedge Ineffectiveness for the Period</u>	<u>Ineffectiveness Recognized in Profit or loss</u>	<u>Line item in Profit or Loss that includes Hedge Ineffectiveness</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>		<u>Period</u>		
Oversea bonds	\$ 10,044,893	\$ -	\$ (351,879)	\$ -	Financial assets measured at amortized cost	\$ (351,879)	\$ -	\$ -

### 4) Reconciliation for equity component applying hedged accounting and related other comprehensive income were summarized below:

	<b>For the Nine Months Ended September 30, 2019</b>
<u>Foreign currency basis-related period</u>	
Beginning balance	\$ -
Gross amounts recognized in other comprehensive income	
Changes in the values of the hedging instruments recognized in other comprehensive income	147,314
Income tax	<u>(29,463)</u>
Ending balance	<u>\$ 117,851</u>

g. Offsetting of financial assets and financial liabilities

The Group engages 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, 2019

<b>Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet</b>	<b>Net Financial Assets Recognized on Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 9,925,349	\$ -	\$ 9,925,349	\$ 9,049,564	\$ 1,295,155	\$ (419,370)

<b>Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet</b>	<b>Net Financial Liabilities Recognized on Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Paid</b>	
Derivative financial instruments	\$ 19,441,309	\$ -	\$ 19,441,309	\$ 9,049,564	\$ 4,168,281	\$ 6,223,464

December 31, 2018

<b>Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet</b>	<b>Net Financial Assets Recognized on Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 5,584,159	\$ -	\$ 5,584,159	\$ 5,424,679	\$ -	\$ 159,480

<b>Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet</b>	<b>Net Financial Liabilities Recognized on Balance Sheet</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
				<b>Financial Instruments</b>	<b>Cash Collateral Paid</b>	
Derivative financial instruments	\$ 27,499,106	\$ -	\$ 27,499,106	\$ 5,424,679	\$ 10,921,864	\$ 11,152,563

September 30, 2018

<b>Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Assets</b>	<b>Gross Amount of Offset Financial Liabilities</b>	<b>Net Financial Assets</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
		<b>Recognized on Balance Sheet</b>	<b>Recognized on Balance Sheet</b>	<b>Financial Instruments</b>	<b>Cash Collateral Received</b>	
Derivative financial instruments	\$ 7,487,110	\$ -	\$ 7,487,110	\$ 7,094,266	\$ 125,779	\$ 267,065

<b>Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement</b>						
<b>Item</b>	<b>Gross Amounts of Recognized Financial Liabilities</b>	<b>Gross Amount of Offset Financial Liabilities</b>	<b>Net Financial Liabilities</b>	<b>Relevant Amount That Has Not Been Offset on Balance Sheet</b>		<b>Net Amount</b>
		<b>Recognized on Balance Sheet</b>	<b>Recognized on Balance Sheet</b>	<b>Financial Instruments</b>	<b>Cash Collateral Paid</b>	
Derivative financial instruments	\$ 34,994,991	\$ -	\$ 34,994,991	\$ 7,094,266	\$ 12,694,262	\$ 15,206,463

## 42. RISK MANAGEMENT AND INSURANCE RISK INFORMATION

### a. Risk management objectives, policies, procedures and methods

#### 1) Objectives of risk management

The Company'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.

#### 2) Framework, organization structure and responsibilities of risk management

##### a) 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 the Company 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.

##### b) Risk management committee

- i. The committee should propose the risk management policies, framework and organizational functions and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly and making necessary suggestions for improvement.

- ii. The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
  - iii. The committee should assist and monitor the risk management activities.
  - iv. The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
  - v. The committee should enhance cross-department interaction and communication.
- c) Chief risk officer
- i. The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of the Company.
  - ii. The chief risk officer should be able to access any business information which may have an impact on risk overview of the Company.
  - iii. The chief risk officer should be in charge of overall risk management of the Company.
  - iv. The chief risk officer should participate in the Company's important decision-making process and, as appropriate, provide opinions from a risk management perspective.
- d) 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:
    - i) Propose and execute the risk management policies set by the board of directors.
    - ii) Propose the risk limits based on risk appetite.
    - iii) Summarize the risk information provided by each department, negotiate and communicate with each departments to facilitate the execution of the policies and the risk limits.
    - iv) Regularly present risk management reports.
    - v) Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
    - vi) Assist to execute stress testing.
    - vii) Execute back testing if necessary.
    - viii) Other risk management related issues.
- e) 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:
  - i) Identify and measure risks and report risk exposures and potential impacts on time.
  - ii) 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.
  - iii) Assist to develop the risk model and ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.
  - iv) Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
  - v) Assist to collect data related to operational risk.
  - vi) Manager of a business unit is responsible for daily risk management and risk reporting of the unit, if necessary, and takes necessary actions to such risks.
  - vii) Manager of a business unit should supervise the unit to submit risk management information regularly to the risk management department.

f) Audit department

The department is responsible to audit each department's performance of risk management pursuant to the applicable laws and regulations and related rules and guidance of the Company.

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 the Company's risk management committee for future reference.

3) Range and nature of risk assessment or risk reporting

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

a) Market risk

Market risk is the risk of losses in value of the Company's financial assets arising from the changes in market prices of financial instruments. The Company adopts measurement indicators for market risk based on VaR and reviews regularly. In addition, the Company performs back testing to ensure the accuracy of the market risk model regularly. Furthermore, the Company 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, the Company determines the ceiling of foreign exchange risk, implements warning system and monitors foreign exchange risk regularly.



b) Credit risk

Credit risk is the risk of losses on the Company's rights due to that the counterparty or debtor does not perform the contractual obligation. The Company applies credit rating, credit concentration and VaR of credit as measurement indicators which are reviewed regularly. Furthermore, the Company applies scenario analysis and stress testing to evaluate the possible impacts on asset portfolio due to significant domestic and/or international events regularly.

c) Country risk

Country risk is the risk that the Company 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. The Company adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. The Company reviews and adjusts the indicator on a regular basis.

d) Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Company is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. The Company has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, 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, cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. 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 the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth. The Company 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.

e) Operational risk

Operational risk is the risk of losses caused by misconducts or errors of internal process, personnel, and system by external issues. Operational risk includes legal risk but excludes strategic risk and reputation risk. The Company 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 the Company's operation and ability to provide customer services while minimizing the losses under a major crisis, the Company has established emergency handling mechanism and information system damage responses.

f) Insurance risk

The Company assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and the Company 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.

g) Asset and liability matching risk

This risk resulted from the differences between the changes in values of assets and those of liabilities. The Company measures the risk with capital costs, duration, cash flow management and scenario analysis.

h) Risk-based capital (RBC) ratio

The RBC ratio is the total capital of the Company divided by its risk-based capital, as regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies. The Company regards such ratio as a management indicator for capital adequacy.

i) Risk of information security and personal data management

The risk of information security and personal data management refers to the damage resulted from confidentiality, accuracy and availability of information asset, or damage caused by stealing, tampering, damaging, losing or leaking personal data. The Company has a security and personal data management policy to reduce the impact of information security incidents and personal data damages.

