

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

**Consolidated Financial Statements for the
Years Ended December 31, 2022 and 2021 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2022 are the same as the entities required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

CATHAY CENTURY INSURANCE CO., LTD.

By

March 8, 2023

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Cathay Century Insurance Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in the audit of the Group's consolidated financial statements for the year ended December 31, 2022 is described as follows:

Adequacy of Loss Reserves

Loss reserve is a major component of the Group's liability. As of December 31, 2022, the balance of loss reserves was representing 39% of the total assets of the Group.

Loss reserves include losses filed but not yet paid and losses not yet filed. The reserve for claims filed but not yet paid is assessed by the claim department based on the relevant information from each received claim. The reserve for claims not yet filed is comprised of the provision calculated by the actuary department according to the claim development methods (accident year basis) or past claim experiences that complied with actuarial principle, along with a reserve for the unallocated loss adjustment expenses; such accrual principle is also applied to ceded loss reserve under reinsurance contract assets. The claims not yet filed that were estimated by the abovementioned claim development methods or past experiences that complied with the actuarial principles were calculated by considering the weighted results of the claim development and expected loss rates. The actuary department exercises its professional judgment in determining the appropriate models, assumptions and parameters. Therefore, we identified the adequacy of loss reserves as a key audit matter. For the accounting policies and relevant disclosure information, refer to Notes 4, 5 and 20.

By performing control testing, we obtained an understanding of the valuation of loss reserves and the design and implementation of relevant internal controls. Moreover, we also performed the following audit procedures:

1. We obtained the actuarial report prepared by the contracted actuary and determined that the loss reserves were properly accrued, and we evaluated the contracted actuary's professional competence and capability and were compliant with the regulations issued by the Financial Supervisory Commission of the Republic of China.
2. Our internal actuarial specialists evaluated the accuracy and completeness of the relevant data, as well as the reasonableness of the reserve for claims not yet filed by the actuarial method.

Other Matter

We have also audited the parent company only financial statements of Cathay Century Insurance Co., Ltd. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee or supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2022, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Cheng-Hung Kuo and An-Hwei Lin.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2023

Notice to Readers

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

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

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

ASSETS	2022		2021	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6, 27 and 29)	\$ 17,758,712	29	\$ 11,973,287	24
RECEIVABLES (Notes 4, 11, 27 and 34)	3,153,166	5	3,208,952	6
INVESTMENTS				
Financial assets at fair value through profit or loss (Notes 4, 7 and 27)	7,556,797	13	12,870,139	26
Financial assets at fair value through other comprehensive income (Notes 4, 5 and 8)	685,847	1	728,828	1
Financial assets at amortized cost (Notes 4, 5 and 9)	8,853,285	15	7,062,471	14
Investments accounted for using the equity method, net (Notes 4 and 14)	2,370,722	4	2,304,344	5
Loans (Notes 4, 10 and 27)	137,944	-	186,463	-
REINSURANCE CONTRACT ASSET (Notes 4, 12, 20 and 34)	13,542,121	22	9,881,487	20
PROPERTY AND EQUIPMENT (Notes 4 and 15)	346,411	1	221,155	-
RIGHT-OF-USE ASSETS (Notes 4, 16 and 27)	115,031	-	237,046	1
INTANGIBLE ASSETS (Notes 4 and 17)	138,427	-	108,816	-
DEFERRED INCOME TAX ASSETS (Notes 4 and 24)	4,581,004	8	240,062	1
OTHER ASSETS (Notes 18, 27 and 29)	<u>1,356,193</u>	<u>2</u>	<u>877,136</u>	<u>2</u>
TOTAL	<u>\$ 60,595,660</u>	<u>100</u>	<u>\$ 49,900,186</u>	<u>100</u>
LIABILITIES AND EQUITY				
PAYABLES (Notes 4, 19, 27 and 34)	\$ 3,308,293	5	\$ 3,912,933	8
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 7 and 27)	178,805	-	72	-
LEASE LIABILITIES (Notes 4, 16 and 27)	114,717	-	237,483	-
INSURANCE LIABILITIES (Notes 4, 5 and 20)	42,245,962	70	29,730,897	60
OTHER LIABILITIES	1,210,912	2	836,176	2
PROVISIONS (Notes 4 and 21)	429,975	1	464,271	1
DEFERRED INCOME TAX LIABILITIES (Notes 4 and 24)	<u>307,270</u>	<u>1</u>	<u>271,041</u>	<u>-</u>
Total liabilities	<u>47,795,934</u>	<u>79</u>	<u>35,452,873</u>	<u>71</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Ordinary shares				
Ordinary shares	<u>7,057,052</u>	<u>12</u>	<u>3,057,052</u>	<u>6</u>
Capital surplus				
Capital surplus	<u>16,557,271</u>	<u>27</u>	<u>518,326</u>	<u>1</u>
Retained earnings				
Legal reserve	3,995,920	7	3,567,601	7
Special reserve	3,968,168	6	5,363,818	11
(Accumulated deficit) Unappropriated earnings	<u>(17,749,628)</u>	<u>(29)</u>	<u>1,505,940</u>	<u>3</u>
Total retained earnings	<u>(9,785,540)</u>	<u>(16)</u>	<u>10,437,359</u>	<u>21</u>
Other equity	<u>(1,029,057)</u>	<u>(2)</u>	<u>434,576</u>	<u>1</u>
Total equity attributable to owners of the Company	<u>12,799,726</u>	<u>21</u>	<u>14,447,313</u>	<u>29</u>
Total equity	<u>12,799,726</u>	<u>21</u>	<u>14,447,313</u>	<u>29</u>
TOTAL	<u>\$ 60,595,660</u>	<u>100</u>	<u>\$ 49,900,186</u>	<u>100</u>

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

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
OPERATING REVENUES				
Retained earned premium (Note 34)				
Direct insurance premium revenues (Notes 4 and 27)	\$ 28,897,489	123	\$ 26,208,832	119
Reinsurance premium inward	<u>1,368,852</u>	<u>6</u>	<u>1,805,745</u>	<u>8</u>
Premium revenues	30,266,341	129	28,014,577	127
Less: Reinsurance premium outward (Notes 4 and 34)	8,181,900	35	7,296,126	33
Less: Net change in unearned premium reserves (Notes 4, 20 and 34)	<u>381,464</u>	<u>1</u>	<u>815,267</u>	<u>4</u>
Total retained earned premium	<u>21,702,977</u>	<u>93</u>	<u>19,903,184</u>	<u>90</u>
Reinsurance commission earned (Note 34)	<u>900,431</u>	<u>4</u>	<u>857,178</u>	<u>4</u>
Handling fees earned	<u>48,927</u>	<u>-</u>	<u>45,616</u>	<u>-</u>
Net gain (loss) on investments				
Interest income (Notes 23 and 27)	636,240	3	539,011	2
Foreign exchange gains (losses) -investment (Note 4)	658,878	3	(194,939)	(1)
Gain (loss) on valuation of financial assets and liabilities at fair value through profit or loss (Note 4)	(2,277,860)	(10)	1,365,356	6
Net gain (loss) on derecognition of financial assets at amortized cost (Notes 4 and 9)	562	-	3,613	-
Share of profit (loss) of associates and joint ventures accounted for using equity method (Notes 4 and 14)	115,978	-	125,250	1
Expected credit (impairment loss) reversal gain on investment (Note 4)	(1,450)	-	14,223	-
Income or loss reclassified under the overlay approach (Notes 4 and 7)	<u>1,462,612</u>	<u>6</u>	<u>(489,409)</u>	<u>(2)</u>
Total net gains on investments	<u>594,960</u>	<u>2</u>	<u>1,363,105</u>	<u>6</u>
Other operating income	<u>157,220</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>23,404,515</u>	<u>100</u>	<u>22,169,083</u>	<u>100</u>
OPERATING COSTS				
Retained claims (Notes 4 and 34)				
Claims incurred	35,909,126	154	13,333,932	60
Less: Claims recovered from reinsurers (Note 34)	<u>6,232,430</u>	<u>27</u>	<u>2,864,134</u>	<u>13</u>
Total retained claims	<u>29,676,696</u>	<u>127</u>	<u>10,469,798</u>	<u>47</u>
Other net change in insurance liabilities (Notes 4 and 20)	<u>9,709,164</u>	<u>41</u>	<u>637,320</u>	<u>3</u>
Commission expenses (Notes 4, 27 and 34)	<u>3,870,838</u>	<u>17</u>	<u>3,620,594</u>	<u>16</u>
Other operating costs	<u>45,627</u>	<u>-</u>	<u>143,945</u>	<u>1</u>
Total operating costs	<u>43,302,325</u>	<u>185</u>	<u>14,871,657</u>	<u>67</u>

(Continued)

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
GROSS (LOSS) PROFIT	\$ (19,897,810)	(85)	\$ 7,297,426	33
OPERATING EXPENSES (Notes 23 and 27)				
Operating	3,732,659	16	3,842,298	17
Administrative	891,619	4	916,963	4
Training	11,380	-	12,815	-
Total operating expenses	4,635,658	20	4,772,076	21
OPERATING (LOSS) INCOME	(24,533,468)	(105)	2,525,350	12
NON-OPERATING INCOME AND EXPENSES (Note 27)	8,048	-	41,525	-
(LOSS) PROFIT BEFORE INCOME TAX	(24,525,420)	(105)	2,566,875	12
INCOME TAX (BENEFIT) EXPENSE (Notes 4 and 24)	(4,903,889)	(21)	391,577	2
NET (LOSS) PROFIT	(19,621,531)	(84)	2,175,298	10
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 22)	34,239	-	(10,312)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income (Notes 4 and 22)	-	-	104,296	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 24)	6,847	-	(2,062)	-
	27,392	-	96,046	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations (Notes 4 and 22)	47,271	-	(10,502)	-
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4, 14 and 22)	(49,600)	-	(24,570)	-

(Continued)

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
Unrealized gain (loss) on investments in debt instruments at fair value through other comprehensive income (Notes 4 and 22)	\$ (35,924)	-	\$ (28,509)	-
Other comprehensive (loss) income reclassified under the overlay approach (Notes 4, 7 and 22)	(1,462,612)	(6)	489,409	2
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 24)	(9,840)	-	(3,737)	-
	<u>(1,491,025)</u>	<u>(6)</u>	<u>429,565</u>	<u>2</u>
Other comprehensive income (loss), net of income tax	<u>(1,463,633)</u>	<u>(6)</u>	<u>525,611</u>	<u>2</u>
TOTAL COMPREHENSIVE (LOSS) INCOME	<u>\$ (21,085,164)</u>	<u>(90)</u>	<u>\$ 2,700,909</u>	<u>12</u>
NET (LOSS) PROFIT ATTRIBUTABLE TO:				
Owner of the Company	\$ (19,621,531)	(84)	\$ 2,175,298	10
Non-controlling interests	-	-	-	-
	<u>\$ (19,621,531)</u>	<u>(84)</u>	<u>\$ 2,175,298</u>	<u>10</u>
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ (21,085,164)	(90)	\$ 2,700,909	12
Non-controlling interests	-	-	-	-
	<u>\$ (21,085,164)</u>	<u>(90)</u>	<u>\$ 2,700,909</u>	<u>12</u>
(LOSS) EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ (47.56)</u>		<u>\$ 7.12</u>	

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

(Concluded)

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company						Other Equity (Notes 4 and 22)				Total Equity
	Shares (In Thousands)	Capital Stock (Notes 4 and 22)	Capital Surplus (Notes 4 and 22)	Retained Earnings (Note 22)		Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating the Financial Statements of Foreign Operations	Financial Assets Measured at Fair Value Through Other Comprehensive Profit or Loss with Unrealized Interest	Remeasurement of Defined Benefit Plans	Other Comprehensive Income Reclassified Under Overlay Method	
				Legal Reserve	Special Reserve						
BALANCE AT JANUARY 1, 2021	305,705	\$ 3,057,052	\$ 518,326	\$ 3,132,813	\$ 4,796,064	\$ 1,750,310	\$ (331,574)	\$ (36,212)	\$ (175,461)	\$ 418,508	\$ 13,129,826
Appropriation of 2020 earnings											
Legal reserve	-	-	-	434,788	-	(434,788)	-	-	-	-	-
Reverse special reserve	-	-	-	-	(67,900)	67,900	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(1,383,422)	-	-	-	-	(1,383,422)
The newly recognized special reserve for catastrophic event and the special reserve for fluctuation of risk	-	-	-	-	634,321	(634,321)	-	-	-	-	-
Appropriation of special reserve for personal insures Travel insurance	-	-	-	-	1,333	(1,333)	-	-	-	-	-
Net profit for the year ended December 31, 2021	-	-	-	-	-	2,175,298	-	-	-	-	2,175,298
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	-	-	(19,924)	60,639	(8,250)	493,146	525,611
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	-	2,175,298	(19,924)	60,639	(8,250)	493,146	2,700,909
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	(33,704)	-	33,704	-	-	-
BALANCE AT DECEMBER 31, 2021	305,705	3,057,052	518,326	3,567,601	5,363,818	1,505,940	(351,498)	58,131	(183,711)	911,654	14,447,313
Appropriation of 2021 earnings											
Legal reserve	-	-	-	428,319	-	(428,319)	-	-	-	-	-
Reverse special reserve	-	-	-	-	(125,114)	125,114	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(601,368)	-	-	-	-	(601,368)
Recognition of employee share options by the parent company	-	-	38,945	-	-	-	-	-	-	-	38,945
Reversed of special reserve for catastrophic event and the special reserve for fluctuation of risk	-	-	-	-	(1,277,640)	1,277,640	-	-	-	-	-
Appropriation of special reserve for personal insures Travel insurance	-	-	-	-	7,104	(7,104)	-	-	-	-	-
Issuance of ordinary shares for cash	400,000	4,000,000	16,000,000	-	-	-	-	-	-	-	20,000,000
Net profit for the year ended December 31, 2022	-	-	-	-	-	(19,621,531)	-	-	-	-	(19,621,531)
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	-	-	87,853	(126,106)	27,392	(1,452,772)	(1,463,633)
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	-	(19,621,531)	87,853	(126,106)	27,392	(1,452,772)	(21,085,164)
BALANCE AT DECEMBER 31, 2022	<u>705,705</u>	<u>\$ 7,057,052</u>	<u>\$ 16,557,271</u>	<u>\$ 3,995,920</u>	<u>\$ 3,968,168</u>	<u>\$ (17,749,628)</u>	<u>\$ (263,645)</u>	<u>\$ (67,975)</u>	<u>\$ (156,319)</u>	<u>\$ (541,118)</u>	<u>\$ 12,799,726</u>

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

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (24,525,420)	\$ 2,566,875
Adjustments for:		
Depreciation expenses	230,730	191,646
Amortization expenses	64,828	57,936
Employee share options issued by the parent company	38,945	-
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	2,277,860	(1,365,356)
Interest expense	4,144	3,487
Net (gain) loss on derecognition of financial assets measured at amortized cost	(562)	(3,613)
Interest income	(636,240)	(539,011)
Net change in insurance liabilities	12,515,065	3,504,613
Expected credit impairment loss (reversal gain) on investment	1,450	(14,223)
Share of profit or loss of associates and joint ventures accounted for using the equity method	(115,978)	(125,250)
(Gain) loss on reclassification under the overlay approach	(1,462,612)	489,409
Loss on disposal of property and equipment	55	1
Changes in operating assets and liabilities		
Decrease (increase) in notes receivable	8,980	(15,453)
Decrease in premiums receivable	100,326	48,005
Decrease (increase) in other receivables	572,083	(12,479)
Decrease (increase) in financial instruments at fair value through profit or loss	2,971,074	(59,329)
Decrease in financial assets at fair value through other comprehensive income	7,042	6,919
(Increase) decrease in financial assets at amortized cost	(1,791,669)	354,201
Increase in reinsurance contract asset	(3,660,634)	(2,435,550)
Increase in other assets	(479,075)	(211,265)
Decrease in claims outstanding	-	(2,803)
Increase in commissions payable and fees	86,898	35,067
(Decrease) increase in due to reinsurers and ceding companies	(189,628)	495,170
(Decrease) increase in other payables	(247,105)	156,582
Decrease in provisions	(57)	(205)
Increase in other liabilities	374,736	106,148
Cash (used in) generated from operations	<u>(13,854,764)</u>	<u>3,231,522</u>
Interest received	625,444	551,168
Dividend received	241,036	215,998
Interest paid	(4,144)	(3,487)
Income tax paid	<u>(265,935)</u>	<u>(598,606)</u>
Net cash (used in) generated from operating activities	<u>(13,258,363)</u>	<u>3,396,595</u>

(Continued)

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property and equipment	\$ (226,164)	\$ (90,822)
Payments for intangible assets	(65,451)	(59,868)
Decrease in loans	<u>48,519</u>	<u>8,853</u>
Net cash used in investing activities	<u>(243,096)</u>	<u>(141,837)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of the principal portion of lease liabilities	(157,295)	(140,684)
Cash dividends paid	(601,368)	(1,383,422)
Issuance of ordinary shares for cash	<u>20,000,000</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>19,241,337</u>	<u>(1,524,106)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>45,547</u>	<u>(10,937)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,785,425	1,719,715
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>11,973,287</u>	<u>10,253,572</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 17,758,712</u>	<u>\$ 11,973,287</u>

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

(Concluded)

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act of the Republic of China (“R.O.C.”). On April 22, 2002, the Company became a subsidiary of Cathay Financial Holdings Co., Ltd. (“Cathay Financial Holdings”) by adopting the stock conversion method under the R.O.C. Financial Holdings Company Act and other pertinent acts of the R.O.C. On June 28, 2002, the Company changed its name under letter No. 0910706108 issued by the Ministry of Finance from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. And officially changed its name on August 2, 2002. The Company mainly engages in the business of property and casualty insurance. The Company’s registered office and the main business location are at No. 296, Sec. 4, Jen Ai Road, Taipei, Taiwan, R.O.C. Cathay Financial Holdings is the Company’s parent company and ultimate parent company.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 8, 2023.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies.

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

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

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

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

As of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of other standards and interpretations will not have a material impact on the Group's financial position and financial performance.

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

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback"	January 1, 2024 (Note 2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

IFRS 17 "Insurance Contracts" and related amendments

IFRS 17 sets out the accounting standards for insurance contracts that will supersede IFRS 4. The key principles in IFRS 17 and related amendments are as follows:

Level of aggregation for insurance contracts

The Group shall identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and managed together. Contracts within a product line subject to similar risks would be expected to be in the same portfolio if they are managed together. The Group shall divide each portfolio of insurance contracts issued into a minimum of:

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

The Group is not permitted to include contracts issued more than one year apart in the same group, and shall apply the recognition and measurement under IFRS 17 to the group of insurance contracts it issues.

Recognition

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

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

Measurement

On initial recognition, the Group shall measure a group of insurance contracts at the total of the fulfilment cash flows (FCF) and the contractual service margin (CSM). The FCF comprises estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks associated with the future cash flows, and a risk adjustment for non-financial risk. The CSM represents the unearned profit the Group will recognize as it provides services under the insurance contracts in the group.

The initial recognition of a group of insurance contracts is measured at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- 1) The initial recognition of an amount for the FCF;
- 2) Any cash flows arising from the contracts in the group at that date;
- 3) The derecognition at that date of the following:
 - a) The insurance acquisition cash flows assets;
 - b) The asset or liability previously recognized for cash flows related to the group of insurance contracts held.

Subsequent measurement

The Group shall remeasure the carrying amount of a group of insurance contracts at the end of each reporting period at the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the FCF related to future services and the CSM of the group at that date. The liability for incurred claims comprises the FCF related to past service allocated to the group at that date. On subsequent measurement, if a group of insurance contracts becomes onerous (or more onerous), that loss shall be recognized in profit or loss.

Onerous contracts

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

Premium allocation approach

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 Company:

- 1) The Company reasonably expects that the liability for remaining coverage of a group of insurance contracts using the PAA will be a reasonable approximation of the general model results, or
- 2) The coverage period of each contract in the group is one year or less.

Where, at the inception of the Company, the Company expects significant variances in the FCF during the period before a claim is incurred, the expected significant variances may affect the measurement of the liability for remaining coverage of a group of insurance contracts; thus, such circumstances are not eligible to condition 1).

Using the PAA, the liability for remaining coverage shall be initially recognized as:

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

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, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Investment contracts with discretionary participation feature (DPF)

An investment contract with a DPF is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the IFRS 17 only if the Group also issues insurance contracts.

Modification and derecognition

If the terms of an insurance contract are modified and the change is to be treated as a substantive modification that meets specified criteria, the Group shall derecognize the original contract and recognize the modified contract as a new contract. The Group shall derecognize an insurance contract when it is extinguished, or if there is a substantive modification of an insurance contract.

Transition

The Group shall apply the IFRS 17 retrospectively unless impracticable, in which case the Group has the option of using either the modified retrospective approach or the fair value approach.

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

Under the fair value approach, the Group determines the CSM at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date.

Redesignation of financial assets

At the date of initial application of IFRS 17, an entity which applied IFRS 9 may redesignate and reclassify financial assets that comply with paragraph C29 of IFRS 17. The entity does not have to restate comparative information to reflect changes in the reclassification of these assets, so the difference between the previous carrying amount and the carrying amount at the date of initial application of these financial assets is recognized in retained earnings (or other equity, if appropriate) at the date of initial application. If an entity restates the comparative information, the restatement must reflect the requirements of the affected financial assets under IFRS 9.

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact of the application of other standards and interpretations 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 POLICY

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

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

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, 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. Classification of current and non-current assets and liabilities

Assets and liabilities of this consolidated financial statement are classified by nature and are presented in the order of liquidity, instead of being classified as current or noncurrent.

d. 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

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

e. Foreign currencies

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

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

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the date when the fair value is 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 case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting consolidated financial statements, the functional currencies of the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

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.

When the Company 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 and joint ventures 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 loss, if any. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

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

When the Group 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 of interests in the associate that are not related to the Group.

g. Property and equipment

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

The 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 method are reviewed at the end of each reporting period, with the effects of any changes in estimate 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. 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.

2) Derecognition of intangible assets

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

i. Impairment of property and equipment, right-of-use asset and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use asset and intangible assets, 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to the individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use 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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

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

1) Financial assets

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

a) Categories of financial assets, initial recognition and subsequent measurement

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 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. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the 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. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

Overlay approach is applied to financial assets if all of the following conditions are met therein, the Group elected to remove profit or loss arising from changes in fair value in subsequent measurement and placed it in other comprehensive income.

- i) The financial assets are held in respect of activities related to IFRS 4.
- ii) The financial assets are measured at FVTPL applying IFRS 9, but would not have been measured at FVTPL in its entirety applying under IAS 39.
- iii) The financial assets designated to apply overlay approach at initial recognition when an entity first applies IFRS 9 or when a new financial asset is initially recognized or when a financial asset newly meets the criteria having previously not met.

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 assets 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, including cash and cash equivalents and receivables at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial asset that is not credit impaired on purchase or origination but has 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.

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

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

iii. Investments in debt instruments at FVTOCI

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

- i) The debt instrument is held within a business model whose objective 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 on financial assets at amortized cost (including receivables) and investments in debt instruments that are measured at FVTOCI.

