

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

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

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Cathay 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, 2020 and 2019, the related consolidated statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by 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, 2020 and 2019, its consolidated financial performance for the three months ended September 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2020 and 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by 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.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 12, 2020

Notice to Readers

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

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

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 34)	\$ 464,672,527	6	\$ 402,051,684	6	\$ 306,021,430	4
RECEIVABLES (Notes 4, 5, 7 and 34)	64,212,133	1	82,467,914	1	80,997,281	1
INVESTMENTS						
Financial assets at fair value through profit or loss (Notes 4, 5, 8 and 39)	1,348,677,805	18	1,331,028,157	19	1,273,023,442	18
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9, 37 and 39)	1,096,174,383	15	854,341,271	12	900,420,943	13
Financial assets measured at amortized cost (Notes 4, 5, 13, 37 and 39)	2,691,258,505	36	2,616,585,170	37	2,598,476,006	37
Financial assets for hedging (Notes 4, 5 and 10)	386,927	-	548,075	-	702,253	-
Investments accounted for using the equity method (Notes 4 and 12)	29,336,316	-	44,557,549	1	44,439,316	1
Investment property (Notes 4, 5, 14 and 34)	490,795,823	7	483,871,717	7	482,318,535	7
Investment property under construction (Notes 4, 14 and 34)	2,242,002	-	4,546,717	-	3,761,541	-
Prepayments for buildings and land - investments (Notes 4 and 14)	325,949	-	1,152,363	-	26,617	-
Loans (Notes 4, 5, 15 and 34)	481,592,134	7	513,380,541	7	526,143,898	8
Total investments	<u>6,140,789,844</u>	<u>83</u>	<u>5,850,011,560</u>	<u>83</u>	<u>5,829,312,551</u>	<u>84</u>
REINSURANCE ASSETS (Notes 4, 16 and 23)	1,621,949	-	1,743,932	-	1,342,566	-
PROPERTY AND EQUIPMENT (Notes 4 and 17)	31,795,342	-	32,271,269	-	32,221,588	-
RIGHT-OF-USE ASSETS (Notes 4, 18 and 34)	1,633,516	-	1,577,679	-	1,713,078	-
INTANGIBLE ASSETS (Notes 4 and 19)	45,115,528	1	41,346,899	1	42,285,757	1
DEFERRED TAX ASSETS (Note 4)	53,409,941	1	36,156,766	-	23,799,293	-
OTHER ASSETS (Notes 20, 34 and 37)	30,913,076	-	30,453,369	-	35,461,871	1
SEPARATE ACCOUNT INSURANCE PRODUCT ASSETS (Notes 4 and 35)	<u>592,035,565</u>	<u>8</u>	<u>607,542,434</u>	<u>9</u>	<u>592,622,929</u>	<u>9</u>
TOTAL	<u>\$ 7,426,199,421</u>	<u>100</u>	<u>\$ 7,085,623,506</u>	<u>100</u>	<u>\$ 6,945,778,344</u>	<u>100</u>
LIABILITIES AND EQUITY						
PAYABLES (Notes 21 and 34)	\$ 39,401,900	1	\$ 30,964,602	1	\$ 38,982,297	1
CURRENT TAX LIABILITIES (Note 4)	706,217	-	635,483	-	535,637	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	1,824,892	-	2,974,334	-	19,584,896	-
FINANCIAL LIABILITIES FOR HEDGING (Notes 4, 5 and 10)	57,171	-	30,894	-	38,240	-
BONDS PAYABLE (Notes 22 and 34)	80,000,000	1	80,000,000	1	80,000,000	1
INSURANCE LIABILITIES (Notes 4, 5 and 23)						
Unearned premium reserve	17,790,022	-	17,832,203	-	17,025,855	-
Loss reserve	11,656,290	-	11,042,612	-	10,729,977	-
Policy reserve	5,895,203,662	80	5,592,979,067	79	5,490,051,784	79
Special reserve	11,084,624	-	11,084,624	-	11,084,479	-
Premium deficiency reserve	16,154,453	-	19,679,457	1	20,253,872	1
Other reserve	1,855,141	-	1,873,141	-	1,877,542	-
Total insurance liabilities	<u>5,953,744,192</u>	<u>80</u>	<u>5,654,491,104</u>	<u>80</u>	<u>5,551,023,509</u>	<u>80</u>
RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS (Notes 4 and 24)	13,076,140	-	10,932,008	-	10,514,325	-
RESERVE FOR FOREIGN EXCHANGE VALUATION (Notes 4 and 25)	10,212,568	-	18,000,877	-	22,385,769	-
PROVISIONS (Notes 4 and 27)	56,245	-	233,871	-	217,664	-
LEASE LIABILITIES (Notes 4, 18 and 34)	10,530,195	-	10,381,894	-	10,636,968	-
DEFERRED TAX LIABILITIES (Note 4)	57,499,082	1	55,730,622	1	50,186,070	1
OTHER LIABILITIES (Notes 28 and 34)	18,654,857	-	19,187,395	-	7,925,539	-
SEPARATE ACCOUNT INSURANCE PRODUCT LIABILITIES (Notes 4 and 35)	<u>592,035,565</u>	<u>8</u>	<u>607,542,434</u>	<u>9</u>	<u>592,622,929</u>	<u>9</u>
Total liabilities	<u>6,777,799,024</u>	<u>91</u>	<u>6,491,105,518</u>	<u>92</u>	<u>6,384,653,843</u>	<u>92</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 30)						
Share capital						
Ordinary shares	58,515,274	1	58,515,274	1	57,265,274	1
Capital surplus	60,605,736	1	60,607,456	1	51,544,796	1
Retained earnings						
Legal reserve	18,834,196	-	43,338,466	1	43,338,466	1
Special reserve	345,589,461	5	289,432,530	4	287,698,496	4
Unappropriated earnings	44,056,985	-	31,652,661	-	25,702,091	-
Total retained earnings	<u>408,480,642</u>	<u>5</u>	<u>364,423,657</u>	<u>5</u>	<u>356,739,053</u>	<u>5</u>
Other equity	113,615,835	2	105,072,396	1	89,629,798	1
Total equity attributable to owners of the Company	<u>641,217,487</u>	<u>9</u>	<u>588,618,783</u>	<u>8</u>	<u>555,178,921</u>	<u>8</u>
NON-CONTROLLING INTERESTS (Notes 4 and 30)	7,182,910	-	5,899,205	-	5,945,580	-
Total equity	<u>648,400,397</u>	<u>9</u>	<u>594,517,988</u>	<u>8</u>	<u>561,124,501</u>	<u>8</u>
TOTAL	<u>\$ 7,426,199,421</u>	<u>100</u>	<u>\$ 7,085,623,506</u>	<u>100</u>	<u>\$ 6,945,778,344</u>	<u>100</u>

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

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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Retained earned premium (Notes 4, 26 and 34)								
Written premium	\$ 127,143,563	54	\$ 132,382,796	64	\$ 422,244,646	63	\$ 431,844,566	64
Reinsurance premium	<u>25,183</u>	-	<u>29,745</u>	-	<u>83,712</u>	-	<u>91,986</u>	-
Premium income	127,168,746	54	132,412,541	64	422,328,358	63	431,936,552	64
Less: Reinsurance expense	(642,548)	-	(574,318)	(1)	(1,726,203)	-	(1,588,704)	-
Net changes in unearned premium reserve (Notes 4 and 23)	<u>(38,308)</u>	-	<u>(236,786)</u>	-	<u>111,732</u>	-	<u>(127,267)</u>	-
Total retained earned premium	126,487,890	54	131,601,437	63	420,713,887	63	430,220,581	64
Reinsurance commission income	6,004	-	8,494	-	13,005	-	22,294	-
Fee income (Notes 34 and 35)	2,231,302	1	2,162,454	1	6,410,102	1	6,228,546	1
Net investment incomes (losses)								
Interest income (Notes 4, 32 and 34)	39,151,641	17	40,844,551	20	117,954,453	18	120,985,185	18
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 8)	72,868,438	31	20,395,873	10	102,541,152	15	116,374,396	17
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 9)	7,764,364	3	7,009,801	3	23,015,501	3	19,858,958	3
Gain on derecognition of financial assets measured at amortized cost (Notes 4 and 13)	10,652,082	5	2,463,618	1	34,019,005	5	3,846,626	1
Share of profit (loss) of associates accounted for using the equity method (Notes 4 and 12)	529,895	-	(160,409)	-	(12,505,276)	(2)	597,252	-
Foreign exchange (loss) gain	(41,490,129)	(18)	(7,956,341)	(4)	(82,072,048)	(12)	17,002,848	3
Net changes in reserve for foreign exchange valuation (Notes 4 and 25)	(3,611,796)	(1)	2,496,146	1	7,788,309	1	(5,310,480)	(1)
Gain on investment property (Notes 4 and 34)	2,994,595	1	3,114,819	2	11,042,809	2	9,908,592	1
(Expected credit loss) reversal of expected credit loss on investments (Notes 4 and 32)	(145,319)	-	431,917	-	(1,771,713)	-	1,661,359	-
Other net investment income	45,376	-	26,461	-	1,960,698	-	272,508	-
(Loss) gain on reclassification using overlay approach (Notes 4 and 8)	(8,485,876)	(4)	(4,613,209)	(2)	2,621,931	-	(99,611,968)	(15)

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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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Other operating revenue (Note 34)	\$ 2,244,792	1	\$ 1,462,974	1	\$ 5,417,696	1	\$ 4,406,035	1
Separate account insurance product income (Notes 4 and 35)	<u>22,542,761</u>	<u>10</u>	<u>7,629,071</u>	<u>4</u>	<u>33,215,000</u>	<u>5</u>	<u>46,299,458</u>	<u>7</u>
Total operating revenue	<u>233,786,020</u>	<u>100</u>	<u>206,917,657</u>	<u>100</u>	<u>670,364,511</u>	<u>100</u>	<u>672,762,190</u>	<u>100</u>
OPERATING COSTS								
Retained claims payments (Notes 4 and 26)								
Insurance claims payments	69,325,554	29	70,822,083	34	198,368,149	29	276,716,353	41
Less: Claims and payments recovered from reinsurers	<u>(414,412)</u>	<u>-</u>	<u>(321,140)</u>	<u>-</u>	<u>(1,085,695)</u>	<u>-</u>	<u>(861,457)</u>	<u>-</u>
Total retained claims payments	68,911,142	29	70,500,943	34	197,282,454	29	275,854,896	41
Net changes in other insurance liabilities (Notes 4, 5 and 23)								
Net changes in loss reserve	183,137	-	447,331	-	611,206	-	1,839,136	-
Net changes in policy reserve	99,103,207	42	96,868,403	47	342,695,351	51	256,532,964	38
Net changes in special reserve	99	-	119	-	-	-	225	-
Net changes in premium deficiency reserve	(1,228,405)	-	(811,371)	-	(3,382,462)	-	(2,312,177)	-
Net changes in other reserve	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>(17,028)</u>	<u>-</u>
Total net changes in other insurance liabilities	98,052,038	42	96,498,482	47	339,906,095	51	256,043,120	38
Net changes in reserve for insurance contracts with the nature of financial products (Notes 4 and 24)	201,354	-	164,796	-	569,617	-	505,985	-
Underwriting expenses (Note 32)	3,863,936	2	4,671,750	2	13,016,737	2	15,604,864	2
Commission expenses (Note 32)	4,453,322	2	4,662,316	2	13,121,479	2	14,196,623	2
Other operating costs (Note 34)	2,093,104	1	1,464,272	1	5,291,468	1	4,374,772	1
Finance costs (Notes 22 and 34)	726,526	-	749,976	-	1,766,818	-	2,025,869	-
Separate account insurance product expenses (Notes 4 and 35)	<u>22,542,761</u>	<u>10</u>	<u>7,629,071</u>	<u>4</u>	<u>33,215,000</u>	<u>5</u>	<u>46,299,458</u>	<u>7</u>
Total operating costs	<u>200,844,183</u>	<u>86</u>	<u>186,341,606</u>	<u>90</u>	<u>604,169,668</u>	<u>90</u>	<u>614,905,587</u>	<u>91</u>
OPERATING EXPENSES (Notes 32 and 34)								
General expenses	2,684,543	1	3,064,863	2	8,015,041	1	9,343,512	1
Administrative expenses	4,653,909	2	4,544,196	2	13,875,223	2	13,454,983	2
Employee training expenses	15,145	-	20,635	-	35,523	-	45,626	-
Non-investment expected credit (gain) loss (Notes 4 and 32)	<u>(1,873)</u>	<u>-</u>	<u>258</u>	<u>-</u>	<u>8,548</u>	<u>-</u>	<u>1,548</u>	<u>-</u>
Total operating expenses	<u>7,351,724</u>	<u>3</u>	<u>7,629,952</u>	<u>4</u>	<u>21,934,335</u>	<u>3</u>	<u>22,845,669</u>	<u>3</u>

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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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING INCOME	\$ 25,590,113	11	\$ 12,946,099	6	\$ 44,260,508	7	\$ 35,010,934	6
NON-OPERATING INCOME AND EXPENSES (Notes 32 and 34)	<u>347,734</u>	<u>-</u>	<u>334,392</u>	<u>-</u>	<u>1,196,882</u>	<u>-</u>	<u>1,194,746</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	25,937,847	11	13,280,491	6	45,457,390	7	36,205,680	6
INCOME TAX EXPENSE (Notes 4 and 33)	<u>(880,265)</u>	<u>-</u>	<u>(2,497,614)</u>	<u>(1)</u>	<u>(609,744)</u>	<u>-</u>	<u>(5,628,680)</u>	<u>(1)</u>
NET INCOME	<u>25,057,582</u>	<u>11</u>	<u>10,782,877</u>	<u>5</u>	<u>44,847,646</u>	<u>7</u>	<u>30,577,000</u>	<u>5</u>
OTHER COMPREHENSIVE (LOSS) INCOME (Notes 4 and 30)								
Items that will not be reclassified subsequently to profit or loss:								
(Loss) gain on equity instruments at fair value through other comprehensive income	(3,324,050)	(1)	(2,037,969)	(1)	(3,653,953)	(1)	3,658,823	-
Share of other comprehensive income of associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	168,301	-	(107,410)	-	337,985	-	175,373	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 33)	157,119	-	138,015	-	652,335	-	(305,068)	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating financial statements of foreign operations	382,693	-	(1,240,194)	-	(2,440,292)	-	(554,604)	-
Gain on debt instruments at fair value through other comprehensive income	2,000,448	1	22,629,401	11	18,121,539	3	93,408,280	14
(Loss) gain on hedging instruments	(51,901)	-	(879)	-	99,936	-	95,549	-
Share of other comprehensive income (loss) of associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	121,867	-	(525,451)	-	(112,423)	-	292,768	-

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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			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Other comprehensive income (loss) reclassified using overlay approach	\$ 8,485,876	3	\$ 4,613,209	2	\$ (2,621,931)	(1)	\$ 99,611,968	15
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 33)	<u>(2,267,173)</u>	<u>(1)</u>	<u>(3,535,667)</u>	<u>(2)</u>	<u>(2,066,191)</u>	<u>-</u>	<u>(27,739,256)</u>	<u>(4)</u>
Total other comprehensive income for the period, net of income tax	<u>5,673,180</u>	<u>2</u>	<u>19,933,055</u>	<u>10</u>	<u>8,317,005</u>	<u>1</u>	<u>168,643,833</u>	<u>25</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 30,730,762</u>	<u>13</u>	<u>\$ 30,715,932</u>	<u>15</u>	<u>\$ 53,164,651</u>	<u>8</u>	<u>\$ 199,220,833</u>	<u>30</u>
NET PROFIT								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 24,637,967	11	\$ 10,664,741	5	\$ 44,103,731	7	\$ 30,092,782	5
Non-controlling interests	<u>419,615</u>	<u>-</u>	<u>118,136</u>	<u>-</u>	<u>743,915</u>	<u>-</u>	<u>484,218</u>	<u>-</u>
	<u>\$ 25,057,582</u>	<u>11</u>	<u>\$ 10,782,877</u>	<u>5</u>	<u>\$ 44,847,646</u>	<u>7</u>	<u>\$ 30,577,000</u>	<u>5</u>
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the Company	\$ 30,484,690	13	\$ 30,756,126	15	\$ 52,600,424	8	\$ 198,577,341	30
Non-controlling interests	<u>246,072</u>	<u>-</u>	<u>(40,194)</u>	<u>-</u>	<u>564,227</u>	<u>-</u>	<u>643,492</u>	<u>-</u>
	<u>\$ 30,730,762</u>	<u>13</u>	<u>\$ 30,715,932</u>	<u>15</u>	<u>\$ 53,164,651</u>	<u>8</u>	<u>\$ 199,220,833</u>	<u>30</u>
EARNINGS PER SHARE (Note 31)								
Basic earnings per share	<u>\$ 4.21</u>		<u>\$ 1.86</u>		<u>\$ 7.54</u>		<u>\$ 5.25</u>	

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

(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 the Translation of Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Gain (Loss) on Hedging Instruments	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) on Reclassification Using Overlay Approach			
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
Disposal 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	<u>\$ 57,265,274</u>	<u>\$ 51,544,796</u>	<u>\$ 43,338,466</u>	<u>\$ 287,698,496</u>	<u>\$ 25,702,091</u>	<u>\$ (11,017,281)</u>	<u>\$ 61,639,874</u>	<u>\$ 242,084</u>	<u>\$ 280,083</u>	<u>\$ 187,503</u>	<u>\$ 38,297,535</u>	<u>\$ 555,178,921</u>	<u>\$ 5,945,580</u>	<u>\$ 561,124,501</u>
BALANCE AT JANUARY 1, 2020	\$ 58,515,274	\$ 60,607,456	\$ 43,338,466	\$ 289,432,530	\$ 31,652,661	\$ (11,187,030)	\$ 57,531,736	\$ 331,929	\$ 447,694	\$ 187,503	\$ 57,760,564	\$ 588,618,783	\$ 5,899,205	\$ 594,517,988
Appropriation of 2019 earnings														
Legal reserve	-	-	6,677,339	-	(6,677,339)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	57,715,708	(57,715,708)	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,558,777)	1,558,777	-	-	-	-	-	-	-	-	-
Legal reserve used to cover accumulated deficit	-	-	(31,181,609)	-	31,181,609	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	(1,720)	-	-	-	-	-	-	-	-	-	(1,720)	-	(1,720)
Net profit for the nine months ended September 30, 2020	-	-	-	-	44,103,731	-	-	-	-	-	-	44,103,731	743,915	44,847,646
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	(2,431,774)	12,779,044	84,315	(8,691)	-	(1,926,201)	8,496,693	(179,688)	8,317,005
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	44,103,731	(2,431,774)	12,779,044	84,315	(8,691)	-	(1,926,201)	52,600,424	564,227	53,164,651
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(46,746)	-	46,746	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	719,478	719,478
BALANCE AT SEPTEMBER 30, 2020	<u>\$ 58,515,274</u>	<u>\$ 60,605,736</u>	<u>\$ 18,834,196</u>	<u>\$ 345,589,461</u>	<u>\$ 44,056,985</u>	<u>\$ (13,618,804)</u>	<u>\$ 70,357,526</u>	<u>\$ 416,244</u>	<u>\$ 439,003</u>	<u>\$ 187,503</u>	<u>\$ 55,834,363</u>	<u>\$ 641,217,487</u>	<u>\$ 7,182,910</u>	<u>\$ 648,400,397</u>

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

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	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 45,457,390	\$ 36,205,680
Adjustments for:		
Depreciation expenses	966,505	995,208
Amortization expenses	1,997,842	1,957,674
Gain on financial assets and liabilities at fair value through profit or loss	(89,123,113)	(94,369,466)
Gain on financial assets at fair value through other comprehensive income	(20,081,800)	(18,132,873)
Gain on derecognition of financial assets measured at amortized cost	(34,019,005)	(3,846,626)
Finance costs	1,911,002	2,142,960
Interest income	(117,954,453)	(120,985,185)
Dividend income	(16,351,740)	(23,731,015)
Net changes in insurance liabilities	299,196,397	264,039,177
Net changes in reserve for insurance contracts with the nature of financial products	2,144,132	1,195,612
Net changes in reserve for foreign exchange valuation	(7,788,309)	5,310,480
Expected credit loss (reversal of expected credit loss) on investments	1,771,713	(1,661,359)
Non-investments expected credit loss	8,548	1,548
Share of loss (profit) of associates accounted for using equity method	12,505,276	(597,252)
(Gain) loss on reclassification using overlay approach	(2,621,931)	99,611,968
Loss (gain) on disposal and retirement of property and equipment	2,237	(13,234)
Loss on disposal of investment property	505,615	21,955
Gain on disposal of investment using equity method	(1,803,139)	-
Gain on changes in fair value of investment property	(2,379,604)	(623,960)
Net changes in operating assets and liabilities		
Decrease in financial assets at fair value through profit or loss	126,245,865	82,430,601
(Increase) decrease in financial assets at fair value through other comprehensive income	(207,650,135)	136,845,136
Increase in financial assets measured at amortized cost	(42,235,337)	(335,226,158)
Decrease in financial assets for hedging	289,035	-
Decrease in other financial assets	-	2,000,000
Decrease in notes receivable	56,192	97,512
Decrease in other receivables	8,674,022	3,016,515
Increase in prepaid expenses and other prepayments	(237,556)	(257,426)
(Increase) decrease in guarantee deposits paid	(938,341)	4,055,508
Decrease in reinsurance assets	172,266	388,014
Decrease (increase) in other assets	664,815	(873,550)
Decrease in financial liabilities at fair value through profit or loss	(55,161,450)	(101,657,298)
Decrease in notes payable	(151,243)	(74,909)

(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	
	2020	2019
(Decrease) increase in claims payable	\$ (32,932)	\$ 56,032
Increase in other payables	4,159,383	6,458,430
Increase in due to reinsurers and ceding companies	121,004	66,321
Decrease in commissions payable	(2,655,445)	(888,655)
Increase in advance receipts	15,545	16,605
(Decrease) increase in guarantee deposits received	(3,034,229)	975,793
Decrease in provisions	(177,626)	(7,613)
Decrease in deferred fee income	(1,598)	(11,320)
Increase (decrease) in other liabilities	<u>1,657,440</u>	<u>(1,793,835)</u>
Cash used in operations	(95,876,762)	(56,863,005)
Interest received	117,327,282	115,803,656
Dividends received	17,024,789	24,116,375
Interest paid	(1,671,383)	(1,487,297)
Income tax paid	<u>(768,224)</u>	<u>(2,251,821)</u>
Net cash generated from operating activities	<u>36,035,702</u>	<u>79,317,908</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using the equity method	(450,185)	(1,955,392)
Proceeds from disposal of investments accounted for using the equity method	-	86,149
Net cash outflow on acquisition of subsidiaries (deduct cash and cash equivalent balances acquired)	(152,501)	-
Cash returned by capital deduction from investments accounted for using the equity method	157,159	-
Acquisition of property and equipment	(641,910)	(443,130)
Proceeds from disposal of property and equipment	4	35,035
Acquisition of intangible assets	(132,312)	(94,374)
Decrease in loans	31,837,245	55,831,555
Acquisition of investment property	(3,444,165)	(12,464,858)
Proceeds from disposal of investment property	<u>149,708</u>	<u>38,990</u>
Net cash generated from investing activities	<u>27,323,043</u>	<u>41,033,975</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	-	10,000,000
Repayments of the principal portion of lease liabilities	(544,614)	(302,208)
Changes in non-controlling interests	<u>(583,516)</u>	<u>(234,629)</u>
Net cash (used in) generated from financing activities	<u>(1,128,130)</u>	<u>9,463,163</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	
	2020	2019
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ <u>390,228</u>	\$ <u>874,179</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,620,843	130,689,225
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>402,051,684</u>	<u>175,332,205</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 464,672,527</u>	<u>\$ 306,021,430</u>

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

(Concluded)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

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

1. GENERAL INFORMATION

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 the 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, 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 its operations 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 dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on November 12, 2020.