4) The process of assuming, measuring, monitoring and controlling risks and the underwriting policies to determine the proper risk classification and premium levels

a) The process of assuming, measuring, monitoring and controlling insurance risks

- i. Stipulate the Company'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 a 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 the Company and that of Cathay Financial Holdings.

b) 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 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. The Company has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards.
- iii. The Company has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.

5) The scope of insurance risk assessment and management from a company-wide perspective

- a) 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 the Company's credit rating or solvency.
  - v. Claim risk: this risk arises from mishandling claims.
  - vi. Reserve-related risk: this risk occurs when the Company does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.

b) The scope of management of insurance risk

- i. Develop a risk control framework of the Company's insurance risk to empower related development to execute risk management.
- ii. Establish the Company'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 the Company'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.

6) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The Company limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering the Company'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, the Company has established reinsurer selection standards.

7) Asset/liability management

- a) The Company 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 the Company faces.
- b) 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 the Company. Furthermore, the annual report is delivered to the risk management committee of the Cathay Financial Holdings.
- c) When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of the Company and that of Cathay Financial Holdings.

8) The procedures to manage, monitor and control a special event for which the Company is committed to assuming additional liabilities or funding additional capital

Pursuant to the applicable laws and regulations, the Company's RBC ratio should be higher than a certain number. In order to enhance the Company's capital management and to maintain a proper RBC ratio, the Company has established a set of capital adequacy management standards as follows:

- a) Capital adequacy management
  - i. Regularly provide capital adequacy management reports and analysis to the finance department of Cathay Financial Holdings.
  - ii. Regularly provide the capital adequacy management 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.
  - iv. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.
- b) Exception management process

When RBC ratio exceeds the internal risk criteria or other exceptions occur, the Company is required to notify the risk management department and the finance department and the risk management department of Cathay Financial Holdings together with the capital adequacy analysis report and actions.

9) Policies for hedge or mitigation of risk and monitoring procedures on continuous effectiveness of hedging instruments

- a) The Company 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 the Company's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.

- b) Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. The Company 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.
- c) The Company 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.

10) The policies and procedures against the concentration of credit and investment risks

Considering the credit risk factors, the Company has set up the measurement indicators for credit and investment positions by business groups, industries and countries. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loans or make investment in general. However, if the Company has to undertake the business under certain circumstances, the Company 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”.

b. Information of insurance risk

1) Sensitivity of insurance risk - insurance contracts and financial instruments with discretionary participation features

a) The Company

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

	Scenarios	For the Nine Months Ended September 30, 2018			
		Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,001,831	Decrease (increase)	\$ 1,601,465
Expense	×1.05 (×0.95)	Decrease (increase)	2,128,027	Decrease (increase)	1,702,422
Surrender rate	×1.05 (×0.95)	Increase (decrease)	280,592	Increase (decrease)	224,473
Rate of return	+0.1%	Increase	3,989,843	Increase	3,191,874
Rate of return	-0.1%	Decrease	3,992,789	Decrease	3,194,231

b) Cathay Lujiazui Life

	Scenarios	For the Nine Months Ended September 30, 2019			
		Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 110,981	Decrease (increase)	\$ 87,735
Expense	×1.05 (×0.95)	Decrease (increase)	64,214	Decrease (increase)	48,161
Surrender rate	×1.10 (×0.90)	Increase (decrease)	69,634	Increase (decrease)	52,226
Rate of return	+0.25%	Increase	529,206	Increase	396,905
Rate of return	-0.25%	Decrease	580,928	Decrease	435,696

	Scenarios	For the Nine Months Ended September 30, 2018			
		Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 116,442	Decrease (increase)	\$ 87,332
Expense	×1.05 (×0.95)	Decrease (increase)	60,629	Decrease (increase)	45,471
Surrender rate	×1.10 (×0.90)	Increase (decrease)	76,886	Increase (decrease)	57,665
Rate of return	+0.25%	Increase	423,334	Increase	317,500
Rate of return	-0.25%	Decrease	464,709	Decrease	348,532

c) Cathay Life (Vietnam)

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

For the Nine Months Ended September 30, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 494	Decrease (increase)	\$ 395
Expense	×1.05 (×0.95)	Decrease (increase)	22,801	Decrease (increase)	18,241
Surrender rate	×1.10 (×0.95)	Increase (decrease)	6,462	Increase (decrease)	5,169
Rate of return	+0.1%	Increase	7,260	Increase	5,808
Rate of return	-0.1%	Decrease	7,266	Decrease	5,813

- i. Changes in income before tax listed above referred to the effects of income before tax for the nine months ended September 30, 2019 and 2018. The changes in equity of the Company, 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 liability adequacy test, the result of the test is still adequate for the Company 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
  - i) 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.
  - ii) 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.
  - iii) Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
  - iv) Rate of return sensitivity test is executed by adjusting rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating costs as well as general expenses, administration expenses, employee training expenses of operating expenses and expected credit impairment losses and gains on reversal from non-investments.

Note 2: Rate of return is calculated as follows (to be annualized):

$$2 \times (\text{Net investment} - \text{Finance costs}) / (\text{The beginning balance of available funds} + \text{The ending balance of available funds, net incomes (losses) on investment} + \text{Finance costs})$$

## 2) Concentration of insurance risks

The Company'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). The Company reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

In principle, the Company reviews the overall results of claims and payments and its ability to assume risk periodically, and performs an evaluation of insurance risks according to the retention amounts, which is submitted for approval by authority. The Company cedes the excess of insurance risks over the retention amounts to reinsurers. At the same time, the Company considers unexpected human and natural disasters to estimate the reasonable maximum of losses according to the retained risks regularly; the Company determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses and its ability to assume risks. Hence, the insurance risks to some degree have been diversified to reduce the potential impact on unexpected losses.