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

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs 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.

For internal credit risk management purposes, the Group determines that the following situations as indicate that a financial asset is in default without taking into account any collateral held by the Group:

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. Financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

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

In addition, in accordance with the regulation of "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises", the Company classify loans into five categories; including category one-normal assets; category two-special mention assets; category three-substandard assets; category four-doubtful assets; and category five-loss assets depending on the status of the loans collaterals and the length of time overdue, as well as financial condition of the uncollectible accounts. The Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

- i. 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.
- ii. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
- iii. Total unsecured portion of loans overdue and receivable on demand.

Pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, to enhance insurance industry's ability to bear loss on specific loan assets, the Company shall increase its allowance for bad debt loans ratio to at least 1.5%.

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 cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all the 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 gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 26.

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 foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps, foreign exchange swaps, cross currency swaps, options and futures.

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

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets 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.

k. Reinsurance business

The reinsurance business refers to the provision of services to enable clients to limit possible loss due to risk events such as explosions; the business meets insurance regulations. For the ceding reinsurance, the Group may not refuse or delay fulfillment of its obligations to the insured on the grounds that a reinsurer has failed to fulfill its obligation.

For the ceding reinsurance, reinsurance premium outward is recognized based on the ceding reinsurance contract. According to matching principle, the reinsurance premium outward must be matched in the same accounting period as the reinsurance premium inward they helped to earn. Also, at the balance sheet date, the Group will accrue the related reinsurance revenue and expense for the billing statements that have not yet been received but are already considered likely to be received as shown by past experience. The related reinsurance profit and loss cannot be deferred.

Reinsurance assets on which the reinsurer has rights include ceding unearned premium reserve, ceding loss reserve, and ceding premium deficiency reserve under various insurance provisions and related reinsurance regulations.

l. Reserves for liabilities

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

The descriptions of these reserves are as follows:

1) Unearned premium reserve

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

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

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

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

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

2) Loss reserve

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

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

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

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

3) Special reserve

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

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

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

a) Special reserves for catastrophic event

Special reserves for catastrophic event is provided at the rates for each insurance type required by the authorities.

As a single event which meets the government's definition of major accident, special reserves for catastrophic event can be reversed if the total retained claims for each insurance type of an individual company reach \$30 million and the total claims for each insurance type of all non-life insurance companies reach \$2,000 million.

Special reserves for catastrophic event that have been provided for more than 15 years may be reversed in the recovery manner prescribed by the appointed actuary, which should be filed with the authorities. In addition, such reserve for commercial-businesses earthquake insurance and typhoon and flood insurance may be reversed only if they have been provided for more than 30 years.

b) Special reserves for fluctuation of risk

For retained business of each insurance, when actual claims net of the debit amounts to special reserves for catastrophic events are lower than the expected claims, 15% of the difference should be provided as special reserves for fluctuation of risk. For commercial-business earthquake insurance and typhoon and flood insurance, the provision rate is 75% of the difference.

For retained business of each insurance, when actual claims net of the debit amounts to special reserves for catastrophic event are higher than the expected claims, the difference may be debited to the existing special reserves for fluctuation of risk. If the special reserves for fluctuation of risk for an insurance type are insufficient to cover the difference, the shortfall may be debited to the special reserves for fluctuation of risk of other insurance type. The insurance type and debit amounts for covering the shortfall should be filed with the authorities.

For each type of insurance, when the accumulated provisions of the special reserves for fluctuation of risk exceed 60% (30% for accident insurance and health insurance) of the retained earned premiums for the current year, the excess should be recovered. For commercial-business earthquake insurance and typhoon and flood insurance, if the accumulated provisions of special reserves for fluctuation of risk exceed 18 times and 8 times, respectively, of the retained earned premiums for the current year, the excess should be recovered as income.

4) Premium deficiency reserve

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

5) Policy reserve

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

6) Liability adequacy reserve

When performing the liability adequacy test required by IFRS 4, the future cash flows are estimated based on current information on recognized liabilities as of each reporting date. If the test result shows inadequate liability reserve, the shortfall should be recognized as a liability adequacy reserve.

m. Insurance contract categories

Insurance contract refers to the insurer accepting the insurance policyholder's transfer of significant insurance risk, and agrees to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages that occurred. The Group's definition of a significant insurance risk refers to any insured event that occurs and causes the Group to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and indicators, and other variables that face risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meets the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or extinguished, the policy will still be considered as an insurance contract; even if the exposure to insurance risk during the policy period has been significantly reduced. However, if insurance risk following the renewal of an insurance contract with features of financial instruments is transferred to the Group, the Group will reclassify the contract as an insurance contract.

n. Premiums, commission expenses and processing fees

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

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

o. Insurance claims

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

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

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

Provision for loss reserve is undiscounted.

p. Liability adequacy test

At the end of each reporting period, each type of insurance is subjected to the test by the expected cost method to assess the adequacy of insurance liabilities. The expected cost method requires the Group to estimate future cash flows of insurance contracts in accordance with the requirements for actuaries that was issued by the Actuarial Institute of the Republic of China. If an assessment shows that the carrying amount of insurance liabilities (less related intangible assets) is not enough to cover the estimated future cash flows, the entire shortfall is recognized in profit or loss.

Liability adequacy test is calculated on the undiscounted basis.

q. Salvage and subrogation

Salvage legally acquired from the claim procedure for direct written business shall be valued and recognized at its fair value. Subrogation legally acquired shall be recognized when the actual recovery is definite (the inflow of the economic benefits in the future is more likely than not), and its amount can be reliably measured.

r. Co-insurance organization, co-insurance and guarantee fund agreement

The Company and all the members approved by the competent authority set the “Co-insurance Contract of Compulsory Automobile Liability Insurance” and agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or going out of business, the members shall not withdraw. If the members stop to operate the compulsory automobile liability insurance, it should drop out from the co-insurance organization at the same time and the responsibility of unearned premiums applies natural expiry.

The Company, the property insurance company with order for traveling industry performance guarantee insurance and the reinsurance company set the “Co-insurance Contract of Traveling Industry Performance Guarantee Insurance” and agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall make notice in writing when going to withdraw from co-insurance three months before the start of the following year began three months ago. The original undertaken responsibility will cease to exist at the end of the year and the member company which drops out from the co-insurance organization will be held responsible for the unfinished part of the responsibility until its natural expiry.

s. Contribution to the stabilization funds

The disbursement of voluntary insurance is made to “Property Insurance Stabilization Fund Committees” according to “Interpretation No. 10602506661 Financial-Supervisory-Property-Insurance-Corporate” and Standard of Life and Property Insurance Industry Stabilization Fund.

Since July 1, 2014, according to the “Interpretations No. 10302503181 Financial-Supervisory-Property-Insurance-Corporate” issued by the FSC, the Group has changed its way of contribution to rate discrimination depositing in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

t. Leases

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

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, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

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

Lease liabilities are initially measured at the present value of the lease payments. 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 lessee’s incremental borrowing rate will be used.

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

u. 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 cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in other equity and will not be reclassified to profit or loss.

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

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

3) Termination benefits

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

v. Share-based payment arrangements

Employee share options granted to employees and others providing similar services.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately. The grant date of the parent company's issued ordinary shares for cash which are reserved for employees is the date on which the board of directors approves the transaction.

w. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

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

According to the Income Tax Law in the R.O.C, an additional tax of unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the 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 associated with such investments and interests are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and such temporary differences are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the 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 expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax 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 tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions on 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.

Key Sources of Estimation Uncertainty

a. 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 has determined 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 determines the 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. If the actual changes of inputs in the future differ from expectation, the fair value might vary accordingly.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Note 26.

b. Estimated impairment of investments in debt instruments

The provision for impairment of investments in debt instruments is estimated based on expected loss. The Group estimates and compares contractual cash flows receivable (carrying amount) and expected cash flows receivable (after forward looking estimates considered) and recognizes the difference as credit losses. 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.

c. Adequacy test on loss reserve

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2022	2021
Cash on hand	\$ 33,233	\$ 45,137
Checking accounts and demand deposits	4,420,500	3,179,749
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	7,628,697	5,507,106
Short-term transactions instruments	<u>5,676,282</u>	<u>3,241,295</u>
	<u>\$ 17,758,712</u>	<u>\$ 11,973,287</u>

7. FINANCIAL INSTRUMENTS AT FVTPL

	December 31	
	2022	2021
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Foreign exchange swaps	\$ 41,646	\$ 45,629
Non-derivative financial assets		
Listed shares	4,482,184	7,029,728
Mutual funds	2,769,775	5,490,710
Financial bonds	<u>263,192</u>	<u>304,072</u>
	<u>\$ 7,556,797</u>	<u>\$ 12,870,139</u>

(Continued)

	December 31	
	2022	2021
Financial liabilities mandatorily classified as at FVTPL		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange swaps	\$ <u>178,805</u>	\$ <u>72</u> (Concluded)

- a. At the end of the reporting period, outstanding foreign exchange swaps not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2022</u>			
Foreign exchange swaps	USD/NTD	2022.1.13-2023.12.21	USD 169,600
	EUR/NTD	2023.2.24-2023.6.6	EUR 1,750
<u>December 31, 2021</u>			
Foreign exchange swaps	USD/NTD	2022.01.13-2022.12.21	USD 181,900
	EUR/NTD	2022.02.24	EUR 750

The Group entered into foreign exchange swaps to manage exposures to exchange rate fluctuations of foreign currency-denominated assets and liabilities.

- b. The financial assets at FVTPL were not pledged.
- c. The Group chose to express profit or loss of the designated financial assets in the overlay approach under IFRS 4 “Insurance Contracts”. Financial assets designated to apply the overlay approach by the Group for investing activities relating to insurance contracts issued by the Group are as follows:

	December 31	
	2022	2021
Financial assets mandatorily measured at FVTPL		
Listed shares	\$ 4,482,184	\$ 7,029,728
Mutual funds	2,769,775	5,490,710
Financial bonds	263,192	304,072

For the years ended December 31, 2022 and 2021, none of financial assets held by the Group has changed conditions, been designated or been terminated.

Reclassification from profit or loss to other comprehensive income of the consolidated financial assets designated to apply the overlay approach for the years ended December 31, 2022 and 2021 were as follows:

	For the Year Ended December 31	
	2022	2021
Loss (gain) due to applying IFRS 9 to profit or loss	\$ 1,694,922	\$ (1,260,034)
(Loss) gain if applying IAS 39 to profit or loss	<u>(232,310)</u>	<u>770,625</u>
Gain (loss) from reclassification using the overlay approach	<u>\$ 1,462,612</u>	<u>\$ (489,409)</u>

According to the adjustment by applying the overlay approach, the amounts of gain (loss) on financial assets at FVTPL decreased from \$(2,277,860) thousand to \$(815,248) thousand, and decreased from \$1,365,356 thousand to \$875,947 thousand for the years ended December 31, 2022 and 2021, respectively.

8. FINANCIAL ASSETS AT FVTOCI

	<u>December 31</u>	
	2022	2021
Investments in debt instruments at FVTOCI	<u>\$ 685,847</u>	<u>\$ 728,828</u>

a. Investments in equity instruments at FVTOCI

In December 2021, the Group adjusted its investment portfolio for risk spreading and sold all the shares held at fair value of \$566,296 thousand. As a result, the related unrealized valuation gain of \$33,704 thousand was transferred from other equity to retained earnings.

There was no dividend revenue recognized relating to investments in equity instrument at FVTOCI still held by the Group on the balance sheet date for the years ended December 31, 2021.

b. Investments in debt instruments at FVTOCI

	<u>December 31</u>	
	2022	2021
Domestic investments		
Government bonds	<u>\$ 685,847</u>	<u>\$ 728,828</u>

Refer to Note 26 for information relating to their credit risk management and impairment.

c. The financial assets at FVTOCI were not pledged.

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2022	2021
Domestic investments		
Financial bonds	\$ 100,000	\$ -
Corporate bonds	1,599,988	1,599,988
Government bonds	1,099,504	700,084
Foreign bonds investments	<u>7,156,974</u>	<u>5,464,743</u>
	9,956,466	7,764,815
Less: Loss allowance	(3,715)	(2,280)
Less: Statutory guarantee deposits	<u>(1,099,466)</u>	<u>(700,064)</u>
	<u>\$ 8,853,285</u>	<u>\$ 7,062,471</u>

The Group's gains on disposal of bonds from repayments due for the years ended December 31, 2022 and 2021 were \$562 thousand and \$3,613 thousand, respectively.

Refer to Note 26 for information relating to their credit risk management and impairment. The financial assets at amortized cost were not pledged.

10. LOANS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Secured loans	\$ 139,828	\$ 188,921
Less: Loss allowance	<u>(1,884)</u>	<u>(2,458)</u>
	<u>\$ 137,944</u>	<u>\$ 186,463</u>

Property and equipment are pledged as collaterals for secured loans. The Group applied IFRS 9 and assessed impairment in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”. Refer to Note 26 for information relating to the credit risk management and impairment for the years ended December 31, 2022 and 2021.

11. RECEIVABLES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Notes receivable	\$ 178,754	\$ 190,662
Premiums receivables	2,063,718	2,128,646
Integrated income tax receivables	612,702	-
Other receivables	<u>368,131</u>	<u>927,557</u>
	3,223,305	3,246,865
Less: Loss allowance	<u>(70,139)</u>	<u>(37,913)</u>
	<u>\$ 3,153,166</u>	<u>\$ 3,208,952</u>

The movements of allowance for impairment loss of receivables were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 37,913	\$ 41,389
Impairment losses recognized (reversed) on receivables	<u>32,226</u>	<u>(3,476)</u>
Ending balance	<u>\$ 70,139</u>	<u>\$ 37,913</u>

12. REINSURANCE ASSETS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Claims recoverable from reinsurers, net	\$ 671,462	\$ 461,885
Due from reinsurers and ceding companies, net	1,998,020	937,811
Reinsurance reserve assets		
Ceded unearned premium reserve	4,482,083	4,361,937
Ceded loss reserve	<u>6,390,556</u>	<u>4,119,854</u>
	<u>\$ 13,542,121</u>	<u>\$ 9,881,487</u>

a. Claims recoverable from reinsurers

	December 31	
	2022	2021
Gross carrying amount	\$ 678,244	\$ 466,550
Less: Loss allowance	<u>(6,782)</u>	<u>(4,665)</u>
	<u>\$ 671,462</u>	<u>\$ 461,885</u>

The movements of allowance for impairment loss of claims recoverable from reinsurers were as follows:

	For the Year Ended December 31	
	2022	2021
Beginning balance	\$ 4,665	\$ 15,231
Impairment losses recognized (reversed) on receivables	<u>2,117</u>	<u>(10,566)</u>
Ending balance	<u>\$ 6,782</u>	<u>\$ 4,665</u>

b. Due from reinsurers and ceding companies

	December 31	
	2022	2021
Gross carrying amount	\$ 2,022,535	\$ 996,562
Less: Loss allowance	<u>(24,515)</u>	<u>(58,751)</u>
	<u>\$ 1,998,020</u>	<u>\$ 937,811</u>

The movements of the loss allowance of claims recoverable from reinsurers were as follows:

	For the Year Ended December 31	
	2022	2021
Beginning balance	\$ 58,751	\$ 43,501
Impairment losses recognized (reversed) on receivables	<u>(34,236)</u>	<u>15,250</u>
Ending balance	<u>\$ 24,515</u>	<u>\$ 58,751</u>

13. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)	
			December 31	2022
Cathay Century Insurance Co., Ltd.	Cathay Insurance Co., Ltd. (Vietnam)	Operating non-life insurance business	100	100

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	2022	2021
Investments in associates	<u>\$ 2,370,722</u>	<u>\$ 2,304,344</u>
<u>Aggregate information of associates that are not individually material</u>		
	For the Year Ended December 31	
	2022	2021
The Group's share of:		
Profit from continuing operations	\$ 115,978	\$ 125,250
Other comprehensive income (loss)	<u>(49,600)</u>	<u>(24,570)</u>
Total comprehensive income (loss) for the year	<u>\$ 66,378</u>	<u>\$ 100,680</u>

Investments were calculated based on financial statements which have not been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements which have not been audited.

The investments accounted for using the equity method were not pledged.

15. PROPERTY AND EQUIPMENT

	Computer Equipment	Other Equipment	Prepayments for Equipment	Total
<u>Cost</u>				
Balance at January 1, 2022	\$ 612,719	\$ 184,150	\$ 24,481	\$ 821,350
Additions	34,711	9,481	181,972	226,164
Disposals	(159,330)	(6,010)	-	(165,340)
Reclassified	141,676	6,433	(175,141)	(27,032)
Foreign exchange	<u>-</u>	<u>5,187</u>	<u>-</u>	<u>5,187</u>
Balance at December 31, 2022	<u>\$ 629,776</u>	<u>\$ 199,241</u>	<u>\$ 31,312</u>	<u>\$ 860,329</u>
<u>Accumulated depreciation and impairment</u>				
Balance at January 1, 2022	\$ 429,152	\$ 171,043	\$ -	\$ 600,195
Disposals	(159,330)	(5,955)	-	(165,285)
Depreciation expenses	67,600	6,612	-	74,212
Foreign exchange	<u>-</u>	<u>4,796</u>	<u>-</u>	<u>4,796</u>
Balance at December 31, 2022	<u>\$ 337,422</u>	<u>\$ 176,496</u>	<u>\$ -</u>	<u>\$ 513,918</u>
Carrying amounts at December 31, 2022	<u>\$ 292,354</u>	<u>\$ 22,745</u>	<u>\$ 31,312</u>	<u>\$ 346,411</u>

(Continued)

	Computer Equipment	Other Equipment	Prepayments for Equipment	Total
<u>Cost</u>				
Balance at January 1, 2021	\$ 487,354	\$ 183,630	\$ 77,290	\$ 748,274
Additions	22,478	2,079	66,265	90,822
Disposals	(268)	(338)	-	(606)
Reclassified	103,155	-	(119,074)	(15,919)
Foreign exchange	<u>-</u>	<u>(1,221)</u>	<u>-</u>	<u>(1,221)</u>
Balance at December 31, 2021	<u>\$ 612,719</u>	<u>\$ 184,150</u>	<u>\$ 24,481</u>	<u>\$ 821,350</u>
<u>Accumulated depreciation and impairment</u>				
Balance at January 1, 2021	\$ 385,165	\$ 166,025	\$ -	\$ 551,188
Disposals	(268)	(337)	-	(605)
Depreciation expenses	44,257	6,439	-	50,696
Foreign exchange	<u>-</u>	<u>(1,084)</u>	<u>-</u>	<u>(1,084)</u>
Balance at December 31, 2021	<u>\$ 429,152</u>	<u>\$ 171,043</u>	<u>\$ -</u>	<u>\$ 600,195</u>
Carrying amounts at December 31, 2021	<u>\$ 183,567</u>	<u>\$ 13,107</u>	<u>\$ 24,481</u>	<u>\$ 221,155</u> (Concluded)

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

Computer equipment	3-5 years
Other equipment	3-5 years

16. LEASE ARRANGEMENTS

a. Right-of-use assets

	<u>December 31</u>	
	2022	2021
<u>Carrying amounts</u>		
Buildings	\$ 110,106	\$ 233,645
Transportation equipment	<u>4,925</u>	<u>3,401</u>
	<u>\$ 115,031</u>	<u>\$ 237,046</u>

	For the Year Ended December 31	
	2022	2021
Additions to right-of-use assets	\$ <u>33,694</u>	\$ <u>272,251</u>
Depreciation charge for right-of-use assets		
Buildings	\$ 152,769	\$ 137,369
Transportation equipment	<u>3,749</u>	<u>3,581</u>
	\$ <u>156,518</u>	\$ <u>140,950</u>

Except for the aforementioned addition and recognized depreciation, the Group did not have significant sublease or impairment of right-of-use assets during the years ended December 31, 2022 and 2021.

b. Lease liabilities

	December 31	
	2022	2021
Carrying amounts	\$ <u>114,717</u>	\$ <u>237,483</u>

Range of discount rate for lease liabilities was as follows:

	December 31	
	2022	2021
Buildings	1.12%-8.57%	1.18%-8.57%
Transportation equipment	2.16%-3.49%	2.68%-3.49%

c. Other lease information

	For the Year Ended December 31	
	2022	2021
Expenses relating to short-term leases	\$ <u>27,989</u>	\$ <u>8,956</u>
Total cash outflow for leases	\$ <u>(188,108)</u>	\$ <u>(152,353)</u>

The Group leases certain transportation equipment and buildings which qualify as short-term leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

17. INTANGIBLE ASSETS

<u>Cost</u>	Computer Software
Balance at January 1, 2022	\$ 391,725
Additions	65,451
Reclassified	27,284
Foreign exchange	<u>5,425</u>
Balance at December 31, 2022	\$ <u>489,885</u>

(Continued)

	Computer Software
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2022	\$ 282,909
Amortization expenses	64,828
Foreign exchange	<u>3,721</u>
Balance at December 31, 2022	<u>\$ 351,458</u>
Carrying amounts at December 31, 2022	<u>\$ 138,427</u>
<u>Cost</u>	
Balance at January 1, 2021	\$ 316,888
Additions	59,868
Reclassified	15,919
Foreign exchange	<u>(950)</u>
Balance at December 31, 2021	<u>\$ 391,725</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2021	\$ 225,708
Amortization expenses	57,936
Foreign exchange	<u>(735)</u>
Balance at December 31, 2021	<u>\$ 282,909</u>
Carrying amounts at December 31, 2021	<u>\$ 108,816</u> (Concluded)

The above items of intangible asset used by the Group are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	3 years
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18. OTHER ASSETS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Statutory guarantee deposits	\$ 1,099,466	\$ 700,064
Statutory deposit	28,003	27,445
Other deposits	175,223	97,308
Payment in advance	28,640	18,420
Others	<u>24,861</u>	<u>33,899</u>
	<u>\$ 1,356,193</u>	<u>\$ 877,136</u>

The other assets were not pledged.