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

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

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

- 1) Amendments to IFRS 3 “Definition of a Business”

The Group applies the amendments to IFRS 3 to transactions that occur on or after January 1, 2020. The amendments require that for an entity to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To judge whether the acquired process is substantive, there will be different judgement requirements depending on whether there is output on the acquisition date. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

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

Upon retrospective application of the amendments, the Group complied with the hedge accounting requirements under the assumption that the interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

- 3) Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group adopted the amendments starting from January 1, 2020. The threshold for materiality influencing users has been changed to “could reasonably be expected to influence” and, therefore, the disclosures in the consolidated financial report have been adjusted and immaterial information that may obscure material information has been deleted.

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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

The amendments to IFRS 9 and IFRS 16 provide specific practical expedient that the modification of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform shall be applied by revising the effective interest rate. Besides, the amendments to IFRS 9 introduce additional temporary exceptions for hedging relationships subject to interest rate benchmark reform.

The Group may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

2) IFRS 17 “Insurance Contracts” and its amendments

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

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts, which comprise 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 be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of:

- a) A group of contracts that are onerous at initial recognition;
- b) A group of contracts at initial recognition that has no significant possibility of becoming onerous subsequently;
- c) A group of the remaining contracts in the portfolio.

The Group is not permitted to include contracts issued more than one year apart in the same group, and a group of contracts to be issued should apply the recognition and measurement of IFRS 17.

Recognition

The Group shall recognize its issuance of a group of insurance contracts from the earliest of the following:

- a) The beginning of the coverage period of the group of contracts;
- b) The date when the first payment from a policyholder in the group becomes due; and
- c) 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 comprise estimates of future cash flows, an adjustment to reflect the time value of money and financial risk, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit of a group of insurance contracts that the Group will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless a group of contracts is onerous, results in no income or expenses arising from:

- a) The initial recognition of an amount for the fulfilment cash flows;
- b) All cash flows arising from the contracts in the group at that date; and
- c) The derecognition at the date of derecognition of the following:
 - i. All assets for insurance acquisition cash flows;
 - ii. Any asset or liability previously recognized for cash flows related to a group of insurance contracts.

Subsequent measurement

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

Onerous contracts

An insurance contract is onerous at initial recognition if the total of the fulfilment cash flows allocated to insurance contracts, any previously recognized acquisition cash flows and all 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:

- a) The Group reasonably expects that this will be a reasonable approximation of the general model, or
- b) 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:

- a) The premiums received at initial recognition;
- b) Minus any insurance acquisition cash flows; and
- c) Plus or minus the derecognition at the initial recognition date of the following:
 - i. All assets for insurance acquisition cash flows; and
 - ii. Any asset or liability previously recognized for cash flows related to a group of insurance contracts.

Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for services provided in that period, and minus all investment component paid or transferred to the liability for incurred claims.

Investment contracts with discretionary participation features

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

Modification and derecognition

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

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

Transition

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 5 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Business combinations

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

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

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

e. 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 the consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries and associates in other countries or those 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.

f. 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.

g. Property and equipment

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

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

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

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

h. Investment properties

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

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

Investment properties under construction, of which 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.

i. 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.

j. 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.

k. 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.

l. 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 transactions 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 39.

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

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

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 39.

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.

m. 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.

n. 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.

o. Insurance liabilities

1) The Company

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

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.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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.

u. 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.

v. 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.

w. Leases

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

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

x. 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.

y. 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 39.

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 14 and 39.

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

All insurance contracts are subject to a liability adequacy test, which reflects the best current estimate of future cash flows. Best estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expenses are based on current expense levels, adjusted using the expected expense inflation, if appropriate. Surrender rates are based on the 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, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash on hand	\$ 295,659	\$ 258,876	\$ 261,121
Cash in banks	241,529,993	178,571,320	123,651,644
Time deposits	180,992,679	165,013,491	142,273,304
Cash equivalents	<u>41,854,196</u>	<u>58,207,997</u>	<u>39,835,361</u>
	<u>\$ 464,672,527</u>	<u>\$ 402,051,684</u>	<u>\$ 306,021,430</u>

7. RECEIVABLES

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Notes receivable	\$ 219,036	\$ 275,228	\$ 194,443
Other receivables	63,995,951	82,195,499	80,805,933
Overdue receivables	<u>5,033</u>	<u>11,919</u>	<u>13,695</u>
	64,220,020	82,482,646	81,014,071
Less: Loss allowance	<u>(7,887)</u>	<u>(14,732)</u>	<u>(16,790)</u>
	<u>\$ 64,212,133</u>	<u>\$ 82,467,914</u>	<u>\$ 80,997,281</u>

The movements in the loss allowance are as follows:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 14,732	\$ 98,067
Provision (reversal) for the current period	2,140	(36,543)
Amounts written off	(8,997)	(44,734)
Foreign exchange	<u>12</u>	<u>-</u>
Ending balance	<u>\$ 7,887</u>	<u>\$ 16,790</u>

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Domestic stocks	\$ 260,906,234	\$ 258,526,486	\$ 309,045,603
Beneficiary certificates	648,032,118	558,404,095	452,575,487
Government bonds	-	399,968	-
Financial debentures	9,390,573	14,475,317	15,525,212
Overseas stocks	184,444,104	220,739,840	243,901,501
Real estate investment trust	24,534,184	16,161,514	15,238,370
Overseas bonds	176,309,233	230,049,274	227,367,744
Structured time deposits	21,101,333	4,011,973	-
Derivative financial assets (not under hedge accounting)			
Currency swap contracts (“SWAP”)	19,329,062	18,728,825	5,517,310
Foreign exchange forward contacts (“Forward”)	4,182,263	9,332,640	3,705,786
Cross currency swap contracts (“CCS”)	413,438	148,872	-
Options	8,265	49,353	146,429
Call warrants	<u>26,998</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,348,677,805</u>	<u>\$ 1,331,028,157</u>	<u>\$ 1,273,023,442</u>
<u>Financial liabilities held for trading</u>			
Derivative financial liabilities (not under hedge accounting)			
SWAP	\$ 1,053,989	\$ 1,810,120	\$ 17,066,075
Forward	770,903	1,138,856	2,365,672
Interest rate swap contracts (“IRS”)	-	7,342	9,020
CCS	-	-	542
Options	<u>-</u>	<u>18,016</u>	<u>143,587</u>
	<u>\$ 1,824,892</u>	<u>\$ 2,974,334</u>	<u>\$ 19,584,896</u>

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets mandatorily classified as at FVTPL</u>			
Domestic stocks	\$ 260,906,234	\$ 256,601,805	\$ 307,026,775
Beneficiary certificates	608,426,435	523,997,872	432,219,725
Financial debentures	9,390,573	14,475,317	15,525,212
Overseas stocks	183,595,514	220,010,748	243,197,965
Real estate investment trust	24,534,184	16,161,514	15,238,370
Overseas bonds	175,770,032	229,427,152	226,672,641
Structured time deposits	<u>21,101,333</u>	<u>4,011,973</u>	<u>-</u>
	<u>\$ 1,283,724,305</u>	<u>\$ 1,264,686,381</u>	<u>\$ 1,239,880,688</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Gain due to the implementation of IFRS 9 to profit or loss	\$ 47,433,574	\$ 29,807,798	\$ 88,513,212	\$ 166,444,236
Gains due to the implementation of IAS 39 to profit or loss (if applicable)	<u>(38,947,698)</u>	<u>(25,194,589)</u>	<u>(91,135,143)</u>	<u>(66,832,268)</u>
Loss (gain) reclassified due to the application of overlay approach	<u>\$ 8,485,876</u>	<u>\$ 4,613,209</u>	<u>\$ (2,621,931)</u>	<u>\$ 99,611,968</u>

Due to the application of overlay approach, the amount of gain on financial assets and liabilities at FVTPL for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019 decreased from \$72,868,438 thousand to \$64,382,562 thousand, decreased from \$20,395,873 thousand to \$15,782,664 thousand, increased from \$102,541,152 thousand to \$105,163,083 thousand and decreased from \$116,374,396 thousand to \$16,762,428 thousand, respectively.

- b. As of September 30, 2020, December 31, 2019 and September 30, 2019, structured notes which were accounted for as financial instruments at FVTPL amounted to \$60,608,216 thousand, \$105,784,237 thousand and \$103,547,949 thousand, respectively.
- c. The financial assets at FVTPL held by the Group were not pledged as collateral.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2020	December 31, 2019	September 30, 2019
Equity instrument investments at FVTOCI			
Domestic stocks	\$ 73,675,684	\$ 26,813,635	\$ 23,286,238
Overseas stocks	<u>5,728,529</u>	<u>8,815,869</u>	<u>7,451,142</u>
	<u>79,404,213</u>	<u>35,629,504</u>	<u>30,737,380</u>
Debt instrument investments at FVTOCI			
Corporate bonds	2,200,073	-	-
Government bonds	47,712,300	41,077,782	45,734,061
Overseas bonds	968,014,968	778,747,472	825,056,808
Less: Litigation deposits	(46,624)	(45,748)	(44,960)
Less: Deposits to Central Bank	<u>(1,110,547)</u>	<u>(1,067,739)</u>	<u>(1,062,346)</u>
	<u>1,016,770,170</u>	<u>818,711,767</u>	<u>869,683,563</u>
	<u>\$ 1,096,174,383</u>	<u>\$ 854,341,271</u>	<u>\$ 900,420,943</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 held by the Group on the balance sheet date for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019 were \$2,516,195 thousand, \$1,315,928 thousand, \$2,933,701 thousand and \$1,726,085 thousand, respectively. Those related to investments derecognized for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019 amounted to \$4,276 thousand, \$402,652 thousand, \$4,276 thousand and \$403,132 thousand, respectively.
- c. In consideration of investment strategies, the Group sold equity instrument investments at FVTOCI at fair values of \$4,884,554 thousand and \$18,166,970 thousand at the time of sale, and transferred unrealized loss of \$46,746 thousand and \$4,390,691 thousand from other equity to retained earnings for the nine months ended September 30, 2020 and 2019, respectively.
- d. Refer to Note 37 for the financial assets at FVTOCI that were pledged as collateral.
- e. Refer to Note 39 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.

10. HEDGING INSTRUMENTS

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial assets for hedging</u>			
IRS	\$ 167,772	\$ 185,206	\$ 203,060
CCS	<u>219,155</u>	<u>362,869</u>	<u>499,193</u>
	<u>\$ 386,927</u>	<u>\$ 548,075</u>	<u>\$ 702,253</u>
<u>Financial liabilities for hedging</u>			
IRS	<u>\$ 57,171</u>	<u>\$ 30,894</u>	<u>\$ 38,240</u>

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

11. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investors	Investees	Business	Ownership Interest (%)			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
The Company	Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	50.00	50.00	50.00	
The Company	Cathay Life Insurance (Vietnam) Co., Ltd.	Life insurance	100.00	100.00	100.00	
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd.	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	82.85	
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	100.00	
CHL	Global Evolution Holding ApS	Holding company	53.00	45.00	45.00	Note 1
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	100.00	
Conning Holdings Corp.	Conning & Company ("C&C")	Holding company	100.00	100.00	100.00	
C&C	Conning Inc.	Asset management services	100.00	100.00	100.00	
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00	100.00	
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00	100.00	
C&C	Octagon Credit Investors, LLC ("Octagon")	Asset management services	85.00	81.89	81.89	
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	100.00	
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	100.00	
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	100.00	
Octagon	Octagon Funding I, LLC	Fund management services	-	-	100.00	Note 2
Octagon	Octagon Funding II, LLC	Fund management services	-	-	100.00	Note 2
Octagon	Octagon Funding III, LLC	Fund management services	-	-	100.00	Note 2
Global Evolution Holding ApS	Global Evolution Financial ApS	Asset management services	99.72	-	-	
Global Evolution Financial ApS	Global Evolution Fondsmæglersekskab A/S	Asset management services	100.00	-	-	
Global Evolution Financial ApS	Mogambo2 Holding ApS	Asset management services	100.00	-	-	
Global Evolution Financial ApS	Global Evolution Manco S.A.	Asset management services	90.00	-	-	
Global Evolution Fondsmæglersekskab A/S	Global Evolution USA, LLC	Asset management services	100.00	-	-	
Global Evolution Fondsmæglersekskab A/S	Global Evolution Fund Management Singapore Pte. Ltd.	Asset management services	100.00	-	-	
Mogambo2 Holding ApS	Global Evolution USA GP, LLC	Asset management services	100.00	-	-	

Note 1: CHL originally held 45% equity shares in Global Evolution Holding ApS, which were recorded as investments accounted for using the equity method. On June 25, 2020, CHL acquired a further 8% equity shares, which increased its ownership interest from 45% to 53%, and obtained the control of Global Evolution Holding ApS. Refer to Note 43 for information relating to the business combination.

Note 2: As of December 31, 2019, Octagon Funding I, LLC, Octagon Funding II, LLC and Octagon Funding III, LLC were dissolved.

b. Subsidiaries excluded from the consolidated financial statements

Investors	Investees	Business	Ownership Interest (%)			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
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, 2020	December 31, 2019	September 30, 2019
Investments in unconsolidated subsidiaries	\$ 571,124	\$ 333,089	\$ 285,416
Investments in associates	<u>28,765,192</u>	<u>44,224,460</u>	<u>44,153,900</u>
	<u>\$ 29,336,316</u>	<u>\$ 44,557,549</u>	<u>\$ 44,439,316</u>

Refer to Table 1 and Table 5 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, 2020	December 31, 2019	September 30, 2019
Cathay Securities Investment Consulting	<u>\$ 571,124</u>	<u>\$ 333,089</u>	<u>\$ 285,416</u>

b. Investments in associates

Aggregate information of associates that are not individually material

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
The Group' share of:				
Net income (loss)	\$ 478,005	\$ (203,332)	\$ (12,654,404)	\$ 487,218
Other comprehensive income (loss)	<u>289,920</u>	<u>(462,528)</u>	<u>225,114</u>	<u>468,306</u>
Total comprehensive income (loss) for the period	<u>\$ 767,925</u>	<u>\$ (665,860)</u>	<u>\$ (12,429,290)</u>	<u>\$ 955,524</u>

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

The investments in associates were not pledged as collateral.

The Group's associate, PT Bank Mayapada Internasional Tbk, encountered operational pressure due to the negative impact of COVID-19 to the economy of Indonesia and deficiencies in financial inspections. PT Bank Mayapada Internasional Tbk was required to increase its capital by the local authority because one of its credit clients has been prosecuted since the beginning of 2020 for involvement in a fraud case. After conducting a prudent assessment, the Group recognized a loss of \$13,980,277 thousand for the nine months ended September 30, 2020 relating to its investment in associate accounted for using the equity method.

13. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Time deposits	\$ 5,147,088	\$ 2,641,269	\$ 1,373,128
Financial debentures	45,138,468	50,049,481	53,153,327
Corporate bonds	28,295,824	25,294,942	26,094,625
Government bonds	40,491,304	39,073,691	36,606,121
Overseas bonds	2,583,798,029	2,508,736,300	2,492,646,541
Asset-backed securities	445,000	1,189,350	1,030,048
Less: Litigation deposits	(1,352,699)	(1,343,931)	(1,344,363)
Less: Deposits to Central Bank	(8,040,664)	(7,858,911)	(7,860,267)
Less: Collateral for derivative instruments	-	-	(1,719,781)
Less: Loss allowance (Note)	<u>(2,663,845)</u>	<u>(1,197,021)</u>	<u>(1,503,373)</u>
	<u>\$ 2,691,258,505</u>	<u>\$ 2,616,585,170</u>	<u>\$ 2,598,476,006</u>

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

- a. For the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the Group disposed of bonds before maturity due to an increase in credit risk, which resulted in a gain on disposal of \$681,148 thousand, a loss on disposal of \$1,060,877 thousand, a loss on disposal of \$627,220 thousand and a loss on disposal of \$3,063,635 thousand, respectively. The disposal of bonds before maturity because of infrequent sales or sales that are insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$9,335,391 thousand, \$3,413,708 thousand, \$33,772,861 thousand and \$6,514,538 thousand, respectively. The disposal of bonds due to other conditions such as repayments at maturities resulted in gains on disposal of \$635,543 thousand, \$110,787 thousand, \$873,364 thousand and \$395,723 thousand, respectively.
- b. Refer to Note 37 for information relating to investments in financial assets at amortized cost pledged as security.
- c. Refer to Note 39 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

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

	Investment Property			Investment Property Under Construction	Prepayments for Buildings and Land - Investments
	Land	Buildings	Total		
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)	-	-
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	-	-
Net foreign exchange differences	(248,034)	(533,278)	(781,312)	-	-
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>
January 1, 2020	\$ 367,408,105	\$ 116,463,612	\$ 483,871,717	\$ 4,546,717	\$ 1,152,363
Additions	-	-	-	2,242,088	1,202,077
Disposals	(129,794)	(525,529)	(655,323)	-	-
Reclassification	2,477,108	4,640,657	7,117,765	(4,546,803)	(2,028,491)
(Loss) gain on changes in fair value of investment property	(17,793)	2,397,397	2,379,604	-	-
Net foreign exchange differences	(713,135)	(1,204,805)	(1,917,940)	-	-
September 30, 2020	<u>\$ 369,024,491</u>	<u>\$ 121,771,332</u>	<u>\$ 490,795,823</u>	<u>\$ 2,242,002</u>	<u>\$ 325,949</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Rental income from investment properties	\$ 3,021,477	\$ 3,123,310	\$ 9,187,086	\$ 9,322,376
Direct operating expenses of investment properties that generate rental income	(129,520)	(119,514)	(501,233)	(459,980)
Direct operating expenses of investment properties that do not generate rental income	(32,327)	(27,245)	(99,213)	(105,159)
	<u>\$ 2,859,630</u>	<u>\$ 2,976,551</u>	<u>\$ 8,586,640</u>	<u>\$ 8,757,237</u>

- Certain properties are held to earn rental or to achieve capital appreciation, and the others are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component of a property could not be sold separately, it would be classified as investment properties only when owner occupation is lower than 5% of the property.
- As of September 30, 2020, investment properties of the Company amounted to \$455,135,351 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.
- The ownership of the Group's investment properties is not subject to restrictions other than the restriction associated with being furnished as security for other debts; the ownership of its trust property is not subject to restrictions. Besides, the Group is not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of Regulations Governing Foreign Investments by Insurance Companies.

- d. Valuation has been carried out by the following appraisers of joint appraiser firms that met the qualification requirements for real estate appraisers in the R.O.C. The valuation dates are on June 30, 2020, December 31, 2019 and June 30, 2019. The appraisers had reviewed the validity of the original valuation reports and clarified that the fair values on June 30, 2020, December 31, 2019 and June 30, 2019 were still valid at September 30, 2020 and 2019.

<u>Name of Appraiser Firm</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
DTZ Real Estate Appraiser Firm	Chang-da, Yang; Gen-yuan, Li; Chia-ho, Tsai; Chun-chun, Hu	Chang-da, Yang; Gen-yuan, Li	Chang-da, Yang; Gen-yuan, Li; Chun-chun, Hu
Savills plc Real Estate Appraiser Firm	Yu-fen, Ye; Yi-zhi, Zhang; Hong-kai, Zhang; Chia-hsien, Liao	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; Hsiang-yi, Hsu; Wei-ju, Li	Hong-xu, Wu; Yu-hsiang, Tsai	Hong-xu, Wu; Zhi-hao, Wu; Fu-xue, Shi
V-LAND Real Estate Appraiser Firm	You-qi, Liang; Yu-chih, Kao; Chun-han, Lin	Xi-zhong, Wang; You-qi, Liang	Xi-zhong, Wang; You-qi, Liang
Shang-shang Real Estate Appraiser Firm Sinyi Real Estate Appraiser Firm	Hong-yuan, Wang Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Hong-yuan, Wang Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang	Hong-yuan, Wang Wei-xin, Chi; Liang-an, Ji; Wen-zhe, Cai; Shi-ming, Wang
Elite Real Estate Appraiser Firm	Yu-lin, Chen; Yi-hui, Lo	Yu-lin, Chen	Yu-lin, Chen
CBRE Real Estate Appraiser Firm	Fu-xue, Shi; Chih-wei, Li	Fu-xue, Shi; Zhi-wei, Lee	-

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

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

under construction with building permit is valued by comparison approach and income approach based on the allocated real estates (office buildings, hotels, etc.) under the urban renewal program.

The main inputs used are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Direct capitalization rates (net)	0.84%-6.48%	0.62%-6.30%	0.62%-6.42%
Discount rates	3.18%-4.38%	3.14%-4.23%	3.14%-4.23%

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium disposed of in the future, to decide the direct capitalization rate and discount rate.

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

Reconciliation of fair value measurements in Level 3 movements is as follows:

	<u>For the Nine Months Ended September 30</u>	
	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 471,748,733	\$ 455,726,383
Adjustment on initial application of IFRS 16	-	9,014,035
Amount recognized in profit or loss		
Gain from investment property	2,379,604	623,960
Amount recognized in other comprehensive loss		
Exchange differences resulting from translating the financial statements of foreign operations	(1,917,940)	(781,312)
Disposals	(646,500)	(32,491)
Transfers from investment property under construction	4,546,803	1,943,341
Transfers from prepayments for buildings and land	<u>803,611</u>	<u>9,761,932</u>
Ending balance	<u>\$ 476,914,311</u>	<u>\$ 476,255,848</u>

The above amounts did not include those measured at cost.

- e. Refer to Tables 3 and 4 for the acquisition and disposal of individual real estate at cost or price of at least NT\$100 million or 20% of the paid-in capital.

15. LOANS

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Life insurance policy loans (a)	\$ 155,262,118	\$ 160,404,111	\$ 158,127,015
Premium loans (b)	12,503,630	12,012,426	11,963,684
Secured loans (c)	316,808,304	345,132,183	360,485,929
Non-accrual receivables	<u>1,777,360</u>	<u>657,797</u>	<u>604,791</u>
	486,351,412	518,206,517	531,181,419
Less: Loss allowance	<u>(4,759,278)</u>	<u>(4,825,976)</u>	<u>(5,037,521)</u>
	<u>\$ 481,592,134</u>	<u>\$ 513,380,541</u>	<u>\$ 526,143,898</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 and 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 39 for related information of loss allowance for the nine months ended September 30, 2020 and 2019.

16. REINSURANCE ASSETS

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Due from reinsurers and ceding companies	\$ 218,493	\$ 403,575	\$ 118,642
Reinsurance reserve assets			
Ceded unearned premium reserve	942,669	894,878	780,839
Ceded loss reserve	40,083	24,014	20,091
Ceded policy reserve	414,296	421,465	422,994
Non-accrual receivables	<u>12,816</u>	<u>-</u>	<u>-</u>
	1,628,357	1,743,932	1,342,566
Less: Loss allowance	<u>(6,408)</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,621,949</u>	<u>\$ 1,743,932</u>	<u>\$ 1,342,566</u>

- a. CNY co-reinsurance business

Authorized by the FSC under Jin Guan Bao Tsai No. 10302112370, the Group signed a CNY co-reinsurance contract with Central Reinsurance Corporation in 2014. The Group discloses the ceding 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 Central Reinsurance Corporation.

