

Websites for search:

<http://mops.twse.com.tw/mops/web/index>

<https://www.cathayholdings.com/holdings/>

Stock code: 5846



國泰人壽保險股份有限公司

Cathay Life Insurance Co., Ltd.

2019 Annual Report

Dated: April 24, 2020

I. Spokesperson : Chao-Ting Lin
Title : Executive Vice President
Tel : (02)27551399
E-mail : abel_lin@cathaylife.com.tw

First Deputy Spokesperson : Chu-Jui Hung
Title : Vice President
Tel : (02)27551399
E-mail : gracehung@cathaylife.com.tw
Second Deputy Spokesperson : Chien-Hui Fan
Title : Vice President
Tel : (02)27551399
E-mail : winnie_fan@cathaylife.com.tw

II. Address and contact number of head office and branch companies:

1. Head office: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

Tel: (02) 27551399

2. Branch companies:

- Zhongxiao Branch: 10F., No.230, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
Tel: (02) 55793500
- New Taipei City Branch: 9F., No. 87, Sec. 4, Chunghsing Road, Sanchung District, New Taipei City, Taiwan (R.O.C.)
Tel: (02) 29770081
- Keelung Branch: 8F., No. 83, Yi 1st Rd., Zhongzheng Dist., Keelung City 202, Taiwan (R.O.C.)
Tel: (02) 24236288
- Yonghe Branch: 3F., No. 85, Sec. 1, Yonghe Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)
Tel: (02) 29249069
- Taoyuan Branch: 3F., No. 445, Fuxing Rd., Taoyuan Dist., Taoyuan City 330, Taiwan (R.O.C.)
Tel: (03) 3331180
- Luzhu Branch: 14F., No. 83, Sec. 1, Nankan Rd., Luzhu Township, Taoyuan City 338, Taiwan (R.O.C.)
Tel: (03) 3228277
- Hsinchu Branch: 5F., No. 150, Minzu Rd., East Dist., Hsinchu City 600, Taiwan (R.O.C.)
Tel: (03) 5326846
- Hsinchu County Branch: 5F., No. 133, Sanmin Rd., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)
Tel: (03) 5511180
- Zhudong Branch: 4F., No. 300, Sec. 2, Zhongfeng Rd., Zhudong Township, Hsinchu County 310, Taiwan (R.O.C.)
Tel: (03) 5967288
- Miaoli Branch: 8F., No. 408, Zhongzheng Rd., Miaoli City, Miaoli County 360, Taiwan (R.O.C.)
Tel: (037) 320455
- Zhunan Branch: 3F., No. 217, Bo'ai St., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)
Tel: (037) 470189
- Taichung Branch: B1, No. 499, Zhongming S. Rd., West Dist., Taichung City 403, Taiwan (R.O.C.)
Tel: (04) 23781655
- Taichung N. Branch: 5F., No. 581, Jinhua Rd., North Dist., Taichung City 404, Taiwan (R.O.C.)
Tel: (04) 22381219
- Fengyuan Branch: 8F., No. 60, Sec. 1, Yuanhuan N. Rd., Fengyuan Dist., Taichung City 420, Taiwan (R.O.C.)
Tel: (04) 25247454
- Nantou Branch: 6F., No. 613, Zhongzheng Rd., Caotun Township, Nantou County 542, Taiwan (R.O.C.)
Tel: (049) 2353194
- Zhushan Branch: 2F., No. 1146, Sec. 3, Jishan Rd., Zhushan Township, Nantou County 557, Taiwan (R.O.C.)
Tel: (049) 2645565
- Offshore Insurance Unit: No. 296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
Tel: (02) 27551399
- Changhua Branch: 5F., No. 521, Sec. 2, Zhongshan Rd., Changhua City, Changhua County, Taiwan (R.O.C.)
Tel: (04) 7236137
- Yunlin Branch: 4F., No. 89, Zhongshan Rd., Douliu City, Yunlin County 640, Taiwan (R.O.C.)
Tel: (05) 5329827
- Chiayi Branch: 5F., No. 246, Minzu Rd., East Dist., Chiayi City 600, Taiwan (R.O.C.)
Tel: (05) 2243456
- Chiayi County Branch: 6F., No. 72, Bade Rd., Puzi City, Chiayi County 613, Taiwan (R.O.C.)
Tel: (05) 3799003
- Tainan Branch: Rm. B, 9F., No. 496, Sec. 1, Ximen Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.)
Tel: (06) 2138815
- Xinying Branch: 6F., No. 7, Zhongzheng Rd., Xinying Dist., Tainan City 730, Taiwan (R.O.C.)
Tel: (06) 6355962
- Jiali Branch: 2F., No. 244, Jinxue Rd., Jiali Dist., Tainan City 722, Taiwan (R.O.C.)
Tel: (06) 7232295
- Kaohsiung Branch: Rm. A, 8F., No. 146, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City 801, Taiwan (R.O.C.)
Tel: (07) 2877507
- Yancheng Branch: 9F., No. 106, Dayong Rd., Yancheng Dist., Kaohsiung City 803, Taiwan (R.O.C.)
Tel: (07) 5322749
- North Kaohsiung Branch: 9F., No. 28, Zhongshan N. Rd., Gangshan Dist., Kaohsiung City 820, Taiwan (R.O.C.)
Tel: (07) 6213953
- Pingtung County Branch: 4F., No. 10, Jinan St., Pingtung City, Pingtung County 900, Taiwan (R.O.C.)
Tel: (08) 7380028
- Chaozhou Branch: 2F., No. 142, Yanping Rd., Chaozhou Township, Pingtung County 920, Taiwan (R.O.C.)
Tel: (08) 7895739
- Penghu Branch: 1F., No. 2, Yangming Rd., Magong City, Penghu County 880, Taiwan (R.O.C.)
Tel: (06) 9278659
- Yilan Branch: 7F., No. 157, Gongzheng Rd., Luodong Township, Yilan County 265, Taiwan (R.O.C.)
Tel: (03) 9563181
- Hualien Branch: 7F., No. 207, Zhongshan Rd., Hualien City, Hualien County, Taiwan (R.O.C.)
Tel: (03) 8323395
- Taitung Branch: 2F., No. 630, Sec. 2, Siwei Rd., Taitung City, Taitung County 950, Taiwan (R.O.C.)
Tel: (089) 231001