19. PAYABLES

	<u>December 31</u>	
	2022	2021
Claims outstanding	\$ -	\$ -
Commissions payable	346,088	259,190
Due to reinsurers and ceding companies	2,084,169	2,273,797
Income tax payable under tax consolidation	-	234,409
Other payables	<u>878,036</u>	<u>1,145,537</u>
	<u>\$ 3,308,293</u>	<u>\$ 3,912,933</u>

20. INSURANCE LIABILITIES

	<u>December 31</u>	
	2022	2021
Unearned premium reserve	\$ 15,838,272	\$ 15,305,826
Loss reserve	23,538,891	11,835,272
Special reserve	1,628,369	2,589,704
Premium deficiency reserve	1,240,260	-
Policy reserve	<u>170</u>	<u>95</u>
	<u>\$ 42,245,962</u>	<u>\$ 29,730,897</u>

a. Unearned premium reserve

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

Insurance by Type	<u>December 31, 2022</u>			
	<u>Unearned Premium Reserve</u>		<u>Ceded</u>	<u>Retained</u>
	<u>Direct</u>	<u>Reinsurance</u>	<u>Unearned</u>	
	<u>Underwriting</u>	<u>Inward</u>	<u>Premium</u>	
	<u>Business (1)</u>	<u>Business (2)</u>	<u>Reserve</u>	<u>Business</u>
			<u>Ceded</u>	<u>(4)=(1)+(2)-(3)</u>
			<u>Reinsurance</u>	
			<u>Business (3)</u>	
Fire insurance	\$ 1,893,367	\$ 127,729	\$ 1,322,102	\$ 698,994
Marine insurance	202,701	7,867	153,542	57,026
Land and air insurance	7,010,302	2,848	232,378	6,780,772
Liability insurance	1,292,650	1,011	403,032	890,629
Guarantee insurance	57,735	1,470	38,608	20,597
Other property insurance	1,446,086	29,349	1,166,220	309,215
Accident insurance	1,601,564	5,204	143,686	1,463,082
Health insurance	174,035	851	34,013	140,873
Policy-oriented residential earthquake insurance	238,221	29,845	238,220	29,846
Compulsory automobile liability insurance	<u>1,250,469</u>	<u>464,968</u>	<u>750,282</u>	<u>965,155</u>
	<u>\$ 15,167,130</u>	<u>\$ 671,142</u>	<u>\$ 4,482,083</u>	<u>\$ 11,356,189</u>

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

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

	For the Year Ended December 31			
	2022		2021	
	Unearned Premium Reserves	Ceded Unearned Premium Reserve	Unearned Premium Reserves	Ceded Unearned Premium Reserve
Beginning balance	\$ 15,305,826	\$ 4,361,937	\$ 13,737,655	\$ 3,626,938
Provision	15,831,142	4,478,504	15,307,114	4,362,505
Recovery	(15,355,033)	(4,383,859)	(13,763,608)	(3,634,266)
Foreign exchange	<u>56,337</u>	<u>25,501</u>	<u>24,665</u>	<u>6,760</u>
Ending balance	<u>\$ 15,838,272</u>	<u>\$ 4,482,083</u>	<u>\$ 15,305,826</u>	<u>\$ 4,361,937</u>

b. Loss reserve

1) Loss reserve and ceded loss reserve

December 31, 2022				
Items	Loss Reserve		Ceded Loss Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
	Filed but not yet paid	\$ 9,206,621	\$ 1,230,106	
Not yet filed	<u>12,626,344</u>	<u>475,820</u>	<u>2,418,383</u>	<u>10,683,781</u>
	<u>\$ 21,832,965</u>	<u>\$ 1,705,926</u>	<u>\$ 6,390,556</u>	<u>\$ 17,148,335</u>

December 31, 2021

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

2) Net changes in loss reserve and ceded loss reserve

For the year ended December 31, 2022

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Loss Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Filed but not yet paid	\$ 9,227,418	\$ 5,960,873	\$ 1,230,106	\$ 1,129,732	\$ 3,366,919
Not yet filed	<u>12,598,806</u>	<u>4,301,044</u>	<u>475,820</u>	<u>450,325</u>	<u>8,323,257</u>
	<u>\$ 21,826,224</u>	<u>\$ 10,261,917</u>	<u>\$ 1,705,926</u>	<u>\$ 1,580,057</u>	<u>\$ 11,690,176</u>

Items	Ceded Reinsurance Business		Net Changes in Ceded Loss Reserve (8)=(6)-(7)
	Provision (6)	Recovery (7)	
Filed but not yet paid	\$ 3,980,105	\$ 2,753,419	\$ 1,226,686
Not yet filed	<u>2,405,491</u>	<u>1,372,166</u>	<u>1,033,325</u>
	<u>\$ 6,385,596</u>	<u>\$ 4,125,585</u>	<u>\$ 2,260,011</u>

For the year ended December 31, 2021

Items	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Loss Reserve (5)=(1)-(2)+(3)-(4)
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	
Filed but not yet paid	\$ 5,951,860	\$ 4,597,432	\$ 1,129,732	\$ 786,091	\$ 1,698,069
Not yet filed	<u>4,303,574</u>	<u>4,023,236</u>	<u>450,325</u>	<u>455,069</u>	<u>275,594</u>
	<u>\$ 10,255,434</u>	<u>\$ 8,620,668</u>	<u>\$ 1,580,057</u>	<u>\$ 1,241,160</u>	<u>\$ 1,973,663</u>

Items	Ceded Reinsurance Business		Net Changes in Ceded Loss Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Filed but not yet paid	\$ 2,744,665	\$ 1,590,645	\$ 1,154,020
Not yet filed	<u>1,375,858</u>	<u>1,230,100</u>	<u>145,758</u>
	<u>\$ 4,120,523</u>	<u>\$ 2,820,745</u>	<u>\$ 1,299,778</u>

See Note 30 for the disclosure of the impact of severe specific infectious pneumonia epidemic to the Group.

3) Details of claims filed but not yet paid and claims not yet filed of policyholders

Insurance by Type	December 31, 2022		
	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 4,182,815	\$ 82,858	\$ 4,265,673
Marine insurance	671,037	208,516	879,553
Land and air insurance	2,372,432	1,327,669	3,700,101
Liability insurance	661,738	762,778	1,424,516
Guarantee insurance	48,770	34,605	83,375
Other property insurance	801,742	528,210	1,329,952
Accident insurance	256,038	528,089	784,127
Health insurance	957,852	7,837,730	8,795,582
Policy-oriented residential earthquake insurance	-	-	-
Compulsory automobile liability insurance	<u>484,303</u>	<u>1,791,709</u>	<u>2,276,012</u>
	<u>\$ 10,436,727</u>	<u>\$ 13,102,164</u>	<u>\$ 23,538,891</u>

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

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

Insurance by Type	December 31, 2022		
	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 2,379,825	\$ 38,119	\$ 2,417,944
Marine insurance	482,299	133,887	616,186
Land and air insurance	108,566	37,903	146,469
Liability insurance	283,097	281,830	564,927
Guarantee insurance	13,774	19,391	33,165
Other property insurance	489,080	109,591	598,671
Accident insurance	23,411	41,044	64,455
Health insurance	42,960	940,321	983,281
Policy-oriented residential earthquake insurance	-	-	-
Compulsory automobile liability insurance	<u>149,161</u>	<u>816,297</u>	<u>965,458</u>
	<u>\$ 3,972,173</u>	<u>\$ 2,418,383</u>	<u>\$ 6,390,556</u>

Insurance by Type	December 31, 2021		
	Filed But Not Yet Paid	Not Yet Filed	Total
Fire insurance	\$ 1,683,310	\$ 11,282	\$ 1,694,592
Marine insurance	275,098	100,501	375,599
Land and air insurance	68,792	35,728	104,520
Liability insurance	327,424	268,882	596,306
Guarantee insurance	13,775	16,353	30,128
Other property insurance	232,315	44,182	276,497
Accident insurance	5,789	31,251	37,040
Health insurance	283	25,968	26,251
Policy-oriented residential earthquake insurance	-	-	-
Compulsory automobile liability insurance	<u>128,951</u>	<u>849,970</u>	<u>978,921</u>
	<u>\$ 2,735,737</u>	<u>\$ 1,384,117</u>	<u>\$ 4,119,854</u>

- 5) Reconciliation of loss reserve and ceded loss reserve

	For the Year Ended December 31			
	2022		2021	
	Loss Reserve	Ceded Loss Reserve	Loss Reserve	Ceded Loss Reserve
Beginning balance	\$ 11,835,272	\$ 4,119,854	\$ 9,862,265	\$ 2,820,967
Provision	23,532,150	6,385,596	11,835,491	4,120,523
Recovery	(11,841,974)	(4,125,585)	(9,861,828)	(2,820,745)
Foreign exchange	<u>13,443</u>	<u>10,691</u>	<u>(656)</u>	<u>(891)</u>
Ending balance	<u>\$ 23,538,891</u>	<u>\$ 6,390,556</u>	<u>\$ 11,835,272</u>	<u>\$ 4,119,854</u>

c. Special reserve

1) Special reserve for compulsory automobile liability insurance

	For the Year Ended December 31	
	2022	2021
Beginning balance	\$ 851,422	\$ 865,038
Provision	155,320	117,823
Recovery	<u>(80,137)</u>	<u>(131,439)</u>
Ending balance	<u>\$ 926,605</u>	<u>\$ 851,422</u>

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

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

	For the Year Ended December 31, 2022		
	Catastrophic Event	Fluctuation of Risk	Total
Beginning balance	\$ 393,265	\$ 1,345,017	\$ 1,738,282
Provision	-	-	-
Recovery	<u>-</u>	<u>(1,036,518)</u>	<u>(1,036,518)</u>
Ending balance	<u>\$ 393,265</u>	<u>\$ 308,499</u>	<u>\$ 701,764</u>

	For the Year Ended December 31, 2021		
	Catastrophic Event	Fluctuation of Risk	Total
Beginning balance	\$ 411,992	\$ 1,345,017	\$ 1,757,009
Provision	-	-	-
Recovery	<u>(18,727)</u>	<u>-</u>	<u>(18,727)</u>
Ending balance	<u>\$ 393,265</u>	<u>\$ 1,345,017</u>	<u>\$ 1,738,282</u>

If the Directions for Strengthening Disaster Reserve by Non-Life Insurance Enterprises (formerly Directions for Strengthening Natural Disaster Insurance (Commercial Earthquake, Typhoon and Flood Insurance) Reserve by Non-Life Insurance Enterprises), Directions in Strengthening the Reserve Provision Made by the Co-Insurance Members Undertaking the Taiwan Residential Earthquake Insurance, and Directions for Reserving Nuclear Energy Insurance Reserve by Non-Life Insurance Enterprises were not applied, the Group's pre-tax income/loss would decrease by \$1,036,518 thousand and \$18,727 thousand for the years ended December 31, 2022 and 2021, respectively. The special reserve under liabilities would decrease by \$393,265 thousand and \$1,429,782 thousand, and the special reserve under equity would increase by \$308,748 thousand and \$310,139 thousand. Earnings (losses) per share for the years ended December 31, 2022 and 2021 would decrease by \$2.01 and \$0.05, respectively, when the Group did not apply to the notices and regulations.

For the year ended December 31, 2022, the Group recovered of \$1,036,518 thousand from the special reserve for fluctuation of risk in accordance with the Directions for Strengthening Disaster Reserve by Non-Life Insurance Enterprises, since the actual retained claims resulted from disasters exceeded the expected claims net of the reversal of the special reserve for a catastrophic event.

d. Premium deficiency reserves

1) Details of premium deficiency reserve and ceded premium deficiency reserve

Insurance by Type	December 31, 2022			
	Premium Deficiency Reserve		Ceded Premium Deficiency Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Fire insurance	\$ 28,236	\$ 11,735	\$ -	\$ 39,971
Marine insurance	3	192	-	195
Land and air insurance	-	94	-	94
Liability insurance	-	-	-	-
Guarantee insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	1,200,000	-	-	1,200,000
Policy-oriented residential earthquake insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
	<u>\$ 1,228,239</u>	<u>\$ 12,021</u>	<u>\$ -</u>	<u>\$ 1,240,260</u>

December 31, 2021

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

2) Net loss recognized for premium deficiency reserve - net changes in premium deficiency reserve and ceded premium deficiency reserve

	For the Year Ended December 31, 2022									
	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Premium Deficiency Reserve	Ceded Reinsurance Business		Net Changes in Ceded Premium Deficiency Reserve	Net Loss Recognized for Premium Deficiency Reserve	
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)	Provision (6)	Recovery (7)	(8)=(6)-(7)	(9)=(5)-(8)	
Fire insurance	\$ 28,236	\$ -	\$ 11,735	\$ -	\$ 39,971	\$ -	\$ -	\$ -	\$ 39,971	
Marine insurance	5	-	192	-	195	-	-	-	195	
Land and air insurance	-	-	94	-	94	-	-	-	94	
Liability insurance	-	-	-	-	-	-	-	-	-	
Guarantee insurance	-	-	-	-	-	-	-	-	-	
Other property insurance	-	-	-	-	-	-	-	-	-	
Accident insurance	-	-	-	-	-	-	-	-	-	
Health insurance	1,200,000	-	-	-	1,200,000	-	-	-	1,200,000	
Policy-oriented residential earthquake insurance	-	-	-	-	-	-	-	-	-	
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-	
	<u>\$ 1,228,239</u>	<u>\$ -</u>	<u>\$ 12,021</u>	<u>\$ -</u>	<u>\$ 1,240,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,240,260</u>	

	For the Year Ended December 31, 2021									
	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Premium Deficiency Reserve	Ceded Reinsurance Business		Net Changes in Ceded Premium Deficiency Reserve	Net Loss Recognized for Premium Deficiency Reserve	
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)	Provision (6)	Recovery (7)	(8)=(6)-(7)	(9)=(5)-(8)	
Fire insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Marine insurance	-	3,082	-	916	(3,998)	-	-	-	(3,998)	
Land and air insurance	-	118	-	82	(200)	-	-	-	(200)	
Liability insurance	-	-	-	-	-	-	-	-	-	
Guarantee insurance	-	-	-	-	-	-	-	-	-	
Other property insurance	-	-	-	-	-	-	-	-	-	
Accident insurance	-	-	-	-	-	-	-	-	-	
Health insurance	-	-	-	-	-	-	-	-	-	
Policy-oriented residential earthquake insurance	-	-	-	-	-	-	-	-	-	
Compulsory automobile liability insurance	-	-	-	-	-	-	-	-	-	
	<u>\$ -</u>	<u>\$ 3,200</u>	<u>\$ -</u>	<u>\$ 998</u>	<u>\$ (4,198)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,198)</u>	

3) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

	For the Year Ended December 31			
	2022		2021	
	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve	Premium Deficiency Reserve	Ceded Premium Deficiency Reserve
Beginning balance	\$ -	\$ -	\$ 4,198	\$ -
Provision	1,240,260	-	-	-
Recovery	-	-	(4,198)	-
Ending balance	<u>\$ 1,240,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

e. Policy reserve

1) Details of policy reserve and ceded policy reserve

December 31, 2022

Insurance by Type	Policy Reserve		Ceded Reserve	Retained Business (4)=(1)+(2)-(3)
	Direct Underwriting Business (1)	Reinsurance Inward Business (2)	Ceded Reinsurance Business (3)	
Health insurance	<u>\$ 170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170</u>

December 31, 2021

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

2) Net changes in policy reserve and ceded policy reserve

For the year ended December 31, 2022

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+ (3)-(4)
Health insurance	<u>\$ 154</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75</u>

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

For the year ended December 31, 2021

Insurance by Type	Direct Underwriting Business		Reinsurance Inward Business		Net Changes in Policy Reserve
	Provision (1)	Recovery (2)	Provision (3)	Recovery (4)	(5)=(1)-(2)+(3)-(4)
Health insurance	\$ 40	\$ 64	\$ -	\$ -	\$ (24)

Insurance by Type	Ceded Reinsurance Business		Net Changes in Ceded Policy Reserve
	Provision (6)	Recovery (7)	(8)=(6)-(7)
Health insurance	\$ -	\$ -	\$ -

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company of the Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Pension under the defined contribution plan for the years ended December 31, 2022 and 2021 were \$95,593 thousand and \$82,973 thousand, respectively.

b. Defined benefit plans

The defined benefit plans adopted by the Company of the Group in accordance with the Labor Standards Act is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 3.14% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the “Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Company's defined benefit plans are as follows:

	December 31	
	2022	2021
Present value of defined benefit obligation	\$ 909,769	\$ 927,559
Fair value of plan assets	<u>(479,794)</u>	<u>(463,288)</u>
Provision, net defined benefit liabilities	<u>\$ 429,975</u>	<u>\$ 464,271</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2021	<u>\$ 937,220</u>	<u>\$ (483,056)</u>	<u>\$ 454,164</u>
Service cost			
Current service cost	28,863	-	28,863
Net interest expense (income)	<u>3,517</u>	<u>(1,853)</u>	<u>1,664</u>
Recognized in profit or loss	<u>32,380</u>	<u>(1,853)</u>	<u>30,527</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,600)	(4,600)
Actuarial (gain) loss			
Changes in financial assumptions	(38,475)	-	(38,475)
Changes in demographic assumptions	31,777	-	31,777
Experience adjustments	<u>21,610</u>	<u>-</u>	<u>21,610</u>
Recognized in other comprehensive income	<u>14,912</u>	<u>(4,600)</u>	<u>10,312</u>
Contributions from the employer	-	(30,732)	(30,732)
Benefits paid	<u>(56,953)</u>	<u>56,953</u>	<u>-</u>
Balance at December 31, 2021	<u>927,559</u>	<u>(463,288)</u>	<u>464,271</u>
Service cost			
Current service cost	26,612	-	26,612
Net interest expense (income)	<u>6,545</u>	<u>(3,313)</u>	<u>3,232</u>
Recognized in profit or loss	<u>33,157</u>	<u>(3,313)</u>	<u>29,844</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(30,550)	(30,550)
Actuarial (gain) loss			
Changes in financial assumptions	(65,340)	-	(65,340)
Changes in demographic assumptions	-	-	-
Experience adjustments	<u>61,651</u>	<u>-</u>	<u>61,651</u>
Recognized in other comprehensive income	<u>(3,689)</u>	<u>(30,550)</u>	<u>(34,239)</u>
Contributions from the employer	-	(29,901)	(29,901)
Benefits paid	<u>(47,258)</u>	<u>47,258</u>	<u>-</u>
Balance at December 31, 2022	<u>\$ 909,769</u>	<u>\$ (479,794)</u>	<u>\$ 429,975</u>

Through the defined benefit plans under the Labor Standards Act, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets shall not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated using the future salaries of plan participants. As such, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations are as follows:

	<u>December 31</u>	
	2022	2021
Discount rate(s)	1.35%	0.72%
Expected rate(s) of salary increase	1.50%	1.50%

If possible reasonable changes in each of the significant actuarial assumptions occur and all other assumptions remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

	<u>December 31</u>	
	2022	2021
Discount rate(s)		
Increase (for the year ended December 31, 2022:0.25%; for the year ended December 31, 2021: 0.25%)	<u>\$ (25,474)</u>	<u>\$ (27,827)</u>
Decrease (for the year ended December 31, 2022:0.25%; for the year ended December 31, 2021: 0.25%)	<u>\$ 26,383</u>	<u>\$ 28,754</u>
Expected rate(s) of salary increase		
0.5% increase	<u>\$ 52,767</u>	<u>\$ 56,581</u>
0.5% decrease	<u>\$ (49,128)</u>	<u>\$ (52,871)</u>

The above sensitivity analysis previously presented may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2022	2021
Expected contributions to the plans for the next year	<u>\$ 29,984</u>	<u>\$ 30,670</u>
Average duration of the defined benefit obligation	11.3 years	11.9 years

22. EQUITY

a. Share capital

	December 31	
	2022	2021
Shares authorized (in thousands of shares)	<u>705,705</u>	<u>305,705</u>
Shares authorized	<u>\$ 7,057,052</u>	<u>\$ 3,057,052</u>
Shares issued and fully paid (in thousands of shares)	<u>705,705</u>	<u>305,705</u>
Shares issued	<u>\$ 7,057,052</u>	<u>\$ 3,057,052</u>

On June 7 and October 20, 2022, the board of directors resolved to issue 200,000 thousand ordinary shares, respectively, at a par value of NT\$10 per share through a private placement at a premium of NT\$50 per share, resulting in a paid-in capital of NT\$5,057,052 thousand and \$7,057,052 thousand, respectively. The capital increase in cash was approved by the Insurance Bureau of the Financial Supervisory Commission on June 10 and December 13, 2022, respectively, with the record date of June 24 and December 28, 2022, and completed the change of registration on July 5, 2022, and February 3, 2023, respectively.

The legal reserve of \$3,995,920 thousand and capital surplus of \$8,696,184 thousand used to offset deficits were proposed by the board of directors on March 8, 2023. The decrease of the capital by \$5,057,052 thousand was also proposed to offset the accumulated deficit, and the reduction ratio was 71.66%. The offsetting of deficit shall be resolved in the shareholders' meeting to be held on April 27, 2023.

b. Capital surplus

	December 31	
	2022	2021
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	\$ 16,502,500	\$ 502,500
<u>May only be used to offset a deficit</u>		
Recognition of employee share options by the parent company (2)	<u>54,771</u>	<u>15,826</u>
	<u>\$ 16,557,271</u>	<u>\$ 518,326</u>

1) The capital surplus from shares issued in excess of par (share premium from issuance of ordinary shares) and endowments received by the Company may use to offset a deficit. The capital surplus may be distributed by issuing new shares or by cash. However, under Rule No. 10202501991 issued by the FSC, not only the Company's legal reserve should exceed its paid-in capital but also other conditions requested under the Rule should be satisfied; then, the Company can distribute its capital surplus by cash after the authority's approval under the Company Act Article 241.

2) The Group's parent company, Cathay Financial Holdings Co., Ltd., resolved to issue ordinary shares on October 20, 2022, and August 15, 2019, respectively, and retained 10% of the shares issued for the employee of Cathay Financial Holdings Co., Ltd. and its subsidiaries in accordance with the Company Act. The Company has recognized at the fair value on grant day of \$38,945 thousand and \$15,826 thousand as salary expense and capital surplus in 2022 and 2019, respectively.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Articles, 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 a legal reserve 20% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company’s board of directors as the basis for the proposing a distribution plan, which should be resolved in the shareholders’ meeting for the distribution of dividends and bonuses to shareholders. In formulating its dividend policy, the Company considers both its operating needs and the shareholders’ interests. Thus, dividends are distributed after the Company reserves the cash requirement for future capital expenditures. For the policies on the distribution of employees’ compensation and remuneration to directors and supervisors, refer to Note 23.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. The Company chose to maintain the appropriation of legal reserve in order to enrich the Company’s own capital. Legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash. However, under Rule No. 10202501991 issued by the FSC, not only the Company’s legal reserve should exceed its paid-in capital but also other conditions requested under the Rule should be satisfied; then, the Company can distribute its legal reserve by cash after the authority’s approval under the Company Act Article 241.

Under Rule No. 11004920441, Rule No. 10904939031 and Rule No. 10804932431 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Company should appropriate or reverse to a special reserve.