2) Reinsurance expense, claims recovered from reinsurers and commission

	For the Nine Months Ended September 30	
	2020	2019
Reinsurance expense	\$ 550	\$ 71,856
Claims recovered from reinsurers	30,745	10,260
Reinsurance commission	3,523	6,121

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

Net gain from reinsurance of \$8,825 thousand was recognized for the nine months ended September 30, 2020 from CNY co-reinsurance business. The amount was calculated as follows:

Reinsurance commission of \$3,523 thousand + Claims recovered from reinsurers of \$30,745 thousand - Net changes in reinsurance reserve assets of \$19,856 thousand - Foreign exchange loss of \$5,037 thousand - Reinsurance expense of \$550 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 ceded reinsurance reserve assets including 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.

17. PROPERTY AND EQUIPMENT

	<u>Land</u>	<u>Buildings and Construction</u>	<u>Computer Equipment</u>	<u>Leased Assets</u>	<u>Leasehold Improvement</u>	<u>Transportation Equipment</u>	<u>Other Equipment</u>	<u>Construction in Progress and Prepayment for Real Estate Equipment</u>	<u>Total</u>
<i>Cost</i>									
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)
Net foreign exchange differences	-	(52,403)	(1,798)	-	(5,586)	(99)	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>
<i>Depreciation and impairment</i>									
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)
Net foreign 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 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>

(Continued)

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold Improvement	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
Cost									
Balance at January 1, 2020	\$ 20,354,938	\$ 22,727,235	\$ 3,220,975	\$ -	\$ 514,339	\$ 11,184	\$ 3,939,219	\$ 181,234	\$ 50,949,124
Additions	-	-	231,241	-	39,753	299	119,830	250,787	641,910
Disposals	-	-	(64,915)	-	(165)	-	(103,216)	-	(168,296)
Reclassification	(451,389)	(320,183)	19	-	7,368	-	2,880	(3,106)	(764,411)
Net foreign exchange differences	-	(20,356)	(30,508)	-	(10,060)	(39)	(2,470)	-	(63,433)
Balance at September 30, 2020	<u>\$ 19,903,549</u>	<u>\$ 22,386,696</u>	<u>\$ 3,356,812</u>	<u>\$ -</u>	<u>\$ 551,235</u>	<u>\$ 11,444</u>	<u>\$ 3,956,243</u>	<u>\$ 428,915</u>	<u>\$ 50,594,894</u>
Depreciation and impairment									
Balance at January 1, 2020	\$ 103,134	\$ 12,428,264	\$ 2,370,985	\$ -	\$ 300,664	\$ 9,895	\$ 3,464,913	\$ -	\$ 18,677,855
Depreciation expenses	-	308,787	109,716	-	37,430	448	79,693	-	536,074
Disposals	-	-	(63,762)	-	(165)	-	(102,128)	-	(166,055)
Reclassification	-	(232,207)	9	-	-	-	1,019	-	(231,179)
Net foreign exchange differences	-	(2,497)	(8,742)	-	(4,864)	(25)	(1,015)	-	(17,143)
Balance at September 30, 2020	<u>\$ 103,134</u>	<u>\$ 12,502,347</u>	<u>\$ 2,408,206</u>	<u>\$ -</u>	<u>\$ 333,065</u>	<u>\$ 10,318</u>	<u>\$ 3,442,482</u>	<u>\$ -</u>	<u>\$ 18,799,552</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ 20,251,804</u>	<u>\$ 10,298,971</u>	<u>\$ 849,990</u>	<u>\$ -</u>	<u>\$ 213,675</u>	<u>\$ 1,289</u>	<u>\$ 474,306</u>	<u>\$ 181,234</u>	<u>\$ 32,271,269</u>
Carrying amounts at September 30, 2020	<u>\$ 19,800,415</u>	<u>\$ 9,884,349</u>	<u>\$ 948,606</u>	<u>\$ -</u>	<u>\$ 218,170</u>	<u>\$ 1,126</u>	<u>\$ 513,761</u>	<u>\$ 428,915</u>	<u>\$ 31,795,342</u>

(Concluded)

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

Buildings and construction	1-70 years
Computer equipment	3-10 years
Leased assets	3 years
Leasehold improvements	5 years or lease term
Transportation equipment	3-5 years
Other equipment	2-22 years

18. LEASE ARRANGEMENTS

a. Right-of-use assets

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Carrying amounts</u>			
Buildings	\$ 1,596,474	\$ 1,541,327	\$ 1,681,154
Office equipment	11,493	13,386	14,992
Transportation equipment	<u>25,549</u>	<u>22,966</u>	<u>16,932</u>
	<u>\$ 1,633,516</u>	<u>\$ 1,577,679</u>	<u>\$ 1,713,078</u>
Right-of-use assets presented as investment properties	<u>\$ 8,665,126</u>	<u>\$ 8,781,429</u>	<u>\$ 8,897,732</u>

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Additions to right-of-use assets	\$ 131,189	\$ 94,986	\$ 525,751	\$ 197,149
Depreciation expense for right-of-use assets				
Buildings	\$ 142,947	\$ 145,708	\$ 418,641	\$ 426,497
Office equipment	1,131	1,200	3,439	3,585
Transportation equipment	2,819	3,671	8,351	12,696
	\$ 146,897	\$ 150,579	\$ 430,431	\$ 442,778

b. Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Carrying amounts	\$ 10,530,195	\$ 10,381,894	\$ 10,636,968

Range of discount rates for lease liabilities is as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Buildings	1.82%-8.57%	2.05%-8.57%	2.05%-8.57%
Office equipment	4.67%-4.76%	4.67%-4.76%	4.67%-4.76%
Transportation equipment	3.25%-3.66%	3.59%-3.66%	3.59%-3.66%
Investment property - right of superficies	2.82%-3.71%	2.82%-3.71%	2.82%-3.71%

19. INTANGIBLE ASSETS

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	Total
Cost							
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
Net foreign exchange differences	(5,204)	-	4,054	36,419	76,209	2,155	113,633
Balance at September 30, 2019	\$ 2,243,186	\$ 37,659,600	\$ 407,240	\$ 3,658,733	\$ 10,574,291	\$ 216,518	\$ 54,759,568
Amortization and impairment							
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
Net foreign exchange differences	(4,546)	-	-	12,449	-	1,633	9,536
Balance at September 30, 2019	\$ 1,926,405	\$ 8,837,378	\$ -	\$ 1,532,175	\$ -	\$ 177,853	\$ 12,473,811
Carrying amounts at September 30, 2019	\$ 316,781	\$ 28,822,222	\$ 407,240	\$ 2,126,558	\$ 10,574,291	\$ 38,665	\$ 42,285,757
Cost							
Balance at January 1, 2020	\$ 2,285,198	\$ 37,659,600	\$ 394,961	\$ 3,548,412	\$ 10,343,445	\$ 209,989	\$ 54,441,605
Acquisitions through business combinations (Note 43)	-	-	-	2,467,576	3,587,422	-	6,054,998
Additions - acquired separately	132,312	-	-	-	-	-	132,312
Disposals	(33,190)	-	-	-	-	-	(33,190)
Net foreign exchange differences	(3,824)	-	(12,857)	(159,933)	(306,287)	(6,835)	(489,736)
Balance at September 30, 2020	\$ 2,380,496	\$ 37,659,600	\$ 382,104	\$ 5,856,055	\$ 13,624,580	\$ 203,154	\$ 60,105,989

(Continued)

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	Total
<u>Amortization and impairment</u>							
Balance at January 1, 2020	\$ 1,976,599	\$ 9,357,224	\$ -	\$ 1,583,626	\$ -	\$ 177,257	\$ 13,094,706
Amortizations	82,085	1,559,537	-	342,046	-	14,174	1,997,842
Disposals	(33,190)	-	-	-	-	-	(33,190)
Net foreign exchange differences	(3,058)	-	-	(59,729)	-	(6,110)	(68,897)
Balance at September 30, 2020	<u>\$ 2,022,436</u>	<u>\$ 10,916,761</u>	<u>\$ -</u>	<u>\$ 1,865,943</u>	<u>\$ -</u>	<u>\$ 185,321</u>	<u>\$ 14,990,461</u>
Carrying amounts at December 31, 2019 and January 1, 2020	<u>\$ 308,599</u>	<u>\$ 28,302,376</u>	<u>\$ 394,961</u>	<u>\$ 1,964,786</u>	<u>\$ 10,343,445</u>	<u>\$ 32,732</u>	<u>\$ 41,346,899</u>
Carrying amounts at September 30, 2020	<u>\$ 358,060</u>	<u>\$ 26,742,839</u>	<u>\$ 382,104</u>	<u>\$ 3,990,112</u>	<u>\$ 13,624,580</u>	<u>\$ 17,833</u>	<u>\$ 45,115,528</u>

(Concluded)

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

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

- b. The Group recognized goodwill in the acquisitions of (1) all assets, liabilities and operations (except reserved assets and liabilities) of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., on July 1, 2015; (2) of 100% interest in Conning Holdings Limited on September 18, 2015; (3) of 81.89% interest in Octagon Credit Investors, LLC (through Conning & Company, a 100% owned subsidiary of the Group) on February 1, 2016; and (4) of 8% equity shares in Global Evolution Holding ApS by Conning Holdings Limited, which increased its ownership interest to 53% on June 25, 2020. As of September 30, 2020, December 31, 2019 and September 30, 2019, the carrying amounts of goodwill were \$13,624,580 thousand, \$10,343,445 thousand and \$10,574,291 thousand, respectively.
- 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.

20. OTHER ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Insurance Industry Stability Fund (a)	\$ 11,802,371	\$ 11,019,381	\$ 10,685,744
Less: Reserve for Insurance Industry Stability Fund (a)	(11,802,371)	(11,019,381)	(10,685,744)
Guarantee deposits paid (b)	23,419,976	23,151,476	27,514,178
Deferred acquisition costs (c)	2,854	3,629	3,887
Prepayments	374,616	282,823	257,366
Net defined benefit assets	6,568,176	6,422,413	5,929,706
Others	<u>547,454</u>	<u>593,028</u>	<u>1,756,734</u>
	<u>\$ 30,913,076</u>	<u>\$ 30,453,369</u>	<u>\$ 35,461,871</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:

	September 30, 2020	December 31, 2019	September 30, 2019
Insurance operation guarantee deposit	\$ 11,731,071	\$ 11,534,498	\$ 11,553,956
Deposit for futures and options trading	7,651,024	8,374,909	9,229,579
Deposit for derivatives trading	1,862,841	1,117,064	4,552,884
Other guarantee deposits	<u>2,175,040</u>	<u>2,125,005</u>	<u>2,177,759</u>
	<u>\$ 23,419,976</u>	<u>\$ 23,151,476</u>	<u>\$ 27,514,178</u>

The Group provided cash, time deposits and government bonds as guarantees. Refer to Note 37 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:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 3,629	\$ 10,401
Amortization	<u>(775)</u>	<u>(6,514)</u>
Ending balance	<u>\$ 2,854</u>	<u>\$ 3,887</u>

21. PAYABLES

	September 30, 2020	December 31, 2019	September 30, 2019
Notes payable	\$ 1,125,141	\$ 1,276,384	\$ 1,351,807
Claims payable	852,506	885,438	870,827
Commissions payable	1,416,676	4,072,121	1,516,821
Due to reinsurers and ceding companies	751,449	630,445	507,139
Other payables	<u>35,256,128</u>	<u>24,100,214</u>	<u>34,735,703</u>
	<u>\$ 39,401,900</u>	<u>\$ 30,964,602</u>	<u>\$ 38,982,297</u>

22. BONDS PAYABLE

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</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>10,000,000</u>	<u>10,000,000</u>
	<u>\$ 80,000,000</u>	<u>\$ 80,000,000</u>	<u>\$ 80,000,000</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. The 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 \$316,722 thousand, \$317,589 thousand, \$943,279 thousand and \$942,411 thousand for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, 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 \$291,095 thousand, \$290,325 thousand, \$865,900 thousand and \$862,645 thousand was recorded as finance costs for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, respectively.
- 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 \$75,620 thousand, \$75,410 thousand, \$224,810 thousand and \$79,510 thousand for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, respectively. The expense was recorded as finance costs.

23. 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, 2020			December 31, 2019			September 30, 2019		
	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	\$ 77,152	\$ -	\$ 77,152	\$ 81,756	\$ -	\$ 81,756	\$ 67,351	\$ -	\$ 67,351
Individual injury insurance	6,837,838	-	6,837,838	6,854,370	-	6,854,370	6,624,847	-	6,624,847
Individual health insurance	9,222,410	-	9,222,410	9,362,205	-	9,362,205	8,639,379	-	8,639,379
Group insurance	1,123,615	-	1,123,615	1,092,315	-	1,092,315	1,203,297	-	1,203,297
Investment-linked insurance	117,080	-	117,080	114,231	-	114,231	113,356	-	113,356
	<u>17,378,095</u>	<u>-</u>	<u>17,378,095</u>	<u>17,504,877</u>	<u>-</u>	<u>17,504,877</u>	<u>16,648,230</u>	<u>-</u>	<u>16,648,230</u>
Less ceded unearned premium reserve:									
Individual life insurance	753,770	-	753,770	713,629	-	713,629	620,042	-	620,042
Individual injury insurance	23,476	-	23,476	17,678	-	17,678	22,605	-	22,605
Individual health insurance	165,064	-	165,064	163,571	-	163,571	135,452	-	135,452
Group insurance	359	-	359	-	-	-	2,740	-	2,740
	<u>942,669</u>	<u>-</u>	<u>942,669</u>	<u>894,878</u>	<u>-</u>	<u>894,878</u>	<u>780,839</u>	<u>-</u>	<u>780,839</u>
	<u>\$ 16,435,426</u>	<u>\$ -</u>	<u>\$ 16,435,426</u>	<u>\$ 16,609,999</u>	<u>\$ -</u>	<u>\$ 16,609,999</u>	<u>\$ 15,867,391</u>	<u>\$ -</u>	<u>\$ 15,867,391</u>

The changes in unearned premium reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 17,504,877	\$ -	\$ 17,504,877	\$ 16,458,535	\$ -	\$ 16,458,535
Provision	17,378,109	-	17,378,109	16,648,234	-	16,648,234
Recovery	(17,504,877)	-	(17,504,877)	(16,458,535)	-	(16,458,535)
Foreign exchange	(14)	-	(14)	(4)	-	(4)
Ending balance	<u>17,378,095</u>	<u>-</u>	<u>17,378,095</u>	<u>16,648,230</u>	<u>-</u>	<u>16,648,230</u>
Less ceded unearned premium reserve:						
Beginning balance	894,878	-	894,878	624,337	-	624,337
Increase	47,791	-	47,791	156,502	-	156,502
Ending balance	<u>942,669</u>	<u>-</u>	<u>942,669</u>	<u>780,839</u>	<u>-</u>	<u>780,839</u>
Net ending balance	<u>\$ 16,435,426</u>	<u>\$ -</u>	<u>\$ 16,435,426</u>	<u>\$ 15,867,391</u>	<u>\$ -</u>	<u>\$ 15,867,391</u>

2) Loss reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 2,596,536	\$ 20,354	\$ 2,616,890	\$ 2,437,380	\$ 31,200	\$ 2,468,580	\$ 2,278,329	\$ 35,929	\$ 2,314,258
Not yet filed	35,750	-	35,750	31,859	-	31,859	55,835	-	55,835
Individual injury insurance									
Filed but not paid	36,144	-	36,144	40,400	-	40,400	41,897	-	41,897
Not yet filed	2,007,602	-	2,007,602	1,855,652	-	1,855,652	1,918,505	-	1,918,505
Individual health insurance									
Filed but not paid	1,387,993	-	1,387,993	1,282,698	-	1,282,698	1,090,090	-	1,090,090
Not yet filed	3,246,172	-	3,246,172	3,051,864	-	3,051,864	3,135,458	-	3,135,458
Group insurance									
Filed but not paid	60,763	-	60,763	60,760	-	60,760	54,243	-	54,243
Not yet filed	1,703,180	-	1,703,180	1,592,067	-	1,592,067	1,581,968	-	1,581,968
Investment-linked insurance									
Filed but not paid	156,674	-	156,674	180,254	-	180,254	156,289	-	156,289
Not yet filed	211	-	211	477	-	477	1,392	-	1,392
	<u>11,231,025</u>	<u>20,354</u>	<u>11,251,379</u>	<u>10,533,411</u>	<u>31,200</u>	<u>10,564,611</u>	<u>10,314,006</u>	<u>35,929</u>	<u>10,349,935</u>
Less ceded loss reserve									
Individual life insurance	28,528	-	28,528	3,074	-	3,074	4,201	-	4,201
Individual health insurance	1,214	-	1,214	658	-	658	979	-	979
	<u>29,742</u>	<u>-</u>	<u>29,742</u>	<u>3,732</u>	<u>-</u>	<u>3,732</u>	<u>5,180</u>	<u>-</u>	<u>5,180</u>
	<u>\$ 11,201,283</u>	<u>\$ 20,354</u>	<u>\$ 11,221,637</u>	<u>\$ 10,529,679</u>	<u>\$ 31,200</u>	<u>\$ 10,560,879</u>	<u>\$ 10,308,826</u>	<u>\$ 35,929</u>	<u>\$ 10,344,755</u>

The changes of loss reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 10,533,411	\$ 31,200	\$ 10,564,611	\$ 8,522,425	\$ 9,145	\$ 8,531,570
Provision	11,239,461	20,354	11,259,815	10,312,232	35,929	10,348,161
Recovery	(10,533,411)	(31,200)	(10,564,611)	(8,522,426)	(9,145)	(8,531,571)
Foreign exchange	(8,436)	-	(8,436)	1,775	-	1,775
Ending balance	<u>11,231,025</u>	<u>20,354</u>	<u>11,251,379</u>	<u>10,314,006</u>	<u>35,929</u>	<u>10,349,935</u>
Less ceded loss reserve						
Beginning balance	3,732	-	3,732	8,793	-	8,793
Increase	26,010	-	26,010	-	-	-
Decrease	-	-	-	(3,613)	-	(3,613)
Ending balance	<u>29,742</u>	<u>-</u>	<u>29,742</u>	<u>5,180</u>	<u>-</u>	<u>5,180</u>
Net ending balance	<u>\$ 11,201,283</u>	<u>\$ 20,354</u>	<u>\$ 11,221,637</u>	<u>\$ 10,308,826</u>	<u>\$ 35,929</u>	<u>\$ 10,344,755</u>

3) Policy reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	Financial Instruments with Discretionary Participation			Financial Instruments with Discretionary Participation			Financial Instruments with Discretionary Participation		
	Insurance Contracts	Feature	Total	Insurance Contracts	Feature	Total	Insurance Contracts	Feature	Total
Life insurance (Note 1)	\$ 5,060,833,810	\$ 3,720	\$ 5,060,837,530	\$ 4,812,427,110	\$ 3,747	\$ 4,812,430,857	\$ 4,729,688,295	\$ 4,807	\$ 4,729,693,102
Injury insurance	7,111,286	-	7,111,286	7,268,700	-	7,268,700	7,310,426	-	7,310,426
Health insurance	776,414,398	-	776,414,398	725,104,907	-	725,104,907	704,820,706	-	704,820,706
Annuity insurance	1,393,186	15,057,430	16,450,616	1,388,012	20,476,035	21,864,047	1,397,689	22,435,216	23,832,905
Investment-linked insurance	504,831	-	504,831	450,698	-	450,698	452,111	-	452,111
Total (Note 2)	<u>5,846,257,511</u>	<u>15,061,150</u>	<u>5,861,318,661</u>	<u>5,546,639,427</u>	<u>20,479,782</u>	<u>5,567,119,209</u>	<u>5,443,669,227</u>	<u>22,440,023</u>	<u>5,466,109,250</u>
Less ceded policy reserve									
Life insurance	396,571	-	396,571	421,465	-	421,465	422,994	-	422,994
	<u>\$ 5,845,860,940</u>	<u>\$ 15,061,150</u>	<u>\$ 5,860,922,090</u>	<u>\$ 5,546,217,962</u>	<u>\$ 20,479,782</u>	<u>\$ 5,566,697,744</u>	<u>\$ 5,443,246,233</u>	<u>\$ 22,440,023</u>	<u>\$ 5,465,686,256</u>

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

Note 2: Total policy reserve including policy-reserve payables for the insured amounted to \$5,861,766,702 thousand, \$5,567,592,302 thousand and \$5,466,570,662 thousand as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

The changes of policy reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 5,546,639,427	\$ 20,479,782	\$ 5,567,119,209	\$ 5,181,152,670	\$ 25,847,690	\$ 5,207,000,360
Provision	484,429,933	134,722	484,564,655	478,538,626	987,334	479,525,960
Recovery	(144,670,606)	(5,553,327)	(150,223,933)	(224,427,463)	(4,394,957)	(228,822,420)
Foreign exchange	(40,141,243)	(27)	(40,141,270)	8,405,394	(44)	8,405,350
Ending balance	<u>5,846,257,511</u>	<u>15,061,150</u>	<u>5,861,318,661</u>	<u>5,443,669,227</u>	<u>22,440,023</u>	<u>5,466,109,250</u>
Less ceded policy reserve						
Beginning balance	421,465	-	421,465	365,409	-	365,409
Increase	-	-	-	69,794	-	69,794
Decrease	(19,856)	-	(19,856)	-	-	-
Foreign exchange	(5,038)	-	(5,038)	(12,209)	-	(12,209)
Ending balance	<u>396,571</u>	<u>-</u>	<u>396,571</u>	<u>422,994</u>	<u>-</u>	<u>422,994</u>
Net ending balance	<u>\$ 5,845,860,940</u>	<u>\$ 15,061,150</u>	<u>\$ 5,860,922,090</u>	<u>\$ 5,443,246,233</u>	<u>\$ 22,440,023</u>	<u>\$ 5,465,686,256</u>

4) Special reserve

	September 30, 2020				December 31, 2019				September 30, 2019			
	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	\$ (60,288)	\$ -	\$ -	\$ (60,288)	\$ (56,900)	\$ -	\$ -	\$ (56,900)	\$ (61,387)	\$ -	\$ -	\$ (61,387)
Dividend risk reserve	61,588	-	-	61,588	58,200	-	-	58,200	62,542	-	-	62,542
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>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>

The changes of special reserve are summarized below:

	For the Nine Months Ended September 30							
	2020				2019			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Beginning balance	\$ 1,300	\$ -	\$ 11,083,324	\$ 11,084,624	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254
Provision for participating policies dividends reserve	7,882	-	-	7,882	12,613	-	-	12,613
Recovery of participating policies dividends reserve	(11,270)	-	-	(11,270)	(11,746)	-	-	(11,746)
Provision for dividend risk reserve	3,388	-	-	3,388	-	-	-	-
Recovery of dividend risk reserve	-	-	-	-	(642)	-	-	(642)
Ending balance	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 1,155</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,479</u>

5) Premium deficiency reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 14,781,148	\$ -	\$ 14,781,148	\$ 18,282,478	\$ -	\$ 18,282,478	\$ 18,728,820	\$ -	\$ 18,728,820
Individual injury insurance	954	-	954	1,078	-	1,078	1,103	-	1,103
Individual health insurance	1,239,188	-	1,239,188	1,347,284	-	1,347,284	1,400,809	-	1,400,809
Group insurance	133,163	-	133,163	48,617	-	48,617	123,140	-	123,140
	<u>\$ 16,154,453</u>	<u>\$ -</u>	<u>\$ 16,154,453</u>	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>

The changes of premium deficiency reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 19,679,457	\$ -	\$ 19,679,457	\$ 22,548,304	\$ -	\$ 22,548,304
Provision	133,333	-	133,333	318,820	-	318,820
Recovery	(3,515,795)	-	(3,515,795)	(2,630,997)	-	(2,630,997)
Foreign exchange	<u>(142,542)</u>	<u>-</u>	<u>(142,542)</u>	<u>17,745</u>	<u>-</u>	<u>17,745</u>
Ending balance	<u>\$ 16,154,453</u>	<u>\$ -</u>	<u>\$ 16,154,453</u>	<u>\$ 20,253,872</u>	<u>\$ -</u>	<u>\$ 20,253,872</u>

6) Other reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 1,855,141	\$ -	\$ 1,855,141	\$ 1,873,141	\$ -	\$ 1,873,141	\$ 1,877,542	\$ -	\$ 1,877,542

The changes of other reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 1,873,141	\$ -	\$ 1,873,141	\$ 1,894,570	\$ -	\$ 1,894,570
Recovery	(18,000)	-	(18,000)	(17,028)	-	(17,028)
Ending balance	\$ 1,855,141	\$ -	\$ 1,855,141	\$ 1,877,542	\$ -	\$ 1,877,542

7) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature		
	September 30, 2020	December 31, 2019	September 30, 2019
Unearned premium reserve	\$ 17,378,095	\$ 17,504,877	\$ 16,648,230
Policy reserve	5,861,766,702	5,567,592,302	5,466,570,662
Premium deficiency reserve	16,154,453	19,679,457	20,253,872
Other reserve	<u>1,855,141</u>	<u>1,873,141</u>	<u>1,877,542</u>
Book value of insurance liabilities	<u>\$ 5,897,154,391</u>	<u>\$ 5,606,649,777</u>	<u>\$ 5,505,350,306</u>
Estimated present value of cash flows	<u>\$ 5,120,272,321</u>	<u>\$ 4,515,206,417</u>	<u>\$ 4,358,297,478</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:

	September 30, 2020	December 31, 2019	September 30, 2019
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a) Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.