III. Name of Institution for stock transfer: Cathay Life Insurance Co., Ltd.
Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
Tel: (02) 27551399

IV. Names of external auditors in recent years: **Cheng-Hung Kuo, Li-Chi Chen**

CPA Office: Deloitte & Touche
Address: 20F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)
Tel: (02) 27259988
Websites: <http://www.deloitte.com.tw>

V. Overseas Listings and Access to the Listing Information: (None)

VI. Cathay Life Insurance official website:
<https://www.cathaylife.com.tw>

Content

One.	Letter to Shareholders	1
I.	Business Report for the year 2018	1
II.	2019 Business Plan	2
III.	Future development strategy.....	5
IV.	The effect of external competition, the legal environment, and the overall business environment	6
Two.	Company Profile	7
I.	Date of Establishment.....	7
II.	Company Profile	7
Three.	Corporate Governance Report	8
I.	Corporate structure and the tasks of its principal divisions	8
II.	Information on the company's directors, supervisors, president, vice presidents, and the supervisors of all the company's divisions and branch units.....	10
III.	Remuneration Paid to directors, supervisors, presidents, vice presidents in the latest fiscal year.....	30
IV.	Implementation of Corporate Governance	37
V.	Professional Fees to the CPA	116
VI.	Information of Independent Auditor replacement:	117
VII.	The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year	118
VIII.	Facts of equity transfer and change in equity pledge about the director or supervisor, managerial office, or shareholders having held the equity exceeding 10%.....	118
IX.	Information of stakeholders, spouse, and relative within the second degree of kinship of the top ten shareholders	118
X.	Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the company; disclose shareholding in aggregate of the above parties	119
Four.	Capital Overview	120
I.	Capital and Shares	120
II.	Issuance of corporate bonds, preferred shares, Global Depositary Receipts, employee stock option, new restricted employee shares, and merger (including merger and acquisitions and splits).....	126
III.	Implementation of the Capital Utilization Plans:.....	128
Five.	Overview of Operations	129

I.	The content of business.....	129
II.	An analysis of the market as well as the production and marketing situation:.....	141
III.	Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.	145
IV.	Disbursements for environmental protection:.....	145
V.	Labor relations	145
VI.	Important contracts and commitments.....	148
Six.	Financial Report.....	149
I.	Five Year Condensed Balance Sheet and Income Statement Summary	149
II.	Five Year Financial Analysis	153
III.	Audit Report from the Supervisors on the Latest Financial Statements.....	156
IV.	Audited consolidated financial reports of the parent and subsidiaries in the most recent year	157
V.	2019 individual financial statements	322
VI.	If the company or an affiliated enterprise has encountered any financial difficulties in the most recent fiscal year, the impact on the company’s financial condition shall be set forth.....	466
Seven.	Review and analysis of financial status and financial performance and risk management	466
I.	Financial Status.....	466
II.	Financial Performance	467
III.	Cash flows.....	467
IV.	Major capital expenditures in the most recent year	468
V.	The Investment Strategy in the most recent year. Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year	468
VI.	Risk analysis and evaluation.....	468
VII.	Other Major Events.....	473
Eight.	Special Disclosure.....	474
I.	Information on Affiliates.....	474
II.	Any private placement of securities in the recent years up to the publication of this annual report.....	511
III.	The shares in the Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report	512
IV.	Other important supplementary information	512
Nine.	Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders’ equity or price of shares pursuant to Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act	512

One. Letter to Shareholders

I. Business Report for the year 2018

(I) 2018 Business Plan and Implementation Results

Facing the changing environment and rapid development of FinTech and DigiTech, the Company adheres to its core value of “Integrity, Accountability, and Innovation” and the perception of “What if We Could,” and plans to enhance profitability with a stable operating attitude and innovative concept for digital transformation.