Furthermore, according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, special reserve for catastrophic events should be provided for huge claims and payments due to future catastrophic events, and special reserve for fluctuation of risk should be provided for abnormal changes in loss ratio and claims of each insurance type. The annual increase of special reserve for catastrophic events and fluctuation of risks should be recorded in special reserve of equity, net of tax in accordance with IAS 12.

## 3) Claim development trend

### a) The Company

#### i. Direct business development trend

Accident Year	Development Year							Claims Not Yet Filed	Reserve for Claims Not Yet Filed
	1	2	3	4	5	6	7		
101Q4-102Q3	14,247,232	17,629,588	17,941,782	17,995,716	18,035,760	18,060,584	18,077,206	-	-
102Q4-103Q3	14,397,589	17,761,644	18,098,010	18,192,255	18,189,858	18,212,182	18,229,683	17,501	17,536
103Q4-104Q3	14,692,358	18,265,362	18,613,904	18,701,037	18,738,383	18,765,023	18,783,399	45,016	45,106
104Q4-105Q3	15,684,311	19,355,665	19,691,862	19,770,388	19,809,845	19,837,928	19,857,391	87,003	87,177
105Q4-106Q3	16,765,826	20,661,210	21,052,051	21,138,188	21,180,559	21,210,706	21,231,561	179,510	179,870
106Q4-107Q3	18,893,765	23,395,979	23,820,559	23,919,391	23,968,542	24,001,671	24,024,164	628,185	629,441
107Q4-108Q3	20,940,466	25,918,101	26,394,364	26,503,691	26,558,098	26,594,131	26,618,382	5,677,916	5,689,272
					Expected future payments				\$ 6,648,402
					Add: Assumed reserve for claims not yet filed				44,756
					Reserve for claims not yet filed				6,693,158
					Add: Claims filed but not yet paid				3,656,777
					Loss reserve balance				<u>\$ 10,349,935</u>

#### ii. Retained business development trend

Accident Year	Development Year							Claims Not Yet Filed	Reserve for Claims Not Yet Filed
	1	2	3	4	5	6	7		
101Q4-102Q3	14,404,516	17,813,932	18,131,882	18,186,719	18,227,083	18,252,601	18,269,367	-	-
102Q4-103Q3	14,488,939	17,896,520	18,236,636	18,331,599	18,329,998	18,352,599	18,370,222	17,623	17,658
103Q4-104Q3	14,822,271	18,434,222	18,785,549	18,874,208	18,911,743	18,938,949	18,957,548	45,805	45,896
104Q4-105Q3	15,804,471	19,501,696	19,844,120	19,923,161	19,962,992	19,991,506	20,011,086	87,925	88,100
105Q4-106Q3	16,845,302	20,797,324	21,191,027	21,277,948	21,320,680	21,351,228	21,372,187	181,160	181,523
106Q4-107Q3	19,016,850	23,550,400	23,980,369	24,080,348	24,130,057	24,163,898	24,186,732	636,332	637,605
107Q4-108Q3	20,986,589	25,991,135	26,471,229	26,581,394	26,636,239	26,672,889	26,697,543	5,710,954	5,722,376
					Expected future payments				\$ 6,693,158
					Add: Claims filed but not yet paid				3,651,597
					Retained loss reserve balance				<u>\$ 10,344,755</u>

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

In accordance with Jin Guan Bao Shou No.10402133590 issued on December 22, 2015 by the FSC, reserve for claims not yet filed is provided claims filed and adjusted for related expenses; reserve for claims filed but not yet paid is provided on a case-by-case basis. Loss reserve is the sum of the above reserve, and 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 the Company may be delayed in certain cases, and estimates of the payments for cases not yet filed are involved with a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

b) Cathay Lujiazui Life

i. Direct business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
101Q4-102Q3	240,295	469,284	507,189	511,048	511,048	511,048	511,048	-	
102Q4-103Q3	355,283	571,141	606,949	616,309	616,309	616,309	616,309	-	
103Q4-104Q3	208,519	390,267	417,666	422,622	422,622	422,622	422,622	-	
104Q4-105Q3	247,433	440,247	471,361	502,721	502,721	502,721	502,721	-	
105Q4-106Q3	254,560	452,928	493,108	505,300	505,300	505,300	505,300	12,192	
106Q4-107Q3	303,356	343,721	369,221	378,351	378,351	378,351	378,351	34,630	
107Q4-108Q3	384,087	636,608	683,837	700,746	700,746	700,746	700,746	316,659	
								Expected future payments	\$ 363,481
								Add : Assumed reserve for claims not yet filed	(1,720)
								Reserve for claims not yet filed	361,761
								Add : Claims filed but not yet paid	13,372
								Loss reserve balance	<u>\$ 375,133</u>

ii. Retained business development trend

Accident Year	Development Year							Expected Future Payment	
	1	2	3	4	5	6	7		
101Q4-102Q3	234,890	462,689	500,571	504,409	504,409	504,409	504,409	-	
102Q4-103Q3	346,974	562,829	598,595	607,952	607,952	607,952	607,952	-	
103Q4-104Q3	186,869	368,212	395,590	400,339	400,339	400,339	400,339	-	
104Q4-105Q3	237,525	421,736	452,306	483,666	483,666	483,666	483,666	-	
105Q4-106Q3	242,848	438,141	471,775	483,722	483,722	483,722	483,722	11,947	
106Q4-107Q3	289,398	316,666	339,883	348,490	348,490	348,490	348,490	31,824	
107Q4-108Q3	364,440	608,845	653,484	670,032	670,032	670,032	670,032	305,592	
								Expected future payments	\$ 349,363
								Less : Expected claims filed but not yet paid	(1,720)
								Add : Claims filed but not yet paid	12,579
								Retained loss reserve balance	<u>\$ 360,222</u>

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.