(Continued)

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
b) Discount rate	Under assets allocation plan on June 30, 2020, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2019, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 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 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. (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, 2020			December 31, 2019			September 30, 2019		
	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	\$ 5,547	\$ -	\$ 5,547	\$ 5,461	\$ -	\$ 5,461	\$ 5,790	\$ -	\$ 5,790
Individual health insurance	32,522	-	32,522	28,293	-	28,293	49,943	-	49,943
Group insurance	<u>340,736</u>	<u>-</u>	<u>340,736</u>	<u>268,054</u>	<u>-</u>	<u>268,054</u>	<u>296,744</u>	<u>-</u>	<u>296,744</u>
	<u>\$ 378,805</u>	<u>\$ -</u>	<u>\$ 378,805</u>	<u>\$ 301,808</u>	<u>\$ -</u>	<u>\$ 301,808</u>	<u>\$ 352,477</u>	<u>\$ -</u>	<u>\$ 352,477</u>

The changes of unearned premium reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 301,808	\$ -	\$ 301,808	\$ 279,007	\$ -	\$ 279,007
Provision	310,458	-	310,458	299,543	-	299,543
Recovery	(256,261)	-	(256,261)	(215,777)	-	(215,777)
Reclassification	25,762	-	25,762	-	-	-
Foreign exchange	<u>(2,962)</u>	<u>-</u>	<u>(2,962)</u>	<u>(10,296)</u>	<u>-</u>	<u>(10,296)</u>
Ending balance	<u>\$ 378,805</u>	<u>\$ -</u>	<u>\$ 378,805</u>	<u>\$ 352,477</u>	<u>\$ -</u>	<u>\$ 352,477</u>

2) Loss reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 2,214	\$ -	\$ 2,214	\$ 1,169	\$ -	\$ 1,169	\$ -	\$ -	\$ -
Not yet filed	9,537	-	9,537	10,535	-	10,535	11,526	-	11,526
Individual injury insurance									
Filed but not paid	4	-	4	105	-	105	17	-	17
Not yet filed	1,554	-	1,554	3,424	-	3,424	1,124	-	1,124
Individual health insurance									
Filed but not paid	7,859	-	7,859	7,062	-	7,062	6,640	-	6,640
Not yet filed	63,012	-	63,012	54,959	-	54,959	43,546	-	43,546
Group insurance									
Filed but not paid	6,779	-	6,779	7,848	-	7,848	6,715	-	6,715
Not yet filed	<u>299,551</u>	<u>-</u>	<u>299,551</u>	<u>380,909</u>	<u>-</u>	<u>380,909</u>	<u>305,565</u>	<u>-</u>	<u>305,565</u>
	<u>390,510</u>	<u>-</u>	<u>390,510</u>	<u>466,011</u>	<u>-</u>	<u>466,011</u>	<u>375,133</u>	<u>-</u>	<u>375,133</u>
Less ceded loss reserve									
Individual life insurance	-	-	-	663	-	663	440	-	440
Individual injury insurance	34	-	34	1,063	-	1,063	392	-	392
Individual health insurance	6,023	-	6,023	18,499	-	18,499	14,059	-	14,059
Group insurance	<u>4,284</u>	<u>-</u>	<u>4,284</u>	<u>57</u>	<u>-</u>	<u>57</u>	<u>20</u>	<u>-</u>	<u>20</u>
	<u>10,341</u>	<u>-</u>	<u>10,341</u>	<u>20,282</u>	<u>-</u>	<u>20,282</u>	<u>14,911</u>	<u>-</u>	<u>14,911</u>
	<u>\$ 380,169</u>	<u>\$ -</u>	<u>\$ 380,169</u>	<u>\$ 445,729</u>	<u>\$ -</u>	<u>\$ 445,729</u>	<u>\$ 360,222</u>	<u>\$ -</u>	<u>\$ 360,222</u>

The changes of loss reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 466,011	\$ -	\$ 466,011	\$ 367,506	\$ -	\$ 367,506
Provision	287,049	-	287,049	387,348	-	387,348
Recovery	(357,523)	-	(357,523)	(369,538)	-	(369,538)
Foreign exchange	(5,027)	-	(5,027)	(10,183)	-	(10,183)
Ending balance	<u>390,510</u>	<u>-</u>	<u>390,510</u>	<u>375,133</u>	<u>-</u>	<u>375,133</u>
Less ceded loss reserve						
Beginning balance	20,282	-	20,282	13,716	-	13,716
Increase	41,556	-	41,556	42,387	-	42,387
Decrease	(51,173)	-	(51,173)	(40,777)	-	(40,777)
Foreign exchange	(324)	-	(324)	(415)	-	(415)
Ending balance	<u>10,341</u>	<u>-</u>	<u>10,341</u>	<u>14,911</u>	<u>-</u>	<u>14,911</u>
Net ending balance	<u>\$ 380,169</u>	<u>\$ -</u>	<u>\$ 380,169</u>	<u>\$ 360,222</u>	<u>\$ -</u>	<u>\$ 360,222</u>

3) Policy reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 24,811,782	\$ -	\$ 24,811,782	\$ 19,294,499	\$ -	\$ 19,294,499	\$ 17,915,999	\$ -	\$ 17,915,999
Health insurance	2,635,477	-	2,635,477	1,855,047	-	1,855,047	1,577,334	-	1,577,334
Investment-linked insurance	3,018	-	3,018	2,599	-	2,599	2,511	-	2,511
	<u>27,450,277</u>	<u>-</u>	<u>27,450,277</u>	<u>21,152,145</u>	<u>-</u>	<u>21,152,145</u>	<u>19,495,844</u>	<u>-</u>	<u>19,495,844</u>
Less ceded loss reserve									
Individual life insurance	812	-	812	-	-	-	-	-	-
Health insurance	16,913	-	16,913	-	-	-	-	-	-
	<u>17,725</u>	<u>-</u>	<u>17,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 27,432,552</u>	<u>\$ -</u>	<u>\$ 27,432,552</u>	<u>\$ 21,152,145</u>	<u>\$ -</u>	<u>\$ 21,152,145</u>	<u>\$ 19,495,844</u>	<u>\$ -</u>	<u>\$ 19,495,844</u>

The changes of policy reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 21,152,145	\$ -	\$ 21,152,145	\$ 14,909,176	\$ -	\$ 14,909,176
Provision	7,171,557	-	7,171,557	5,825,513	-	5,825,513
Recovery	(752,105)	-	(752,105)	(663,592)	-	(663,592)
Reclassification	84,174	-	84,174	-	-	-
Foreign exchange	(205,494)	-	(205,494)	(575,253)	-	(575,253)
Ending balance	<u>27,450,277</u>	<u>-</u>	<u>27,450,277</u>	<u>19,495,844</u>	<u>-</u>	<u>19,495,844</u>
Less ceded loss reserve						
Beginning balance	-	-	-	-	-	-
Increase	67,549	-	67,549	-	-	-
Decrease	(49,953)	-	(49,953)	-	-	-
Foreign exchange	129	-	129	-	-	-
Ending balance	<u>17,725</u>	<u>-</u>	<u>17,725</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 27,432,552</u>	<u>\$ -</u>	<u>\$ 27,432,552</u>	<u>\$ 19,495,844</u>	<u>\$ -</u>	<u>\$ 19,495,844</u>

4) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature		
	September 30, 2020	December 31, 2019	September 30, 2019
Unearned premium reserve	\$ 378,805	\$ 301,808	\$ 352,477
Policy reserve	<u>27,450,277</u>	<u>21,152,145</u>	<u>19,495,844</u>
Book value of insurance liabilities	<u>\$ 27,829,082</u>	<u>\$ 21,453,953</u>	<u>\$ 19,848,321</u>
Estimated present value of cash flows	<u>\$ 22,263,266</u>	<u>\$ 17,163,162</u>	<u>\$ 15,878,657</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:

	September 30, 2020	December 31, 2019	September 30, 2019
Test method:	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups:	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a) Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b) Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2019, 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 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 2018, 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, 2020			December 31, 2019			September 30, 2019		
	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	\$ 15,449	\$ -	\$ 15,449	\$ 12,351	\$ -	\$ 12,351	\$ 12,208	\$ -	\$ 12,208
Individual health insurance	<u>17,673</u>	<u>-</u>	<u>17,673</u>	<u>13,167</u>	<u>-</u>	<u>13,167</u>	<u>12,940</u>	<u>-</u>	<u>12,940</u>
	<u>\$ 33,122</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 25,518</u>	<u>\$ -</u>	<u>\$ 25,518</u>	<u>\$ 25,148</u>	<u>\$ -</u>	<u>\$ 25,148</u>

The changes of unearned premium reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 25,518	\$ -	\$ 25,518	\$ 14,775	\$ -	\$ 14,775
Provision	8,630	-	8,630	10,304	-	10,304
Foreign exchange	<u>(1,026)</u>	<u>-</u>	<u>(1,026)</u>	<u>69</u>	<u>-</u>	<u>69</u>
Ending balance	<u>\$ 33,122</u>	<u>\$ -</u>	<u>\$ 33,122</u>	<u>\$ 25,148</u>	<u>\$ -</u>	<u>\$ 25,148</u>

2) Loss reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 1,751	\$ -	\$ 1,751	\$ 2,423	\$ -	\$ 2,423	\$ 1,065	\$ -	\$ 1,065
Individual injury insurance									
Filed but not paid	767	-	767	275	-	275	27	-	27
Not yet filed	1,769	-	1,769	1,321	-	1,321	1,204	-	1,204
Individual health insurance									
Filed but not paid	3,055	-	3,055	2,385	-	2,385	1,310	-	1,310
Not yet filed	5,287	-	5,287	3,439	-	3,439	1,303	-	1,303
Investment-linked insurance									
Filed but not paid	<u>1,772</u>	<u>-</u>	<u>1,772</u>	<u>2,147</u>	<u>-</u>	<u>2,147</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,401</u>	<u>\$ -</u>	<u>\$ 14,401</u>	<u>\$ 11,990</u>	<u>\$ -</u>	<u>\$ 11,990</u>	<u>\$ 4,909</u>	<u>\$ -</u>	<u>\$ 4,909</u>

The changes of loss reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 11,990	\$ -	\$ 11,990	\$ 4,255	\$ -	\$ 4,255
Provision	2,869	-	2,869	2,733	-	2,733
Foreign exchange	<u>(458)</u>	<u>-</u>	<u>(458)</u>	<u>(2,079)</u>	<u>-</u>	<u>(2,079)</u>
Ending balance	<u>\$ 14,401</u>	<u>\$ -</u>	<u>\$ 14,401</u>	<u>\$ 4,909</u>	<u>\$ -</u>	<u>\$ 4,909</u>

3) Policy reserve

	September 30, 2020			December 31, 2019			September 30, 2019		
	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	\$ 5,649,304	\$ -	\$ 5,649,304	\$ 4,065,218	\$ -	\$ 4,065,218	\$ 3,855,291	\$ -	\$ 3,855,291
Investment-linked insurance	<u>337,379</u>	<u>-</u>	<u>337,379</u>	<u>169,402</u>	<u>-</u>	<u>169,402</u>	<u>129,987</u>	<u>-</u>	<u>129,987</u>
	<u>\$ 5,986,683</u>	<u>\$ -</u>	<u>\$ 5,986,683</u>	<u>\$ 4,234,620</u>	<u>\$ -</u>	<u>\$ 4,234,620</u>	<u>\$ 3,985,278</u>	<u>\$ -</u>	<u>\$ 3,985,278</u>

The changes of policy reserve are summarized below:

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 4,234,620	\$ -	\$ 4,234,620	\$ 3,219,759	\$ -	\$ 3,219,759
Provision	1,932,917	-	1,932,917	737,297	-	737,297
Foreign exchange	<u>(180,854)</u>	<u>-</u>	<u>(180,854)</u>	<u>28,222</u>	<u>-</u>	<u>28,222</u>
Ending balance	<u>\$ 5,986,683</u>	<u>\$ -</u>	<u>\$ 5,986,683</u>	<u>\$ 3,985,278</u>	<u>\$ -</u>	<u>\$ 3,985,278</u>

4) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature		
	September 30, 2020	December 31, 2019	September 30, 2019
Unearned premium reserve	\$ 33,122	\$ 25,518	\$ 25,148
Policy reserve	<u>5,986,683</u>	<u>4,234,620</u>	<u>3,985,278</u>
Book value of insurance liabilities	<u>\$ 6,019,805</u>	<u>\$ 4,260,138</u>	<u>\$ 4,010,426</u>
Estimated present value of cash flows	<u>\$ 4,551,626</u>	<u>\$ 3,121,262</u>	<u>\$ 2,577,505</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.

Liability adequacy testing methodology is listed as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Test method:	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups:	Integrated testing	Integrated testing	Integrated testing
Significant assumptions			
a) Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b) Discount rate	Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years.	Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years.	Discount rates are calculated using Vietnam government bond rates in secondary market, with neutral assumption for discount rates after 15 years.

24. 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, 2020, December 31, 2019 and September 30, 2019, reserve for insurance contracts with the nature of financial products is summarized and reconciled as follows:

a. The Company

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Life insurance	\$ 72,330	\$ 75,004	\$ 77,755
Investment-linked insurance	<u>938,399</u>	<u>926,987</u>	<u>914,162</u>
	<u>\$ 1,010,729</u>	<u>\$ 1,001,991</u>	<u>\$ 991,917</u>
		For the Nine Months Ended September 30	
		<u>2020</u>	<u>2019</u>
Beginning balance		\$ 1,001,991	\$ 930,654
Claims and payments		(193,081)	(156,148)
Net provision of statutory reserve		209,518	215,217
Foreign exchange		<u>(7,699)</u>	<u>2,194</u>
Ending balance		<u>\$ 1,010,729</u>	<u>\$ 991,917</u>

b. Cathay Lujiazui Life

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Life insurance	<u>\$ 12,065,411</u>	<u>\$ 9,930,017</u>	<u>\$ 9,522,408</u>
		For the Nine Months Ended September 30	
		<u>2020</u>	<u>2019</u>
Beginning balance		\$ 9,930,017	\$ 8,388,059
Premiums received		4,129,986	2,955,034
Claims and payments		(2,256,299)	(1,842,638)
Net reserve of statutory reserve		360,099	290,768
Foreign exchange		<u>(98,392)</u>	<u>(268,815)</u>
Ending balance		<u>\$ 12,065,411</u>	<u>\$ 9,522,408</u>

25. RESERVE FOR FOREIGN EXCHANGE VALUATION

a. The hedging strategy and risk exposure

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

b. Reconciliation for reserve for foreign exchange valuation

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

During the nine months ended September 30, 2020, the Company applied for approval and received approval from the FSC to appropriate for a reserve for foreign exchange valuation; the details are as follows:

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

c. Effects due to reserve for foreign exchange valuation

Items	For the Nine Months Ended September 30, 2020		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income attributable to owners of the Company	\$ 37,873,084	\$ 44,103,731	\$ 6,230,647
Earnings per share	6.47	7.54	1.07
Reserve for foreign exchange valuation	-	10,212,568	10,212,568
Equity attributable to owners of the Company	645,784,644	641,217,487	(4,567,157)
Items	For the Nine Months Ended September 30, 2019		
Items	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
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)

26. RETAINED EARNED PREMIUM AND RETAINED CLAIM PAYMENTS

a. Retained earned premium

1) The Company

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 123,504,416	\$ 36,212	\$ 123,540,628	\$ 129,158,612	\$ 87,488	\$ 129,246,100
Reinsurance premium	25,183	-	25,183	29,745	-	29,745
Premium income	123,529,599	36,212	123,565,811	129,188,357	87,488	129,275,845
Less: Reinsurance expenses	(602,536)	-	(602,536)	(542,923)	-	(542,923)
Net changes in unearned premium reserve	70,681	-	70,681	(140,059)	-	(140,059)
Retained earned premium	<u>\$ 122,997,744</u>	<u>\$ 36,212</u>	<u>\$ 123,033,956</u>	<u>\$ 128,505,375</u>	<u>\$ 87,488</u>	<u>\$ 128,592,863</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 411,369,684	\$ 141,812	\$ 411,511,496	\$ 420,896,264	\$ 1,039,299	\$ 421,935,563
Reinsurance premium	83,712	-	83,712	91,986	-	91,986
Premium income	411,453,396	141,812	411,595,208	420,988,250	1,039,299	422,027,549
Less: Reinsurance expenses	(1,607,514)	-	(1,607,514)	(1,486,547)	-	(1,486,547)
Net changes in unearned premium reserve	174,559	-	174,559	(33,197)	-	(33,197)
Retained earned premium	<u>\$ 410,020,441</u>	<u>\$ 141,812</u>	<u>\$ 410,162,253</u>	<u>\$ 419,468,506</u>	<u>\$ 1,039,299</u>	<u>\$ 420,507,805</u>

2) Cathay Lujiazui Life

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 3,044,708	\$ -	\$ 3,044,708	\$ 2,770,855	\$ -	\$ 2,770,855
Reinsurance premium	-	-	-	-	-	-
Premium income	3,044,708	-	3,044,708	2,770,855	-	2,770,855
Less: Reinsurance expenses	(39,882)	-	(39,882)	(31,395)	-	(31,395)
Net changes in unearned premium reserve	(102,896)	-	(102,896)	(92,790)	-	(92,790)
Retained earned premium	<u>\$ 2,901,930</u>	<u>\$ -</u>	<u>\$ 2,901,930</u>	<u>\$ 2,646,670</u>	<u>\$ -</u>	<u>\$ 2,646,670</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 9,230,301	\$ -	\$ 9,230,301	\$ 8,922,975	\$ -	\$ 8,922,975
Reinsurance premium	-	-	-	-	-	-
Premium income	9,230,301	-	9,230,301	8,922,975	-	8,922,975
Less: Reinsurance expenses	(118,332)	-	(118,332)	(102,157)	-	(102,157)
Net changes in unearned premium reserve	(54,197)	-	(54,197)	(83,766)	-	(83,766)
Retained earned premium	<u>\$ 9,057,772</u>	<u>\$ -</u>	<u>\$ 9,057,772</u>	<u>\$ 8,737,052</u>	<u>\$ -</u>	<u>\$ 8,737,052</u>

3) Cathay Life (Vietnam)

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 558,227	\$ -	\$ 558,227	\$ 365,841	\$ -	\$ 365,841
Reinsurance premium	-	-	-	-	-	-
Premium income	558,227	-	558,227	365,841	-	365,841
Less: Reinsurance expenses	(130)	-	(130)	-	-	-
Net changes in unearned premium reserve	(6,093)	-	(6,093)	(3,937)	-	(3,937)
Retained earned premium	<u>\$ 552,004</u>	<u>\$ -</u>	<u>\$ 552,004</u>	<u>\$ 361,904</u>	<u>\$ -</u>	<u>\$ 361,904</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 1,502,849	\$ -	\$ 1,502,849	\$ 986,028	\$ -	\$ 986,028
Reinsurance premium	-	-	-	-	-	-
Premium income	1,502,849	-	1,502,849	986,028	-	986,028
Less: Reinsurance expenses	(357)	-	(357)	-	-	-
Net changes in unearned premium reserve	(8,630)	-	(8,630)	(10,304)	-	(10,304)
Retained earned premium	<u>\$ 1,493,862</u>	<u>\$ -</u>	<u>\$ 1,493,862</u>	<u>\$ 975,724</u>	<u>\$ -</u>	<u>\$ 975,724</u>

b. Retained claim payments

1) The Company

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 66,657,173	\$ 2,056,376	\$ 68,713,549	\$ 69,011,626	\$ 1,312,614	\$ 70,324,240
Reinsurance claim payments	13,751	-	13,751	14,460	-	14,460
Insurance claim payments	66,670,924	2,056,376	68,727,300	69,026,086	1,312,614	70,338,700
Less: Claims recovered from reinsures	(385,364)	-	(385,364)	(286,204)	-	(286,204)
Retained claim payments	<u>\$ 66,285,560</u>	<u>\$ 2,056,376</u>	<u>\$ 68,341,936</u>	<u>\$ 68,739,882</u>	<u>\$ 1,312,614</u>	<u>\$ 70,052,496</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 191,014,733	\$ 5,784,708	\$ 196,799,441	\$ 270,452,141	\$ 4,852,961	\$ 275,305,102
Reinsurance claim payments	35,345	-	35,345	34,931	-	34,931
Insurance claim payments	191,050,078	5,784,708	196,834,786	270,487,072	4,852,961	275,340,033
Less: Claims recovered from reinsures	(1,011,754)	-	(1,011,754)	(776,481)	-	(776,481)
Retained claim payments	<u>\$ 190,038,324</u>	<u>\$ 5,784,708</u>	<u>\$ 195,823,032</u>	<u>\$ 269,710,591</u>	<u>\$ 4,852,961</u>	<u>\$ 274,563,552</u>

2) Cathay Lujiazui Life

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 549,236	\$ -	\$ 549,236	\$ 439,907	\$ -	\$ 439,907
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	549,236	-	549,236	439,907	-	439,907
Less: Claims recovered from reinsures	(29,048)	-	(29,048)	(34,936)	-	(34,936)
Retained claim payments	<u>\$ 520,188</u>	<u>\$ -</u>	<u>\$ 520,188</u>	<u>\$ 404,971</u>	<u>\$ -</u>	<u>\$ 404,971</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 1,361,912	\$ -	\$ 1,361,912	\$ 1,270,756	\$ -	\$ 1,270,756
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	1,361,912	-	1,361,912	1,270,756	-	1,270,756
Less: Claims recovered from reinsures	(73,941)	-	(73,941)	(84,976)	-	(84,976)
Retained claim payments	<u>\$ 1,287,971</u>	<u>\$ -</u>	<u>\$ 1,287,971</u>	<u>\$ 1,185,780</u>	<u>\$ -</u>	<u>\$ 1,185,780</u>

3) Cathay Life (Vietnam)

	For the Three Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 49,018	\$ -	\$ 49,018	\$ 43,476	\$ -	\$ 43,476
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	49,018	-	49,018	43,476	-	43,476
Less: Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	<u>\$ 49,018</u>	<u>\$ -</u>	<u>\$ 49,018</u>	<u>\$ 43,476</u>	<u>\$ -</u>	<u>\$ 43,476</u>

	For the Nine Months Ended September 30					
	2020			2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct insurance claim payments	\$ 171,451	\$ -	\$ 171,451	\$ 105,564	\$ -	\$ 105,564
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	171,451	-	171,451	105,564	-	105,564
Less: Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	<u>\$ 171,451</u>	<u>\$ -</u>	<u>\$ 171,451</u>	<u>\$ 105,564</u>	<u>\$ -</u>	<u>\$ 105,564</u>

27. PROVISIONS

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 233,871	\$ 225,277
Provision	2,984	-
Reversal	(179,038)	-
Foreign exchange	<u>(1,572)</u>	<u>(7,613)</u>
Ending balance	<u>\$ 56,245</u>	<u>\$ 217,664</u>

28. OTHER LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
Advance receipts	\$ 471,756	\$ 456,211	\$ 409,268
Deferred fee income	5,612	7,210	7,465
Guarantee deposits received	10,281,538	13,315,767	3,874,950
Others	<u>7,895,951</u>	<u>5,408,207</u>	<u>3,633,856</u>
	<u>\$ 18,654,857</u>	<u>\$ 19,187,395</u>	<u>\$ 7,925,539</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 is summarized below:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 7,210	\$ 18,785
Amortization	(1,276)	(10,949)
Foreign exchange	<u>(322)</u>	<u>(371)</u>
Ending balance	<u>\$ 5,612</u>	<u>\$ 7,465</u>

29. RETIREMENT BENEFIT PLANS

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
General expenses	<u>\$ 57,882</u>	<u>\$ 56,897</u>	<u>\$ 173,648</u>	<u>\$ 170,693</u>

30. EQUITY

a. Share capital

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Number of shares authorized (in thousands)	10,000,000	10,000,000	10,000,000
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)	5,851,527	5,851,527	5,726,527
Shares issued	<u>\$ 58,515,274</u>	<u>\$ 58,515,274</u>	<u>\$ 57,265,274</u>

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

On November 13, 2019, the Company's board of directors (on behalf of the shareholders) resolved to issue 125,000 thousand ordinary shares with a par value of \$10, for a consideration of \$80 per share which increased the share capital issued and fully paid to \$58,515,274 thousand. On November 21, 2019, the above transaction was approved by the FSC, and the subscription base date was determined by the board of directors to be December 4, 2019.

b. Capital surplus

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Additional paid-in capital	\$ 59,550,000	\$ 59,550,000	\$ 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	843,995	845,715	715,654
Share-based payments granted by the parent company to the Company's employees	<u>182,599</u>	<u>182,599</u>	<u>-</u>
	<u>\$ 60,605,736</u>	<u>\$ 60,607,456</u>	<u>\$ 51,544,796</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 and share-based payments granted by the parent company to the Company's employees may not be used for any purpose.