The appropriations of earnings for 2021 and 2020 that were approved by the board of directors, acting on behalf of the shareholders, on May 4, 2022 and April 28, 2021, respectively, were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2021	2020
Legal reserve	\$ 428,319	\$ 434,788
Special reserve	(124,738)	(67,481)
Special reserve (according to regulation for insurance enterprises on the provision of reserves)	634,321	423,634
Special reserve (FinTech development)	(376)	(419)
Special reserve (according to Rule No. 10904939031)	1,333	-
Cash dividends	601,368	1,383,422
Cash dividends per shares	1.97	4.53

The offsetting of deficits for 2022, which were proposed by the Company's board of directors on March 8, 2023, were as follows:

	For the Year Ended December 31, 2022
Legal reserve	\$ -
Special reserve	-
Special reserve (according to regulation for insurance enterprises on the provision of reserves)	(1,277,640)
Special reserve (FinTech development)	(472)
Special reserve (according to Rule No. 10904939031)	7,104
Cash dividends	-
Cash dividends per shares	-

The offset of deficits for 2022 will be resolved in the shareholders' meeting to be held on 2023.

d. Special reserve

	For the Year Ended December 31, 2022				
	Special Reserve				
	Catastrophic Event	Fluctuation of Risk	Others	Others	Total
Balance at					
January 1	\$ 2,109,008	\$ 3,100,137	\$ -	\$ 154,673	\$ 5,363,818
Provision	256,655	471,790	-	7,104	735,549
Recovered/reversal	<u>(1,837,968)</u>	<u>(168,117)</u>	<u>-</u>	<u>(125,114)</u>	<u>(2,131,199)</u>
Balance at					
December 31	<u>\$ 527,695</u>	<u>\$ 3,403,810</u>	<u>\$ -</u>	<u>\$ 36,663</u>	<u>\$ 3,968,168</u>
	For the Year Ended December 31, 2021				
	Special Reserve				
	Catastrophic Event	Fluctuation of Risk	Others	Others	Total
Balance at					
January 1	\$ 1,862,329	\$ 2,712,495	\$ -	\$ 221,240	\$ 4,796,064
Provision	246,679	502,136	-	1,333	750,148
Recovered/reversal	<u>-</u>	<u>(114,494)</u>	<u>-</u>	<u>(67,900)</u>	<u>(182,394)</u>
Balance at					
December 31	<u>\$ 2,109,008</u>	<u>\$ 3,100,137</u>	<u>\$ -</u>	<u>\$ 154,673</u>	<u>\$ 5,363,818</u>

For the year ended December 31, 2022, the Group's retained claims of epidemic prevention-related products were related to the severe specific infectious pneumonia epidemic, which was qualified as a major accident under the insurance reserve rules. Thus, the Group made a recovery of \$1,837,968 thousand from the special reserve for major accidents under equity according to the law.

The newly recognized special reserve for catastrophic event and the special reserve for fluctuation of risk began to be reported as part of the special reserve under shareholders' equity at year-end. This portion of retained earnings cannot be used for any purpose. The accumulative recognized amount as of December 31, 2022 and 2021 was \$3,931,506 thousand and \$5,209,145 thousand, respectively.

e. Other equity items

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

	For the Year Ended December 31	
	2022	2021
Beginning at January 1	\$ (351,498)	\$ (331,574)
Recognized for the year		
Exchange differences on translating the financial statements of foreign entities	47,271	(10,502)
Share from associates accounted for using the equity method	<u>40,582</u>	<u>(9,422)</u>
Other comprehensive income recognized for the year	<u>87,853</u>	<u>(19,924)</u>
Ending at December 31	<u>\$ (263,645)</u>	<u>\$ (351,498)</u>

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

	For the Year Ended December 31	
	2022	2021
Beginning at January 1	\$ 58,131	\$ (36,212)
Recognized for the year		
Unrealized gain (loss) - debt instruments	(35,939)	(28,437)
Unrealized gain (loss) - equity instruments	-	104,296
Adjustments of loss allowance in debt instruments	15	(72)
Shares from associates accounted for using the equity method	<u>(90,182)</u>	<u>(15,148)</u>
Other comprehensive income recognized for the year	<u>(126,106)</u>	<u>60,639</u>
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>-</u>	<u>33,704</u>
Ending at December 31	<u>\$ (67,975)</u>	<u>\$ 58,131</u>

3) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2022	2021
Beginning at January 1	\$ (183,711)	\$ (175,461)
Remeasurement of defined benefit plans	34,239	(10,312)
Effect of change in tax rate	<u>(6,847)</u>	<u>2,062</u>
Other comprehensive income recognized for the year	<u>27,392</u>	<u>(8,250)</u>
Ending at December 31	<u>\$ (156,319)</u>	<u>\$ (183,711)</u>

4) Other comprehensive income reclassified under the overlay approach

	For the Year Ended December 31	
	2022	2021
Beginning at January 1	\$ 911,654	\$ 418,508
Recognized for the year	(1,938,063)	1,042,679
Reclassification adjustments		
Disposal of financial instruments	475,451	(553,270)
Related effect tax	9,840	3,737
Other comprehensive income recognized for the year	<u>(1,452,772)</u>	<u>493,146</u>
Ending at December 31	<u>\$ (541,118)</u>	<u>\$ 911,654</u>

23. PROFIT (LOSS) BEFORE INCOME TAX

Profit (loss) before income tax included the following:

a. Interest income

	For the Year Ended December 31	
	2022	2021
Bank deposits	\$ 46,172	\$ 27,830
Bills purchased under resale agreement	13,838	7,291
Financial instruments at FVTPL	177,584	154,295
Investments in debt instruments at FVTOCI	11,833	11,955
Financial assets at amortized cost	374,236	328,447
Loan	2,729	2,620
Compulsory insurance	9,187	6,531
Other financial assets	<u>661</u>	<u>42</u>
	<u>\$ 636,240</u>	<u>\$ 539,011</u>

b. Summary statement of employee benefit, depreciation and amortization expenses by function

	For the Three Months Ended December 31					
	2022			2021		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefits expense						
Salaries and wages	\$ 332,749	\$ 2,287,215	\$ 2,619,964	\$ 304,112	\$ 2,416,706	\$ 2,720,818
Labor and health insurance	-	279,139	279,139	-	240,005	240,005
Pension expenses	-	125,437	125,437	-	113,500	113,500
Remuneration of directors	-	12,859	12,859	-	30,525	30,525
Other employee benefits	<u>-</u>	<u>49,005</u>	<u>49,005</u>	<u>-</u>	<u>45,569</u>	<u>45,569</u>
	<u>\$ 332,749</u>	<u>\$ 2,753,655</u>	<u>\$ 3,086,404</u>	<u>\$ 304,112</u>	<u>\$ 2,846,305</u>	<u>\$ 3,150,417</u>
Depreciation	<u>\$ -</u>	<u>\$ 230,730</u>	<u>\$ 230,730</u>	<u>\$ -</u>	<u>\$ 191,646</u>	<u>\$ 191,646</u>
Amortization	<u>\$ -</u>	<u>\$ 64,828</u>	<u>\$ 64,828</u>	<u>\$ -</u>	<u>\$ 57,936</u>	<u>\$ 57,936</u>

For the years ended December 31, 2022 and 2021, the Group's average number of employees were 2,401 and 2,352, respectively. There were 2,422 and 2,391 employees, which include 8 directors not serving concurrently as employees, in the Group as of December 31, 2022 and 2021.

c. Compensation of employees and remuneration of directors and supervisors

According to the Company's Articles, the Company accrued compensation of employees and remuneration of directors and supervisors at rates of no less than 0.1% and no higher than 1.5%, respectively, of net profit before income tax, compensation of employees and remuneration of directors and supervisors. The Company did not accrue employees' compensation and remuneration of directors because of the losses for the years ended December 31, 2022. Estimate compensation for employees and directors and supervisors in 2021, which were approved by the company's board of directors on March 10, 2022 as follows:

Accrual rate

	For the Year Ended December 31, 2021
Compensation of employees	0.10%
Remuneration of directors and supervisors	0.18%

Amount

	For the Year Ended December 31, 2021
Compensation of employees	<u>\$ 2,564</u>
Remuneration of directors and supervisors	<u>\$ 4,500</u>

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

There is no difference between the actual amounts of compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2021 and 2020.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2022 and 2021 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

24. INCOME TAX

a. Major components of income tax (benefit) expense recognized are as follows

	For the Year Ended December 31	
	2022	2021
Current tax		
In respect of the current year	\$ (605,591)	\$ 464,463
Adjustments for prior year	<u>3,430</u>	<u>1,427</u>
	<u>(602,161)</u>	<u>465,890</u>
Deferred tax		
In respect of the current year	(4,306,309)	(74,313)
Adjustments for prior year	<u>4,581</u>	<u>-</u>
	<u>(4,301,728)</u>	<u>(74,313)</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ (4,903,889)</u>	<u>\$ 391,577</u>

A reconciliation of accounting profit and income tax (benefit) expense is as follows:

	For the Year Ended December 31	
	2022	2021
(Loss) profit before tax	<u>\$ (24,525,420)</u>	<u>\$ 2,566,875</u>
Income tax (profit) expense calculated at the statutory rate of the Group's parent company	\$ (4,905,084)	\$ 513,374
Nondeductible expenses in determining taxable income	60	490
Deferred tax effect of earnings of subsidiaries	33	(16)
Tax-exempt income	15,895	(101,341)
Effect of different tax rates of group entities operating in other jurisdictions	5,676	8,106
Adjustments for prior years' tax	8,011	1,427
Others	<u>(28,480)</u>	<u>(30,463)</u>
Income tax expense recognized in profit or loss	<u>\$ (4,903,889)</u>	<u>\$ 391,577</u>

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2022	2021
<u>Deferred tax</u>		
In respect of the current year		
Other comprehensive losses or gains reclassification in overlay approach	\$ (9,840)	\$ (3,737)
Remeasurement of defined benefit plans	<u>6,847</u>	<u>(2,062)</u>
Total income tax recognized in other comprehensive income	<u>\$ (2,993)</u>	<u>\$ (5,799)</u>

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2022

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Other comprehensive income (loss)					
reclassified under the overlay approach	\$ 1,189	\$ -	\$ 9,840	\$ -	\$ 11,029
FVTPL financial assets	8,345	36,543	-	-	44,888
Defined benefit obligations	95,490	(12)	(6,847)	-	88,631
Allowance for impairment loss	13,419	(2,297)	-	-	11,122
Unrealized foreign exchange gains and losses	120,659	(120,659)	-	-	-
Tax losses	-	4,425,244	-	-	4,425,244
Others	960	(870)	-	-	90
	<u>\$ 240,062</u>	<u>\$ 4,337,949</u>	<u>\$ 2,993</u>	<u>\$ -</u>	<u>\$ 4,581,004</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange gains and losses	\$ 93	\$ 36,221	\$ -	\$ 8	\$ 36,322
Associates	270,948	-	-	-	270,948
	<u>\$ 271,041</u>	<u>\$ 36,221</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ 307,270</u>

For the year ended December 31, 2021

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Other comprehensive income (loss)					
reclassified under the overlay approach	\$ -	\$ -	\$ 1,189	\$ -	\$ 1,189
FVTPL financial assets	-	8,345	-	-	8,345
Defined benefit obligations	93,400	28	2,062	-	95,490
Allowance for impairment loss	14,123	(704)	-	-	13,419
Unrealized foreign exchange gains and losses	67,256	53,403	-	-	120,659
Others	550	410	-	-	960
	<u>\$ 175,329</u>	<u>\$ 61,482</u>	<u>\$ 3,251</u>	<u>\$ -</u>	<u>\$ 240,062</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Other comprehensive income (loss)					
reclassified under the overlay approach	\$ 2,548	\$ -	\$ (2,548)	\$ -	\$ -
FVTPL financial assets	12,814	(12,814)	-	-	-
Unrealized foreign exchange gains and losses	116	(17)	-	(6)	93
Associates	270,948	-	-	-	270,948
	<u>\$ 286,426</u>	<u>\$ (12,831)</u>	<u>\$ (2,548)</u>	<u>\$ (6)</u>	<u>\$ 271,041</u>

- d. Deductible temporary differences for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Investment accounted for using the equity method	<u>\$ 738,788</u>	<u>\$ 878,909</u>

- e. Income tax assessments

Income tax returns through 2017 of the Company have been assessed by the tax authorities.

- f. Unused loss carryforwards

Loss carryforwards as of December 31, 2022 comprised:

Unused Amount	Expiry Year
<u>\$ 22,126,218</u>	2032

25. (LOSS) EARNINGS PER SHARE

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

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
(Loss) profit for the year attributable to owners of the Company	<u>\$ (19,621,531)</u>	<u>\$ 2,175,298</u>

The weighted average number of ordinary shares outstanding (in thousands of shares) is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Weighted average number of ordinary shares used in the computation of basic (loss) earnings per share	<u>412,555</u>	<u>305,705</u>

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

December 31, 2022

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost					
Domestic corporate bonds	\$ 1,599,218	\$ -	\$ 1,561,777	\$ -	\$ 1,561,777
Domestic financial bonds	99,980	-	94,213	-	94,213
Foreign corporate bonds	<u>7,154,087</u>	<u>-</u>	<u>6,691,481</u>	<u>-</u>	<u>6,691,481</u>
	<u>\$ 8,853,285</u>	<u>\$ -</u>	<u>\$ 8,347,471</u>	<u>\$ -</u>	<u>\$ 8,347,471</u>
Other assets					
Domestic government bonds (statutory guarantee deposits)	<u>\$ 1,099,466</u>	<u>\$ -</u>	<u>\$ 1,085,923</u>	<u>\$ -</u>	<u>\$ 1,085,923</u>

December 31, 2021

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost					
Domestic corporate bonds	\$ 1,599,349	\$ -	\$ 1,692,758	\$ -	\$ 1,692,758
Foreign corporate bonds	<u>5,463,122</u>	<u>-</u>	<u>6,350,989</u>	<u>-</u>	<u>6,350,989</u>
	<u>\$ 7,062,471</u>	<u>\$ -</u>	<u>\$ 8,043,747</u>	<u>\$ -</u>	<u>\$ 8,043,747</u>
Other assets					
Domestic government bonds (statutory guarantee deposits)	<u>\$ 700,064</u>	<u>\$ -</u>	<u>\$ 699,322</u>	<u>\$ -</u>	<u>\$ 699,322</u>

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2022

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 41,646	\$ -	\$ 41,646
Domestic listed shares	4,401,146	-	-	4,401,146
Foreign listed shares	81,038	-	-	81,038
Mutual funds	2,769,775	-	-	2,769,775
Domestic financial bonds	<u>-</u>	<u>263,192</u>	<u>-</u>	<u>263,192</u>
	<u>\$ 7,251,959</u>	<u>\$ 304,838</u>	<u>\$ -</u>	<u>\$ 7,556,797</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in debt instruments				
Domestic government bonds	\$ <u> -</u>	\$ <u> 685,847</u>	\$ <u> -</u>	\$ <u> 685,847</u>
Financial liabilities at FVTPL				
Derivatives	\$ <u> -</u>	\$ <u> 178,805</u>	\$ <u> -</u>	\$ <u> 178,805</u> (Concluded)

December 31, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 45,629	\$ -	\$ 45,629
Domestic listed shares	6,576,360	-	-	6,576,360
Foreign listed shares	453,368	-	-	453,368
Mutual funds	5,490,710	-	-	5,490,710
Domestic financial bonds	<u> -</u>	<u> 304,072</u>	<u> -</u>	<u> 304,072</u>
	\$ <u>12,520,438</u>	\$ <u> 349,701</u>	\$ <u> -</u>	\$ <u>12,870,139</u>
Financial assets at FVTOCI				
Investments in debt instruments				
Domestic government bonds	\$ <u> -</u>	\$ <u> 728,828</u>	\$ <u> -</u>	\$ <u> 728,828</u>
Financial liabilities at FVTPL				
Derivatives	\$ <u> -</u>	\$ <u> 72</u>	\$ <u> -</u>	\$ <u> 72</u>

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

For the year ended December 31, 2021

Financial Assets	Financial Assets at FVTOCI Equity Instrument
Balance at January 1, 2021	\$ 462,000
Recognized in other comprehensive income (included in unrealized gain on financial assets at FVTOCI)	104,296
Sales	<u>(566,296)</u>
Balance at December 31, 2021	\$ <u> -</u>

3) Valuation techniques and inputs applied for Level 2 fair value measurement

<u>Financial Instrument</u>	<u>Valuation Technique and Inputs</u>
Derivatives-foreign exchanges swaps	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Domestic government bonds	Quotation by Taipei Exchange
Domestic listed bonds	Quotation by Taipei Exchange
Foreign listed bonds	Reference to quotation by the investment system

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Financial assets</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 7,556,797	\$ 12,870,139
Financial assets at amortized cost (1)	31,205,799	23,255,990
Financial assets at FVTOCI		
Debt instruments	685,847	728,828
<u>Financial liabilities</u>		
FVTPL		
Mandatorily classified as at FVTPL	178,805	72
Amortized cost (2)	3,308,293	3,912,933

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, receivables, loan and refundable deposits.

2) The balances include financial liabilities measured at amortized cost, which comprise payables.

d. Financial risk management objectives and policies

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

1) Market risk analysis

Market risk is the risk 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 continues to use market risk management tools such as value at risk ("VaR") and stress testing to completely and effectively measure, monitor and manage market risk.

a) Value at Risk

VaR is used to measure the maximum potential loss of a portfolio in a given period and confidence level when the market risk factors changes. The Group calculates VaR on the next day (week or two weeks) at 99% confidence level.

b) Stress testing

In addition to the VaR model, the Group periodically use stress testing to assess the potential risk of extreme and abnormal events.

The Group conducts stress testing regularly on positions by simple sensitivity analysis test and scenario analysis. Such tests cover the losses on positions resulting from changes of various risk factors in various historical scenarios.

i. Simple sensitivity test

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

ii. Scenario analysis

Scenario analysis measures the changes in the total value of the investment portfolio under a stress event, including the follows scenarios:

i) Historical scenario

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

ii) Hypothetical scenario

The Group simulate rational expectations for 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 performs stress testing with historical and hypothetical scenarios regularly. The Group's risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing			
Risk Factors	Changes (+/-)	December 31, 2022	December 31, 2021
Equity price risk (index)	-10%	\$ (682,146)	\$ (1,097,510)
Interest rate risk (yield curve)	+20bps	(152,371)	(127,128)
Foreign currency risk (exchange rate)	USD exchange NTD devalue 1 dollar	(137,826)	(156,646)

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

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

i) Foreign currency risk

The Group has foreign currency-denominated assets and liability, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 31.

ii) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group hold debt instrument at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate debt instrument.

iii) Price risk

The Group was exposed to equity price risk through its investments in listed shares and mutual funds. Equity price exposures were managed by utilizing futures. That positions of futures do not exceed the hedged positions.

iv) Sensitivity analysis

December 31, 2022			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1 %	\$ 30,462	\$ 4,978
	CNY appreciates 1 %	667	-
	HKD appreciates 1 %	912	545
	EUR appreciates 1 %	492	117
	VND appreciates 1 %	-	7,008
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	(4,511)	-
	Yield curve (CNY): Upward parallel shift by 1bp	(28)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(2,128)	(897)
Equity securities price sensitivity	Increases 1% in equity price	-	68,215
December 31, 2021			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Foreign currency risk sensitivity	USD appreciates 1 %	\$ 23,810	\$ 10,145
	CNY appreciates 1 %	2,706	-
	HKD appreciates 1 %	2,039	2,881
	EUR appreciates 1 %	24	511
	VND appreciates 1%	-	6,271

(Continued)

December 31, 2021			
Risk Factors	Variation (+/-)	Effect on Profit and Loss	Effect on Equity
Interest rate risk sensitivity	Yield curve (USD): Upward parallel shift by 1bp	\$ (4,100)	\$ -
	Yield curve (CNY): Upward parallel shift by 1bp	(34)	-
	Yield curve (NTD): Upward parallel shift by 1bp	(1,223)	(927)
Equity securities price sensitivity	Increases 1 % in equity price	-	109,751
			(Concluded)

Note 1: Change in credit spread is not considered.

Note 2: The effect of hedging is considered.

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

Note 4: Information of subsidiaries is not disclosed due to immaterial effects on disclosures for consolidation of subsidiaries.

2) Credit risk

a) The Group's credit risk exposure of financial transactions include issuer credit risk, counterparty credit risk and credit risk of underlying assets.

- i. Issuer credit risk is the risk that the Group may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations in accordance with agreed conditions due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk that the Group 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 Group may suffer losses due to deterioration of the credit quality, increase in credit spread, downgrade or breach of any contract terms of underlying assets linked to a financial instruments.

b) Credit concentration risk analysis

- The amounts of credit risk exposure of the Group's financial assets are as follows:

December 31, 2022

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 17,436,617	\$ -	\$ -	\$ -	\$ 288,862	\$ 17,725,479
Financial assets at FVTPL	304,838	-	-	-	-	304,838
Financial assets at FVTOCI	685,847	-	-	-	-	685,847
Financial assets at amortized cost	3,071,874	-	1,434,559	3,647,593	1,798,725	9,952,751
Total	\$ 21,499,176	\$ -	\$ 1,434,559	\$ 3,647,593	\$ 2,087,587	\$ 28,668,915
Proportion	74.99%	-	5.01%	12.72%	7.28%	100.00%

December 31, 2021

Financial Assets	Taiwan	Asia	Europe	North Americas	Emerging Market and Others	Total
Cash and cash equivalents	\$ 11,672,113	\$ -	\$ -	\$ -	\$ 256,037	\$ 11,928,150
Financial assets at FVTPL	349,701	-	-	-	-	349,701
Financial assets at FVTOCI	728,828	-	-	-	-	728,828
Financial assets at amortized cost	2,299,413	69,225	1,205,648	2,570,778	1,617,471	7,762,535
Total	\$ 15,050,055	\$ 69,225	\$ 1,205,648	\$ 2,570,778	\$ 1,873,508	\$ 20,769,214
Proportion	72.46%	0.33%	5.81%	12.38%	9.02%	100.00%

c) Determinants for whether the credit risk has increased significantly since initial recognition

- i. The Group assesses at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, the Group considers reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.
- ii. If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

d) Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of the Group is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

- i. Quantitative factor: When contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.
- ii. Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:
 - i) The issuers and borrowers have entered bankruptcy or are probable to enter bankruptcy or financial reorganization.
 - ii) The borrowers fail to make interest or principal payments based on original terms and conditions.
 - iii) The collaterals of the borrowers are seized provisionally or enforced.
 - iv) The borrowers claim for a change of credit conditions due to financial difficulties.
- iii. The above-mentioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by the Group, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

e) Measurement of expected credit losses

i. Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, the Group measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, the Group measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

To measure expected credit losses, the Group multiplies exposure at default by the 12-month and the lifetime probability of default of the issuers, guarantee agencies and borrowers and loss given default. The Group also considers the effect of the time value of money to calculate the 12-month and lifetime expected credit losses respectively.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by the Group in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (for example, gross domestic product and economic growth rate) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

ii. Consideration of forward-looking information

The Group take forward-looking information into consideration while measuring expected credit losses of the financial assets. For example, the default rate used in the bond measurement is based on the default rate regularly published by the International Credit Rating Agency (Moody's) and adjusted according to general economic information.

f) Gross carrying amount of maximum credit risk exposure and category of credit quality

i. Financial assets of the Group

	December 31, 2022					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Stage 3		Gross Carrying Amount
				Purchased or Originated Credit- impaired Financial Assets	Loss Allowance	
<u>Investment grade</u>						
Debt instruments at FVOCI	\$ 685,847	\$ -	\$ -	\$ -	\$ -	\$ 685,847
Financial assets measured at amortized cost	9,956,466	-	-	-	(3,715)	9,952,751
	December 31, 2021					
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Stage 3		Gross Carrying Amount
				Purchased or Originated Credit- impaired Financial Assets	Loss Allowance	
<u>Investment grade</u>						
Debt instruments at FVOCI	\$ 728,828	\$ -	\$ -	\$ -	\$ -	\$ 728,828
Financial assets measured at amortized cost	7,764,815	-	-	-	(2,280)	7,762,535

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 of the Group

	December 31, 2022					
	Stage 1	Stage 2	Stage 3			Gross Carrying Amount
			12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	
Secured loans	\$ 139,828	\$ -	\$ -	\$ -	\$ (1,884)	\$ 137,944

	December 31, 2021					
	Stage 1	Stage 2	Stage 3			Gross Carrying Amount
			12-month Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	
Secured loans	\$ 188,921	\$ -	\$ -	\$ -	\$ (2,458)	\$ 186,463

g) Reconciliation for loss allowance is summarized below:

i. Debt instrument at FVTOCI

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2022	\$ 19	\$ -	\$ -	\$ -	\$ 19
Changes in models/risk parameters	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>
December 31, 2022	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34</u>
January 1, 2021	\$ 91	\$ -	\$ -	\$ -	\$ 91
Changes in models/risk parameters	<u>(72)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72)</u>
December 31, 2021	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19</u>

ii. Financial assets measured at amortized cost

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2022	\$ 2,280	\$ -	\$ -	\$ -	\$ 2,280
Changes in models/risk parameters	<u>1,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,435</u>
December 31, 2022	<u>\$ 3,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,715</u>
January 1, 2021	\$ 6,120	\$ -	\$ 10,311	\$ -	\$ 16,431
Changes in models/risk parameters	<u>(3,840)</u>	<u>-</u>	<u>(10,311)</u>	<u>-</u>	<u>(14,151)</u>
December 31, 2021	<u>\$ 2,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,280</u>

iii. Secured loans

	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2022	\$ 43	\$ -	\$ -	\$ -	\$ 43	\$ 2,415	\$ 2,458
Changes in models/risk parameters	27	-	-	-	27	-	27
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(601)	(601)
December 31, 2022	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</u>	<u>\$ 1,814</u>	<u>\$ 1,884</u>
January 1, 2021	\$ 22	\$ -	\$ -	\$ -	\$ 22	\$ 2,453	\$ 2,475
Changes in models/risk parameters	21	-	-	-	21	-	21
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(38)	(38)
December 31, 2021	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ 2,415</u>	<u>\$ 2,458</u>

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

h) Exposure to credit risk and loss allowance of receivables

The Group applies the simplified approach to providing for expected credit loss prescribed by IFRS 9, and the estimation of lifetime credit loss was as follows:

December 31, 2022	Due	Overdue	Total
Carrying amount	\$ 1,595,293	\$ 647,179	\$ 2,242,472
Expected loss rate	1.04%	8.05%	
Lifetime expected credit losses	\$ 16,578	\$ 52,077	\$ 68,655
December 31, 2021	Due	Overdue	Total
Carrying amount	\$ 2,027,195	\$ 292,113	\$ 2,319,308
Expected loss rate	1.05%	5.10%	
Lifetime expected credit losses	\$ 21,292	\$ 14,893	\$ 36,185

3) Liquidity risk

a) Sources of liquidity risk

Liquidity risks of the financial instruments are classified as funding liquidity risk and market liquidity risk. Funding liquidity risk represents the risk that the Group is unable to turn assets into cash or obtain sufficient funds to meet matured obligations. Market liquidity risk represents the risk of significant changes in fair value when dealing with or offsetting positions held due to insufficient market depth or disorder.

b) Liquidity risk management

The Group established a completed capital liquidity management mechanism by assessing the business features, monitoring short-term cash flow, and considering the trading volume and holding position to carefully manage the market liquidity risk.