Cathay Lujiazui Life provides loss reserve for claims filed but not paid and claims not yet filed. Due to uncertainty, estimation, and judgment, there is a high degree of complexity in provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes are recognized as profit or loss as incurred. Notification to Cathay Lujiazui Life may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments. The loss reserve is estimated based upon the currently available information; however, the final results may deviate from the original estimates because of the subsequent conditions of the cases.

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in at specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

c) Cathay Life (Vietnam)

Direct business development trend (the same as retained business development trend)

Accident Year	Development Year				
	1	2	3	4	5
2014Q4-2015Q3	1,178	1,292	1,292	1,295	1,295
2015Q4-2016Q3	1,249	2,327	2,327	2,327	2,327
2016Q4-2017Q3	8,811	11,967	11,967	11,972	11,972
2017Q4-2018Q3	43,139	49,629	49,629	49,649	49,649
2018Q4-2019Q3	123,258	147,518	147,518	147,577	147,577

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in at specific accident year; the amounts below the diagonal line represent the estimates of corresponding accumulated developments for the cases in at specific accident year. The circumstances and trends affecting the provision of loss reserve in current year may differ in the future; therefore, the expected future payments cannot be determined by this table.

Cathay Life (Vietnam) provides loss reserve for claims filed but not paid and claims not yet filed. Reserve for claims not yet filed is estimated by multiplying the loss ratio of earned premiums based upon the past loss experiences instead of loss triangle method which was approved by local authorities in Vietnam; therefore, provision for loss reserve is not determined by the aboved table. Estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective judgement; therefore, it is unable to confirm that the loss reserve on the balance sheet date will be equal to the final settlements of claims and payments.

c. Credit risk, liquidity risk, and market risk for insurance contracts

1) 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, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's Reinsurance Risk Management Plan and Evaluation Standards for Reinsurers.

The credit ratings of the Company's reinsurers are above a certain level, complying with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company's total assets; therefore, no significant credit risk exists.

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

**Unit: Billion**

	<b>Insurance Contracts and Financial Instruments with Discretionary Participation Features</b>		
	<b>Within 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>
September 30, 2019	\$ (2,055)	\$ 2,218	\$ 181,298
December 31, 2018	(1,095)	1,993	175,216
September 30, 2018	(980)	1,483	173,488

Note: Separate account products are not included.

3) Market risk

The Company 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 the Company's valid insurance contracts are considered minor to profit or loss of equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of the Company. 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.

### 43. SEGMENT INFORMATION

The Group operates life insurance business in accordance with Insurance Act. In accordance with IFRS 8, since the Group only provides insurance policy products and the business decision makers allocate the resources to the Group as a whole, the Group is considered as single operating segment.

### 44. CAPITAL MANAGEMENT

#### a. Management objectives

In order to ensure capital structure and stimulate business growth, the Company manages its capital adequacy in accordance with Regulations Governing Capital Adequacy of Insurance Companies and management policies established by the Company.

#### b. Management policies

In order for sufficient capital to assume all types of risks, the Company applies RBC ratio as the management indicator for capital adequacy. The Company calculates RBC ratio periodically and a periodically to monitor the status of short and mid-term capital adequacy. The Company sets business objectives and asset allocation.

In accordance with Regulations Governing Capital Adequacy of Insurance Companies, the components of owned capital and risk-based capital are as follows:

#### 1) Owned capital

Owned capital is the insurance companies' capital as admitted by the authorities, which includes:

- a) Admitted owner's equity.
- b) Other adjustments prescribed by the authorities.

Calculation of owned capital should comply with requirements regulated by the authorities.

#### 2) Risk-based capital

Risk-based capital is calculated according to the risks occurring in the business of an insurance enterprise, including:

- a) Asset risk.
- b) Insurance risk.
- c) Interest rate risk.
- d) Other risk.

Calculation of risk-based capital should comply with requirements regulated by the authorities.

c. Management procedures

1) Periodical calculation

To implement management of RBC, the RBC ratio is inspected periodically. In accordance with cash flow of current contracts and assets, future target of new contracts, and the assumptions of best estimates, the Company estimates RBC ratio for the incoming year through the asset/liability model and analyzes the solvency if the expected ratio deviates from the control criteria, the Company decreases risk exposures or increases capital in response.

2) A periodical calculation

The Company conducts RBC ratio analysis for specific events and assesses their impacts, such as usage of funding, business development, reinsurance arrangement, or changes of the financial market and regulations.

d. Current status of RBC ratio

The Company's RBC ratio, which is calculated in accordance with Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past three years, which complies with the regulations.

**45. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

- a. The group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	<b>September 30, 2019</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 110,116,596	31.042000	\$ 3,418,239,370
CNY	17,231,777	4.360352	75,136,613
AUD	3,593,161	20.976632	75,372,408
Non-monetary items			
USD	8,407,901	31.042000	260,998,072
HKD	9,654,809	3.959287	38,226,160
Investments accounted for the using equity method			
CNY	403,919	4.360100	1,761,127
PHP	27,038,460	0.598300	16,177,111
IDR	6,346,899,580	0.002189	13,893,364
<u>Financial liabilities</u>			
Monetary items			
USD	1,192,401	31.042000	37,014,508

	<b>December 31, 2018</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 103,246,497	30.733000	\$ 3,173,074,587
AUD	2,933,900	21.677522	63,599,680
CNY	15,976,157	4.474192	71,480,393
Non-monetary items			
USD	9,679,449	30.733000	297,478,514
HKD	15,745,308	3.92398	61,784,266
Investments accounted for using the equity method			
CNY	158,735	4.476200	710,531
PHP	26,948,935	0.584200	15,743,568
IDR	6,505,480,341	0.002111	13,733,069
<u>Financial liabilities</u>			
Monetary items			
USD	1,329,950	30.733000	40,873,360

	<b>September 30, 2018</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 101,841,002	30.551000	\$ 3,111,344,455
CNY	15,468,596	4.440133	68,682,621
AUD	2,684,884	22.050184	59,202,195
Non-monetary items			
USD	8,924,922	30.551000	272,665,307
HKD	15,150,750	3.905254	59,167,531
Investments accounted for using the equity method			
CNY	163,177	4.439600	724,441
PHP	27,371,524	0.565500	15,478,597
IDR	6,300,191,220	0.002050	12,915,392
<u>Financial liabilities</u>			
Monetary items			
USD	496,604	30.551000	15,171,740