On August 15, 2019, Cathay Financial Holdings' board of directors resolved to increase its capital and retained 10% of the capital increase in accordance with the law for employees of the parent company and subsidiaries' subscription. The Company recognized salary expenses and capital surplus in the amount of \$182,599 thousand for share-based payments at fair value of the options at the grant date.

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 32 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. 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 2019 and 2018 had been approved by the board of directors (on behalf of shareholders) on April 29, 2020 and May 3, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	
	For the Years Ended	
	December 31	
	2019	2018
Legal reserve	\$ 6,677,339	\$ 2,871,520
Special reserve	59,449,742	12,730,041

The appropriation of earnings and offsetting of the deficits against the legal reserve of \$31,181,609 thousand were approved in the board of directors' meeting (on behalf of the shareholders) on April 29, 2020.

d. Special reserves

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Special reserve for catastrophic events and fluctuation of risks (1)	\$ 14,552,237	\$ 14,552,237	\$ 14,165,457
Special reserve for the foreign exchange valuation reserve (2)	33,677,108	11,731,067	11,731,067
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)	148,125,659	147,568,965	147,568,965
Special reserve for gains or losses on disposal of immature debt instruments (5)	25,491,229	-	-
Others (6)	<u>76,415,368</u>	<u>68,252,401</u>	<u>66,905,147</u>
	<u>\$ 345,589,461</u>	<u>\$ 289,432,530</u>	<u>\$ 287,698,496</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 write-down or recovery determined in accordance with the IAS 12 “Income Taxes” can be recorded in the special capital reserve for fluctuation of risks under equity.

For the 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 enterprises 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 the implementation. The abovementioned 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 the Articles 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:

	September 30, 2020		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance	\$ 113,087	\$ -	\$ 113,087
Injury insurance	4,800,448	-	4,800,448
Health insurance	5,324,076	-	5,324,076
Group insurance	<u>4,314,626</u>	<u>-</u>	<u>4,314,626</u>
	<u>\$ 14,552,237</u>	<u>\$ -</u>	<u>\$ 14,552,237</u>
	December 31, 2019		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance	\$ 113,087	\$ -	\$ 113,087
Injury insurance	4,800,448	-	4,800,448
Health insurance	5,324,076	-	5,324,076
Group insurance	<u>4,314,626</u>	<u>-</u>	<u>4,314,626</u>
	<u>\$ 14,552,237</u>	<u>\$ -</u>	<u>\$ 14,552,237</u>

	September 30, 2019		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts		Total
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>

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 be set aside in later years if there are no sufficient 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 of 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) Special reserve from gains or losses on disposal of immature debt instruments

According to Jin Guan Bao Tsai No. 10804501381 starting from January 1, 2019, a life insurance enterprise should make a special reserve from gains or losses after a tax of 20% on disposals of the following immature debt instruments, which should be amortized and 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

In the calculation of immature debt instruments, beneficiary certificates, short-term notes, preferred shares (classified as equity instrument), and the positions belonging to the segregated assets for participating insurance or interest-sensitive commodities may be excluded.

6) 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

	For the Nine Months Ended	
	September 30	
	2020	2019
Beginning balance	\$ (11,187,030)	\$ (10,796,480)
Recognized for the period	(2,329,114)	(413,012)
Share of associates accounted for using the equity method	(107,156)	292,768
Tax effects	4,496	(100,557)
Other comprehensive loss recognized for the period	(2,431,774)	(220,801)
Ending balance	<u>\$ (13,618,804)</u>	<u>\$ (11,017,281)</u>

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

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 57,531,736	\$ (20,547,627)
Recognized for the period	34,549,386	115,199,976
Share of associate accounted for using the equity method	343,582	184,144
Reclassification adjustment		
Disposal of investments in debt instruments	(20,081,800)	(18,132,873)
Tax effects	<u>(2,032,124)</u>	<u>(19,454,437)</u>
Other comprehensive income recognized for the period	<u>12,779,044</u>	<u>77,796,810</u>
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	<u>46,746</u>	<u>4,390,691</u>
Ending balance	<u>\$ 70,357,526</u>	<u>\$ 61,639,874</u>

3) Gain on hedging instruments

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 331,929	\$ 173,288
Recognized for the period	153,902	144,884
Reclassification adjustment		
Hedged item that affects profit or loss	(53,966)	(49,335)
Tax effects	<u>(15,621)</u>	<u>(26,753)</u>
Other comprehensive income recognized for the period	<u>84,315</u>	<u>68,796</u>
Ending balance	<u>\$ 416,244</u>	<u>\$ 242,084</u>

4) Remeasurement of defined benefit plans

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 447,694	\$ 287,100
Share of associates accounted for using the equity method	(10,864)	(8,771)
Tax effects	<u>2,173</u>	<u>1,754</u>
Other comprehensive loss recognized for the period	<u>(8,691)</u>	<u>(7,017)</u>
Ending balance	<u>\$ 439,003</u>	<u>\$ 280,083</u>

5) Property revaluation surplus

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 187,503	\$ 187,503
Changes in the period	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 187,503</u>	<u>\$ 187,503</u>

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

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 57,760,564	\$ (52,549,236)
Recognized for the period	55,813,421	126,021,215
Reclassification adjustment		
Disposal of investments in financial instruments	(58,366,842)	(26,710,113)
Tax effects	627,220	(8,464,331)
Other comprehensive (loss) income recognized for the period	<u>(1,926,201)</u>	<u>90,846,771</u>
Ending balance	<u>\$ 55,834,363</u>	<u>\$ 38,297,535</u>

f. Non-controlling interests

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 5,899,205	\$ 5,536,717
Net income attributed to non-controlling interests		
Net profit for the period	743,915	484,218
Exchange differences on translating financial statements of foreign operations	(111,178)	(141,592)
Other comprehensive (loss) income reclassified using overlay approach	(68,510)	300,866
Acquisition of non-controlling interests in subsidiaries (Note 43)	1,302,994	-
Others	<u>(583,516)</u>	<u>(234,629)</u>
Ending balance	<u>\$ 7,182,910</u>	<u>\$ 5,945,580</u>

31. EARNINGS PER SHARE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings per share	<u>\$ 4.21</u>	<u>\$ 1.86</u>	<u>\$ 7.54</u>	<u>\$ 5.25</u>

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

Net Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Earnings used in the computation of basic earnings per share	<u>\$ 24,637,967</u>	<u>\$ 10,664,741</u>	<u>\$ 44,103,731</u>	<u>\$ 30,092,782</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>5,851,527</u>	<u>5,726,527</u>	<u>5,851,527</u>

If reserve for foreign exchange valuation was excluded, basic earnings per share would be \$4.70, \$1.52, \$6.47 and \$6.00 for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, respectively.

32. NET PROFIT FOR THE PERIOD

a. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	Financial assets at FVTOCI	\$ 7,921,026	\$ 8,483,271	\$ 22,823,177
Financial assets measured at amortized cost	27,170,907	27,310,263	81,959,758	78,605,014
Loans	3,585,450	4,100,441	11,026,179	12,471,567
Others	<u>474,258</u>	<u>950,576</u>	<u>2,145,339</u>	<u>2,686,612</u>
	<u>\$ 39,151,641</u>	<u>\$ 40,844,551</u>	<u>\$ 117,954,453</u>	<u>\$ 120,985,185</u>

b. Expected credit impairment losses and gains on reversal

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	Operating revenues - expected credit impairment losses and gains on reversal from investments			
Debt instrument investments at FVTOCI	\$ (30,329)	\$ 154	\$ (353,248)	\$ 99,502
Financial assets measured at amortized cost	108,346	219,235	(1,467,303)	801,649
Other financial assets	-	667	-	594
Loans	<u>(223,336)</u>	<u>211,861</u>	<u>48,838</u>	<u>759,614</u>
	<u>(145,319)</u>	<u>431,917</u>	<u>(1,771,713)</u>	<u>1,661,359</u>
Operating expenses - expected credit impairment losses from non-investments				
Receivables	1,873	(258)	(2,140)	(1,548)
Reinsurance assets	<u>-</u>	<u>-</u>	<u>(6,408)</u>	<u>-</u>
	<u>1,873</u>	<u>(258)</u>	<u>(8,548)</u>	<u>(1,548)</u>
	<u>\$ (143,446)</u>	<u>\$ 431,659</u>	<u>\$ (1,780,261)</u>	<u>\$ 1,659,811</u>

c. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term benefits				
Salaries	\$ 8,747,714	\$ 9,455,081	\$ 27,150,303	\$ 30,356,912
Labor and health insurance expenses	710,879	742,405	2,305,188	2,386,535
Post-employment benefits				
Defined contribution plans	293,311	186,134	943,413	765,824
Defined benefit plans (Note 29)	57,882	56,897	173,648	170,693
Remuneration of directors	36,225	17,877	49,738	42,024
Other employee benefits	<u>252,021</u>	<u>257,685</u>	<u>898,688</u>	<u>874,416</u>
	<u>\$ 10,098,032</u>	<u>\$ 10,716,079</u>	<u>\$ 31,520,978</u>	<u>\$ 34,596,404</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 7,124,720	\$ 8,005,035	\$ 22,734,553	\$ 26,128,841
Operating expenses	<u>2,973,312</u>	<u>2,711,044</u>	<u>8,786,425</u>	<u>8,467,563</u>
	<u>\$ 10,098,032</u>	<u>\$ 10,716,079</u>	<u>\$ 31,520,978</u>	<u>\$ 34,596,404</u>

As of September 30, 2020 and 2019, the total numbers of the Group's employees were 41,740 and 40,007, including 15 non-executive directors.

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 of directors and supervisors. However, the Company has to first cover accumulated losses, if any. Employees' compensation shall be paid in cash or in shares and resolved by the board of directors in their meeting. The distribution is subject to the attendance of more than two-thirds of the members of the board of directors and the resolution of more than half of the directors present. The resolution shall be reported to the shareholders' meeting.

In compliance with the Company's Articles of Incorporation, the Company accrued employees' compensation and remuneration of directors and supervisors for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, respectively, as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Employees' compensation	\$ 1,681	\$ 1,313	\$ 4,419	\$ 3,541
Remuneration of directors and supervisors	1,350	1,425	4,050	4,275

If there will be a change in the amounts after the consolidated financial statements are authorized for issue, the differences will be recorded as a change in accounting estimate and adjusted in the next year.

The compensation and remuneration of directors and supervisors for the years ended 2019 and 2018, which were resolved by the board of directors on March 11, 2020 and March 21, 2019, respectively, are as follows:

	<u>2019</u>	<u>2018</u>
Employees' compensation	\$ 3,961	\$ 2,760
Remuneration of directors and supervisors	5,700	5,700

Information on the employees' compensation and remuneration of 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Property and equipment	\$ 177,181	\$ 181,287	\$ 536,074	\$ 552,430
Right-of-use assets	146,897	150,579	430,431	442,778
Intangible assets	<u>699,684</u>	<u>653,404</u>	<u>1,997,842</u>	<u>1,957,674</u>
	<u>\$ 1,023,762</u>	<u>\$ 985,270</u>	<u>\$ 2,964,347</u>	<u>\$ 2,952,882</u>
An analysis of depreciation by function				
Operating expenses	<u>\$ 324,078</u>	<u>\$ 331,866</u>	<u>\$ 966,505</u>	<u>\$ 995,208</u>
An analysis of amortization by function				
Operating expenses	<u>\$ 699,684</u>	<u>\$ 653,404</u>	<u>\$ 1,997,842</u>	<u>\$ 1,957,674</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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
(Loss) gain on disposal of property and equipment	\$ (196)	\$ 7,326	\$ (2,237)	\$ 13,234
Others	<u>347,930</u>	<u>327,066</u>	<u>1,199,119</u>	<u>1,181,512</u>
	<u>\$ 347,734</u>	<u>\$ 334,392</u>	<u>\$ 1,196,882</u>	<u>\$ 1,194,746</u>

33. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	\$ (6,578,907)	\$ 541,076	\$ (17,901,619)	\$ 2,004,846
Adjustments for prior years	(16,295)	297	128,307	(211,108)
Deferred tax				
In respect of the current period	5,714,937	(3,141,086)	17,163,446	(7,026,900)
Adjustments for prior years	-	-	122	-
Other				
Tax effect under integrated income tax system	-	102,099	-	(395,518)
Income tax expense recognized in profit or loss	<u>\$ (880,265)</u>	<u>\$ (2,497,614)</u>	<u>\$ (609,744)</u>	<u>\$ (5,628,680)</u>

Foreign withholding taxes in the amounts of \$306,583 thousand, \$460,587 thousand, \$763,362 thousand and \$1,230,859 thousand were recognized in current tax expense for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, respectively, since the Company evaluated that foreign withholding taxes were not tax-deductible.

b. Income tax recognized directly in equity

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
Derecognition of equity instruments at FVTOCI	\$ 7,585	\$ 261,406	\$ 20,955	\$ 370,871
Deferred tax				
Derecognition of equity instruments at FVTOCI	<u>(7,585)</u>	<u>(261,406)</u>	<u>(20,955)</u>	<u>(370,871)</u>
Total income tax benefit recognized directly in equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

c. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Deferred tax</u>				
Recognized in other comprehensive income				
Exchange differences on translating financial statements of foreign operations	\$ (22,238)	\$ 57,938	\$ 4,496	\$ (100,557)
Gains (losses) on hedging instruments	10,576	(1,123)	(15,621)	(26,753)
Unrealized gains (losses) on equity instruments at FVTOCI	148,306	131,280	617,695	(281,651)
(Losses) gains on debt instruments at FVTOCI	(199,591)	(4,489,380)	(2,679,965)	(19,147,615)
Shares of other comprehensive income (loss) of subsidiaries, associates, and joint ventures accounted for using the equity method	8,813	6,735	32,319	(23,417)
Other comprehensive (loss) income reclassified using overlay approach	<u>(2,055,920)</u>	<u>896,898</u>	<u>627,220</u>	<u>(8,464,331)</u>
Total income tax recognized in other comprehensive income	<u>\$ (2,110,054)</u>	<u>\$ (3,397,652)</u>	<u>\$ (1,413,856)</u>	<u>\$ (28,044,324)</u>

d. Income tax assessments

The tax returns of the Company through 2014 have been assessed by the tax authorities. However, the Company has filed administrative remedy due to disagreements on assessment of the foreign withholding tax for fiscal year 2012.

34. TRANSACTIONS WITH RELATED PARTIES

a. Related party name and category

Related Party Name	Related Party Category
Cathay Financial Holdings	The Company's parent company
Cathay Securities Investment Consulting	Subsidiary
Cathay Lujiazui Life Insurance Co., Ltd.	Subsidiary
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Subsidiary
Conning Holdings Limited	Subsidiary
Cathay Woolgate Exchange Holding 1 Limited	Subsidiary
Cathay Woolgate Exchange Holding 2 Limited	Subsidiary
Cathay Walbrook Holding 1 Limited	Subsidiary
Cathay Walbrook Holding 2 Limited	Subsidiary
Octagon Credit Investors, LLC	Subsidiary
Global Evolution Holding ApS	Subsidiary (subsidiary's associate before June 2020)
Cathay Insurance Company Limited (China)	Associate
Symphox Information Co., Ltd.	Associate
PSS Co., Ltd.	Associate
TaiYang Solar Power Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Lin Yuan Property Management Co., Ltd.	Associate (other related party before May 2020)
Seaward Card Co., Ltd.	Subsidiary of associate
ThinkPower Information Co., Ltd.	Subsidiary of associate
Yua-Yung Marketing (Taiwan) Co., Ltd.	Subsidiary of associate
Hong-Sui 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 Insurance (Vietnam) Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Futures Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Private Equity Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Securities (Hong Kong) Limited	Subsidiary of fellow subsidiaries
Cathay Securities Investment Trust Co., Ltd.'s Fund	Other related party
Private Equity Fund managed by Cathay Private Equity	Other related party
Funds managed by Global Evolution Holdings ApS	Other related party
Funds managed by Octagon Credit Investors, LLC	Other related party
Bonds managed by Octagon Credit Investors, LLC	Other related party
Ally Logistic Property Co., Ltd.	Other related party (subsidiary of associate before January 2020)
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
San Ching Engineering Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party
Cathay Charity Foundation	Other related party

(Continued)

<u>Related Party Name</u>	<u>Related Party Category</u>
Cathay United Bank Foundation	Other related party
Cymlin Co., Ltd.	Other related party
Retail Forest 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

(Concluded)

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 from undertaking contracted projects with related parties are listed below:

Name	<u>For the Nine Months Ended September 30</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Items</u>	<u>Amount</u>	<u>Items</u>	<u>Amount</u>
Associate and its subsidiary				
Lin Yuan Property Management Co., Ltd.	Cathay Life Head Office Building, etc.	\$ 6,310	-	\$ -
Ally Logistic Property Co., Ltd.	-	-	Yangmei Logistics Park, etc.	580,443
		<u>6,310</u>		<u>580,443</u>
Other related party				
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	916,201	THSR Taoyuan Commercial Park, etc.	1,682,430
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	696,057	-	-
Lin Yuan Property Management Co., Ltd.	-	-	Cathay Life Head Office Building, etc.	8,636
Cathay Real Estate Development Co., Ltd.	-	-	Minsheng Jingguo Building, etc.	306,419
		<u>1,612,258</u>		<u>1,997,485</u>
		<u>\$ 1,618,568</u>		<u>\$ 2,577,928</u>

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

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

As of September 30, 2020, December 31, 2019 and September 30, 2019, the total amounts of contracted projects for real estate between the Group and Cathay Real Estate Development Co., Ltd. were \$0, \$0 and \$2,744,673 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	
	2020	2019	2020	2019
Parent company				
Cathay Financial Holdings	\$ 32,121	\$ 32,958	\$ 90,834	\$ 76,744
Subsidiary				
Cathay Securities				
Investment Consulting	2,464	2,291	7,292	6,872
Associate and its subsidiary				
Symphox Information Co., Ltd.	7,401	13,287	31,522	36,499
Hong-Sui Co., Ltd.	6,955	-	19,932	-
Yua-Yung Marketing (Taiwan) Co., Ltd.	2,322	-	11,072	-
Lin Yuan Property Management Co., Ltd.	5,498	-	13,604	-
Ally Logistic Property Co., Ltd.	-	139,779	-	422,227
Cathay Insurance Company Limited (China)	-	-	-	6,060
	<u>22,176</u>	<u>153,066</u>	<u>76,130</u>	<u>464,786</u>
Fellow subsidiaries and its subsidiary				
Cathay United Bank Co., Ltd.	194,155	169,181	539,491	465,145
Cathay Century Insurance Co., Ltd.	27,634	26,913	82,570	80,412
Cathay Securities Investment Trust Co., Ltd.	12,977	12,163	39,455	36,603
Cathay Securities Corporation	11,773	10,659	35,935	31,048
Cathay Futures Co., Ltd.	1,843	1,759	5,646	5,242
Cathay Venture Inc.	1,394	1,218	4,181	3,654
	<u>249,776</u>	<u>221,893</u>	<u>707,278</u>	<u>622,104</u>
Other related party				
Ally Logistic Property Co., Ltd.	184,379	-	559,347	-
Cathay Medical Care Corp.	46,339	44,777	141,967	138,025
Cathay Healthcare Management Co., Ltd.	42,605	48,516	133,300	145,452
Cathay Hospitality Consulting Co., Ltd.	33,535	23,348	78,715	75,196
Cathay Hospitality Management Co., Ltd.	17,479	17,308	52,414	51,368
Cathay Real Estate Development Co., Ltd.	4,590	4,462	14,389	12,991
Retail Forest Co., Ltd.	3,650	-	4,750	-

(Continued)

Name	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2020	2019	2020	2019
San Ching engineering Co., Ltd.	\$ 1,495	\$ 1,422	\$ 4,414	\$ 4,227
Cathay United bank foundation	1,312	-	3,937	-
Lin Yuan Property Management Co., Ltd.	-	1,743	-	3,652
	<u>335,384</u>	<u>141,576</u>	<u>993,233</u>	<u>430,911</u>
	<u>\$ 641,921</u>	<u>\$ 551,784</u>	<u>\$ 1,874,767</u>	<u>\$ 1,601,417</u>

(Concluded)

Name	Guarantee Deposits Received		
	September 30,	December 31,	September 30,
	2020	2019	2019
Parent company			
Cathay Financial Holdings	\$ 29,392	\$ 30,071	\$ 30,071
Associate and its subsidiary			
Symphox Information Co., Ltd.	13,199	13,070	12,996
Hong-Sui Co., Ltd.	5,145	-	-
Yua-Yang Marketing (Taiwan) Co., Ltd.	3,486	-	-
Ally Logistic Property Co., Ltd.	-	123,085	124,168
	<u>21,830</u>	<u>136,155</u>	<u>137,164</u>
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	186,446	188,158	175,220
Cathay Century Insurance Co., Ltd.	26,580	26,580	25,167
Cathay Securities Investment Trust Co., Ltd.	11,873	10,991	10,991
Cathay Securities Corporation	11,562	10,858	10,858
	<u>236,461</u>	<u>236,587</u>	<u>222,236</u>
Other related parties			
Cathay Hospitality Management Co., Ltd.	\$ 186,445	\$ 184,944	\$ 184,602
Cathay Hospitality Consulting Co., Ltd.	179,392	108,145	107,074
Ally Logistic Property Co., Ltd.	127,445	-	-
Cathay Healthcare Management Co., Ltd.	20,384	16,505	16,198
Cathay Medical Care Corp.	11,435	11,393	11,369
Cathay Real Estate Development Co., Ltd.	4,090	3,959	3,971
Cymlin Co., Ltd.	4,081	-	-
Retail Forest Co., Ltd.	3,663	-	-
	<u>536,935</u>	<u>324,946</u>	<u>323,214</u>
	<u>\$ 824,618</u>	<u>\$ 727,759</u>	<u>\$ 712,685</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 income are collected on a monthly basis.

c) Lease arrangements

Name	Acquisition of Right-of-use Assets For the Nine Months Ended September 30	
	2020	2019
	Fellow subsidiaries Cathay United Bank Co., Ltd.	\$ 58,426
Other related party Cathay Real Estate Development Co., Ltd.	<u>20,565</u>	<u>-</u>
	<u>\$ 78,991</u>	<u>\$ -</u>

Name	Lease Liabilities		
	September 30, 2020	December 31, 2019	September 30, 2019
	Fellow subsidiaries Cathay United Bank Co., Ltd.	\$ 53,686	\$ 30,983
Other related party Cathay Real Estate Development Co., Ltd.	<u>17,309</u>	<u>-</u>	<u>-</u>
	<u>\$ 70,995</u>	<u>\$ 30,983</u>	<u>\$ 24,503</u>

Name	Lease Expenses			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Fellow subsidiaries Cathay United Bank Co., Ltd.	\$ -	\$ 2,408	\$ -	\$ 6,685

Name	Guarantee Deposits Paid		
	September 30, 2020	December 31, 2019	September 30, 2019
	Fellow subsidiaries Cathay United Bank Co., Ltd.	<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	
	2020	2019	2020	2019
	Subsidiary of associate ThinkPower Information Co., Ltd.	\$ -	\$ 867	\$ -

2) Shares transactions

Acquisition of shares issued by the related parties

Name	Items	For the Nine Months Ended September 30	
		2020	2019
Subsidiary			
Cathay Securities Investment Consulting	Ordinary shares	\$ 230,000	\$ -
Associate			
TaiYang Solar Power Co., Ltd.	Ordinary shares	118,150	-
PSS Co., Ltd.	Ordinary shares	51,386	-
Lin Yuan Property Management Co., Ltd.	Ordinary shares	50,649	-
Greenhealth Water Resources Co., Ltd.	Ordinary shares	-	387,816
		<u>220,185</u>	<u>387,816</u>
Fellow subsidiary			
Cathay Venture Inc.	Ordinary shares	-	1,567,574
Other related party			
Cathay Real Estate Development Co., Ltd.	Ordinary shares	107,151	-
		<u>\$ 557,336</u>	<u>\$ 1,955,390</u>

3) Cash in banks

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

For the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the amounts of interest income from Cathay United Bank Co., Ltd. were \$1,052 thousand, \$13,799 thousand, \$13,718 thousand and \$48,110 thousand, respectively.