According to the actual management need or special situations, the Group uses cash flow model and stress testing to assess cash flow risk. Moreover, the Group has drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

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

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

December 31, 2022

	Less than 6 Month	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,239,952	\$ 45,023	\$ 8,319	\$ 9,002	\$ 5,997
Lease liabilities	77,773	30,880	5,306	1,552	-
<u>Derivative financial liabilities</u>					
Swap	178,805	-	-	-	-

December 31, 2021

	Less than 6 Month	6-12 Months	1-2 Years	2-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 3,871,971	\$ 21,504	\$ 5,263	\$ 9,387	\$ 4,808
Lease liabilities	74,994	71,072	93,624	800	-
<u>Derivative financial liabilities</u>					
Swap	72	-	-	-	-

27. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Group, investors have significant influence and other related parties are disclosed as follows.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Cathay Financial Holdings Co., Ltd.	The Group's parent
Cathay Insurance Co., Ltd. (China)	Associate
Cathay Life Insurance Co., Ltd.	Fellow subsidiary
Cathay United Bank Co., Ltd.	Fellow subsidiary
Cathay Life Insurance Co., Ltd. (Vietnam)	Fellow subsidiary
Indovina Bank Limited	Fellow subsidiary
Cathay Futures Co., Ltd.	Fellow subsidiary
Funds issued from Cathay Securities Investment Trust Co., Ltd.	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party
Seaward Card Co., Ltd	Other related party
Tien-Chi Power Co., Ltd	Other related party
Yua-Yung Marketing (Taiwan) Co., Ltd.	Other related party
Hong-Sui Co., Ltd.	Other related party
Cathay Power Inc. (former Cathay Sunrise Corporation, changed its name on April 30, 2021)	Other related party
Neo Cathay Power Corp.	Other related party
Ally Logistic Property Co., Ltd.	Other related party
Longquan Water Resources Co., Ltd.	Other related party
TPIsoftware Co., Ltd.	Other related party
Others (including directors, supervisors, key management and its spouse or relatives within second degree)	Other related party

b. Trading transactions

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2022	2021
Net premium income	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	\$ 115,000	\$ 110,131
	Cathay United Bank Co., Ltd.	169,888	162,782
	Other related parties		
	San Ching Engineering Co., Ltd.	12,860	8,652
	Ally Logistic Property Co., Ltd.	3,636	1,107
	Cathay Medical Care Corp.	4,230	4,635
	Cathay Real Estate Development Co., Ltd.	8,465	6,469
	Cathay Hospitality Management Co., Ltd.	4,993	1,001
	Cathay Hospitality Consulting Co., Ltd.	3,128	5,410

(Continued)

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2022	2021
	Cathay Power Inc.	\$ 9,886	\$ 9,413
	Neo Cathay Power Corp.	8,381	6,777
	Hong-Sui Co., Ltd.	10,086	6,967
	Tien-Chi Power Co., Ltd	4,839	7,095
	Yua-Yung Marketing (Taiwan) Co., Ltd.	5,696	4,300
	TPIsoftware Co., Ltd.	17,680	21,548
	Longquan Water Resources Co., Ltd.	<u>4,442</u>	<u>2,677</u>
		<u>\$ 383,210</u>	<u>\$ 358,964</u>
Operating cost			
Marketing cost	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	\$ 719,141	\$ 663,151
	Cathay United Bank Co., Ltd.	116,420	117,777
Commission cost	Fellow subsidiary		
	Cathay United Bank Co., Ltd.	<u>104,134</u>	<u>97,641</u>
		<u>\$ 939,695</u>	<u>\$ 878,569</u>
Operating expenses			
Group insurance expenses	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	\$ 29,481	\$ 28,104
Other equipment expenses	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	5,121	3,408
Building management fee	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	9,377	8,296
Marketing expenses	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd. (Vietnam)	8,705	5,068
Management fee	Fellow subsidiary		
	Cathay Securities Investment Trust Co., Ltd.	4,566	10,175
Other expenses	Other related parties		
	Symphox Information Co., Ltd.	38,695	43,820
	Seaward Card Co., Ltd.	<u>4,295</u>	<u>4,544</u>
		<u>\$ 100,240</u>	<u>\$ 103,415</u>

(Concluded)

c. Receivables from related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Premiums receivable	Fellow subsidiary		
	Cathay United Bank Co., Ltd.	\$ 67,637	\$ 43,890
	Other related parties		
	Tien-Chi Power Co., Ltd	4,601	5,121
	Cathay Power Inc.	4,516	4,316
Other receivable	Neo Cathay Power Corp.	3,950	3,182
	The Group's parent		
	Cathay Financial Holdings Co., Ltd. (Note)	<u>612,702</u>	<u>-</u>
		<u>\$ 693,406</u>	<u>\$ 56,509</u>

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

The outstanding receivables from related parties are unsecured. For the years ended December 31, 2022 and 2021, no impairment losses were recognized for receivables from related parties.

d. Payable to related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Other payable	The Group's parent		
	Cathay Financial Holdings Co., Ltd. (Note)	\$ -	\$ 238,909
	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	131,089	58,727
	Other related parties		
	Symphox Information Co., Ltd.	<u>1,188</u>	<u>4,124</u>
		<u>\$ 132,277</u>	<u>\$ 301,760</u>

Note: Including Income tax payable under tax consolidation and remuneration of Directors and Supervisors

The outstanding payables to related parties are unsecured.

e. Cash in bank

Line Item	Related Party Category/Name	December 31	
		2022	2021
Checking deposits and demand deposits	Fellow subsidiary		
	Cathay United Bank Co., Ltd.	\$ 3,770,340	\$ 2,412,487
	Indovina Bank Limited	29,776	10,489
Time deposits	Fellow subsidiary		
	Cathay United Bank Co., Ltd.	20,030	20,016
	Indovina Bank Limited	<u>242,908</u>	<u>233,382</u>
		<u>\$ 4,063,054</u>	<u>\$ 2,676,374</u>

As of December 31, 2022 and 2021, time deposits pledged recognized in guarantee deposits were \$28,003 thousand and \$27,445 thousand, respectively.

f. Interest revenue

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
Fellow subsidiary		
Cathay United Bank Co., Ltd.	\$ 7,074	\$ 415
Indovina Bank Limited	<u>14,001</u>	<u>14,616</u>
	<u>\$ 21,075</u>	<u>\$ 15,031</u>

g. Financial asset at FVTPL (mutual funds)

Related Party Category/Name	December 31	
	2022	2021
Funds issued from Cathay Securities Investment Trust Co., Ltd.	<u>\$ 360,558</u>	<u>\$ 1,112,216</u>

h. Discretionary account management balance

Related Party Category/Name	December 31	
	2022	2021
Fellow subsidiary		
Cathay Securities Investment Trust Co., Ltd.	<u>\$ 1,307,709</u>	<u>\$ 1,673,486</u>

i. Guarantee deposits

Related Party Category/Name	December 31	
	2022	2021
Fellow subsidiary		
Cathay Life Insurance Co., Ltd.	\$ 33,772	\$ 32,175
Cathay United Bank Co., Ltd.	22,023	23,072
Cathay Futures Co., Ltd.	58,121	21,844
Indovina Bank Limited	<u>7,974</u>	<u>7,429</u>
	<u>\$ 121,890</u>	<u>\$ 84,520</u>

j. Secured loans

Related Party Category/Name	For the Year Ended December 31, 2022			
	Maximum Amount	Ending Balance	Interest Rate	Interest Income
Other related parties	<u>\$ 24,171</u>	<u>\$ 12,732</u>	1.82%-2.21%	<u>\$ 239</u>

Related Party Category/Name	For the Year Ended December 31, 2021			
	Maximum Amount	Ending Balance	Interest Rate	Interest Income
Other related parties	<u>\$ 39,642</u>	<u>\$ 23,229</u>	1.25%-1.35%	<u>\$ 338</u>

k. Lease arrangements - Group is lessee

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
<u>Acquisitions of right-of-use assets</u>		
Fellow subsidiary		
Cathay Life Insurance Co., Ltd.	\$ 300	\$ 241,114
Cathay United Bank Co., Ltd.	<u>15,877</u>	<u>959</u>
	<u>\$ 16,177</u>	<u>\$ 242,073</u>

Line Item	Related Party Category/Name	December 31	
		2022	2021
Lease liabilities	Fellow subsidiary		
	Cathay Life Insurance Co., Ltd.	\$ 81,520	\$ 203,745
	Cathay United Bank Co., Ltd.	<u>9,602</u>	<u>2,337</u>
		<u>\$ 91,122</u>	<u>\$ 206,082</u>

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
<u>Interest expense</u>		
Fellow subsidiary		
Cathay Life Insurance Co., Ltd.	\$ 1,679	\$ 1,103
Cathay United Bank Co., Ltd.	<u>130</u>	<u>56</u>
	<u>\$ 1,809</u>	<u>\$ 1,159</u>

<u>Lease expense</u>		
Fellow subsidiary		
Cathay Life Insurance Co., Ltd.	\$ 5,019	\$ 2,535
Cathay United Bank Co., Ltd.	<u>-</u>	<u>240</u>
	<u>\$ 5,019</u>	<u>\$ 2,775</u>

Lease expenses included expenses relating to short-term leases, low-value asset leases and variable lease payments that do not depend on an index or a rate. Future lease payables related to short-term leases, low-value asset leases are as follows:

	December 31	
	2022	2021
Future lease payables	<u>\$ 9,006</u>	<u>\$ 3,027</u>

l. Foreign exchange swaps

As of December 31, 2022 and 2021, the nominal amount of the derivative financial instruments transaction with related parties is listed below:

Related Party Category/Name	December 31	
	2022	2021
Fellow subsidiary Cathay United Bank Co., Ltd.	US\$ 90,900 EUR 1,750	US\$ 95,200 EUR 750

m. Shares transactions

Related Party Category/Name	Items	For the Year Ended December 31	
		2022	2021
The Group's parent Cathay Financial Holdings Co., Ltd.	Ordinary shares	<u>\$ 20,000,000</u>	<u>\$ -</u>

n. Remuneration of key management personnel

	For the Year Ended December 31	
	2022	2021
Short-term employee benefits	\$ 58,808	\$ 77,315
Post-employment benefits	<u>8,065</u>	<u>6,917</u>
	<u>\$ 66,873</u>	<u>\$ 84,232</u>

The remuneration of directors and key executives was based on the performance of individuals and market trends.

28. 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.

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

a. Details of assets pledged as collateral are disclosed as follows

Item of Assets	December 31	
	2022	2021
Guarantee deposits - government bonds	\$ 1,099,466	\$ 700,064
Guarantee deposits - time deposits	<u>20,030</u>	<u>20,016</u>
	<u>\$ 1,119,496</u>	<u>\$ 720,080</u>

As of December 31, 2022 and 2021, the Company provided government bonds amounting to \$1,099,504 thousand and \$700,084 thousand as the “Guaranteed Depository Insurance” in accordance with the Insurance Act, respectively. The pledged assets are stated at book value. Loss allowance amounted to \$38 thousand and \$20 thousand, respectively which are in the scope of the impairment requirements under IFRS 9.

b. Cathay Insurance Co., Ltd. (Vietnam)

Item of Assets	December 31	
	2022	2021
Government deposits - time deposits	<u>\$ 7,974</u>	<u>\$ 7,429</u>

According to the Insurance Act of Vietnam, Cathay Insurance Co., Ltd. (Vietnam) should deposit guarantee deposits at an amount equal to 2% of its paid-in capital. The guaranteed deposits of Cathay Insurance Co., Ltd. (Vietnam) are time deposits. The pledged assets are stated at book value.

30. OTHER ITEMS

a. Capital management

1) 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.

2) 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.

3) Management procedures

a) Periodical calculation

The Company provides RBC report every half year by the authority and analyzes the possible changes of owned capital and risk-based capital when making the next-year financial forecast of business and investment development plan at the end of every year, which ensure the soundness of capital structure and implement capital adequacy management.

b) 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.

4) Current status of RBC ratio

The Company’s RBC ratio, which is calculated in accordance with the Regulations Governing Capital Adequacy of Insurance Companies, is above 200% and the net worth ratio is more than 3% for the previous two years, which complied with the regulations.

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

Items	December 31, 2022		
	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Cash and cash equivalents	\$ 17,758,712	\$ -	\$ 17,758,712
Receivables	3,153,166	-	3,153,166
Investments			
Financial assets at FVTPL	7,293,605	263,192	7,556,797
Financial assets at FVTOCI	-	685,847	685,847
Financial assets at amortized cost	573,786	8,279,499	8,853,285
Investments accounted for using the equity method	-	2,370,722	2,370,722
Loans	-	137,944	137,944
Total investments	<u>7,867,391</u>	<u>11,737,204</u>	<u>19,604,595</u>
Reinsurance assets	2,669,482	10,872,639	13,542,121
Property and equipment	-	346,411	346,411
Right-of-use assets	-	115,031	115,031
Intangible assets	-	138,427	138,427
Deferred tax assets	-	4,581,004	4,581,004
Other assets	<u>24,861</u>	<u>1,331,332</u>	<u>1,356,193</u>
Total assets	<u>\$ 31,473,612</u>	<u>\$ 29,122,048</u>	<u>\$ 60,595,660</u>
Payables	\$ 3,284,976	\$ 23,317	\$ 3,308,293
Financial liabilities at FVTPL	178,805	-	178,805
Insurance liabilities			
Unearned premium reserve	-	15,838,272	15,838,272
Loss reserve	9,344,976	14,193,915	23,538,891
Policy reserve	-	170	170
Special reserve	-	1,628,369	1,628,369
Premium deficiency reserve	<u>1,200,000</u>	<u>40,260</u>	<u>1,240,260</u>
Total insurance liabilities	<u>10,544,976</u>	<u>31,700,986</u>	<u>42,245,962</u>
Provisions	-	429,975	429,975
Lease liabilities	107,939	6,778	114,717
Deferred tax liabilities	-	307,270	307,270
Other liabilities	<u>1,186,899</u>	<u>24,013</u>	<u>1,210,912</u>
Total liabilities	<u>\$ 15,303,595</u>	<u>\$ 32,492,339</u>	<u>\$ 47,795,934</u>

	December 31, 2021		
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement Over 12 Months	Total
Cash and cash equivalents	\$ 11,973,287	\$ -	\$ 11,973,287
Receivables	3,208,952	-	3,208,952
Investments			
Financial assets at FVTPL	12,566,067	304,072	12,870,139
Financial assets at FVTOCI	-	728,828	728,828
Financial assets at amortized cost	69,225	6,993,246	7,062,471
Investments accounted for using the equity method	-	2,304,344	2,304,344
Loans	119	186,344	186,463
Total investments	<u>12,635,411</u>	<u>10,516,834</u>	<u>23,152,245</u>
Reinsurance assets	1,399,696	8,481,791	9,881,487
Property and equipment	-	221,155	221,155
Right-of-use assets	-	237,046	237,046
Intangible assets	-	108,816	108,816
Deferred tax assets	-	240,062	240,062
Other assets	<u>33,899</u>	<u>843,237</u>	<u>877,136</u>
Total assets	<u>\$ 29,251,245</u>	<u>\$ 20,648,941</u>	<u>\$ 49,900,186</u>
Payables	\$ 3,893,475	\$ 19,458	\$ 3,912,933
Financial liabilities at FVTPL	72	-	72
Insurance liabilities			
Unearned premium reserve	-	15,305,826	15,305,826
Loss reserve	43,458	11,791,814	11,835,272
Policy reserve	-	95	95
Special reserve	-	2,589,704	2,589,704
Premium deficiency reserve	-	-	-
Total insurance liabilities	<u>43,458</u>	<u>29,687,439</u>	<u>29,730,897</u>
Provisions	-	464,271	464,271
Lease liabilities	143,608	93,875	237,483
Deferred tax liabilities	-	271,041	271,041
Other liabilities	<u>819,688</u>	<u>16,488</u>	<u>836,176</u>
Total liabilities	<u>\$ 4,900,301</u>	<u>\$ 30,552,572</u>	<u>\$ 35,452,873</u>

c. Impact of severe special infectious pneumonia epidemic

The direct insurance premium revenues of the insurance products the Group issued for the severe special infectious pneumonia epidemic amounted to \$567,332 thousand and \$954,750 thousand for the years ended December 31, 2022 and 2021, respectively, and the claims and payments were \$21,681,650 thousand and \$92,697 thousand, respectively.

As of December 31, 2022 and 2021, the loss reserves for those insurance products amounted to \$9,201,923 thousand and \$43,458 thousand, respectively, and the premium deficiency reserves amounted to \$1,200,000 thousand and \$0 thousand, respectively. Moreover, the claims and payments for those insurance products from January 1, 2023 to March 8, 2023 amounted to \$8,075,053 thousand.

The Group evaluated the economic impact resulting from the severe special infectious pneumonia epidemic. As of the approval date of the consolidated financial statements, the Group performed stress tests to evaluate the losses resulting from issuing insurance products for the severe special infectious pneumonia epidemic by stimulations of epidemic developments. Since the capital adequacy ratio under certain scenarios of stress tests was lower than the required level, the Group decided to respond to this by enhancing its equities. As a result, the Group was approved by the FSC to increase its capital in cash by \$10,000,000 thousand and \$10,000,000 thousand on June 10 and December 13, 2022, respectively, with the record date of June 24 and December 28, 2022, and completed the change of registration on July 5, 2022, and February 3, 2023, respectively. Except for those effects mentioned, the Group will observe and evaluate the impact of the severe special infectious pneumonia epidemic continuously.

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2022

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 253,838	30.708 (USD:NTD)	\$ 7,794,512
EUR	9,168	32.709 (EUR:NTD)	299,210
CNY	22,058	4.419 (CNY:NTD)	97,413
Non-monetary items			
USD	28,928	30.708 (USD:NTD)	888,322
EUR	728	32.709 (EUR:NTD)	23,813
HKD	6,773	3.940 (HKD:NTD)	26,663
SGD	4,242	22.868 (SGD:NTD)	97,007
Investments accounted for using the equity method			
CNY	536,666	4.419 (CNY:NTD)	2,370,722
Derivative instruments (Note)			
USD	53,500	30.708 (USD:NTD)	41,646
<u>Financial liabilities</u>			
Monetary items			
USD	4,963	30.708 (USD:NTD)	155,305
EUR	530	32.709 (EUR:NTD)	16,800
GBP	78	37.055 (GBP:NTD)	2,830
CNY	7,360	4.419 (CNY:NTD)	32,416
HKD	3,011	3.940 (HKD:NTD)	12,190
JPY	105,492	0.233 (JPY:NTD)	23,303
INR	33,101	0.371 (INR:NTD)	12,271
KRW	387,361	0.025 (KRW:NTD)	9,020
Non-monetary items			
Derivative instruments (Note)			
USD	116,100	30.708 (USD:NTD)	176,744
EUR	1,750	32.709 (EUR:NTD)	2,061

December 31, 2021

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 217,555	27.690 (USD:NTD)	\$ 6,025,767
EUR	8,886	31.338 (EUR:NTD)	279,321
HKD	1,048	3.550 (HKD:NTD)	3,720
CNY	22,024	4.342 (CNY:NTD)	95,862
Non-monetary items			
USD	69,898	27.690 (USD:NTD)	1,935,466
EUR	3,534	31.338 (EUR:NTD)	110,727
HKD	81,155	3.550 (HKD:NTD)	288,089
Investments accounted for using the equity method			
CNY	530,881	4.342 (CNY:NTD)	2,304,344
Derivative instruments (Note)			
USD	176,400	27.690 (USD:NTD)	43,627
EUR	750	31.338 (EUR:NTD)	2,002
<u>Financial liabilities</u>			
Monetary items			
USD	11,350	27.690 (USD:NTD)	319,834
EUR	375	31.338 (EUR:NTD)	12,235
HKD	1	3.550 (HKD:NTD)	4
CNY	984	4.342 (CNY:NTD)	4,253
Non-monetary items			
Derivative instruments (Note)			
USD	5,500	27.690 (USD:NTD)	72

Note: The foreign currency amount of the derivatives is the nominal amount of the contract.