Note: Impacts of foreign currencies other than functional currencies of subsidiaries are immaterial; therefore, information of subsidiaries is not disclosed.

b. Total amount of assets and liabilities expected to recover or settle within/over 12 months

Items	<b>September 30, 2019</b>		
	<b>Recovery/ Settlement within 12 Months</b>	<b>Recovery/ Settlement over 12 Months</b>	<b>Total</b>
Cash and cash equivalents	\$ 306,021,430	\$ -	\$ 306,021,430
Receivables	80,984,398	12,883	80,997,281
Investments			
Financial assets at FVTPL	26,054,063	1,246,969,379	1,273,023,442
Financial assets at FVTOCI	8,393,361	892,027,582	900,420,943
Financial assets measured at amortized cost	41,150,420	2,557,325,586	2,598,476,006
Financial assets for hedging	-	702,253	702,253
Investments accounted for using the equity method	-	44,439,316	44,439,316
Investment property	-	482,318,535	482,318,535
Investment property under construction	-	3,761,541	3,761,541
Prepayments for buildings and land - investments	-	26,617	26,617
Loans	796,201	525,347,697	526,143,898
Total investments	<u>76,394,045</u>	<u>5,752,918,506</u>	<u>5,829,312,551</u>
Reinsurance assets	80,562	1,262,004	1,342,566
Property and equipment	-	32,221,588	32,221,588
Right-of-use assets	-	1,713,078	1,713,078
Intangible assets	-	42,285,757	42,285,757
Deferred tax assets	-	23,799,293	23,799,293
Other assets	6,652,935	28,808,936	35,461,871
Separate account insurance product assets	<u>4,609,607</u>	<u>588,013,322</u>	<u>592,622,929</u>
Total assets	<u>\$ 474,742,977</u>	<u>\$ 6,471,035,367</u>	<u>\$ 6,945,778,344</u>
Payables	\$ 37,334,724	\$ 1,647,573	\$ 38,982,297
Current tax liabilities	535,637	-	535,637
Financial liabilities at FVTPL	19,576,111	8,785	19,584,896
Financial liabilities for hedging	-	38,240	38,240
Bonds payable	-	80,000,000	80,000,000
Insurance liabilities			
Unearned premium reserve	-	17,025,855	17,025,855
Loss payments	-	10,729,977	10,729,977
Policy insurance	-	5,490,051,784	5,490,051,784
Special reserve	-	11,084,479	11,084,479
Premium deficiency reserve	-	20,253,872	20,253,872
Other reserve	-	1,877,542	1,877,542
Total insurance liabilities	<u>-</u>	<u>5,551,023,509</u>	<u>5,551,023,509</u>
Reserve for insurance contracts with the nature of financial products	-	10,514,325	10,514,325
Reserve for foreign exchange valuation	-	22,385,769	22,385,769
Provisions	-	217,664	217,664
Lease liabilities	86,954	10,550,014	10,636,968

(Continued)

**September 30, 2019**

Items	<b>Recovery/ Settlement within 12 Months</b>	<b>Recovery/ Settlement over 12 Months</b>	<b>Total</b>
Deferred tax liabilities	\$ -	\$ 50,186,070	\$ 50,186,070
Other liabilities	139,020	7,786,519	7,925,539
Separate account insurance product liabilities	<u>721,308</u>	<u>591,901,621</u>	<u>592,622,929</u>
Total liabilities	<u>\$ 58,393,754</u>	<u>\$ 6,326,260,089</u>	<u>\$ 6,384,653,843</u> (Concluded)

**December 31, 2018**

Items	<b>Recovery/ Settlement within 12 Months</b>	<b>Recovery/ Settlement over 12 Months</b>	<b>Total</b>
Cash and cash equivalents	\$ 175,332,205	\$ -	\$ 175,332,205
Receivables	74,184,073	786,396	74,970,469
Current tax assets	6,238	-	6,238
Investments			
Financial assets at FVTPL	8,923,624	1,158,827,561	1,167,751,185
Financial assets at FVTOCI	9,199,964	912,768,282	921,968,246
Financial assets measured at amortized cost	33,988,272	2,224,684,769	2,258,673,041
Financial assets for hedging	-	216,611	216,611
Investments accounted for using the equity method	-	40,780,828	40,780,828
Other financial assets, net	-	1,999,406	1,999,406
Investment property	-	461,352,381	461,352,381
Investment property under construction	-	2,785,640	2,785,640
Prepayments for buildings and land - investments	-	722,686	722,686
Loans	<u>460,031</u>	<u>580,755,808</u>	<u>581,215,839</u>
Total investments	<u>52,571,891</u>	<u>5,384,893,972</u>	<u>5,437,465,863</u>
Reinsurance assets	482,321	1,036,589	1,518,910
Property and equipment	-	32,381,622	32,381,622
Intangible assets	-	44,044,960	44,044,960
Deferred tax assets	-	38,252,456	38,252,456
Other assets	6,804,247	33,653,398	40,457,645
Separate account insurance product assets	<u>6,996,582</u>	<u>539,967,679</u>	<u>546,964,261</u>
Total assets	<u>\$ 316,377,557</u>	<u>\$ 6,075,017,072</u>	<u>\$ 6,391,394,629</u> (Continued)

<b>December 31, 2018</b>			
<b>Items</b>	<b>Recovery/ Settlement within 12 Months</b>	<b>Recovery/ Settlement over 12 Months</b>	<b>Total</b>
Payables	\$ 31,284,135	\$ 1,538,133	\$ 32,822,268
Current tax liabilities	636,050	-	636,050
Financial liabilities at FVTPL	27,490,471	8,635	27,499,106
Bonds payable	-	70,000,000	70,000,000
Insurance liabilities			
Unearned premium reserve	-	16,752,317	16,752,317
Loss payments	-	8,903,331	8,903,331
Policy insurance	-	5,225,589,886	5,225,589,886
Special reserve	-	11,084,254	11,084,254
Premium deficiency reserve	-	22,548,304	22,548,304
Other reserve	-	1,894,570	1,894,570
Total insurance liabilities	-	<u>5,286,772,662</u>	<u>5,286,772,662</u>
Reserve for insurance contracts with the nature of financial products	-	9,318,713	9,318,713
Reserve for foreign exchange valuation	-	17,075,289	17,075,289
Provisions	-	225,277	225,277
Deferred tax liabilities	-	29,213,220	29,213,220
Other liabilities	418,274	8,320,083	8,738,357
Separate account insurance product liabilities	<u>743,450</u>	<u>546,220,811</u>	<u>546,964,261</u>
Total liabilities	<u>\$ 60,572,380</u>	<u>\$ 5,968,692,823</u>	<u>\$ 6,029,265,203</u> (Concluded)