For the three months ended September 20, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the amounts of interest income from Indovina Bank Limited were \$14,178 thousand, \$13,293 thousand, \$28,206 thousand and \$52,452 thousand, respectively.

4) Loans

For the Nine Months Ended September 30, 2020			
Name	Maximum	Rate	Ending Balance
	Balance		
Other related party	<u>\$ 950,932</u>	0.75%-3.17%	<u>\$ 898,706</u>

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

For the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, the amounts of interest income from other related parties were \$3,541 thousand, \$4,038 thousand, \$9,432 thousand and \$11,265 thousand, respectively.

5) Balance of bonds managed by related parties

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

6) Balance of beneficiary certificates purchased from related parties

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

7) Discretionary account management balance

Name	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Subsidiary's associate			
Global Evolution Holding ApS	\$ -	\$ 22,215,022	\$ 7,081,553
Fellow subsidiaries			
Cathay Securities Investment Trust Co., Ltd.	<u>277,500,263</u>	<u>213,072,442</u>	<u>219,887,784</u>
	<u>\$ 277,500,263</u>	<u>\$ 235,287,464</u>	<u>\$ 226,969,337</u>

8) Other receivables

Name	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Parent company			
Cathay Financial Holdings (Note)	<u>\$ -</u>	<u>\$ 10,147,500</u>	<u>\$ 12,934,473</u>
Fellow subsidiary and its subsidiary			
Cathay Century Insurance Co., Ltd.	81,638	67,834	89,238
Cathay Securities Investment Trust Co., Ltd.	47,513	51,416	46,318
Cathay United Bank Co., Ltd.	30,124	31,050	15,936
Indovina Bank Limited	<u>19,333</u>	<u>31,672</u>	<u>26,135</u>
	<u>178,608</u>	<u>181,972</u>	<u>177,627</u>
	<u>\$ 178,608</u>	<u>\$ 10,329,472</u>	<u>\$ 13,112,100</u>

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

9) Guarantee deposits paid (deposits for future transactions)

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

10) Guarantee deposits received

Name	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Associate and its subsidiary			
Lin Yuan Property Management Co., Ltd.	\$ 5,000	\$ -	\$ -
Ally Logistic Property Co., Ltd.	<u>-</u>	<u>151,275</u>	<u>151,080</u>
	<u>5,000</u>	<u>151,275</u>	<u>151,080</u>
Other related party			
San Ching Engineering Co., Ltd.	674,714	453,225	453,225
Ally Logistic Property Co., Ltd.	375,275	-	-
Cathay Hospitality Management Co., Ltd.	-	51,000	235,319
Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>5,000</u>	<u>5,000</u>
	<u>1,049,989</u>	<u>509,225</u>	<u>693,544</u>
	<u>\$ 1,054,989</u>	<u>\$ 660,500</u>	<u>\$ 844,624</u>

11) Other payables

Name	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Parent company			
Cathay Financial Holdings (Note)	<u>\$ 7,971,894</u>	<u>\$ 65,589</u>	<u>\$ 1,008,000</u>
Subsidiaries			
Cathay Securities Investment Consulting	<u>31,312</u>	<u>30,164</u>	<u>8,894</u>
Associate			
Lin Yuan Property Management Co., Ltd.	45,788	-	-
Symphox Information Co., Ltd.	<u>15,006</u>	<u>4,871</u>	<u>40,745</u>
	<u>60,794</u>	<u>4,871</u>	<u>40,745</u>
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	268,188	43,208	339,336
Cathay Century Insurance Co., Ltd.	-	-	1,699
Cathay Securities Investment Trust Co., Ltd.	<u>15,738</u>	<u>13,412</u>	<u>13,028</u>
	<u>283,926</u>	<u>56,620</u>	<u>354,063</u>
Other related party			
Lin Yuan Property Management Co., Ltd.	<u>-</u>	<u>21</u>	<u>58,633</u>
	<u>\$ 8,347,926</u>	<u>\$ 157,265</u>	<u>\$ 1,470,335</u>

Note: The payables are comprised of accrued interests of bonds payable and income taxes payable under the integrated system.

12) Bonds payable

Name	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Parent company Cathay Financial Holdings	<u>\$ 991</u>	<u>\$ 1,747</u>	<u>\$ 3,877</u>	<u>\$ 3,413</u>
Fellow subsidiaries				
Cathay United Bank Co., Ltd.	28,790	26,268	50,470	51,842
Cathay Century Insurance Co., Ltd.	6,641	5,080	17,845	13,531
Cathay Securities Corporation	2,899	2,163	7,965	6,189
Cathay Securities Investment Trust Co., Ltd.	<u>780</u>	<u>-</u>	<u>3,057</u>	<u>-</u>
	<u>39,110</u>	<u>33,511</u>	<u>79,337</u>	<u>71,562</u>
Other related party				
Cathay Medical Care Corp.	13,007	11,477	37,224	30,097
Other	<u>182,045</u>	<u>143,734</u>	<u>392,816</u>	<u>318,642</u>
	<u>195,052</u>	<u>155,211</u>	<u>430,040</u>	<u>348,739</u>
	<u>\$ 235,153</u>	<u>\$ 190,469</u>	<u>\$ 513,254</u>	<u>\$ 423,714</u>

14) Fee income

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Fellow subsidiaries				
Cathay Securities Investment Trust Co., Ltd.	<u>\$ 14,710</u>	<u>\$ 16,503</u>	<u>\$ 46,683</u>	<u>\$ 47,927</u>

15) Insurance expenses

Name	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Fellow subsidiaries				
Cathay Century Insurance Co., Ltd.	<u>\$ 4,927</u>	<u>\$ 4,861</u>	<u>\$ 110,070</u>	<u>\$ 98,668</u>

16) Indemnity income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Fellow subsidiaries Cathay Century Insurance Co., Ltd.	\$ 7,652	\$ 12,710	\$ 7,652	\$ 12,710

17) Other operating revenue

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Fellow subsidiaries Cathay Securities Investment Trust Co., Ltd.	\$ 41,108	\$ 35,714	\$ 111,868	\$ 102,189

18) Other operating costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiary's associate Global Evolution Holding ApS	\$ -	\$ -	\$ 14,163	\$ 10,127
Fellow subsidiaries Cathay United Bank Co., Ltd.	259,430	271,561	835,137	880,639
Cathay Securities Investment Trust Co., Ltd.	75,487	46,441	210,711	138,228
	<u>334,917</u>	<u>318,002</u>	<u>1,045,848</u>	<u>1,018,867</u>
	<u>\$ 334,917</u>	<u>\$ 318,002</u>	<u>\$ 1,060,011</u>	<u>\$ 1,028,994</u>

19) Finance costs

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Parent company Cathay Financial Holdings	\$ 316,722	\$ 317,589	\$ 943,279	\$ 942,411

The finance costs were interest expenses of bonds payable issued by the Company.

20) Operating expenses

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Subsidiaries				
Cathay Securities Investment Consulting	\$ 31,789	\$ 8,888	\$ 93,124	\$ 8,888
Associate and its subsidiary				
Lin Yuan Property Management Co., Ltd.	191,189	-	591,444	-
Symphox Information Co., Ltd.	44,850	56,187	155,058	182,824
Seaward Card Co., Ltd.	17,068	24,112	47,140	57,671
ThinkPower Information Co., Ltd.	1,321	785	8,169	5,075
	<u>254,428</u>	<u>81,084</u>	<u>801,811</u>	<u>245,570</u>
Fellow subsidiary and its subsidiary				
Cathay United Bank Co., Ltd.	1,327,684	1,301,858	4,277,325	4,821,580
Cathay Securities (Hong Kong) Limited	1,492	1,577	4,535	4,692
Cathay Futures Co., Ltd.	935	2,768	3,268	4,932
Cathay Venture Inc.	-	11,765	-	11,765
	<u>1,330,111</u>	<u>1,317,968</u>	<u>4,285,128</u>	<u>4,842,969</u>
Other related party				
Cathay Healthcare Management Co., Ltd.	5,055	11,395	14,901	30,279
Lin Yuan Property Management Co., Ltd.	-	192,688	-	577,298
Cathay Real Estate Development Co., Ltd.	-	1,307	-	3,857
Cathay Charity Foundation	-	5,300	-	5,300
Cathay Medical Care Corp.	-	746	-	3,158
	<u>5,055</u>	<u>211,436</u>	<u>14,901</u>	<u>619,892</u>
	<u>\$ 1,621,383</u>	<u>\$ 1,619,376</u>	<u>\$ 5,194,964</u>	<u>\$ 5,717,319</u>

21) Non-operating income

Name	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Parent company				
Cathay Financial Holdings	\$ 1,498	\$ 1,541	\$ 6,738	\$ 5,497
Fellow subsidiaries and its subsidiary				
Cathay Century Insurance Co., Ltd.	150,121	175,544	477,738	496,909
Cathay United Bank Co., Ltd.	46,387	36,535	131,109	120,352
Cathay Securities Corporation	13,448	8,072	31,497	20,127
Cathay Securities Investment Trust Co., Ltd.	5,364	4,382	15,388	12,783
Cathay Insurance (Vietnam) Co., Ltd.	2,164	-	5,958	-
	<u>217,484</u>	<u>224,533</u>	<u>661,690</u>	<u>650,171</u>
Other related party				
Cathay Healthcare Management Co., Ltd.	923	927	3,691	3,705
	<u>\$ 219,905</u>	<u>\$ 227,001</u>	<u>\$ 672,119</u>	<u>\$ 659,373</u>

The non-operating income was mainly generated from the Group's integrated promotion activities.

22) Others

As of September 30, 2020, December 31, 2019 and September 30, 2019, the nominal amounts of the financial instruments transactions with Cathay United Bank Co., Ltd. are summarized as follows (in thousands of USD):

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

c. Key management personnel compensation

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 13,771	\$ 13,970	\$ 51,263	\$ 59,429
Post-employment benefits	<u>597</u>	<u>624</u>	<u>1,871</u>	<u>1,871</u>
	<u>\$ 14,368</u>	<u>\$ 14,594</u>	<u>\$ 53,134</u>	<u>\$ 61,300</u>

Key management personnel include the chairman, directors, president, senior executive vice president and senior vice general managers.

35. SEPARATE ACCOUNT INSURANCE PRODUCTS

a. The Company

The related accounts of the Company were summarized as follows:

	September 30, 2020	December 31, 2019	September 30, 2019	
<u>Separate account insurance product assets</u>				
Cash in bank	\$ 471,310	\$ 518,576	\$ 571,499	
Financial assets at FVTPL	583,731,009	600,237,158	587,898,370	
Other receivables	<u>7,702,305</u>	<u>6,668,998</u>	<u>4,038,108</u>	
	<u>\$ 591,904,624</u>	<u>\$ 607,424,732</u>	<u>\$ 592,507,977</u>	
<u>Separate account insurance product liabilities</u>				
Other payables	\$ 296,030	\$ 467,361	\$ 721,308	
Reserve for separate account - insurance contracts	247,854,190	244,601,804	237,722,883	
Reserve for separate account - investment contracts	<u>343,754,404</u>	<u>362,355,567</u>	<u>354,063,786</u>	
	<u>\$ 591,904,624</u>	<u>\$ 607,424,732</u>	<u>\$ 592,507,977</u>	
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<u>Separate account insurance product income</u>				
Premium income	\$ 15,017,050	\$ 8,117,998	\$ 41,561,344	\$ 23,864,315
Interest income	251	362	1,317	1,153
Gains (losses) from financial assets and liabilities at FVTPL	10,711,560	1,010,222	(1,319,895)	21,758,010
Foreign exchange gains	<u>(3,196,695)</u>	<u>(1,502,502)</u>	<u>(7,052,030)</u>	<u>660,420</u>
	<u>\$ 22,532,166</u>	<u>\$ 7,626,080</u>	<u>\$ 33,190,736</u>	<u>\$ 46,283,898</u>
<u>Separate account insurance product expenses</u>				
Claims and payments	\$ 2,079,252	\$ 2,198,310	\$ 6,830,762	\$ 7,018,863
Cash surrender value	7,301,659	6,357,352	19,497,225	19,007,986
Withdrawal (recovery) of separate account reserve	12,168,056	(1,795,825)	4,073,702	17,642,196
Administrative expenses	1,019,950	903,371	2,894,599	2,720,485
Non-operating income and expenses	<u>(36,751)</u>	<u>(37,128)</u>	<u>(105,552)</u>	<u>(105,632)</u>
	<u>\$ 22,532,166</u>	<u>\$ 7,626,080</u>	<u>\$ 33,190,736</u>	<u>\$ 46,283,898</u>

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

b. Cathay Lujiazui Life

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

	September 30, 2020	December 31, 2019	September 30, 2019
<u>Separate account insurance product assets</u>			
Cash in bank	\$ 4,017	\$ 5,231	\$ 6,279
Financial assets at FVTPL	126,886	112,315	108,617
Interest receivables	<u>38</u>	<u>156</u>	<u>56</u>
Other			
	<u>\$ 130,941</u>	<u>\$ 117,702</u>	<u>\$ 114,952</u>
<u>Separate account insurance product liabilities</u>			
Other payables	\$ 1,356	\$ (134)	\$ (463)
Reserve for separate account	<u>129,585</u>	<u>117,836</u>	<u>115,415</u>
	<u>\$ 130,941</u>	<u>\$ 117,702</u>	<u>\$ 114,952</u>
	For the Three Months Ended September 30	For the Nine Months Ended September 30	
	2020	2019	2020
	2019	2019	2019
<u>Separate account insurance product income</u>			
Premium income	\$ 37	\$ 52	\$ 138
Gains from financial assets and liabilities at FVTPL	10,543	2,914	24,082
Interest income	<u>15</u>	<u>25</u>	<u>44</u>
	<u>\$ 10,595</u>	<u>\$ 2,991</u>	<u>\$ 24,264</u>
<u>Separate account insurance product expenses</u>			
Cash surrender value	\$ 2,387	\$ 4,036	\$ 8,652
Withdrawal (recovery) of separate account reserve	7,096	(1,584)	12,967
Administrative expenses	417	374	1,159
Tax expenses	<u>695</u>	<u>165</u>	<u>1,486</u>
	<u>\$ 10,595</u>	<u>\$ 2,991</u>	<u>\$ 24,264</u>

36. 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.

37. PLEDGED ASSETS

a. The Company

The Company provided cash, time deposits and government bonds as collateral for the renting of real estate and as guarantee to the courts for 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:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Guarantee deposits paid - government bonds	\$ 10,549,163	\$ 10,315,438	\$ 10,311,030
Guarantee deposits paid - time deposits	458,667	458,667	492,000
Guarantee deposits paid - others	<u>35,280</u>	<u>39,996</u>	<u>45,525</u>
	<u>\$ 11,043,110</u>	<u>\$ 10,814,101</u>	<u>\$ 10,848,555</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, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Guarantee deposits paid - time deposits	<u>CNY 600,000</u>	<u>CNY 600,000</u>	<u>CNY 600,000</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, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Guarantee deposits paid - time deposits	<u>VND12,000,000</u>	<u>VND12,000,000</u>	<u>VND12,000,000</u>

38. 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, 2020, the remaining capital commitments for the contracted private equity fund of the Company were in the amount of NT\$1,153,060 thousand, US\$3,462,244 thousand, EUR484,142 thousand and GBP1,555 thousand.

39. FINANCIAL INSTRUMENTS

- a. The valuation technique and assumptions used 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

Except for the accounts whose carrying amounts approximate their fair values, including cash and cash equivalents, receivables, loans, guarantee deposits paid, payables, bonds payable, lease liabilities and guarantee deposits received, the fair values of the financial instruments which are not measured at fair value are listed in the following table:

September 30, 2020

	Carrying Amounts	Fair Values			Total
		Level 1	Level 2	Level 3	
<u>Financial asset</u>					
Financial assets measured at amortized cost (Note)	\$ 2,700,650,497	\$ 116,027,550	\$ 2,915,973,186	\$ -	\$ 3,032,000,736

December 31, 2019

	Carrying Amounts	Fair Values			Total
		Level 1	Level 2	Level 3	
<u>Financial asset</u>					
Financial assets measured at amortized cost (Note)	\$ 2,625,787,121	\$ 94,171,514	\$ 2,724,567,377	\$ -	\$ 2,818,738,891

September 30, 2019

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

Note: Including those serving as refundable deposits.

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

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

1) Fair value hierarchy

Items	September 30, 2020				December 31, 2019				September 30, 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>												
Assets												
Financial assets at FV IHL												
Stocks	\$ 445,350,338	\$ 412,321,381	\$ 21,541,931	\$ 5,450,26	\$ 49,266,326	\$ 431,941,221	\$ 42,710,567	\$ 4,614,538	\$ 55,2947,104	\$ 472,712,137	\$ 76,606,471	\$ 3,628,496
Bonds	185,699,806	1,732,527	181,698,287	2,268,992	244,924,559	1,966,609	241,202,978	1,754,972	242,892,956	1,801,404	239,228,917	1,862,635
Other	693,667,635	540,222,453	43,717,686	109,727,496	578,577,582	469,343,181	15,113,562	94,120,839	467,813,857	365,844,741	12,636,760	89,332,356
Financial assets at FV OCI												
Stocks	79,404,213	74,793,369	-	4,610,844	35,629,504	30,305,530	-	5,323,974	30,737,380	26,264,319	-	4,473,061
Bonds (Note)	1,017,927,341	59,246,246	958,680,795	-	819,825,254	42,244,016	777,581,238	-	870,790,869	46,539,518	824,251,351	-
<u>Derivative instruments</u>												
Assets												
Financial assets at FV IHL	23,960,026	35,263	23,924,763	-	28,259,690	49,353	28,210,337	-	9,369,525	146,429	9,223,096	-
Derivative assets for hedging	386,927	-	386,927	-	548,075	-	548,075	-	702,253	-	702,253	-
Liabilities												
Financial liabilities at FV IHL	1,824,892	-	1,824,892	-	2974,334	18,016	2956,318	-	19,584,896	143,587	19,441,309	-
Financial liabilities for hedging	57,171	-	57,171	-	30,894	-	30,894	-	38,240	-	38,240	-

Note: Including those listed as refundable deposits.

Transfers between Level 1 and Level 2:

For the nine months ended September 30, 2020 and 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value on a recurring basis.

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

	For the Nine Months Ended September 30, 2020	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
Beginning balance	\$ 100,490,349	\$ 5,323,974
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	996,866	-
Gains on reclassification using overlay approach	3,340,256	-
Recognized in other comprehensive income		
Exchange differences on translating financial statements of foreign operations	(70,240)	(175)
Other comprehensive losses reclassified using overlay approach	(3,340,256)	-
Losses on fair value of equity instruments at FVTOCI	-	(757,601)
Purchases	28,045,257	81,700
Disposals	(11,960,868)	(27,172)
Transfers out of Level 3	<u>(29,850)</u>	<u>(9,882)</u>
Ending balance	<u>\$ 117,471,514</u>	<u>\$ 4,610,844</u>

	For the Nine Months Ended September 30, 2019	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
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 gain reclassified using overlay approach	1,553,915	-
Gains on changes in fair value of equity instruments at 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>

Regarding the above amounts recognized in profit or loss for the nine months ended September 30, 2020 and 2019, unrealized losses of \$441,361 thousand and unrealized losses of \$612,940 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 are as follows:

September 30, 2020					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates	
	Market approach	Discount for lack of liquidity	2%-30%	The higher the discount for lack of liquidity, the lower the fair value estimates	
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	Growth rate of net profit after tax	(48%)-32%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
			Dividend payout ratio	85%-140%	The higher the dividend payout ratio, the higher the fair value estimates
December 31, 2019					
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value	
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates	
	Market approach	Discount for lack of liquidity	11%-30%	The higher the discount for lack of liquidity, the lower the fair value estimates	
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	Growth rate of net profit after tax	(48%)-265%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
			Dividend payout ratio	0%-140%	The higher the dividend payout ratio, the higher the fair value estimates

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

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, 2020	December 31, 2019	September 30, 2019
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 1,348,677,805	\$ 1,331,028,157	\$ 1,273,023,442
Financial assets at FVTOCI	1,096,174,383	854,341,271	900,420,943
Measured at amortized cost			
Cash and cash equivalents (Note 1)	464,376,868	401,792,808	305,760,309
Receivables (Note 2)	64,212,133	72,320,392	80,997,281
Financial assets measured at amortized cost	2,691,258,505	2,616,585,170	2,598,476,006
Loans	481,592,134	513,380,541	526,143,898
Guarantee deposits paid	23,419,976	23,151,476	27,514,178
Financial assets for hedging	386,927	548,075	702,253
			(Continued)

Items	September 30, 2020	December 31, 2019	September 30, 2019
<u>Financial liabilities</u>			
Financial liabilities at FVTPL	\$ 1,824,892	\$ 2,974,334	\$ 19,584,896
Financial liabilities at amortized cost			
Payables (Note 2)	32,438,897	30,964,602	38,982,297
Bonds payable	80,000,000	80,000,000	80,000,000
Lease liabilities	10,530,195	10,381,894	10,636,968
Guarantee deposits received	10,281,538	13,315,767	3,874,950
Financial liabilities for hedging	57,171	30,894	38,240
			(Concluded)

Note 1: Cash on hand was excluded.