For the years ended December 31, 2022 and 2021 (realized and unrealized) net foreign exchange gains (losses) were \$658,878 thousand and \$(194,939) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

32. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and investees:

- 1) Acquisition of individual real estate at costs of at least NT\$100 million or 20% of the paid-in capital: None
- 2) Disposal of individual real estate at prices of at least NT\$100 million or 20% of the paid-in capital: None
- 3) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 3)

- 4) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 4)
 - 5) Trading in derivative instruments (Note 7)
 - 6) Intercompany relationships and significant intercompany transactions (Table 5)
 - 7) Information on investees (Table 6)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None
 - a) For transactions involving each other's main business, such as underwriting an insurance policy where the proposer is the investee, the amount and percentage of transactions and the balance and percentage of the related payables at the end of the period.
 - b) The amount of property transactions and the amount of the resultant gains or losses
 - c) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds
 - d) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services
 - e) The amount or balance of transactions mentioned in subitems a - d above that reaches 10% or more of the insurance enterprise's total amount or balance of such transactions shall be separately presented, while the rest may be added up and reported as an aggregate amount.
 - c. Information of major shareholders: The insurance enterprise whose stock is listed on the TWSE or listed on the TPEX shall disclose the names, numbers of shares held, and shareholding percentages of shareholders who hold 5 percent or more of the insurance enterprise's equity. For this purpose, the insurance enterprise may request the centralized securities depository enterprise to provide relevant information: None

33. SEGMENT INFORMATION

The Group operates property insurance in accordance with the Insurance Act. In accordance with IFRS 8, the Group only provides insurance contracts products and it has no different channel, client type and supervision environment. The supervisor of the Group also allocates resources on an overall basis and therefore considers the Group as a single operating segment.

34. INSURANCE CONTRACT RESERVES

a. Earned retained premium

For the year ended December 31, 2022

Insurance by Type	Gross Premium Income (1)	Reinsurance Premium Inward (2)	Reinsurance Premium Outward (3)	Retained Premium (4)=(1)+(2)-(3)	Net Changes in Unearned Premium Reserve (5)	Earned Retained Premium (6)=(4)-(5)
Fire insurance	\$ 4,089,674	\$ 408,623	\$ 2,877,190	\$ 1,621,107	\$ (223,714)	\$ 1,844,821
Marine insurance	1,003,546	28,920	775,712	256,754	(12,395)	269,149
Land and air insurance	12,615,687	13,802	471,942	12,157,547	697,048	11,460,499
Liability insurance	2,304,146	1,592	735,045	1,570,693	94,916	1,475,777
Guarantee insurance	115,950	5,932	71,850	50,032	(4,000)	54,032
Other property insurance	1,499,231	78,507	1,107,631	470,107	(55,511)	525,618
Accident insurance	3,277,569	5,399	339,596	2,943,372	(53,136)	2,996,508
Health insurance	581,266	8,856	100,867	489,255	(79,134)	568,389
Policy-oriented residential earthquake insurance	468,290	59,219	468,289	59,220	277	58,943
Compulsory automobile liability insurance	<u>2,942,130</u>	<u>758,002</u>	<u>1,233,778</u>	<u>2,466,354</u>	<u>17,113</u>	<u>2,449,241</u>
	<u>\$ 28,897,489</u>	<u>\$ 1,368,852</u>	<u>\$ 8,181,900</u>	<u>\$ 22,084,441</u>	<u>\$ 381,464</u>	<u>\$ 21,702,977</u>

For the year ended December 31, 2021

Insurance by Type	Gross Premium Income (1)	Reinsurance Premium Inward (2)	Reinsurance Premium Outward (3)	Retained Premium (4)=(1)+(2)-(3)	Net Changes in Unearned Premium Reserve (5)	Earned Retained Premium (6)=(4)-(5)
Fire insurance	\$ 3,523,624	\$ 657,286	\$ 2,345,771	\$ 1,835,139	\$ (95,816)	\$ 1,930,955
Marine insurance	834,013	42,058	543,404	332,667	(5,080)	337,747
Land and air insurance	11,178,580	115,401	428,893	10,865,088	548,173	10,316,915
Liability insurance	1,944,347	6,939	528,505	1,422,781	210,173	1,212,068
Guarantee insurance	112,674	11,053	71,436	52,291	(6,688)	58,979
Other property insurance	1,297,880	145,426	966,746	476,560	(55,565)	532,125
Accident insurance	2,960,319	21,096	231,213	2,750,202	63,231	2,686,971
Health insurance	1,023,534	12,371	521,149	514,756	157,517	357,239
Policy-oriented residential earthquake insurance	451,406	57,483	451,406	57,483	2,712	54,771
Compulsory automobile liability insurance	<u>2,882,455</u>	<u>736,632</u>	<u>1,207,603</u>	<u>2,411,484</u>	<u>(3,930)</u>	<u>2,415,414</u>
	<u>\$ 26,208,832</u>	<u>\$ 1,805,745</u>	<u>\$ 7,296,126</u>	<u>\$ 20,718,451</u>	<u>\$ 815,267</u>	<u>\$ 19,903,184</u>

See Note 30 for the disclosure of the impact of severe specific infectious pneumonia epidemic to the Group.

Information on compulsory insurance and non-compulsory insurance of earned retained premium:

For the year ended December 31, 2022

Insurance by Type	Gross Premium Income (1)	Reinsurance Premium Inward (2)	Reinsurance Premium Outward (3)	Retained Premium (4)=(1)+(2)-(3)
Compulsory insurance	\$ 2,942,130	\$ 758,002	\$ 1,233,778	\$ 2,466,354
Non-compulsory insurance	<u>25,955,359</u>	<u>610,850</u>	<u>6,948,122</u>	<u>19,618,087</u>
	<u>\$ 28,897,489</u>	<u>\$ 1,368,852</u>	<u>\$ 8,181,900</u>	<u>\$ 22,084,441</u>

Insurance by Type	Unearned Premium Reserves under Direct Business		Unearned Premium Reserves under Reinsurance Inward Business		Net Changes in Unearned Premium Reserve
	Provision (5)	Recovery (6)	Provision (7)	Recovery (8)	(9)=(5)-(6)+(7)-(8)
Compulsory insurance	\$ 1,250,469	\$ 1,237,536	\$ 464,968	\$ 453,028	\$ 24,873
Non-compulsory insurance	<u>13,909,531</u>	<u>13,294,532</u>	<u>206,174</u>	<u>369,937</u>	<u>451,236</u>
	<u>\$ 15,160,000</u>	<u>\$ 14,532,068</u>	<u>\$ 671,142</u>	<u>\$ 822,965</u>	<u>\$ 476,109</u>

Insurance by Type	Unearned Premium Reserves under Ceded Reinsurance Business		Net Changes in for Unearned Ceded Premium Reserve	Retained Premium
	Provision (10)	Recovery (11)	(12)=(10)-(11)	(13)=(4)-(9)+(12)
Compulsory insurance	\$ 750,282	\$ 742,522	\$ 7,760	\$ 2,449,241
Non-compulsory insurance	<u>3,728,222</u>	<u>3,641,337</u>	<u>86,885</u>	<u>19,253,736</u>
	<u>\$ 4,478,504</u>	<u>\$ 4,383,859</u>	<u>\$ 94,645</u>	<u>\$ 21,702,977</u>

For the year ended December 31, 2021

Insurance by Type	Gross Premium Income (1)	Reinsurance Premium Inward (2)	Reinsurance Premium Outward (3)	Retained Premium (4)=(1)+(2)-(3)
Compulsory insurance	\$ 2,882,455	\$ 736,632	\$ 1,207,603	\$ 2,411,484
Non-compulsory insurance	<u>23,326,377</u>	<u>1,069,113</u>	<u>6,088,523</u>	<u>18,306,967</u>
	<u>\$ 26,208,832</u>	<u>\$ 1,805,745</u>	<u>\$ 7,296,126</u>	<u>\$ 20,718,451</u>

Insurance by Type	Unearned Premium Reserves under Direct Business		Unearned Premium Reserves under Reinsurance Inward Business		Net Changes in Unearned Premium Reserve
	Provision (5)	Recovery (6)	Provision (7)	Recovery (8)	(9)=(5)-(6)+(7)-(8)
Compulsory insurance	\$ 1,237,536	\$ 1,227,564	\$ 453,028	\$ 460,947	\$ 2,053
Non-compulsory insurance	<u>13,246,613</u>	<u>11,778,739</u>	<u>369,937</u>	<u>296,358</u>	<u>1,541,453</u>
	<u>\$ 14,484,149</u>	<u>\$ 13,006,303</u>	<u>\$ 822,965</u>	<u>\$ 757,305</u>	<u>\$ 1,543,506</u>

Insurance by Type	Unearned Premium Reserves under Ceded Reinsurance Business		Net Changes in for Unearned Ceded Premium Reserve	Retained Premium
	Provision (10)	Recovery (11)	(12)=(10)-(11)	(13)=(4)-(9)+(12)
Compulsory insurance	\$ 742,522	\$ 736,539	\$ 5,983	\$ 2,415,414
Non-compulsory insurance	<u>3,619,983</u>	<u>2,897,727</u>	<u>722,256</u>	<u>17,487,770</u>
	<u>\$ 4,362,505</u>	<u>\$ 3,634,266</u>	<u>\$ 728,239</u>	<u>\$ 19,903,184</u>

b. Retained claims

For the Year Ended December 31, 2022				
Insurance by Type	Loss Incurred (Claims Expense Included) (1)	Reinsurance Claims (2)	Claims Recovered from Reinsurances (3)	Retained Claims (4)=(1)+(2)-(3)
Fire insurance	\$ 1,308,054	\$ 416,312	\$ 635,006	\$ 1,089,360
Marine insurance	587,891	46,786	398,332	236,345
Land and air insurance	6,280,450	41,993	205,785	6,116,658
Liability insurance	971,171	1,151	360,576	611,746
Guarantee insurance	(2,982)	12,353	(2,394)	11,765
Other property insurance	2,044,136	63,913	189,537	1,918,512
Accident insurance	1,107,753	7,638	111,717	1,003,674
Health insurance	20,225,827	11,578	3,110,355	17,127,050
Policy-oriented residential earthquake insurance	-	311	-	311
Compulsory automobile liability insurance	<u>2,075,979</u>	<u>708,812</u>	<u>1,223,516</u>	<u>1,561,275</u>
	<u>\$ 34,598,279</u>	<u>\$ 1,310,847</u>	<u>\$ 6,232,430</u>	<u>\$ 29,676,696</u>
For the Year Ended December 31, 2021				
Insurance by Type	Loss Incurred (Claims Expense Included) (1)	Reinsurance Claims (2)	Claims Recovered from Reinsurances (3)	Retained Claims (4)=(1)+(2)-(3)
Fire insurance	\$ 1,106,236	\$ 319,604	\$ 695,429	\$ 730,411
Marine insurance	395,649	39,377	256,468	178,558
Land and air insurance	5,944,362	58,221	163,912	5,838,671
Liability insurance	735,894	1,266	233,561	503,599
Guarantee insurance	(24,249)	3,515	(31,446)	10,712
Other property insurance	309,000	143,880	176,086	276,794
Accident insurance	1,233,331	6,917	80,261	1,159,987
Health insurance	181,697	8,477	67,503	122,671
Policy-oriented residential earthquake insurance	-	-	-	-
Compulsory automobile liability insurance	<u>2,084,385</u>	<u>786,370</u>	<u>1,222,360</u>	<u>1,648,395</u>
	<u>\$ 11,966,305</u>	<u>\$ 1,367,627</u>	<u>\$ 2,864,134</u>	<u>\$ 10,469,798</u>

Retained claims of compulsory insurance and non-compulsory insurance:

For the Year Ended December 31, 2022				
Insurance by Type	Loss Incurred (Claims Expense Included) (1)	Reinsurance Claims (2)	Claims	Retained Claims (4)=(1)+(2)-(3)
			Recovered from Reinsurances (3)	
Compulsory insurance	\$ 2,075,979	\$ 708,812	\$ 1,223,516	\$ 1,561,275
Non-compulsory insurance	<u>32,522,300</u>	<u>602,035</u>	<u>5,008,914</u>	<u>28,115,421</u>
	<u>\$ 34,598,279</u>	<u>\$ 1,310,847</u>	<u>\$ 6,232,430</u>	<u>\$ 29,676,696</u>

For the Year Ended December 31, 2021				
Insurance by Type	Loss Incurred (Claims Expense Included) (1)	Reinsurance Claims (2)	Claims	Retained Claims (4)=(1)+(2)-(3)
			Recovered from Reinsurances (3)	
Compulsory insurance	\$ 2,084,385	\$ 786,370	\$ 1,222,360	\$ 1,648,395
Non-compulsory insurance	<u>9,881,920</u>	<u>581,257</u>	<u>1,641,774</u>	<u>8,821,403</u>
	<u>\$ 11,966,305</u>	<u>\$ 1,367,627</u>	<u>\$ 2,864,134</u>	<u>\$ 10,469,798</u>

c. Liability on policyholders' claims filed and losses not yet filed

Claims and payments recoverable for policyholders' claims filed and paid

Insurance by Type	Claims Filed and Paid	
	December 31	
	2022	2021
Fire insurance	\$ 63,991	\$ 22,238
Marine insurance	13,770	97,105
Land and air insurance	43,477	39,700
Liability insurance	162,195	55,275
Guarantee insurance	268	1,272
Other property insurance	20,619	25,750
Accident insurance	24,291	16,683
Health insurance	146,651	7,718
Policy-oriented residential earthquake insurance	-	-
Compulsory automobile liability insurance	<u>202,982</u>	<u>200,809</u>
	678,244	466,550
Less: Loss allowance	<u>(6,782)</u>	<u>(4,665)</u>
	<u>\$ 671,462</u>	<u>\$ 461,885</u>

d. Receivables and payables of insurance contracts

Receivables

Insurance by Type	Premiums Receivable	
	December 31	
	2022	2021
Fire insurance	\$ 759,964	\$ 840,311
Marine insurance	333,658	335,547
Land and air insurance	151,422	182,914
Liability insurance	387,820	338,638
Guarantee insurance	36,401	31,417
Other property insurance	203,528	218,867
Accident insurance	137,203	128,059
Health insurance	2,554	4,160
Policy-oriented residential earthquake insurance	34,303	27,665
Compulsory automobile liability insurance	<u>16,865</u>	<u>21,068</u>
	2,063,718	2,128,646
Less: Loss allowance	<u>(66,707)</u>	<u>(31,309)</u>
	<u>\$ 1,997,011</u>	<u>\$ 2,097,337</u>

Aging analysis of premiums receivable:

	December 31	
	2022	2021
Up to 90 days	\$ 1,416,701	\$ 1,839,532
Over 90 days	<u>647,017</u>	<u>289,114</u>
	<u>\$ 2,063,718</u>	<u>\$ 2,128,646</u>

The overdue amounts as of December 31, 2022 and 2021 in the above premiums receivable were \$647,017 thousand and \$289,114 thousand, respectively, and loss allowance of \$51,915 thousand and \$11,894 thousand were provided, respectively.

Accounts payable

Insurance by Type	December 31, 2022		
	Commission Payable	Others	Total
Fire insurance	\$ 35,093	\$ 17,968	\$ 53,061
Marine insurance	16,012	13,468	29,480
Land and air insurance	211,671	171,261	382,932
Liability insurance	36,985	38,931	75,916
Guarantee insurance	3,869	974	4,843
Other property insurance	9,852	8,823	18,675
Accident insurance	10,709	44,745	55,454
Health insurance	1,154	1,386	2,540
Policy-oriented residential earthquake insurance	296	3,795	4,091
Compulsory automobile liability insurance	<u>20,447</u>	<u>-</u>	<u>20,447</u>
	<u>\$ 346,088</u>	<u>\$ 301,351</u>	<u>\$ 647,439</u>

Insurance by Type	December 31, 2021		
	Commission Payable	Others	Total
Fire insurance	\$ 27,292	\$ 16,037	\$ 43,329
Marine insurance	15,061	14,224	29,285
Land and air insurance	144,015	110,874	254,889
Liability insurance	29,591	34,523	64,114
Guarantee insurance	2,650	893	3,543
Other property insurance	8,576	8,718	17,294
Accident insurance	10,400	30,735	41,135
Health insurance	1,462	1,095	2,557
Policy-oriented residential earthquake insurance	273	3,508	3,781
Compulsory automobile liability insurance	<u>19,870</u>	<u>-</u>	<u>19,870</u>
	<u>\$ 259,190</u>	<u>\$ 220,607</u>	<u>\$ 479,797</u>

Due from (to) reinsurers and ceding companies - reinsurance

	December 31, 2022	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Central Re	\$ 44,525	\$ 248,652
Hannover Re in Shanghai	200,869	62,337
Marsh	1,105,438	206,638
Non-Life Insurance Association of the R.O.C.	133,226	348,927
Others (individually below 5%)	<u>538,477</u>	<u>1,217,615</u>
	2,022,535	2,084,169
Less: Loss allowance	<u>(24,515)</u>	<u>-</u>
Net amount	<u>\$ 1,998,020</u>	<u>\$ 2,084,169</u>

	December 31, 2021	
	Due from Reinsurers and Ceding Companies	Due to Reinsurers and Ceding Companies
Non-Life Insurance Association of the R.O.C.	\$ 129,191	\$ 246,885
AON	76,758	174,100
Central Re	49,361	463,973
Marsh	249,530	94,038
Willis	79,626	336,647
Others (individually below 5%)	<u>412,096</u>	<u>958,154</u>
	996,562	2,273,797
Less: Loss allowance	<u>(58,751)</u>	<u>-</u>
Net amount	<u>\$ 937,811</u>	<u>\$ 2,273,797</u>

The overdue amounts as of December 31, 2022 and 2021 in the above due from reinsurers and ceding companies were \$13,887 thousand and \$14,731 thousand, respectively, and loss allowances of \$4,163 thousand and \$14,731 thousand were provided, respectively.

Due from and due to the reinsurers and ceding companies cannot be offset, except for those meeting requirements in Article 42 of IAS 32.

e. Reserve required for specific assets

The accounting of the Compulsory automobile liability insurance held by the Group is based on the Regulations for the Accounting Treatment and the Financial Information Reported of Compulsory Automobile Liability Insurance, which was legislated according to the Compulsory Automobile Liability Insurance Act.

Under Article 5 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance (“CAL Insurance”), special reserve held by an insurer should be deposited in a financial institution in the form of time deposits.

Under the approval of relevant authorities, the Group may buy the following domestic securities using the special reserve portion exceeding 30% of the retained earned pure premiums:

- 1) Government bonds but not exchangeable government bonds;
- 2) Financial bonds (ordinary type only), negotiable certificates of deposit, banker’s acceptances, and commercial paper guaranteed by a financial institution.

The amount of the foregoing Article 5 treasury bills invested and time deposits to be placed in financial institutions should not be less than 30% of the total amount of the Group’s retained earned pure premiums for CAL Insurance in the most recent period, as audited or reviewed by a certified public accountant. The authorities may raise this percentage to a level it deems appropriate on the basis of the Group’s operating status.

If the balance of the Group’s special reserve becomes less than the 30% of its most recent retained earned pure premiums, as audited or reviewed by an independent certified public accountant, the full amount of the special reserve should be invested in treasury bills or placed in a financial institution.

Under Article 6 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, funds, except for special reserve mentioned above, held by an insurer for CAL Insurance (various reserve, payables and temporary receivable) should be deposited in a financial institution as special reserve in the form of demand deposits and time deposits.

- 1) Treasury bills.
- 2) Negotiable certificates of deposit, banker’s acceptances, and commercial paper guaranteed by a financial institution.
- 3) Government bonds under repurchase agreement.

The term “funds” in the preceding paragraph refers to all types of reserves, payables, temporary credits and amounts to be carried forward.

The amount of demand deposits placed in financial institutions, which are mentioned in the preceding paragraph, should not be less than (a) 45% of the remaining balance of the funds after subtracting the special reserves from the funds held by the Group due to the operation of CAL Insurance, or less than (b) 30% of the retained earned pure premiums for the most recent period as audited or reviewed by an independent certified public accountant. The relevant authorities may raise the percentage of demand deposits required for the Group to a level they deem appropriate on the basis of the Group's operating status.

If the total amount of unearned premium reserve and loss reserve of the Group for the CAL Insurance is less than 30% of the retained earned pure premiums of this insurance for the most recent period as audited or reviewed by an independent certified public accountant, the funds held by the Group through its provision of this insurance should be deposited in full in a financial institution in the form of demand deposits.

Under Article 11 of the Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance, the various reserves for this insurance should be transferred to the various reserves set aside for handling of this insurance by the other insure or other property and casualty insurance company if the Group suspends its business operations or ceases to provide this type of insurance.