<b>September 30, 2018</b>			
<b>Items</b>	<b>Recovery/ Settlement within 12 Months</b>	<b>Recovery/ Settlement over 12 Months</b>	<b>Total</b>
Cash and cash equivalents	\$ 191,885,754	\$ -	\$ 191,885,754
Receivables	70,878,194	546,446	71,424,640
Current tax assets	17,057	-	17,057
Investments			
Financial assets at FVTPL	10,957,074	1,107,002,370	1,117,959,444
Financial assets at FVTOCI	7,916,069	963,991,460	971,907,529
Financial assets measured at amortized cost	29,187,120	2,199,440,170	2,228,627,290
Financial assets for hedging	-	201,416	201,416
Investments accounted for using the equity method	-	39,657,461	39,657,461
Other financial assets, net	-	3,499,368	3,499,368
Investment property	-	457,435,120	457,435,120
Investment property under construction	-	6,190,808	6,190,808
Prepayments for buildings and land - investments	-	284,424	284,424
Loans	<u>345,805</u>	<u>590,418,153</u>	<u>590,763,958</u>
Total investments	<u>48,406,068</u>	<u>5,368,120,750</u>	<u>5,416,526,818</u> (Continued)



**September 30, 2018**

Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Reinsurance assets	\$ 384,235	\$ 953,876	\$ 1,338,111
Property and equipment	-	32,375,764	32,375,764
Intangible assets	-	44,615,356	44,615,356
Deferred tax assets	-	33,052,995	33,052,995
Other assets	6,247,851	34,227,532	40,475,383
Separate account product assets	<u>7,099,564</u>	<u>577,797,896</u>	<u>584,897,460</u>
<b>Total assets</b>	<b><u>\$ 324,918,723</u></b>	<b><u>\$ 6,091,690,615</u></b>	<b><u>\$ 6,416,609,338</u></b>
Payables	\$ 24,368,159	\$ 1,545,730	\$ 25,913,889
Current tax liabilities	422,948	-	422,948
Financial liabilities at FVTPL	34,985,316	9,675	34,994,991
Bonds payable	-	70,000,000	70,000,000
Insurance liabilities			
Unearned premium reserve	-	16,011,888	16,011,888
Loss payments	-	8,694,095	8,694,095
Policy insurance	-	5,123,748,114	5,123,748,114
Special reserve	-	11,084,095	11,084,095
Premium deficiency reserve	-	24,140,330	24,140,330
Other reserve	-	1,898,570	1,898,570
Total insurance liabilities	<u>-</u>	<u>5,185,577,092</u>	<u>5,185,577,092</u>
Reserve for insurance contracts with the nature of financial products	-	9,086,704	9,086,704
Reserve for foreign exchange valuation	-	15,385,068	15,385,068
Provisions	-	224,276	224,276
Deferred tax liabilities	-	32,217,844	32,217,844
Other liabilities	374,176	8,116,370	8,490,546
Separate account product liabilities	<u>851,625</u>	<u>584,045,835</u>	<u>584,897,460</u>
<b>Total liabilities</b>	<b><u>\$ 61,002,224</u></b>	<b><u>\$ 5,906,208,594</u></b>	<b><u>\$ 5,967,210,818</u></b>

(Concluded)

c. Information for discretionary investment

- 1) As of September 30, 2019, December 31, 2018 and September 30, 2018, the Company contracts with securities investment trust enterprises for discretionary investment service and the related investments are as follows:

Items	September 30, 2019	December 31, 2018	September 30, 2018
Domestic stocks	\$ 113,695,998	\$ 118,377,980	\$ 131,810,818
Overseas stocks	53,610,884	60,215,861	62,776,698
Repurchase bonds	14,794,000	12,410,000	20,181,000
Cash in banks	37,563,130	17,914,307	42,075,924
Beneficiary certificates	7,101	1,830,959	482,679
Futures and options	<u>216,671</u>	<u>216,603</u>	<u>116,576</u>
	<b><u>\$ 219,887,784</u></b>	<b><u>\$ 210,965,710</u></b>	<b><u>\$ 257,443,695</u></b>

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

- 2) As of September 30, 2019, the discretionary investments limits are as follows (in thousands):

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
NTD	\$ 87,872,589	\$ 97,872,589	\$ 111,642,149
USD	952,200	1,417,500	1,850,000
HKD	961,384	2,023,000	2,239,000

d. Structured entities

- 1) Consolidated structured entities

The consolidated structured entities in the Group's consolidated financial statements are the real estate investments and management organizations. As of September 30, 2019, December 31, 2018 and September 30, 2018, the Group provided loans amounting to GBP345,000 thousand as financial support to the entities for operation and investment needs.

- 2) Unconsolidated structured entities

- a) The Group holds interests in structured entities which are not consolidated in the Group's consolidated financial statements and the Group does not provide financial support or other support to these structured entities. The maximum exposure to these structured entities is the carrying amount of the related assets held by the Group. The information of these unconsolidated structured entities is disclosed as follows:

<b><u>Types of Structured Entity</u></b>	<b><u>Nature and Purpose</u></b>	<b><u>Interests Owned</u></b>
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in units or limited partnership interests issued by the funds
Securitization vehicle	Investment in securitization vehicle to receive returns	Investment in asset-backed securities issued by the entities

- b) As of September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amounts of the Group's assets related to its interests in unconsolidated structured entities are disclosed as follows:

	<b>September 30, 2019</b>	
	<b><u>Private Equity Funds</u></b>	<b><u>Securitization Vehicle</u></b>
Financial assets at FVTPL	\$ 89,332,356	\$ 32,530,305
Financial assets at FVTOCI	-	33,991,317
Financial assets measured at amortized cost	-	187,315,213
	<b><u>\$ 89,332,356</u></b>	<b><u>\$ 253,836,835</u></b>