Note 2: Income tax refund receivable and payable were excluded.

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 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.

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

Table of Stress Testing

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

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

Note 2: Effects of hedging were considered.

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

c) Sensitivity analysis

Summary of Sensitivity Analysis

For the Nine Months Ended September 30, 2020

Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 5,890,793	\$ 4,661,714
	CNY (CNH)/USD appreciates 1%	213,382	267,941
	HKD/USD appreciates 1%	5,164	242,680
	EUR/USD appreciates 1%	(41,912)	192,069
	GBP/USD appreciates 1%	(13,489)	277,100
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	1,041	(1,150,760)
	Yield curve (CNY) parallel shifts up 1bp	-	(16,643)
	Yield curve (EUR) parallel shifts up 1bp	1,011	(4,982)
	Yield curve (GBP) parallel shifts up 1bp	-	(6,246)
	Yield curve (NTD) parallel shifts up 1bp	-	(326,674)
	Equity price risk	Equity price increases 1%	(95,701)

For the Nine Months Ended September 30, 2019

Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
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)	5,444,008

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

Note 2: Effects of hedging were considered.

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

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

Note 5: Information of subsidiaries was not disclosed due to immaterial impacts 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 as follows:

- 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 an 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, 2020						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 302,682,752	\$ 13,226,760	\$ 60,065	\$ 119,169,569	\$ 20,512,603	\$ 455,651,749
Financial assets at FVTPL	56,484,077	24,663,570	76,142,540	30,330,178	35,856,576	223,476,941
Financial assets at FVTOCI	48,755,202	42,662,704	158,134,286	456,343,060	310,874,918	1,016,770,170
Financial assets for hedging	83,688	-	219,155	84,084	-	386,927
Financial assets measured at amortized cost	<u>156,507,709</u>	<u>178,558,025</u>	<u>433,383,255</u>	<u>1,241,934,198</u>	<u>676,103,230</u>	<u>2,686,486,417</u>
	<u>\$ 564,513,428</u>	<u>\$ 259,111,059</u>	<u>\$ 667,939,301</u>	<u>\$ 1,847,861,089</u>	<u>\$ 1,043,347,327</u>	<u>\$ 4,382,772,204</u>
Proportion	12.9%	5.9%	15.2%	42.2%	23.8%	100%
December 31, 2019						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 261,553,382	\$ 27,832,083	\$ 185,653	\$ 86,397,047	\$ 16,115,903	\$ 392,084,068
Financial assets at FVTPL	43,409,974	31,448,394	113,252,004	46,690,879	56,395,527	291,196,778
Financial assets at FVTOCI	39,964,295	37,498,812	166,000,546	353,996,509	221,251,605	818,711,767
Financial assets for hedging	87,793	-	362,869	97,413	-	548,075
Financial assets measured at amortized cost	<u>175,262,332</u>	<u>173,472,898</u>	<u>434,046,724</u>	<u>1,167,292,440</u>	<u>663,869,507</u>	<u>2,613,943,901</u>
	<u>\$ 520,277,776</u>	<u>\$ 270,252,187</u>	<u>\$ 713,847,796</u>	<u>\$ 1,654,474,288</u>	<u>\$ 957,632,542</u>	<u>\$ 4,116,484,589</u>
Proportion	12.6%	6.6%	17.3%	40.2%	23.3%	100%
September 30, 2019						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 214,498,960	\$ 14,172,956	\$ 135,652	\$ 68,471,407	\$ 57,253	\$ 297,336,228
Financial assets at FVTPL	33,670,230	32,290,066	104,008,821	40,984,794	88,929,421	299,883,332
Financial assets at FVTOCI	44,626,755	44,110,032	173,118,907	370,741,910	237,085,959	869,683,563
Financial assets for hedging	94,992	-	499,193	108,068	-	702,253
Financial assets measured at amortized cost	<u>187,136,416</u>	<u>172,314,161</u>	<u>433,064,135</u>	<u>1,149,918,125</u>	<u>654,670,041</u>	<u>2,597,102,878</u>
	<u>\$ 480,027,353</u>	<u>\$ 262,887,215</u>	<u>\$ 710,826,708</u>	<u>\$ 1,630,224,304</u>	<u>\$ 980,742,674</u>	<u>\$ 4,064,708,254</u>
Proportion	11.8%	6.5%	17.5%	40.1%	24.1%	100%

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

September 30, 2020					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 213,297,034	\$ 40,743,437	\$ 59,611,696	\$ 3,156,137	\$ 316,808,304
Non-accrual receivables	<u>194,574</u>	<u>36,054</u>	<u>55,511</u>	<u>1,491,221</u>	<u>1,777,360</u>
	<u>\$ 213,491,608</u>	<u>\$ 40,779,491</u>	<u>\$ 59,667,207</u>	<u>\$ 4,647,358</u>	<u>\$ 318,585,664</u>
Proportion	67.0%	12.8%	18.7%	1.5%	100%
December 31, 2019					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 234,560,225	\$ 40,573,607	\$ 63,399,966	\$ 6,598,385	\$ 345,132,183
Non-accrual receivables	<u>453,880</u>	<u>78,936</u>	<u>124,981</u>	<u>-</u>	<u>657,797</u>
	<u>\$ 235,014,105</u>	<u>\$ 40,652,543</u>	<u>\$ 63,524,947</u>	<u>\$ 6,598,385</u>	<u>\$ 345,789,980</u>
Proportion	68%	11.8%	18.4%	1.8%	100%
September 30, 2019					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 245,145,911	\$ 42,158,168	\$ 65,797,795	\$ 7,384,055	\$ 360,485,929
Non-accrual receivables	<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%

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 an insufficient 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, 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 or borrower 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 loss, 12-month and lifetime expected credit losses are multiplied by exposure at default (EAD), loss given default (LGD) and probability of default (PD) of issuers, guarantee agencies or borrowers for a period of 12 months and 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 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, 2020					
	Stage 1	Stage 2	Stage 3			Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	
Investment grade Debt instruments at FVTOCI	\$ 1,012,820,317	\$ -	\$ -	\$ -	\$ -	\$ 1,012,820,317
Financial assets measured at amortized cost	2,670,941,847	-	-	-	(1,839,555)	2,669,102,292
Non-investment grade Debt instruments at FVTOCI	3,764,905	184,948	-	-	-	3,949,853
Financial assets measured at amortized cost	14,144,697	4,063,718	-	-	(824,290)	17,384,125
	December 31, 2019					
	Stage 1	Stage 2	Stage 3			Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets	
Investment grade Debt instruments at FVTOCI	\$ 806,786,368	\$ -	\$ -	\$ -	\$ -	\$ 806,786,368
Financial assets measured at amortized cost	2,586,272,855	-	-	-	(988,749)	2,585,284,106
Non-investment grade Debt instruments at FVTOCI	11,734,687	190,712	-	-	-	11,925,399
Financial assets measured at amortized cost	25,743,796	3,124,271	-	-	(208,272)	28,659,795

	September 30, 2019					
	Stage 1		Stage 2		Stage 3	
	12-month 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	\$ 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

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 overdue receivables of the Company

	September 30, 2020					
	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
Secured loans and non-accrual receivables	\$ 311,005,891	\$ 86,326	\$ 7,493,447	\$ -	\$ (1,848,361)	\$ (2,910,917)
						Gross Carrying Amount
						\$ 313,826,386

	December 31, 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
Secured loans and non-accrual receivables	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)
						Gross Carrying Amount
						\$ 340,964,004

	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
Secured loans and non-accrual loans	\$ 353,626,032	\$ 696,661	\$ 6,768,027	\$ -	\$ (947,403)	\$ (4,090,118)
						Gross Carrying Amount
						\$ 356,053,199

viii. Reconciliation for loss allowance is summarized below:

i) Debt instrument investments at FVTOCI

	<u>Lifetime Expected Credit Losses</u>				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, 2020	\$ 337,078	\$ 9,666	\$ -	\$ -	\$ 346,744
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(1,691)	1,691	-	-	-
New financial assets originated or purchased	288,577	-	-	-	288,577
Financial assets that have been derecognized during the period	(200,477)	(289,638)	-	-	(490,115)
Changes in models/risk parameters	247,890	330,596	-	-	578,486
Foreign exchange and other movements	<u>(17,845)</u>	<u>(5,855)</u>	<u>-</u>	<u>-</u>	<u>(23,700)</u>
September 30, 2020	<u>\$ 653,532</u>	<u>\$ 46,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 699,992</u>

	<u>Lifetime Expected Credit Losses</u>				Total of Impairment Charged 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	\$ 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>

ii) Financial assets measured at amortized cost

	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, 2020	\$ 1,043,037	\$ 153,984	\$ -	\$ -	\$ 1,197,021
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(7,977)	7,977	-	-	-
New financial assets originated or purchased	325,816	-	-	-	325,816
Financial assets that have been derecognized during the period	(273,932)	(949,045)	-	-	(1,222,977)
Changes in models/risk parameters	859,569	1,591,703	-	-	2,451,272
Foreign exchange and other movements	(49,340)	(37,947)	-	-	(87,287)
September 30, 2020	<u>\$ 1,897,173</u>	<u>\$ 766,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,663,845</u>
	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	Total of Impairment Accrued in Accordance with IFRS 9
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>

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 derecognized during the period	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
September 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

iv) Secured loans and non-accrual receivables

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2020	\$ 84,809	\$ 299	\$ 1,146,939	\$ -	\$ 1,232,047	\$ 3,593,929	\$ 4,825,976
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(18)	18	-	-	-	-	-
Transfer to credit-impaired financial assets	(1,432)	(69)	1,501	-	-	-	-
Transfer to 12-month expected credit losses	485	(89)	(396)	-	-	-	-
New financial assets originated or purchased	92,655	-	32,448	-	125,103	-	125,103
Financial assets derecognized during the period	(37,174)	(121)	(275,878)	-	(313,173)	-	(313,173)
Difference from impairment accrued in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(683,012)	(683,012)
Changes in models/risk parameters	180,289	1,011	623,084	-	804,384	-	804,384
September 30, 2020	<u>\$ 319,614</u>	<u>\$ 1,049</u>	<u>\$ 1,527,698</u>	<u>\$ -</u>	<u>\$ 1,848,361</u>	<u>\$ 2,910,917</u>	<u>\$ 4,759,278</u>
	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
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 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	(6,608)	69	374,351	-	367,812	-	367,812
September 30, 2019	<u>\$ 75,426</u>	<u>\$ 682</u>	<u>\$ 871,295</u>	<u>\$ -</u>	<u>\$ 947,403</u>	<u>\$ 4,090,118</u>	<u>\$ 5,037,521</u>

There was 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 is based upon the lifetime expected credit losses under simplified approach. Loss allowance measured by a provision matrix under simplified approach was as follows:

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

Note: Notes receivable of \$19,933 thousand and other receivables of \$18,620,232 thousand were included.

	Aging of Receivables Recognized				Total
	Not Yet Due/within 1 Month	1-3 Months	3-6 Months	Over 6 Months	
<u>December 31, 2019</u>					
Gross carrying amounts (Note)	\$ 14,553,629	\$ 74,573	\$ 495	\$ -	\$ 14,628,697
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses	-	1,491	50	-	1,541

Note: Notes receivable of \$80,968 thousand and other receivables of \$14,547,729 thousand were included.

	Aging of Receivables Recognized				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 in the amount of \$7,206 thousand and other receivables in the amount of \$20,202,759 thousand were included.

The reconciliation of loss allowance is as follows:

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

3) Liquidity risk analysis

a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that 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 consolidated 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 and derivative financial liabilities were based on the agreed repayment dates.

	September 30, 2020				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables (Note 1)	\$ 30,100,822	\$ 903,404	\$ 436,166	\$ 996,589	\$ 1,915
Bonds payable (Note 2)	252,000	926,160	2,715,000	8,145,000	86,030,000
Lease liabilities (Note 3)	435,284	225,841	647,646	1,391,835	18,198,220
<u>Derivative financial liabilities</u>					
SWAP	869,931	242,090	141,580	-	-
Forward	1,742,538	-	-	-	-

	December 31, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 29,055,173	\$ 281,015	\$ 385,835	\$ 1,195,135	\$ 47,444
Bonds payable (Note 2)	561,650	1,194,411	2,715,000	8,145,000	87,485,000
Lease liabilities (Note 3)	297,218	358,116	568,511	1,375,285	18,287,241
<u>Derivative financial liabilities</u>					
SWAP	1,834,039	298,058	-	-	-
Forward	1,231,198	-	-	-	-
IRS	1,481	1,517	3,410	1,259	-
Option	18,016	-	-	-	-
	September 30, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 36,599,222	\$ 801,654	\$ 348,610	\$ 1,191,520	\$ 41,291
Bonds payable (Note 2)	252,000	927,385	2,715,000	8,145,000	88,745,000
Lease liabilities (Note 3)	523,981	234,023	489,239	1,380,791	18,589,800
<u>Derivative financial liabilities</u>					
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	-	-

Note 1: The tax payable under the integrated income tax system was excluded.

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

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

f. Hedge accounting disclosures

Cash flow hedges

The future cash flows of the bond investments held by the Group may fluctuate due to the changes in market interest rates and thus lead to risks. Accordingly, the Group held derivative instruments to hedge risks arising from the changes in interest rates. Information of hedge accounting is as follows:

1) Hedging instruments

<u>Hedging Instrument</u>	<u>Nominal Amount of the Hedging Instrument</u>	<u>September 30, 2020</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>Carrying Amounts of the Hedging Instrument</u>			
		<u>Assets</u>	<u>Liabilities</u>		
IRS	\$ 6,200,000	\$ 167,772	\$ -	Financial assets for hedging	\$ 36,538
IRS	1,155,938	-	57,171	Financial liabilities for hedging	(27,950)

December 31, 2019					
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period
		Assets	Liabilities		
IRS	\$ 6,800,000	\$ 185,206	\$ -	Financial assets for hedging	\$ 34,498
IRS	1,317,138	-	30,894	Financial liabilities for hedging	(31,677)

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

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

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

	Period Till Maturity				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>December 31, 2019</u>					
IRS					
Nominal principal	\$ -	\$ -	\$ 2,922,306	\$ 5,194,832	\$ -
Average fixed rate	-	-	1.6%-2.5%	1.7%-2.5%	-

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

3) Hedged items

For the Nine Months Ended September 30, 2020								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year	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 Payables	\$ (36,538)	\$ 167,772	N/A	\$ 36,538	\$ -	\$ -	\$ (53,973)	Finance costs
Discontinued hedge - bond investments	27,950	(57,171)	N/A	(27,950)	-	-	-	
	N/A	N/A	(259)	N/A	N/A	N/A	7	Finance costs

For the Nine Months Ended September 30, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year	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 Payables	\$ (35,784)	\$ 203,060	N/A	\$ 35,784	\$ -	\$ -	\$ (49,335)	Finance costs
Discontinued hedge - floating-rate bonds	38,214	(38,240)	N/A	(38,214)	-	-	-	Finance costs
	N/A	N/A	\$ -	N/A	N/A	N/A	-	Finance costs

4) Reconciliation of equity component that applied hedge accounting and related other comprehensive income is summarized below:

	For the Nine Months Ended September 30	
	2020	2019
Beginning balance	\$ 116,268	\$ 173,288
Gross amounts recognized in other comprehensive income (loss)		
Changes in the values of the hedging instruments recognized in other comprehensive income (loss)	8,596	(2,430)
Amount reclassified from cash flow hedge reserve to profit or loss	(53,966)	(49,335)
Income tax	13,440	2,710
Ending balance	\$ 84,338	\$ 124,233

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

<u>September 30, 2020</u>					
<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 Year</u>
		<u>Assets</u>	<u>Liabilities</u>		
CCS	\$ 4,930,304	\$ 219,155	\$ -	Financial assets for hedging	\$ (289,019)

<u>December 31, 2019</u>					
<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 Year</u>
		<u>Assets</u>	<u>Liabilities</u>		
CCS	\$ 9,742,013	\$ 362,869	\$ -	Financial assets for hedging	\$ 93,293

<u>September 30, 2019</u>					
<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 Year</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>Period Till Maturity</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>
<u>September 30, 2020</u>					
CCS					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 4,930,304
Interest rate	-	-	-	-	2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285

	Period Till Maturity				
	1 Month	1-3 Months	3 Months -		Over 5 Years
			1 Year	1-5 Years	
<u>December 31, 2019</u>					
CCS					
Nominal principal	\$ -	\$ -	\$ -	\$ -	\$ 9,742,013
Interest rate	-	-	-	-	2.20%-2.39%
Exchange rate (EUR/USD)	-	-	-	-	1.1285-1.1353

	Period Till Maturity				
	1 Month	1-3 Months	3 Months -		Over 5 Years
			1 Year	1-5 Years	
<u>September 30, 2019</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, 2020							
	Book Value of Hedged Items		Cumulative Adjustment for Changes in Fair value of Hedged Items Included in Book Value of Hedged Items		Line Item in Statement of Financial Position That Includes Hedged Items	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss That Includes Hedge Ineffectiveness
	Assets	Liabilities	Assets	Liabilities				
	Oversea bonds	\$ 4,930,304	\$ -	\$ 289,019	\$ -	Financial assets measured at amortized cost	\$ 289,019	\$ -

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

- 4) Reconciliation of equity component that applied hedge accounting and related other comprehensive income were summarized below:

	For the Nine Months Ended September 30	
	2020	2019
<u>Foreign currency basis-related period</u>		
Beginning balance	\$ 215,661	\$ -
Gross amounts recognized in other comprehensive income (loss)		
Changes in the values of the hedging instruments recognized in other comprehensive income	145,306	147,314
Tax effects	<u>(29,061)</u>	<u>(29,463)</u>
Ending balance	<u>\$ 331,906</u>	<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, 2020

Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet (b)	Net Financial Assets Recognized on Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 24,311,690	\$ -	\$ 24,311,690	\$ 1,824,892	\$ 7,779,730	\$ 14,707,068
Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Assets Recognized on Balance Sheet (b)	Net Financial Liabilities Recognized on Balance Sheet (c)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Paid	
Derivative financial instruments	\$ 1,824,892	\$ -	\$ 1,824,892	\$ 1,824,892	\$ -	\$ -

December 31, 2019

Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet (b)	Net Financial Assets Recognized on Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 28,758,412	\$ -	\$ 28,758,412	\$ 2,952,747	\$ 13,341,124	\$ 12,464,541

Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Assets Recognized on Balance Sheet (b)	Net Financial Liabilities Recognized on Balance Sheet (c)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Paid	
Derivative financial instruments	\$ 2,956,318	\$ -	\$ 2,956,318	\$ 2,952,747	\$ -	\$ 3,571

September 30, 2019

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

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

40. 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, organizational 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. Besides a position directly related to risk management and without conflict of interest, the chief risk officer should not hold a position in any profit center of the Company.
- ii. The chief risk officer should be able to access any business information which may have an impact on risk overview of 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.

g) Subsidiary

Each subsidiary's risk management department or related unit should develop risk management policies based on the nature of its business and needs and report to 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 addition capital

Pursuant to the applicable laws and regulations, the Company's RBC ratio and equity ratio should be higher than a certain number. In order to enhance the Company's capital management and to maintain a proper RBC ratio and equity 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 analysis report to the risk management committee.
 - iii. Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting RBC ratio and equity ratio.
 - iv. Regularly review RBC ratio 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, and submits 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

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

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

b) Cathay Lujiazui Life

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

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

c) Cathay Life (Vietnam)

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

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

- i. Changes in income before tax listed above referred to the effects of income before tax for the nine months ended September 30, 2020 and 2019. The changes in equity of 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.

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		
2013Q4-2014Q3	\$ 14,488,939	\$ 17,896,520	\$ 18,236,636	\$ 18,331,599	\$ 18,329,998	\$ 18,352,599	\$ 18,374,037	\$ -	\$ -
2014Q4-2015Q3	14,822,271	18,434,222	18,785,549	18,874,208	18,911,743	18,939,602	18,961,986	22,384	22,429
2015Q4-2016Q3	15,804,471	19,501,696	19,844,120	19,923,161	19,970,342	19,997,931	20,021,501	51,160	51,262
2016Q4-2017Q3	16,845,302	20,797,324	21,191,027	21,285,451	21,329,620	21,359,300	21,384,665	99,214	99,413
2017Q4-2018Q3	19,016,850	23,550,400	23,989,761	24,100,144	24,151,152	24,184,397	24,212,650	222,889	223,335
2018Q4-2019Q3	20,986,589	25,877,600	26,364,835	26,486,202	26,541,600	26,577,498	26,607,770	730,170	731,630
2019Q4-2020Q3	21,442,280	26,542,562	27,045,786	27,170,513	27,227,380	27,264,262	27,295,420	5,853,140	5,864,846
					Expected future payments			\$ 6,992,915	
					Add: Claims filed but not yet paid			4,228,722	
					Retained loss reserve balance				\$ 11,221,637

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	
2013Q4-2014Q3	\$ 348,479	\$ 560,203	\$ 595,326	\$ 604,506	\$ 604,506	\$ 604,506	\$ 604,506	\$ -
2014Q4-2015Q3	204,526	382,793	409,668	414,528	414,528	414,528	414,528	-
2015Q4-2016Q3	242,695	431,816	462,334	493,094	493,094	493,094	493,094	-
2016Q4-2017Q3	249,685	444,254	483,663	483,663	483,663	483,663	483,663	-
2017Q4-2018Q3	297,546	337,139	374,598	383,200	383,200	383,200	383,200	8,602
2018Q4-2019Q3	376,731	533,702	575,628	588,846	588,846	588,846	588,846	55,144
2019Q4-2020Q3	428,246	669,866	722,488	739,078	739,078	739,078	739,078	310,832
					Expected future payments			\$ 374,578
					Less: Assumed reserve for claims not yet filed			(924)
					Reserve for claims not yet filed			373,654
					Add: Claims filed but not yet paid			16,856
					Loss reserve balance			\$ 390,510

ii. Retained business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2013Q4-2014Q3	\$ 340,329	\$ 552,050	\$ 587,131	\$ 596,309	\$ 596,309	\$ 596,309	\$ 596,309	\$ -
2014Q4-2015Q3	183,290	361,161	388,014	392,672	392,672	392,672	392,672	-
2015Q4-2016Q3	232,976	413,660	443,644	474,404	474,404	474,404	474,404	-
2016Q4-2017Q3	238,197	429,750	462,740	462,740	462,740	462,740	462,740	-
2017Q4-2018Q3	283,856	310,601	352,956	361,322	361,322	361,322	361,322	8,366
2018Q4-2019Q3	357,461	506,403	547,377	560,351	560,351	560,351	560,351	53,948
2019Q4-2020Q3	410,461	645,662	697,904	714,446	714,446	714,446	714,446	303,985
								Expected future payments \$ 366,299
								Less: Expected claims filed but not yet paid (924)
								Add: Claims filed but not yet paid 14,794
								Retained loss reserve balance <u>\$ 380,169</u>

Cathay Lujiazui Life provides loss reserve for claims filed but not paid and claims not yet filed. Due to uncertainty, estimation, and judgment, there is a high degree of complexity in provision of loss reserve. Any changes in the estimation or judgment are treated as changes in accounting estimates and the impacts of the changes are recognized as profit or loss as incurred. Notification to Cathay Lujiazui Life may be delayed in certain cases, and estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective 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)

i. Direct business development trend

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

ii. Retained business development trend

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

The above table shows the development trend of claim payments. The accident year is the year when the insurance events occurred; the x-axis is the year of the development for the cases; the amounts above the diagonal line represent the cases in specific accident year the corresponding accumulated claims and payments and claims filed but not yet paid at the end of the year for the cases in 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.