The various reserves for this insurance should be transferred to the Motor Vehicle Accident Compensation Fund if (a) the Group has been duly ordered to suspend business and undergo rehabilitation or ordered to dissolve, or (b) its permission to operate this insurance business has been revoked, and no other insurance company can sustain this insurance business.

f. Acquisition cost of insurance contracts

Insurance by Type	For the Year Ended December 31, 2022				
	Commission Expenses	Service and Handling Charge	Reinsurance Commission Expenses	Other	Total
Fire insurance	\$ 212,202	\$ 9,970	\$ 80,934	\$ 40,130	\$ 343,236
Marine insurance	93,746	185	2,027	3,174	99,132
Land and air insurance	1,386,902	123	3,276	591,304	1,981,605
Liability insurance	261,183	102	(185)	49,954	311,054
Guarantee insurance	11,955	112	1,462	762	14,291
Other property insurance	143,459	1,158	16,843	6,761	168,221
Accident insurance	367,739	75	(759)	130,132	497,187
Health insurance	104,312	221	886	3,179	108,598
Policy-oriented residential earthquake insurance	11,431	139	-	13,646	25,216
Compulsory automobile liability insurance	-	322,298	-	-	322,298
	<u>\$ 2,592,929</u>	<u>\$ 334,383</u>	<u>\$ 104,484</u>	<u>\$ 839,042</u>	<u>\$ 3,870,838</u>

For the Year Ended December 31, 2021					
Insurance by Type	Commission Expenses	Service and Handling Charge	Reinsurance Commission Expenses	Other	Total
Fire insurance	\$ 192,181	\$ 16,200	\$ 150,166	\$ 28,114	\$ 386,661
Marine insurance	71,821	480	4,574	2,082	78,957
Land and air insurance	1,239,112	601	17,100	501,713	1,758,526
Liability insurance	221,151	155	1,277	39,065	261,648
Guarantee insurance	9,418	71	2,966	779	13,234
Other property insurance	87,670	3,949	19,472	4,850	115,941
Accident insurance	337,152	1,249	1,950	94,782	435,133
Health insurance	184,370	309	1,322	2,221	188,222
Policy-oriented residential earthquake insurance	15,797	197	-	8,119	24,113
Compulsory automobile liability insurance	-	358,159	-	-	358,159
	<u>\$ 2,358,672</u>	<u>\$ 381,370</u>	<u>\$ 198,827</u>	<u>\$ 681,725</u>	<u>\$ 3,620,594</u>

Acquisition costs of the insurance contracts were not deferred.

g. Profit and loss analysis of the insurance business

Direct underwriting business

For the Year Ended December 31, 2022						
Insurance by Type	Written Premium	Net Changes in Unearned Premium Reserve	Acquisition Costs of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 4,089,674	\$ (8,498)	\$ 262,303	\$ 1,308,054	\$ 823,917	\$ 1,703,898
Marine insurance	1,003,546	6,975	97,104	587,891	291,854	19,722
Land and air insurance	12,615,687	719,530	1,978,329	6,280,450	699,885	2,937,493
Liability insurance	2,304,146	205,326	311,239	971,171	148,387	668,023
Guarantee insurance	115,950	2,291	12,829	(2,982)	1,703	102,109
Other property insurance	1,499,231	(70,580)	151,377	2,044,136	786,977	(1,412,679)
Accident insurance	3,277,569	4,203	497,946	1,107,753	143,962	1,523,705
Health insurance	581,266	(251,692)	107,712	20,225,827	8,679,925	(28,180,506)
Policy-oriented residential earthquake insurance	468,290	7,444	25,217	-	-	435,629
Compulsory automobile liability insurance	2,942,130	12,933	322,298	2,075,979	(12,303)	543,223
	<u>\$ 28,897,489</u>	<u>\$ 627,932</u>	<u>\$ 3,766,354</u>	<u>\$ 34,598,279</u>	<u>\$ 11,564,307</u>	<u>\$ (21,659,383)</u>

For the Year Ended December 31, 2021						
Insurance by Type	Written Premium	Net Changes in Unearned Premium Reserve	Acquisition Costs of Insurance Contracts	Claims and Payments (Including Claim Expense)	Net Changes in Loss Reserve	Profit (Loss)
Fire insurance	\$ 3,523,624	\$ 27,087	\$ 236,494	\$ 1,106,236	\$ 1,414,512	\$ 739,295
Marine insurance	834,013	(24,447)	74,383	395,649	179,038	209,390
Land and air insurance	11,178,580	576,228	1,741,426	5,944,362	(11,558)	2,928,122
Liability insurance	1,944,347	234,376	260,371	735,894	23,537	690,169
Guarantee insurance	112,674	6,047	10,268	(24,249)	(17,364)	137,972
Other property insurance	1,297,880	211,596	96,468	309,000	(46,465)	727,281
Accident insurance	2,960,319	67,628	433,183	1,233,331	13,543	1,212,634
Health insurance	1,023,534	364,046	186,901	181,697	81,562	209,328
Policy-oriented residential earthquake insurance	451,406	5,314	24,114	-	-	421,978
Compulsory automobile liability insurance	2,882,455	9,972	358,159	2,084,385	(2,039)	431,978
	<u>\$ 26,208,832</u>	<u>\$ 1,477,847</u>	<u>\$ 3,421,767</u>	<u>\$ 11,966,305</u>	<u>\$ 1,634,766</u>	<u>\$ 7,708,147</u>

Reinsurance inward business

For the Year Ended December 31, 2022						
Insurance by Type	Reinsurance Premium	Net Changes in		Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
		Unearned Premium Reserve	Reinsurance Commission Expense			
Fire insurance	\$ 408,623	\$ (113,777)	\$ 80,934	\$ 416,312	\$ 122,633	\$ (97,479)
Marine insurance	28,920	(9,600)	2,027	46,786	11,860	(22,153)
Land and air insurance	13,802	(16,212)	3,276	41,993	4,229	(19,484)
Liability insurance	1,592	(2,907)	(184)	1,151	139	3,393
Guarantee insurance	5,932	(3,122)	1,462	12,353	(5,472)	711
Other property insurance	78,507	(11,731)	16,842	63,913	(34,610)	44,093
Accident insurance	5,399	(6,470)	(759)	7,638	(2,081)	7,071
Health insurance	8,856	(220)	886	11,578	(3,000)	(388)
Policy-oriented residential earthquake insurance	59,219	276	-	311		58,632
Compulsory automobile liability insurance	<u>758,002</u>	<u>11,940</u>	<u>-</u>	<u>708,812</u>	<u>32,171</u>	<u>5,079</u>
	<u>\$ 1,368,852</u>	<u>\$ (151,823)</u>	<u>\$ 104,484</u>	<u>\$ 1,310,847</u>	<u>\$ 125,869</u>	<u>\$ (20,525)</u>

For the Year Ended December 31, 2021						
Insurance by Type	Reinsurance Premium	Net Changes in		Reinsurance Claim	Net Changes in Loss Reserve	Profit (Loss)
		Unearned Premium Reserve	Reinsurance Commission Expense			
Fire insurance	\$ 657,286	\$ 59,243	\$ 150,166	\$ 319,604	\$ 334,728	\$ (206,455)
Marine insurance	42,058	6,533	4,574	39,377	2,385	(10,811)
Land and air insurance	115,401	2,229	17,100	58,221	14,042	23,809
Liability insurance	6,939	2,085	1,277	1,266	(28)	2,339
Guarantee insurance	11,053	(4,541)	2,966	3,515	55	9,058
Other property insurance	145,426	(233)	19,472	143,880	(9,354)	(8,339)
Accident insurance	21,096	5,295	1,950	6,917	(55)	6,989
Health insurance	12,371	255	1,322	8,477	2,915	(598)
Policy-oriented residential earthquake insurance	57,483	2,712	-	-	-	54,771
Compulsory automobile liability insurance	<u>736,632</u>	<u>(7,919)</u>	<u>-</u>	<u>786,370</u>	<u>(5,791)</u>	<u>(36,028)</u>
	<u>\$ 1,805,745</u>	<u>\$ 65,659</u>	<u>\$ 198,827</u>	<u>\$ 1,367,627</u>	<u>\$ 338,897</u>	<u>\$ (165,265)</u>

Ceded reinsurance business

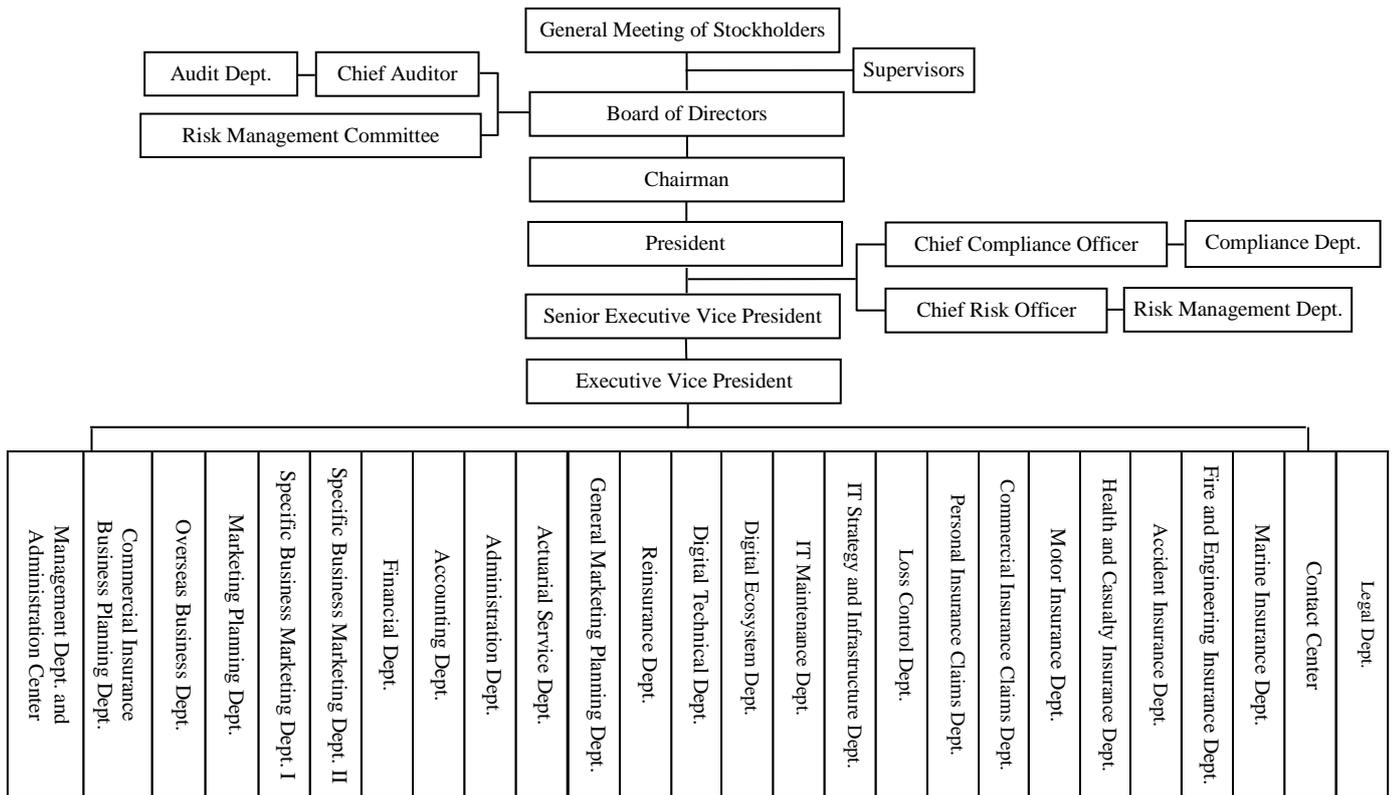
For the Year Ended December 31, 2022						
Insurance by Type	Reinsurance Expenses	Net Changes in Ceded		Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Loss (Profit)
		Unearned Premium Reserve	Reinsurance Commission Income			
Fire insurance	\$ 2,877,190	\$ 101,439	\$ 237,667	\$ 635,006	\$ 712,822	\$ 1,190,256
Marine insurance	775,712	9,770	81,247	398,332	240,508	45,855
Land and air insurance	471,942	6,270	114,497	205,785	41,949	103,441
Liability insurance	735,045	107,503	155,322	360,576	(31,383)	143,027
Guarantee insurance	71,850	3,169	13,243	(2,394)	3,037	54,795
Other property insurance	1,107,631	(26,800)	182,263	189,537	322,095	440,536
Accident insurance	339,596	50,869	78,332	111,717	27,416	71,262
Health insurance	100,867	(172,778)	37,860	3,110,355	957,030	(3,831,600)
Policy-oriented residential earthquake insurance	468,289	7,443	-	-	-	460,846
Compulsory automobile liability insurance	<u>1,233,778</u>	<u>7,760</u>	<u>-</u>	<u>1,223,516</u>	<u>(13,463)</u>	<u>15,965</u>
	<u>\$ 8,181,900</u>	<u>\$ 94,645</u>	<u>\$ 900,431</u>	<u>\$ 6,232,430</u>	<u>\$ 2,260,011</u>	<u>\$ (1,305,617)</u>

For the Year Ended December 31, 2021

Insurance by Type	Reinsurance Expenses	Net Changes in Ceded Unearned Premium Reserve	Reinsurance Commission Income	Claims and Payments (Recovered from Reinsurers)	Net Changes in Ceded Loss Reserve	Loss (Profit)
Fire insurance	\$ 2,345,771	\$ 182,146	\$ 170,943	\$ 695,429	\$ 1,168,782	\$ 128,471
Marine insurance	543,404	(12,834)	60,320	256,468	132,048	107,402
Land and air insurance	428,893	30,284	104,108	163,912	16,832	113,757
Liability insurance	528,505	25,748	109,505	233,561	2,198	157,493
Guarantee insurance	71,436	8,194	12,158	(31,446)	(16,667)	99,197
Other property insurance	966,746	266,928	130,188	176,086	(28,034)	421,578
Accident insurance	231,213	9,692	61,812	80,261	(617)	80,065
Health insurance	521,149	206,784	208,144	67,503	26,251	12,467
Policy-oriented residential earthquake insurance	451,406	5,314	-	-	-	446,092
Compulsory automobile liability insurance	<u>1,207,603</u>	<u>5,983</u>	<u>-</u>	<u>1,222,360</u>	<u>(1,015)</u>	<u>(19,725)</u>
	<u>\$ 7,296,126</u>	<u>\$ 728,239</u>	<u>\$ 857,178</u>	<u>\$ 2,864,134</u>	<u>\$ 1,299,778</u>	<u>\$ 1,546,797</u>

h. Organization chart and responsibilities of risk management

1) Organization chart of risk management



2) Responsibility of each department:

Board of directors

- a) 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.

- b) The board of directors should establish an appropriate risk management system and culture, ratify the appropriate risk management policy and allocate resources in the most effective manner.
- c) The board of directors should consider the effect of the aggregated risks from the Company's overall perspective; the board of directors should also follow the legal capital requirement and the relevant financial or business operating regulations that affect capital allocation.

Risk management department

a) Risk management committee

- i. The committee should propose the risk management policies, framework, and organization functions and establish quantitative and qualitative management standards. The committee is also responsible for reporting the results of implementing risk management to the board of directors regularly, and making necessary suggestions for improvement.
- ii. The committee should execute the risk management policies set by the board of directors and review development, build-up and performance of overall management mechanisms regularly.
- iii. The committee should assist and monitor the risk management activities performed by each department.
- iv. The committee should assist in deliberating related procedures for formulating risk limits.
- v. The committee should arrange the risk category, risk limit allocation and risk taking method according to the changes in environment.
- vi. The committee should enhance cross-department interaction and communication.

b) Chief risk officer

The appointment of chief risk officers of the Group should be approved by the board of directors, who should maintain independence and should not concurrently play a business or financial role nor has the right to access any information which may affect the Group's risk overview.

- i. The chief risk officer should be in charge of the overall risk management.
- ii. The chief risk officer should participate in the important decision making process and provide appropriate suggestions from a risk management perspective.
- iii. The chief risk officer should be a member of risk management committee.

c) Risk management department

- i. The Group established a risk management department, which is responsible for monitoring, measuring and evaluating major risks; the department is independent from the business units.
- ii. Duties of risk management department are as follows:
 - 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 department to facilitate the execution of the policies and the risk limits.
- iv) Regularly present risk management reports.
- v) Regularly review the risk limits and its use of each business unit.
- vi) Assist to execute stress testing and back testing if necessary.
- vii) Other risk management related issues.

Business units

- a) The risk management duties of the manager of a business unit are as follows:
 - i. Manage and report daily risk of the business unit and take necessary responsive actions.
 - ii. Supervise regular submission of risk management information to the risk management department.
- b) The risk management duties of a business unit are as follows:
 - i. Identify and measure risks and report risk exposures.
 - ii. Evaluate the impacts (quantitative or qualitative) when risks occur and deliver the risk information in a timely and accurate manner.
 - iii. Regularly review the risks and their limits to ensure the effective execution of risk limits within business unit.
 - iv. Monitor risk exposures and, in case of any excess of risk limits, report the excess of risk limits along with the corresponding actions of the business units.
 - v. Assist to develop the risk model and ensure that the risk measurement, application of model, and the parameter settings are reasonable and consistent.
 - vi. Ensure that internal control procedures are executed effectively to comply with applicable rules and the risk management policies.
 - vii. Assist to collect data related to operational risk.

Audit department

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

- i. Risk reporting and range and nature of risk assessment for property insurance business
 - 1) Risks management report
 - a) Each business unit should regularly deliver risk information to the risk management department, and report the excess of risk limits and responding measures when risk exposure exceeds the limit.

- b) The risk management department summarizes the risk information provided by each department, tracks the uses of major risk limit, submits a monthly risk management report to the chairman, and makes quarterly report to the risk management committee and the board of directors.

2) The scope and nature of risk assessment

The risk management departments of the Group and its parent company, Cathay Financial Holdings, collaborated in building market risk management system. The system structure was developed in consideration of the system functionality, data source, completeness of data upload, and the safety of the environment of the system. The front-end of investment department has acquired the information system related to the investment market. The risk management system focuses on risk quantification, which is needed by middle-end, and would be only authorized to risk management personnel.

- j. Processes to undertake, evaluate, supervise and control insurance risk of property insurance business and underwriting policies to ensure proper risk classification and premium level.

In the Group, risk management department is responsible for monitoring and integrating insurance risks as a whole, and setting up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control and regularly reports execution to risk management department in accordance with laws and regulations, internal rules, and professional knowledge and experience related to its duties. The risk management department proposes the insurance risk management report to the risk management committee and the board of directors each quarter.

- k. The scope of insurance risk assessment and management from a company-wide perspective

Insurance risk management of the Group covers product design and pricing, underwriting, reinsurance, catastrophe, claim, and reserve. Proper management mechanisms are set up and executed thoroughly.

- l. Methods to limit insurance risk exposure and avoid inappropriate concentration risk

When the Group implements business, the underwriter evaluates the quality of the business based on the underwriting criteria of each insurance to decide whether to undertake the business to properly hedge and control the risk and reduce the exposure.

In addition, for reinsurance business, risk management mechanism is set up in accordance with the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms. The capabilities for undertaking risk is considered in developing reinsurance risk management plan and maximum of accumulated retained risks of each risk unit for execution.

Accumulated risk assessment of the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through reinsurance.

According to the Group's reinsurance risk management policy, the basis for managing the maximum accumulated risk limit of each risk unit requires the risk management and each insurance department to jointly review and discuss the accumulated retained risk limit of a risk unit for each insurance type every year, which is submitted to the general manager for approval before implementation. The following table summarizes the maximum accumulated retained risk limit of a risk unit by insurance type:

Insurance by Type	For the Year Ended December 31	
	2022	2021
Fire insurance	\$ 1,200,000	\$ 1,200,000
Marine insurance	1,200,000	1,200,000
Engineering insurance	1,200,000	1,200,000
Miscellaneous insurance/liability insurance	1,200,000	1,200,000
Healthy and accident insurance	1,200,000	1,200,000
Automobile insurance	50,000	50,000
Liability insurance	250,000	250,000

m. Risk coordinated asset-liability management

1) Asset-liability coordinated with risk identification and measurement

Financial accounting and actuarial department should identify the possible market risk, liquidity risk and insurance risk that may occur during operation. The cash inflows from assets are measured by cash flow test method (or other method) to evaluate whether the amount of inflows is sufficient to cover the cash outflow for liabilities, that is, whether the asset allocation has reasonable liquidity to pay liabilities for expenditures in future years.

2) Asset-liability coordinated with risk response

When market risk, liquidity risk and insurance risk events occur, financial, accounting and actuarial service department should take appropriate reactions to coordinated asset-liability risk, and report to the risk management department and propose to the risk management committee evaluation of the risk.

n. Procedures to manage, monitor and control a special event for which property insurance business is committed to assuming additional liabilities or raising additional capital.

The Group has established a set of capital adequacy management standards, including risk-based capital management indicators for regular review, under which risk-based capital is calculated each quarter and risk-based capital management report is prepared every half year as implementation of risk-based capital management.

If the risk-based capital ratio exceeds the control criteria (risk limit) or other exceptions occur, the related departments should propose reactions to the risk management committee and inform the parent company, Cathay Financial Holdings Co., Ltd., to review the impact on the capital adequacy ratio of Cathay Financial Holdings Co., Ltd. and its subsidiaries.

o. Sensitivity to insurance risk

1) The Company

For the year ended December 31, 2022

Insurance by Type	Premium Revenue	Expected Loss Rate	Impact on Profit or Loss of 5% Increase in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Fire insurance	\$ 3,760,441	41.68%	\$ (188,022)	\$ (74,985)
Marine insurance	994,461	50.43%	(49,723)	(19,330)
Land and air insurance	12,364,988	61.01%	(618,249)	(600,534)
Liability insurance	2,300,538	50.45%	(115,027)	(80,958)
Guarantee insurance	115,950	26.79%	(5,797)	(2,899)
Other property insurance	1,492,370	47.46%	(74,619)	(41,390)
Accident insurance	3,234,700	44.22%	(161,735)	(148,630)
Health insurance	581,266	35.14%	(29,063)	(21,803)
Policy-oriented residential earthquake insurance	468,290	4.10%	(23,415)	(18,732)
Compulsory automobile liability insurance	<u>2,942,130</u>	Not applicable	<u>Not applicable</u>	<u>Not applicable</u>
	<u>\$ 28,255,134</u>		<u>\$ (1,265,650)</u>	<u>\$ (1,009,261)</u>

For the year ended December 31, 2021

Insurance by Type	Premium Revenue	Expected Loss Rate	Impact on Profit or Loss of 5% Increase in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Fire insurance	\$ 3,288,907	48.77%	\$ (164,445)	\$ (100,489)
Marine insurance	823,370	44.52%	(41,168)	(19,346)
Land and air insurance	10,989,343	62.61%	(549,467)	(537,593)
Liability insurance	1,943,097	50.75%	(97,155)	(64,834)
Guarantee insurance	112,674	39.47%	(5,634)	(1,172)
Other property insurance	1,292,999	51.41%	(64,650)	(14,576)
Accident insurance	2,927,412	43.65%	(146,371)	(139,895)
Health insurance	1,023,534	32.94%	(51,177)	(41,888)
Policy-oriented residential earthquake insurance	451,406	11.00%	(22,570)	(4,514)
Compulsory automobile liability insurance	<u>2,882,455</u>	Not applicable	<u>Not applicable</u>	<u>Not applicable</u>
	<u>\$ 25,735,197</u>		<u>\$ (1,142,637)</u>	<u>\$ (924,307)</u>

Note: Expected loss rate is calculated based on the simple average loss rate of the past five years.

The above table shows that with 5% increase in the expected loss rate of every insurance contract of the Company, profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

2) Cathay Insurance Co., Ltd. (Vietnam)

For the year ended December 31, 2022

Insurance by Type	Premium Income	Expected Loss Rate	Impact on Profit or Loss of 5% Increase in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Automobile insurance	\$ 250,699	16.85%	\$ (12,535)	\$ (12,474)
Marine insurance	9,085	19.80%	(454)	(163)
Fire insurance	329,233	40.48%	(16,462)	(1,324)
Engineering insurance	6,861	53.45%	(337)	(64)
Accident insurance	42,869	36.42%	(2,143)	(2,124)
Liability insurance	<u>3,608</u>	8.27%	<u>(186)</u>	<u>(73)</u>
	<u>\$ 642,355</u>		<u>\$ (32,117)</u>	<u>\$ (16,222)</u>

For the year ended December 31, 2021

Insurance by Type	Premium Income	Expected Loss Rate	Impact on Profit or Loss of 5% Increase in Expected Loss Rate	
			Before Reinsurance	After Reinsurance
Automobile insurance	\$ 189,237	21.52%	\$ (9,462)	\$ (9,437)
Marine insurance	10,643	18.45%	(532)	(151)
Fire insurance	234,717	31.49%	(11,736)	(2,594)
Engineering insurance	4,881	65.21%	(244)	(41)
Accident insurance	32,907	39.86%	(1,645)	(1,645)
Liability insurance	<u>1,250</u>	12.16%	<u>(63)</u>	<u>(24)</u>
	<u>\$ 473,635</u>		<u>\$ (23,682)</u>	<u>\$ (13,892)</u>

Note: Expected loss rate is calculated based on the weighted average loss rate of the past five years.