	<b>December 31, 2018</b>	
	<b>Private Equity Funds</b>	<b>Securitization Vehicle</b>
Financial assets at FVTPL	\$ 77,198,514	\$ 29,059,383
Financial assets at FVTOCI	-	53,974,279
Financial assets measured at amortized cost	-	152,673,283
	<u>\$ 77,198,514</u>	<u>\$ 235,706,945</u>
	<b>September 30, 2018</b>	
	<b>Private Equity Funds</b>	<b>Securitization Vehicle</b>
Financial assets at FVTPL	\$ 72,298,898	\$ 26,924,992
Financial assets at FVTOCI	-	60,289,315
Financial assets measured at amortized cost	-	154,492,083
	<u>\$ 72,298,898</u>	<u>\$ 241,706,390</u>

#### 46. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions:

No.	Description	Explanation
1	Acquisition of individual real estate at price over \$100 million or 20% of the paid-in capital.	Table 3
2	Disposal of individual real estate at price over \$100 million or 20% of the paid-in capital.	N/A
3	Engage in core business transactions with related parties amounting over \$100 million or 20% of the paid-in capital.	Note 36
4	Receivables from related parties amounting over \$100 million or 20% of the paid-in capital.	Note 36
5	Trading in derivative instruments.	Notes 8, 10 and 41

b. Information of investees

No.	Description	Explanation
1	Information on investee, including name, location and etc.	Table 1
2	Financing provided to others.	N/A
3	Endorsements/guarantees provided.	N/A
4	Marketable securities held.	Table 2
5	Marketable securities acquired or disposed of at accumulated amounts over \$100 million or 20% of the paid-in capital.	N/A
6	Acquisition of individual real estate at price over \$100 million or 20% of the paid-in capital.	N/A
7	Disposal of individual real estate at price over \$100 million or 20% of the paid-in capital.	N/A
8	Engage in core business transactions with related parties and transaction amounting over \$100 million or 20% of the paid-in capital.	Note 36
9	Receivables from related parties amounting over \$100 million or 20% of the paid-in capital.	N/A
10	Trading in derivative instruments.	N/A

c. Information on investments in Mainland China

<b>No.</b>	<b>Description</b>	<b>Explanation</b>
1	Name, principle 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 mainland China. If the investee belongs to the insurance industry, the location, status of capital funds and related income, provision methodology and balances of insurance policy reserves, percentage of insurance income and percentage of insurance benefits and claims should also be revealed.	Table 4
2	Significant transaction, with investee in mainland China, directly or indirectly through a third region including transaction prices, payment conditions, and unrealized gains or losses.	N/A
3	Note, endorsements and collaterals provided directly or indirectly through a third region by investee in mainland China.	N/A
4	Capital financing directly or indirectly through a third region by investee in mainland China.	N/A
5	Other significant transactions which may affect the decisions of users of the financial statements	N/A

- d. The important intercompany transactions among the Group are disclosed in Table 5 following the notes to the consolidated financial statements.

## CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Name of Investee	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2019	December 31, 2018	Number of Shares	Ratio (%)	Carrying Amount			
Cathay Life Insurance Co., Ltd.	Conning Holdings Limited	UK	Holding company	\$ 15,723,539	\$ 15,723,539	2,029	100.00	\$ 15,243,111	\$ 433,137	\$ 311,494	Subsidiary (2)
	Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	Life insurance	9,090,730	9,090,730	-	100.00	10,275,925	115,854	115,854	Subsidiary (1)
	Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	Real estate investment and operation management	16,654,013	16,654,013	326,700	100.00	13,102,037	390,486	390,486	Subsidiary (1)
	Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	Real estate investment and operation management	168,222	168,222	3,300	100.00	131,815	3,422	3,422	Subsidiary (1)
	Cathay Walbrook Holding 1 Limited	Jersey Island	Real estate investment and operation management	10,189,090	10,189,090	213,750	100.00	8,634,162	82,227	82,227	Subsidiary (1)
	Cathay Walbrook Holding 2 Limited	Jersey Island	Real estate investment and operation management	536,268	536,268	11,250	100.00	451,436	3,902	3,902	Subsidiary (1)
	Rizal Commercial Banking Corporation	Philippines	Banking	15,683,953	15,683,953	452,019	23.35	16,177,111	1,261,237	294,531	Associate (2)
	PT Bank Mayapada Internasional Tbk	Indonesia	Banking	13,317,536	13,317,536	2,550,767	40.00	13,893,364	1,753,815	(198,475)	Associate (2)
	Cathay Securities Investment Consulting Co., Ltd.	Taiwan	Securities investment consulting services	70,000	70,000	7,000	100.00	285,416	110,034	110,034	Subsidiary (1)
	Symphox Information Co., Ltd.	Taiwan	Wholesale of information softwares	404,432	404,432	24,511	49.12	400,237	8,179	4,017	Associate (2)
	WK Technology Fund VI Co., Ltd.	Taiwan	Venture investment	108,372	108,372	10,837	21.43	54,054	(8,105)	(1,737)	Associate (2)
	Dasheng Venture Capital Co., Ltd.	Taiwan	Venture investment	958,076	1,044,225	95,808	25.00	1,696,925	(33,662)	(8,415)	Associate (2)
	Dasheng IV Venture Capital Co., Ltd.	Taiwan	Venture investment	750,000	750,000	75,000	21.43	792,011	71,081	15,232	Associate (2)
	CMG International One Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	675,559	(1,220)	(549)	Associate (2)
	CMG International Two Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	673,973	(2,478)	(1,115)	Associate (2)
	CM Energy Co., Ltd.	Taiwan	Energy technical services	270,000	270,000	27,000	45.00	276,443	11,846	5,331	Associate (2)
	Neo Cathay Power Corp.	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	691,873	24,844	11,180	Associate (2)
	Cathay Sunrise Corporation	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	697,243	47,810	21,514	Associate (2)
	Ding Teng Co., Ltd.	Taiwan	Sewage treatment	756,116	756,116	37,284	27.36	765,354	87,874	24,044	Associate (2)
	PSS Co., Ltd.	Taiwan	Parking space management	781,364	781,364	13,452	36.70	819,464	151,257	55,635	Associate (2)
Greenhealth Water Resources Co., Ltd.	Taiwan	Sewage treatment	387,816	-	37,290	30.00	385,819	(6,655)	(1,997)	Associate (2)	
Cathay Venture Inc.	Taiwan	Venture Investment	1,567,574	-	114,129	25.00	1,563,447	273,766	(4,127)	Associate (1)	
Conning Holdings Limited	Global Evolution Holding ApS	Denmark	Investment management	2,679,234	2,679,234	3,138	45.00	2,829,896	729,412	292,137	Associate (2)

Note 1: Share of profit or loss is recognized on the basis of the financial statements reviewed by an independent auditor.