Cathay Life (Vietnam) provides loss reserve for claims filed but not paid and claims not yet filed. Reserve for claims not yet filed is estimated by multiplying the loss ratio of earned premiums based upon the past loss experiences instead of loss triangle method, which was approved by local authorities in Vietnam; therefore, provision for loss reserve is not determined by the above table. Estimates of the payments for cases not yet filed involved a large volume of past experiences and subjective 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, which complied with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively insignificant 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 estimated amount of the total insurance payments and expenses of valid insurance contracts in the future, deducting total premium on the balance sheet date. The actual future payment amounts may differ due to the difference between the result and expected amount.

Unit: In Billions of New Taiwan Dollars

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	Within 1 Year	1 to 5 Years	Over 5 Years
September 30, 2020	\$ (118.9)	\$ 383.6	\$ 18,285.3
December 31, 2019	(166.5)	301.2	17,932.0
September 30, 2019	(205.5)	221.8	18,129.8

Note: Separate account products were 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 or equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of 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.

41. 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 chief operating decision maker allocates the resources to the Group as a whole, the Group is considered as a single operating segment.

42. 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 and maintains adequate capital to effectively absorb different types of risk.

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 aperiodically to monitor the status of short and mid-term capital adequacy and the calculation would serve as reference for business objectives, asset allocation and dividend policy.

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) Aperiodic 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.

43. BUSINESS COMBINATIONS - SUBSIDIARIES ACQUIRED

a. Subsidiaries acquired

<u>Subsidiary</u>	<u>Principal Activity</u>	<u>Date of Acquisition</u>	<u>Proportion of Voting Equity Interests Acquired (%)</u>	<u>Consideration Transferred</u>
Global Evolution Holding ApS	Holding Company	June 25, 2020	53	<u>\$ 781,317</u>

On June 25, 2020, CHL acquired 8% equity shares of Global Evolution Holding ApS, which increased its ownership interest from 45% to 53% and obtained control over Global Evolution Holding ApS.

b. Assets acquired and liabilities assumed at the date of acquisition

	<u>Global Evolution Holding ApS and its Subsidiaries</u>
Current assets	
Cash and cash equivalents	\$ 628,816
Other	519,684
Intangible assets - customer relationships	2,467,576
Non-current assets	108,021
Current liabilities	(596,864)
Non-current liabilities	<u>(233,440)</u>
	<u>\$ 2,893,793</u>

c. Non-controlling interests

The non-controlling interest (47% ownership interest in Global Evolution Holding ApS) recognized at the acquisition date was measured by reference to the proportionate share of the identifiable net assets.

d. Goodwill recognized on acquisitions

	<u>Global Evolution Holding ApS and its Subsidiaries</u>
Consideration transferred	\$ 781,317
Plus: Non-controlling interests (47% ownership interest in Global Evolution Holding ApS)	1,302,994
Plus: Fair value of 45% share in equity	<u>4,396,904</u>
	6,481,215
Less: Fair value of identifiable net assets acquired	<u>(2,893,793)</u>
Goodwill recognized on acquisitions	<u>\$ 3,587,422</u>

- e. Net cash outflow on the acquisition of subsidiaries

	Global Evolution Holding ApS and its Subsidiaries
Consideration paid in cash	\$ 781,317
Less: Cash and cash equivalent balance acquired	<u>(628,816)</u>
	<u>\$ 152,501</u>

44. OTHERS

- a. Impact of the COVID-19 Pandemic

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

- b. Significant assets and liabilities denominated in foreign currencies

The significant financial assets and liabilities denominated in foreign currencies of the entities in the Group aggregated by the foreign currencies other than functional currency and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

	September 30, 2020		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 123,918,849	29.126000	\$ 3,609,260,396
CNY	16,799,968	4.273432	71,793,513
AUD	4,853,762	20.733343	100,634,706
Non-monetary items			
USD	10,362,075	29.126000	301,805,793
HKD	6,457,454	3.758145	24,268,049
Investments accounted for the using equity method			
CNY	414,813	4.276600	1,773,988
PHP	27,152,531	0.600800	16,313,241
<u>Financial liabilities</u>			
Monetary items			
USD	1,215,993	29.126000	35,417,023

December 31, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 111,963,979	30.106000	\$ 3,370,787,537
CNY	16,076,378	4.323121	69,500,132
AUD	3,791,660	21.101295	80,008,942
Non-monetary items			
USD	8,811,685	30.106000	265,284,585
HKD	9,076,942	3.866013	35,091,580
Investments accounted for the using equity method			
CNY	410,632	4.321700	1,774,628
PHP	26,747,682	0.594200	15,893,473
IDR	6,526,743,236	0.002172	14,176,087
<u>Financial liabilities</u>			
Monetary items			
USD	395,619	30.106000	11,910,495

September 30, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<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 using the 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

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	September 30, 2020		
	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Cash and cash equivalents	\$ 464,672,527	\$ -	\$ 464,672,527
Receivables	64,209,920	2,213	64,212,133
Investments			
Financial assets at FVTPL	59,626,889	1,289,050,916	1,348,677,805
Financial assets at FVTOCI	14,075,046	1,082,099,337	1,096,174,383
Financial assets measured at amortized cost	31,497,797	2,659,760,708	2,691,258,505
Financial assets for hedging	3,086	383,841	386,927
Investments accounted for using the equity method	-	29,336,316	29,336,316
Investment property	-	490,795,823	490,795,823
Investment property under construction	-	2,242,002	2,242,002
Prepayments for buildings and land - investments	-	325,949	325,949
Loans	<u>6,164,184</u>	<u>475,427,950</u>	<u>481,592,134</u>
Total investments	<u>111,367,002</u>	<u>6,029,422,842</u>	<u>6,140,789,844</u>
Reinsurance assets	259,375	1,362,574	1,621,949
Property and equipment	-	31,795,342	31,795,342
Right-of-use assets	-	1,633,516	1,633,516
Intangible assets	-	45,115,528	45,115,528
Deferred tax assets	-	53,409,941	53,409,941
Other assets	7,291,962	23,621,114	30,913,076
Separate account insurance product assets	<u>8,177,670</u>	<u>583,857,895</u>	<u>592,035,565</u>
Total assets	<u>\$ 655,978,456</u>	<u>\$ 6,770,220,965</u>	<u>\$ 7,426,199,421</u>
Payables	\$ 37,967,231	\$ 1,434,669	\$ 39,401,900
Current tax liabilities	706,217	-	706,217
Financial liabilities at FVTPL	1,736,394	88,498	1,824,892
Financial liabilities for hedging	-	57,171	57,171
Bonds payable	-	80,000,000	80,000,000
Insurance liabilities			
Unearned premium reserve	-	17,790,022	17,790,022
Loss reserve	-	11,656,290	11,656,290
Policy reserve	-	5,895,203,662	5,895,203,662
Special reserve	-	11,084,624	11,084,624
Premium deficiency reserve	-	16,154,453	16,154,453
Other reserve	-	1,855,141	1,855,141
Total insurance liabilities	<u>-</u>	<u>5,953,744,192</u>	<u>5,953,744,192</u>

(Continued)

September 30, 2020

Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Reserve for insurance contracts with the nature of financial products	\$ -	\$ 13,076,140	\$ 13,076,140
Reserve for foreign exchange valuation	-	10,212,568	10,212,568
Provisions	-	56,245	56,245
Lease liabilities	661,125	9,869,070	10,530,195
Deferred tax liabilities	-	57,499,082	57,499,082
Other liabilities	744,018	17,910,839	18,654,857
Separate account insurance product liabilities	<u>426,972</u>	<u>591,608,593</u>	<u>592,035,565</u>
Total liabilities	<u>\$ 42,241,957</u>	<u>\$ 6,735,557,067</u>	<u>\$ 6,777,799,024</u> (Concluded)

December 31, 2019

Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Cash and cash equivalents	\$ 402,051,684	\$ -	\$ 402,051,684
Receivables	82,456,625	11,289	82,467,914
Investments			
Financial assets at FVTPL	49,497,161	1,281,530,996	1,331,028,157
Financial assets at FVTOCI	6,707,439	847,633,832	854,341,271
Financial assets measured at amortized cost	39,592,170	2,576,993,000	2,616,585,170
Financial assets for hedging	21,093	526,982	548,075
Investments accounted for using the equity method	-	44,557,549	44,557,549
Investment property	-	483,871,717	483,871,717
Investment property under construction	-	4,546,717	4,546,717
Prepayments for buildings and land - investments	-	1,152,363	1,152,363
Loans	<u>6,233,423</u>	<u>507,147,118</u>	<u>513,380,541</u>
Total investments	<u>102,051,286</u>	<u>5,747,960,274</u>	<u>5,850,011,560</u>
Reinsurance assets	357,722	1,386,210	1,743,932
Property and equipment	-	32,271,269	32,271,269
Right-of-use assets	-	1,577,679	1,577,679
Intangible assets	-	41,346,899	41,346,899
Deferred tax assets	-	36,156,766	36,156,766
Other assets	7,154,019	23,299,350	30,453,369
Separate account insurance product assets	<u>7,187,575</u>	<u>600,354,859</u>	<u>607,542,434</u>
Total assets	<u>\$ 601,258,911</u>	<u>\$ 6,484,364,595</u>	<u>\$ 7,085,623,506</u> (Continued)

December 31, 2019			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Payables	\$ 29,430,865	\$ 1,533,737	\$ 30,964,602
Current tax liabilities	635,483	-	635,483
Financial liabilities at FVTPL	2,966,992	7,342	2,974,334
Financial liabilities for hedging	-	30,894	30,894
Bonds payable	-	80,000,000	80,000,000
Insurance liabilities			
Unearned premium reserve	-	17,832,203	17,832,203
Loss reserve	-	11,042,612	11,042,612
Policy reserve	-	5,592,979,067	5,592,979,067
Special reserve	-	11,084,624	11,084,624
Premium deficiency reserve	-	19,679,457	19,679,457
Other reserve	-	1,873,141	1,873,141
Total insurance liabilities	<u>-</u>	<u>5,654,491,104</u>	<u>5,654,491,104</u>
Reserve for insurance contracts with the nature of financial products	-	10,932,008	10,932,008
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Provisions	-	233,871	233,871
Lease liabilities	655,334	9,726,560	10,381,894
Deferred tax liabilities	-	55,730,622	55,730,622
Other liabilities	271,043	18,916,352	19,187,395
Separate account insurance product liabilities	<u>467,361</u>	<u>607,075,073</u>	<u>607,542,434</u>
Total liabilities	<u>\$ 34,427,078</u>	<u>\$ 6,456,678,440</u>	<u>\$ 6,491,105,518</u> (Concluded)

September 30, 2019			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
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	<u>796,201</u>	<u>525,347,697</u>	<u>526,143,898</u>
Total investments	<u>76,394,045</u>	<u>5,752,918,506</u>	<u>5,829,312,551</u> (Continued)

September 30, 2019

Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
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	-	<u>1,877,542</u>	<u>1,877,542</u>
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
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)

c. Information on discretionary investments

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

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

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

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

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

d. Structured entities

- 1) Consolidated structured entities

The consolidated structured entities in the Group's consolidated financial statements are the real estate investment and management organizations. As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group provided loans amounting to GBP345,000 thousand as financial support to the entities for operation and investment needs.

2) Unconsolidated structured entities

- a) 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:

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

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

	<u>September 30, 2020</u>	
	<u>Private Equity Funds</u>	<u>Securitization Vehicle</u>
Financial assets at FVTPL	\$ 109,727,496	\$ 40,724,469
Financial assets at FVTOCI	-	64,314,331
Financial assets measured at amortized cost	-	<u>128,346,485</u>
	<u>\$ 109,727,496</u>	<u>\$ 233,385,285</u>
	<u>December 31, 2019</u>	
	<u>Private Equity Funds</u>	<u>Securitization Vehicle</u>
Financial assets at FVTPL	\$ 94,120,839	\$ 33,447,848
Financial assets at FVTOCI	-	47,465,038
Financial assets measured at amortized cost	-	<u>191,072,559</u>
	<u>\$ 94,120,839</u>	<u>\$ 271,985,445</u>
	<u>September 30, 2019</u>	
	<u>Private Equity Funds</u>	<u>Securitization Vehicle</u>
Financial assets at FVTPL	\$ 89,332,356	\$ 32,530,305
Financial assets at FVTOCI	-	33,991,317
Financial assets measured at amortized cost	-	<u>187,315,213</u>
	<u>\$ 89,332,356</u>	<u>\$ 253,836,835</u>

45. 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.	Table 4
3	Engage in core business transactions with related parties amounting over \$100 million or 20% of the paid-in capital.	Note 34
4	Receivables from related parties amounting over \$100 million or 20% of the paid-in capital.	Note 34
5	Trading in derivative instruments.	Notes 8, 10 and 39

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 34
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

No.	Description	Explanation
1	Name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in 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 5
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	Mutual transactions in core business areas, such as the underwriting of insurance policy contracts where the policyholder is the investee, the amount of such transactions and their percentages, and the end-of-period balances of the related payables and receivables and their percentages.	N/A
4	The amount of property transactions and the amount of the resulting gains or losses.	N/A
5	The highest balance, the end-of-period balance, the interest rate range, and total interest in the current period with respect to the financing of funds.	N/A
6	Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.	N/A

- d. The important intercompany transactions among the Group are disclosed in Table 6 following the notes to the consolidated financial statements.
- e. Information on major shareholders: For all shareholders with ownership of 5% or greater, the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder should be disclosed: N/A.

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

(In Thousands of New Taiwan Dollars/In Thousands Share of Ordinary Shares)

Investor Company	Name of Investee	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2020	December 31, 2019	Number of Shares	Shareholding Ratio (%)	Carrying Amount			
Cathay Life Insurance Co., Ltd.	Conning Holdings Limited	UK	Holding company	\$ 15,723,539	\$ 15,723,539	2,029	100.00	\$ 16,523,561	\$ 2,418,866	\$ 2,285,700	Subsidiary (Note 2)
	Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	Life insurance	9,090,730	9,090,730	-	100.00	10,948,020	(753,865)	(753,865)	Subsidiary (Note 2)
	Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	Real estate investment and operation management	16,654,013	16,654,013	326,700	100.00	13,343,356	184,140	184,140	Subsidiary (Note 1)
	Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	Real estate investment and operation management	168,222	168,222	3,300	100.00	132,812	564	564	Subsidiary (Note 1)
	Cathay Walbrook Holding 1 Limited	Jersey Island	Real estate investment and operation management	10,189,090	10,189,090	213,750	100.00	8,485,708	(45,116)	(45,116)	Subsidiary (Note 1)
	Cathay Walbrook Holding 2 Limited	Jersey Island	Real estate investment and operation management	536,268	536,268	11,250	100.00	442,435	(3,476)	(3,476)	Subsidiary (Note 1)
	Rizal Commercial Banking Corporation	Philippines	Banking	15,683,953	15,683,953	452,019	23.35	16,313,241	2,386,574	557,326	Associate (Note 2)
	PT Bank Mayapada Internasional Tbk	Indonesia	Banking	13,317,536	13,317,536	2,550,767	37.33	-	(2,623,252)	(13,980,277)	Associate (Note 2)
	Cathay Securities Investment Consulting Co., Ltd.	Taiwan	Securities investment consulting services	300,000	70,000	30,000	100.00	571,124	149,128	149,128	Subsidiary (Note 1)
	Symphox Information Co., Ltd	Taiwan	Wholesale of information software	404,432	404,432	24,511	49.12	427,005	36,421	17,890	Associate (Note 2)
	WK Technology Fund VI Co., Ltd.	Taiwan	Venture investment	108,372	108,372	10,837	21.43	60,676	3,009	645	Associate (Note 2)
	Dasheng Venture Capital Co., Ltd.	Taiwan	Venture investment	799,959	957,118	79,996	25.00	2,252,133	1,180,635	295,159	Associate (Note 2)
	Dasheng IV Venture Capital Co., Ltd.	Taiwan	Venture investment	750,000	750,000	75,000	21.43	833,454	118,273	25,344	Associate (Note 2)
	CMG International One Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	675,225	(1,646)	(740)	Associate (Note 2)
	CMG International Two Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	672,687	(3,152)	(1,419)	Associate (Note 2)
	CM Energy Co., Ltd.	Taiwan	Energy technical services	270,000	270,000	27,000	45.00	282,934	23,819	10,718	Associate (Note 2)
	Neo Cathay Power Corp.	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	703,651	58,434	26,295	Associate (Note 2)
	Cathay Sunrise Corporation	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	722,691	81,438	36,647	Associate (Note 2)
	DingTeng Co., Ltd.	Taiwan	Sewage treatment	756,116	756,116	37,284	27.36	821,905	112,244	30,713	Associate (Note 2)
	PSS Co., Ltd.	Taiwan	Parking space management	832,750	781,364	14,186	36.22	902,259	122,706	44,711	Associate (Note 2)
	Greenhealth Water Resources Co., Ltd.	Taiwan	Sewage treatment	470,916	470,916	45,600	30.00	459,342	(34,615)	(10,384)	Associate (Note 2)
	Cathay Venture Inc.	Taiwan	Venture investment	1,567,574	1,567,574	121,059	25.00	1,667,547	381,814	95,454	Associate (Note 1)
	Lin Yuan Property Management Co., Ltd.	Taiwan	Property management services	63,636	-	1,470	49.00	48,191	43,956	12,926	Associate (Note 2)
TaiYang Solar Power Co., Ltd.	Taiwan	Self-usage power generation equipment utilizing renewable energy	148,000	-	7,000	28.00	148,263	448	691	Associate (Note 2)	
Conning Holdings Limited	Global Evolution Holding ApS	Denmark	Holding company	(Note 3)	2,679,234	(Note 3)	(Note 3)	(Note 3)	432,727	149,408	(Note 3)

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 unreviewed financial statements by an independent auditor.

Note 3: CHL originally held 45% equity shares in Global Evolution Holding ApS, which were recorded as investments accounted for using the equity method. On June 25, 2020, CHL acquired a further 8% equity shares, increased the ownership interest from 45% to 53%, and obtained control over Global Evolution Holding ApS. Refer to Note 43 for information relating to the business combination.

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2020

(In Thousands of New Taiwan Dollars/In Thousands of Ordinary Shares)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statements Accounts	September 30, 2020				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Conning Inc.	<u>Preference shares</u> Centerprise Services Inc.	N/A	Financial assets at FVTOCI	400	\$ 5,544	1.76	\$ 5,544	
Symphox Information Co., Ltd.	<u>Stocks</u> Appworks Fund I Co., Ltd.	N/A	Financial assets at FVTOCI	24	187	0.63	187	
	Fashionguide Co., Ltd.	N/A	Financial assets at FVTOCI	1,293	17,848	7.72	17,848	
	Buyforyou Co., Ltd.	N/A	Financial assets at FVTOCI	117	-	10.00	-	
	Seaward Card Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	53,682	100.00	53,682	
	Thinkpower Information Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	5,975	330,324	71.00	330,324	
Greenhealth Water Resources Co., Ltd.	Bowl Cut Entertainment Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	500	6,893	100.00	6,893	
	Lung Chuan Water Resources Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	152,000	1,496,758	100.00	1,496,758	

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Land located at Sanmin Section, Taoyuan City	2020.1.20	\$ 474,182	Installment payments according to contracts	King Kong Zen Temple	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Hecuo Section, Taichung City	2020.4.21	201,344	Installment payments according to contracts	10 people surnamed He and Hui Tak Industrial Co., Ltd.	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Shangshibei Section, Taichung City	2020.5.14	427,978	Installment payments according to contracts	Natural person surnamed You	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, typing fee and stamp duty.

Note 2: The term "event date" refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, date of boards of directors' resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain or Loss on Disposal	Counterparty	Relationship	Purposes of Disposal	Pricing Reference	Other Terms
The Company	Land located at Tongan Section, Taoyuan City	2020.05.22 2020.05.25	2019.07.24	\$ 186,541	\$ 186,541	(Note 3)	(Note 3)	Taoyuan City Government, the Republic of China	Non-related party	(Note 3)	(Note 3)	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript fee, typing fee, and stamp duty.

Note 2: The term "event date" refers to the date of contract signing, date of collection, date of consignment trade, date of transfer, date of board of directors' resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier.

Note 3: The Company donated the land to the Taoyuan City government and the Republic of China for use in the transfer of offices.

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

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

Investee Company	Principal business activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of September 30, 2020	Accumulated Repatriation of Investment Income as of September 30, 2020
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	(a)	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 1,221,500	50.0	\$ 610,750 (Note 2,b,2)	\$ 5,844,727	\$ -
Cathay Insurance Company Limited (China)	Property insurance	12,196,844	(a)	2,943,663	-	-	2,943,663	140,775	24.5	34,489 (Note 2,b,3)	1,773,988	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	7,223,435	(a)	7,223,435	-	-	7,223,435	106,875	100.0	61,816 (Note 2,b,2)	7,403,724	-

Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2020	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)	\$17,978,094 (Including the amounts of CNY3,090,000 thousand and US\$106,352 thousand)	\$384,730,492

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

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

Note 2: The column of investment profit or loss for the period:

- If it is in preparation, there are no investment gains and losses, it should be noted.
- The recognition basis for investment gain (loss) are as follows:
 - Financial statements are audited by an international CPA firm with the cooperation of the ROC CPA firm.
 - Financial statements are audited by the parent company's CPA firm in Taiwan.
 - Others.

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, 2020, 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. On November 26, 2019, MOEAIC authorized the Company to remit CNY245,000 thousand to increase the share capital. As of September 30, 2020, 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, 2020, 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, 2020
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			% of Total Operating Revenue or Assets (Note 3)
				Financial Statement Accounts	Amount	Payment Terms	
0	Cathay Life Insurance Co., Ltd.	Cathay Walbrook Holding 1 Limited	a	Other loans	\$ 12,235,645	Equivalent to general conditions of transactions	0.17
		Cathay Walbrook Holding 1 Limited	a	Other receivables	10,835	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 1 Limited	a	Interest income	313,287	Equivalent to general conditions of transactions	0.05
		Cathay Walbrook Holding 2 Limited	a	Other loans	643,981	Equivalent to general conditions of transactions	0.01
		Cathay Walbrook Holding 2 Limited	a	Other receivables	570	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 2 Limited	a	Interest income	16,489	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Processing fee expense	639,982	Equivalent to general conditions of transactions	0.10
		Conning Holdings Limited	a	Other payables	322,934	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Prepaid expense	2,928	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Administrative expense	4,383	Equivalent to general conditions of transactions	-
1	Lin Yuan (Shanghai) Real Estate	Cathay Lujiazui Life Insurance Co., Ltd.	c	Guarantee deposits received	9,878	Equivalent to general conditions of transactions	-
		Cathay Lujiazui Life Insurance Co., Ltd.	c	Rental income	29,564	Equivalent to general conditions of transactions	-
		Cathay Life Insurance Co., Ltd.	b	Rental income	1,093	Equivalent to general conditions of transactions	-

Note 1: Parent is numbered 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 or 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.