The above table shows that with 5% increase in the expected loss rate of every insurance contract of Cathay Insurance Co., Ltd. (Vietnam), profit or loss may be impacted to an extent; however, the impact has been mitigated through the arrangement of reinsurance to achieve the effect of risk diversification.

p. Risk concentration

1) The Company

a) Situations that may cause concentration of insurance risk

i. Single insurance contract or several related contracts

As of December 31, 2022, commercial insurance products with low frequency of occurrence and enormous possible losses have been reviewed and discussed in compliance with the underwriting guidelines by the underwriting department, reinsurance department and risk management department or in project meeting.

ii. Exposure to unanticipated change in trend

As of December 31, 2022, the loss rates of pandemic policy have increased due to the huge claims and loss estimates.

iii. Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Regulations for Assisting in Filing Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of December 31, 2022, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

iv. Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, the Company established “points for handling teams of catastrophe and major events” and “Operation Standards under Crisis”, under which crisis handling team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to keep financial stability. As of December 31, 2022, measures have been taken to deal with the impact of the severe special infectious pneumonia epidemic on operating, insurance and investment business.

v. When a non-linear relationship as a certain key variable has approached to the extent that future cash flows may be materially influenced

Since the 3rd stage of liberalization of property insurance premium rate took effect, the Company has conducted regular reviews in accordance with regulations. When the actual loss rate exceeds the expected loss rate to a certain percentage, premium rates will be properly adjusted to avoid persistent enlargement of losses. In addition, the actuarial department observes the changes in trend of loss rates of each product on irregular basis and adjusts pricing and coverage in a timely manner to effectively lower insurance risks.

For investment instruments, changes in risk indicators are monitored on a regular basis with cash flow analysis as well as stress testing, to control and manage the impact of fluctuations in major risk factors.

In addition, stress testing is performed for the overall business every year to assess the impacts on financial positions due to extreme scenarios of the assets and insurance risk and understand the major risk factors to respond in advance.

vi. Concentration of geographic regions and operating segments

The Company’s catastrophe insurance for earthquakes, typhoon and floods are mainly in the areas of Taoyuan, Hsinchu, Taichung, Chiayi, Tainan, Kaohsiung and Pingtung.

- b) Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature

The following table summarizes Cathay Century's concentration of risk before and after for the years ended 2022 and 2021 reinsurance by insurance type:

Insurance Type	For the Year Ended December 31, 2022				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 3,760,441	\$ 435,562	\$ 2,605,982	\$ 1,590,021	7.31
Marine insurance	994,461	26,617	767,682	253,396	1.17
Land and air insurance	12,364,988	12,942	471,909	11,906,021	54.74
Liability insurance	2,300,538	774	733,488	1,567,824	7.21
Guarantee insurance	115,950	5,932	71,850	50,032	0.23
Other property insurance	1,492,370	71,692	1,098,209	465,853	2.14
Accident insurance	3,234,700	5,204	339,596	2,900,308	13.34
Health insurance	581,266	8,856	100,867	489,255	2.25
Policy-oriented residential earthquake insurance	468,290	59,219	468,289	59,220	0.27
Compulsory automobile liability insurance	2,942,130	758,002	1,233,778	2,466,354	11.34
Total	\$ 28,255,134	\$ 1,384,800	\$ 7,891,650	\$ 21,748,284	100.00

Insurance Type	For the Year Ended December 31, 2021				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Fire insurance	\$ 3,288,907	\$ 656,400	\$ 2,134,459	\$ 1,810,848	8.85
Marine insurance	823,370	41,502	535,637	329,235	1.61
Land and air insurance	10,989,343	115,336	428,775	10,675,904	52.16
Liability insurance	1,943,097	6,890	527,677	1,422,310	6.95
Guarantee insurance	112,674	11,053	71,436	52,291	0.26
Other property insurance	1,292,999	143,916	961,989	474,926	2.32
Accident insurance	2,927,412	21,059	231,213	2,717,258	13.28
Health insurance	1,023,534	12,371	521,149	514,756	2.51
Policy-oriented residential earthquake insurance	451,406	57,483	451,406	57,483	0.28
Compulsory automobile liability insurance	2,882,455	736,632	1,207,603	2,411,484	11.78
Total	\$ 25,735,197	\$ 1,802,642	\$ 7,071,344	\$ 20,466,495	100.00

- c) Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the user of financial statement assess the uncertainty of cash flows related to such risks

Catastrophes, such as earthquake, typhoon, and flood along with related huge claims, result in tremendous impact to the property insurance business.

To control and manage risk with low frequency of occurrence but enormous impact, Cathay Century assesses the risk of natural disasters and special insured items (for example, high-tech factory, power plant and traffic engineering) and holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

2) Cathay Insurance Co., Ltd. (Vietnam)

a) Situations that may cause concentration of insurance risk:

i. Single insurance contract or several related contracts

As of December 31, 2022, commercial insurance products with low frequency of occurrence and enormous possible losses have been reviewed and discussed in compliance with the underwriting guidelines by the underwriting department, reinsurance department and risk management department or in project meeting.

ii. Exposure to unanticipated change in trend

As of December 31, 2022, the premium revenues of comprehensive travel insurance of Cathay Insurance Co., Ltd. (Vietnam) have increased year-on-year resulting from the increased demand for traveling since Vietnam has returned life to normal. Cathay Insurance Co., Ltd. (Vietnam) will keep on observing the changes in risk exposure.

iii. Material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts

“The Procedure for Subrogation” and “The Proceedings of the Court” are set up to safeguard the rights of Cathay Insurance Co., Ltd. (Vietnam) and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each unit has appointed a staff for compliance matters to minimize possible legal risk. As of December 31, 2022, there are no material litigation or legal risks that may lead to huge losses incurred by a single contract or have an extensive effect on several contracts.

iv. Correlation and interaction among different risks

When a catastrophe occurs, the underwritten cases will incur huge claims, and other risks such as market risk, credit risk, liquidity risk, may be derived accordingly. To avoid the operations being severely endangered by these derived risks from a catastrophe, Cathay Insurance Co., Ltd. (Vietnam) established the Points for Handling Major Events of Cathay Insurance Co., Ltd. (Vietnam) under which emergency response team is set up in reaction to the event and execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to maintain financial stability. As of December 31, 2022, there is no interaction among risks resulting from a catastrophe.

v. Concentration of geographic regions and operating segments

Cathay Insurance Co., Ltd. (Vietnam)’s catastrophe insurance for earthquakes and floods are mainly in the areas of Ho Chi Minh City, Tinh Dong Nai and Tinh Ha Tinh.

- b) Disclosure of concentration of insurance risk, including explanation of indicators used to identify the common features of insurance risk concentration and exposure to related insurance liabilities related to such feature

The following table summarizes the Cathay Insurance (Vietnam)'s concentration of risk before and after reinsurance for the years ended in 2022 and 2021 by insurance type:

Insurance Type	For the Year Ended December 31, 2022				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 250,699	\$ 860	\$ 33	\$ 251,526	74.82
Flood insurance	9,085	2,303	8,030	3,358	1.00
Fire insurance	329,233	23,181	321,328	31,086	9.25
Engineering insurance	6,861	6,815	9,422	4,254	1.27
Accident insurance	42,869	195	-	43,064	12.81
Liability insurance	3,608	818	1,557	2,869	0.85
Total	\$ 642,355	\$ 34,172	\$ 340,370	\$ 336,157	100.00

Insurance Type	For the Year Ended December 31, 2021				
	Premium Income	Reinsurance Premium Inward	Reinsurance Expenses	Net Premium Income	%
Automobile insurance	\$ 189,237	\$ 65	\$ 118	\$ 189,184	75.09
Flood insurance	10,643	556	7,767	3,432	1.36
Fire insurance	234,717	16,524	226,950	24,291	9.64
Engineering insurance	4,881	1,510	4,757	1,634	0.65
Accident insurance	32,907	37	-	32,944	13.07
Liability insurance	1,250	49	828	471	0.19
Total	\$ 473,635	\$ 18,741	\$ 240,420	\$ 251,956	100.00

- 3) Disclosure of the past performance of property insurance business regarding the management risks with low frequency of occurrence but enormous impact, to the users of financial statements to assess the uncertainty of cash flows related to risks

Catastrophes, such as typhoon and flood along with related huge claims, result in tremendous impact to the property insurance business. To control and manage risk with low frequency occurrence but enormous impact, Cathay Insurance Co., Ltd. (Vietnam) assesses the risk of natural disasters and special insured items and holds loss prevention seminars regularly to help clients lower the incidence rate of disasters.

q. Development trend of claims

1) The Company

December 31, 2022

Accident Year	2015	2016	2017	2018	2019	2020	2021	2022	Total
Accumulated estimated claim payments									
End of the underwriting year	\$ -	\$ 12,235,424	\$ 8,134,147	\$ 9,090,990	\$ 10,190,448	\$ 9,508,911	\$ 10,259,775	\$ 43,545,821	
After the first year	-	11,455,620	8,025,062	8,574,948	10,063,196	11,023,615	10,637,168	-	
After the second year	-	10,970,548	7,965,701	8,479,083	9,915,122	11,009,236	-	-	
After the third year	-	11,133,431	8,000,179	8,447,631	9,900,713	-	-	-	
After the fourth year	-	11,177,663	7,977,104	8,413,409	-	-	-	-	
After the fifth year	-	11,102,224	7,993,176	-	-	-	-	-	
After the sixth year	-	11,106,898	-	-	-	-	-	-	
Final estimated claim payment	-	11,106,898	7,993,176	8,413,409	9,900,713	11,009,236	10,637,168	43,545,821	
Accumulated claim disbursed	-	11,077,996	7,938,428	8,361,416	9,573,719	9,589,714	8,670,464	27,852,950	
	236,539	28,902	54,748	51,993	326,994	1,419,522	1,966,704	15,692,871	\$ 19,778,273
Adjustment	-	-	-	-	-	-	-	174,073	174,073
Amount recognized in balance sheet	\$ 236,539	\$ 28,902	\$ 54,748	\$ 51,993	\$ 326,994	\$ 1,419,522	\$ 1,966,704	\$ 15,866,944	\$ 19,952,346

December 31, 2021

Accident Year	≤2014	2015	2016	2017	2018	2019	2020	2021	Total
Accumulated estimated claim payments									
End of the underwriting year	\$ -	\$ 7,559,012	\$ 12,235,424	\$ 8,134,147	\$ 9,090,990	\$ 10,190,448	\$ 9,508,911	\$ 10,259,775	
After the first year	-	7,418,703	11,455,620	8,025,062	8,574,948	10,063,196	11,023,615	-	
After the second year	-	7,548,387	10,970,548	7,965,701	8,479,083	9,915,122	-	-	
After the third year	-	7,495,744	11,133,431	8,000,179	8,447,631	-	-	-	
After the fourth year	-	7,449,663	11,177,663	7,977,104	-	-	-	-	
After the fifth year	-	7,456,430	11,102,224	-	-	-	-	-	
After the sixth year	-	7,452,191	-	-	-	-	-	-	
Final estimated claim payment	-	7,452,191	11,102,224	7,977,104	8,447,631	9,915,122	11,023,615	10,259,775	
Accumulated claim disbursed	-	7,422,770	11,057,773	7,905,417	8,312,638	9,361,832	8,584,467	5,410,326	
	209,490	29,421	44,451	71,687	134,993	553,290	2,439,148	4,849,449	\$ 8,331,929
Adjustment	-	-	-	-	-	-	-	150,920	150,920
Amount recognized in balance sheet	\$ 209,490	\$ 29,421	\$ 44,451	\$ 71,687	\$ 134,993	\$ 553,290	\$ 2,439,148	\$ 5,000,369	\$ 8,482,849

Note 1: The upper part of table illustrates claim payments estimated in underwriting years by property insurance business. The lower part of the table illustrates the reconciliation of the accumulated claims disbursed to the balance sheet.

Note 2: The above tables excludes direct loss reserve of compulsory insurance, policy-oriented residential earthquake insurance and inward loss reserve of \$1,624,445 thousand and \$1,705,926 thousand as of December 31, 2022, \$1,636,748 thousand and \$1,580,057 thousand as of December 31, 2021.

2) Cathay Insurance Co., Ltd. (Vietnam)

Since the claim data of Cathay Insurance Co., Ltd. (Vietnam) is still immature, the historical experience for development trend of claim is not available. Cathay Insurance Co., Ltd. (Vietnam) provided loss reserve for claims incurred but not yet filed at 5% of retained premiums following the suggestion by Vietnamese Ministry of Finance 2842/BTC/QLBH.

r. Credit risk of insurance contract

The main source of credit risk of insurance contract is reinsurance business. The Group arranges its reinsurance business under the Regulations Governing Insurance Enterprises, and it is engaged in operating reinsurance and other risk-diversification mechanisms. Most of the insurance enterprises chose to have a certain level of credit rating and are qualified for reinsurance business. The Group regularly monitors the net changes in the credit rating of these enterprises. The Group discloses its transactions with unqualified ceded reinsurer as follows, based on Regulations for the Management of the Reserve for Unqualified Reinsurance.

1) The major unqualified reinsurance counterparties are listed below:

December 31, 2022

Name	Type
Tugu Insurance Company HK	Facultative reinsurance of marine insurance
Cathay Insurance Co., Ltd. (China)	Facultative reinsurance of marine insurance
Trust International Insurance and Reinsurance Company B.S.C	Treaty reinsurance of marine insurance and Facultative reinsurance of fire insurance
Asia Capital Reinsurance Group Pte Ltd	Facultative reinsurance of marine insurance
S-Squared Insurance Company, Inc.	Facultative reinsurance of fire insurance

December 31, 2021

<u>Name</u>	<u>Type</u>
Tugu Insurance Company HK	Facultative reinsurance of marine insurance
Cathay Insurance Co., Ltd. (China)	Facultative reinsurance of marine insurance
Trust International Insurance and Reinsurance Company B.S.C	Treaty reinsurance of marine, and Facultative reinsurance of fire insurance
Asia Capital Reinsurance Group Pte Ltd	Treaty reinsurance of marine and miscellaneous insurance and Facultative reinsurance of marine, fire and miscellaneous insurance
S-Squared Insurance Company, Inc.	Facultative reinsurance of fire insurance

2) For the years ended December 31, 2022 and 2021, the unqualified ceded reinsurance expense is \$9,999 thousand and \$10,497 thousand, respectively.

3) The reserve for unauthorized reinsurance and the components of this account include:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Unearned premium reserve	\$ 4,999	\$ 5,248
Claims recoverable from reinsurers of paid claims overdue in nine month	145	309
Claims recoverable from reinsurers which were reported but unpaid	<u>1,326</u>	<u>999</u>
	<u>\$ 6,470</u>	<u>\$ 6,556</u>

35. DETAILS OF THE PORTFOLIOS MANAGED

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Listed stocks	\$ 1,345,603	\$ 2,303,141
Short-term transactions instruments	-	-
Bank deposit	794,743	488,817
Future margins	<u>38,272</u>	<u>2,012</u>
	<u>\$ 2,178,618</u>	<u>\$ 2,793,970</u>

The fair value of the Group's financial assets of discretionary account management contracts are as same as their carrying amount.

As of December 31, 2022 and 2021 the Group entered into discretionary account management contracts in the amount of \$1,200,000 thousand.

36. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

a. Unconsolidated structured entities

The Group does not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of Structured Entity	Nature and Purpose	Interests Owned
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

b. Details of the carrying amount of assets recognized by the Group relating to its interests in unconsolidated structured entities as of December 31, 2022 and 2021, are as follows:

	December 31	
	2022	2021
Securitization vehicle		
Financial assets at FVTPL	\$ 343,499	\$ 254,142
Financial assets at amortized cost	<u>324,346</u>	<u>318,445</u>
	<u>\$ 667,845</u>	<u>\$ 572,587</u>

TABLE 1**CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES****BALANCE SHEET OF COMPULSORY AUTOMOBILE LIABILITY INSURANCE
(In Thousands of New Taiwan Dollars)**

Items Asset	Amount		Items Liabilities	Amount	
	December 31, 2022	December 31, 2021		December 31, 2022	December 31, 2021
Cash and bank deposit	\$ 2,397,857	\$ 2,217,230	Notes payable	\$ -	\$ -
Notes receivable	6,559	6,343	Claims payable	-	-
Premiums receivable	6,832	8,573	Reinsurance indemnity payable	-	-
Claims recoverable from reinsurers	202,982	200,809	Due to reinsurers and ceding companies	225,486	215,786
Due from reinsurers and ceding companies	125,846	122,917	Unearned premium reserves	1,715,437	1,690,564
Other receivables	-	-	Loss reserves	2,276,012	2,256,144
FVTOCI financial assets	685,847	728,828	Special reserves	926,605	851,422
Ceded unearned premium reserve	750,282	742,522	Temporary receivable	-	-
Ceded loss reserve	965,458	978,921	Other liabilities	-	-
Temporary payments	1,877	7,773			
Other assets	-	-			
Total assets	\$ 5,143,540	\$ 5,013,916	Total liabilities	\$ 5,143,540	\$ 5,013,916

TABLE 2**CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES****OPERATING REVENUE AND COST OF COMPULSORY AUTOMOBILE LIABILITY**
(In Thousands of New Taiwan Dollars)

Item	For the Year Ended December 31	
	2022	2021
Operating revenues	\$ 1,572,594	\$ 1,552,162
Direct insurance premium income	2,056,296	2,012,672
Reinsurance premium inward	758,002	736,632
Premiums income	2,814,298	2,749,304
Less: Reinsurance premium outward	1,233,778	1,207,603
Net changes in unearned premium reserve	17,113	(3,930)
Earned retained premium	1,563,407	1,545,631
Interest income	9,187	6,531
Operating costs (Note)	1,669,789	1,627,964
Retained claims	2,075,979	2,084,385
Reinsurance claims incurred	708,812	786,370
Less: Claim recoverable from reinsurers	1,223,516	1,222,360
Retained claims	1,561,275	1,648,395
Net change in loss reserve	33,331	(6,815)
Net change in special reserve	75,183	(13,616)

Note: Pursuant to Instruction Jin-Guan-Bao-Chan-Zi No. 11004107771, the Company is required to make reserve (recognized as expenses) in relation to this particular service at NT\$30 per insurance policy on a monthly basis starting from April 1, 2021.

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

**TRANSACTIONS WITH RELATED PARTIES INVOLVING MAIN BUSINESS ITEMS REACHING NT\$100 MILLION OR 20% OF PAID-IN CAPITAL OR MORE
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

The Company Involving Main Business Items	Related Party	Relationship	Transaction Details				Abnormal Transaction (Note 1)		Notes/Accounts Receivable (Payable)		Note (Note 2)
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Cathay Century Insurance Co., Ltd.	Cathay Life Insurance Co., Ltd.	Fellow subsidiary	Premiums income	\$ 115,000	0.38	Based on agreement	\$ -	-	\$ 1,384	0.06	
	Cathay United Bank Co., Ltd.	Fellow subsidiary	Premiums income	169,888	0.56	Based on agreement	-	-	67,637	3.02	

Note 1: If the transaction terms of related parties are different with the general terms, the differences and reasons should be described in the column of unit price and payment terms.

Note 2: If there is any payments (receipts) in advance, it should be stated the reason, contractual terms, amount, and differences from the general transaction type in the remarks column.

Note 3: Paid-up capital refers to the paid-up capital of the Company.

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2022

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

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Cathay Century Insurance Co., Ltd.	Cathay Financial Holdings Co., Ltd.	The Company's parent	\$ 612,702	Note	\$ -	-	\$ -	\$ -

Note: Turnover rate can not be calculated because it's mainly due to income tax receivable under the integrated income tax system.

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2022**

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

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Accounts	Amount	Payment Terms	% of Total Sales or Assets (Note 3)
0	Cathay Century Insurance Co., Ltd.	Cathay Insurance Co., Ltd (Vietnam)	1	Reinsurance premium inward	\$ 50,120	Based on agreement	0.21
				Claims incurred	1,926	Based on agreement	0.01
				Due from reinsurers and ceding companies	28,616	Based on agreement	0.05

Note 1: The parent company and subsidiaries are numbered as follows:

- a. Parent company: 0.
- b. Subsidiaries are numbered sequentially from 1.

Note 2: Transaction flows are as follows:

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

Note 3: For calculating the percentages, asset or liability account is divided by the total consolidated assets and the revenue or expense account is divided by the total consolidated net revenue of the same period.

Note 4: Information disclosed in this Table includes balances and transactions that have been eliminated on consolidation between the Group and its subsidiaries.

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2022			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2022	December 31, 2021	Number of Shares	%	Carrying Amount			
Cathay Century Insurance Co., Ltd.	Cathay Insurance Co., Ltd. (Vietnam)	Vietnam	Property insurance businesses	\$ 845,585	\$ 845,585	-	100	\$ 700,806	\$ 26,472	\$ 26,472	Note

Note: Share of profit or loss and OCI are recognized on the basis of the audited financial statements.

CATHAY CENTURY INSURANCE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 2)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2022	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2022	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Amount as of December 31, 2022	Accumulated Repatriation of Investment Income as of December 31, 2022
					Outward	Inward						
Cathay Insurance Co., Ltd. (China)	Property insurance businesses	\$ 12,196,844 (CNY 2,632,653 thousand)	(1)	\$ 2,964,730	\$ -	\$ -	\$ 2,964,730	\$ 473,379	24.5	\$ 115,978	\$ 2,370,722	\$ -

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2022	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA (Note 4)
\$ 2,964,730 (CNY645,000 thousand)	\$ 2,964,730 (CNY645,000 thousand)	\$ 7,679,835

Note 1: The investment amount is calculated based on historic exchange rate, and other columns are disclosed based on the exchange rate on December 31, 2022.

Note 2: Investment type is as follows:

- The Company made the investment directly.
- The Company made the investment through a company registered in a third region.
- Others.

Note 3: The calculation was based on unaudited financial statement.

Note 4: The limit is up to 60% of the investor's net worth as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA.

Note 5: On December 31, 2006, according to letter No. 094022847 issued by the Investment Commission of the Ministry of Economic Affairs (MOEAIC), the Company is authorized to invest US\$28,963 thousand and establish an insurance subsidiary, engaging in the property insurance business. On October 8, 2007, according to letter No. 1272 (2007) issued by China Insurance Regulatory Commission (CIRC), the Company is authorized to establish a property insurance company in the form of joint venture with Cathay Life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) was established in Shanghai and has acquired a business license of an enterprise as a legal person on August 26, 2008. On May 28, 2013, according to letter No. 10200136010 issued by the MOEAIC, the Company is authorized to remit CNY200,000 thousand to increase the share capital. The Company was authorized by CIRC to remit CNY100,000 thousand each on June 13, 2013 and March 18, 2014. On November 23, 2018, according to No. 10700281680 issued by the MOEAIC, the Company was authorized to remit CNY245,000 thousand to increase the share capital. On November 26, 2019, according to No. 10800291980 issued by the MOEAIC, the Company was authorized to remit CNY245,000 thousand to increase the share capital. Since the solvency of Cathay Insurance Company Ltd. (China) was compliant with the regulatory requirements, the Company's board of directors resolved to suspend capital increase on January 26, 2022. On March 31, 2022, according to No. 11100514060 issued by the MOEAIC, the Company was authorized to write down CNY245,000 thousand which had been remitted according to No. 10800291980 issued by the MOEAIC. As of December 31, 2022, the Company has remitted US\$97,292 thousand in total.