Note 2: Share of profit or loss is recognized on the basis of the financial statements unreviewed by an independent auditor.

## CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2019

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statements Accounts	September 30, 2019				Note
				Number of Shares (thousand)	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Conning Inc.	<u>Preference shares</u> Centerprise Services Inc.	N/A	Financial assets at FVTOCI	400	\$ 4,546	1.76	\$ 4,546	
Symphox Information Co., Ltd.	<u>Stocks</u> Appworks Fund I Co., Ltd.	N/A	Financial assets at FVTOCI	72	760	0.63	760	
	Fashionguide Co., Ltd.	N/A	Financial assets at FVTOCI	1,293	11,265	7.72	11,265	
	Buyforyou Co., Ltd.	N/A	Financial assets at FVTOCI	117	-	10.00	-	
	Ally Logistic Property Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	9,180	129,860	51.00	129,860	
	Connect Logistics Service Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,707	-	100.00	-	
	Seaward Card Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	53,028	100.00	53,028	
	Thinkpower Information Corporation	Parent and subsidiary	Investments accounted for using the equity method	4,545	354,312	71.00	354,312	
	Bowl Cut Entertainment Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	500	5,011	100.00	5,011	
Greenhealth Water Resources Co., Ltd.	YULIN New Retail Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	29,921	100.00	29,921	
	Lung Chuan Water Resources Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	124,300	1,251,221	100.00	1,251,221	

## CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(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			
The Company	Land located at Sanmin Section, Taoyuan City	2019.05.03	\$ 981,851	Installment payments according to contracts	Mr. Lu and other six natural person	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3,Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	323,890	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3,Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	389,855	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Sanmin Section, Taoyuan City	2019.07.10	397,327	Installment payments according to contracts	Mr. Yang	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Tongan Section, Taoyuan City	2019.07.24	186,107	Installment payments according to contracts	Mr. Wu and other four natural person	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, 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, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

## CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Principle business activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of September 30, 2019	Accumulated Repatriation of Investment Income as of September 30, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	(a)	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 725,149	50.0	\$ 362,574 (Note 2,b,2)	\$ 5,403,688	\$ -
Cathay Insurance Company Limited (China)	Property insurance	12,196,844	(a)	2,943,663	-	-	2,943,663	(81,585)	24.5	(19,988) (Note 2,b,3)	1,761,127	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	7,223,435	(a)	7,223,435	-	-	7,223,435	219,601	100.0	163,287 (Note 2,b,2)	7,439,388	-

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2019	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$333,107,353

Note 1: Categories of method of investment

- a. Direct investment in China.
- b. Reinvestment in China through the third-region companies.
- c. Others.

Note 2: Categories of method of investment

- a. If it is in preparation, there are no investment gains and losses, it should be noted.
- b. The recognition basis for investment gain (loss) are as follows:
  - 1) Financial statement audited by an international CPA firms with the cooperation of the R.O.C. CPA firm.
  - 2) Financial statements audited by the R.O.C. CPA firm.
  - 3) Other.

Note 3: Information on investments in mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs ("MOEAIC") authorized the Company 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 MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized the Company 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. The Company's subsidiary, Cathay Life Insurance Ltd. (China) 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. The Company remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. The Company injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized the Company to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of September 30, 2019, the Company's remittances to the subsidiary amounted to a total of approximately CNY900,000 thousand and US\$78,210 thousand.

(Continued)



On October 17, 2007, MOEAIC authorized the Company 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 the Company to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized the Company 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 the Company and Cathay Century Insurance in Shanghai acquired a business license of an enterprise as legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized the Company to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized the Company to remit CNY245,000 thousand on December 6, 2018. As of September 30, 2019, the Company's remittances to this general insurance company amounted to approximately CNY445,000 thousand and US\$28,140 thousand.

On November 1, 2011 and April 11, 2012, MOEAIC authorized the Company 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. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. acquired a business license of an enterprise as legal person on August 15, 2012. On April 1, 2013, MOEAIC authorized the Company to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of September 30, 2019, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. amounted to approximately CNY1,500,000 thousand.

(Concluded)

## CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019  
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			% of Total operating revenue or Assets
				Financial Statement Accounts	Amount	Payment Terms	
0	Cathay Life Insurance Co., Ltd.	Cathay Walbrook Holding 1 Limited	a	Other loans	\$ 12,492,673	Equivalent to general conditions of transactions	0.18
		Cathay Walbrook Holding 1 Limited	a	Other receivables	13,921	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 1 Limited	a	Interest income	365,590	Equivalent to general conditions of transactions	0.05
		Cathay Walbrook Holding 2 Limited	a	Other loans	657,509	Equivalent to general conditions of transactions	0.01
		Cathay Walbrook Holding 2 Limited	a	Other receivables	733	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 2 Limited	a	Interest income	19,242	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Processing fee expense	645,492	Equivalent to general conditions of transactions	0.10
		Conning Holdings Limited	a	Other payables	214,193	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Prepaid expense	2,910	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Administrative expense	4,303	Equivalent to general conditions of transactions	-
1	Lin Yuan (Shanghai) Real Estate Co., Ltd.	Cathay Lujiazui Life Insurance Co., Ltd.	c	Guarantee deposits received	10,071	Equivalent to general conditions of transactions	-
		Cathay Lujiazui Life Insurance Co., Ltd.	c	Rental income	31,357	Equivalent to general conditions of transactions	-

Note 1: Parent is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationships:

- a. Parent to subsidiary.
- b. Subsidiary to parent.
- c. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating revenue and assets is calculated as follows:

For balance sheet accounts: Transaction amount ÷ Total consolidated assets

For income statement accounts: Accumulated transaction amount in current period ÷ Total consolidated operating revenues.

Note 4: Terms and conditions of related party transactions are made on arm's length basis. There is no difference in terms and conditions between related parties and non-related parties transactions.