Meanwhile, the Company promoted and optimized “fair customer treatment” and “customization” services, implemented corporate sustainability, improved corporate governance, and continued to stabilize the workforce. Furthermore, to provide more protection for Taiwan’s citizens, uphold the nature of insurance, and correspond to IFRS 17, the Company continues to promote protection-oriented insurance products in the aim of gaining a leading position in the market.

Thanks to efforts of all employees, the Company’s first-year premium income reached NT\$201.06 billion in 2019, with first-year premiums equivalent to NT\$96.31 billion, total insurance premiums of NT\$674.27 billion (including reinsurance premiums), and individual after-tax profits of NT\$37.8 billion.

(II) 2018 budget implementation: None.

(III) Analysis of receipts, expenditures, and profitability

The company adheres to the business philosophy of stable development, and pursues the maximum value for all shareholders by dedicating efforts to innovation with diversified channels, promoting protection products, and continuous optimization of its marketing and management efficiency. In terms of asset management, we implemented risk control and timely adjusts asset allocation in order to improve the performance of capital utilization.

(IV) Status of research and development

1. Expenditures of research and development

The budgets on research and development in the last two years are shown in the table below:

Unit: NT\$ thousand

Year	2020 (Estimate)	2019	2018
Amount	316,720	248,741	246,996
Growth rate (%)	27%	0.7%	27%

2. Results of research and development

- (1) Product innovation: The company has been actively reacting to social changes with innovative products and protections to meet different consumers’ needs. In 2019, the company launched the market’s first “Long-term Nursing Term Health Insurance (In-kind Benefit Insurance)” that gives policyholders the option to receive benefits in the form of cash or service (in-kind benefit), and thereby improve the quality of nursing care. The company has

secured its position as the market leader with its ongoing innovation, and is the only insurance company to win “Excellence Award for Product Innovation” in “Taiwan Insurance Excellence Awards” for eight consecutive years.

- (2) Customer segment management: Given the ongoing wave of digital transformation, the company has been focusing on the development of data science and AI technologies, and using techniques such as machine learning and in-depth learning to analyze customers’ data. This level of profiling has enabled precision marketing, personalized services, more timely insight into customers’ needs as well as smart underwriting and claims approval to the improvement of overall customer experience.
 - (3) Digital development: Through enhanced digital interaction and digital sales, the company was able to implement a series of digital transformations and became the only Taiwanese company to win Celent’s “Digital and Omnichannel Technologies Award.”. The company has also been named “Life Insurance Company of the Year” for 2019 by Asia Insurance Review. In addition, the Company’s strive to engage participants of other industries for the development of new digital services has made it the first Taiwanese insurance company to pass regulatory sandbox, which in turn contributes to the digital and lifestyle upgrade of the insurance industry.
3. Future research and development plans and progress
- (1) Product innovation: An aging population combined with longer life expectancy means that more people are living in an unhealthy state for extended periods of time. In an attempt to encourage self-motivated health management, the Company will continue introducing usage-based policies in 2020 to create a health promotion ecosystem that helps people improve their health conditions and eventually reduce the amount of medical spending to the mutual benefit of the public, the company, and the society.
 - (2) Customer relationship management: Given how financial technologies have evolved, new data analysis and risk scoring models will continue to be developed to identify customers’ risks. Through statistical analysis, tagging and segmentation, the Company aims to explore users’ requirements and risks, and apply precision marketing techniques to raise the overall user experience and quality of channel service.
 - (3) Digital development: The concept of Open Banking can be extended to the insurance industry, enabling digital marketing and channel development. This concept also promotes innovation and cross-industry cooperation, which enables insurance services and products to be incorporated into consumers’ digital lifestyle.

II. 2019 Business Plan

(I) 2019 business strategies

“Digital Innovation and Dedicated Customer Service” will be the main theme of the Company’s operations in 2020.

The theme conveys a customer-centric focus, an open mindset, and ongoing innovation to insurance products and services through the use of digital technology. Digital procedures will be implemented to improve employees work efficiency and customer experience, whereas data

analysis will be adopted to gain insight into customers' needs. Driven by a protective and sustainable mindset, the Company aims to provide consultative services of the highest professionalism, efficiency and thoughtfulness.

1. Internal control

- (1) Actions will be taken to enhance compliance, risk management, information security and the internal audit/control system. These actions will help strengthen culture within the organization, which serves as a solid foundation for corporate governance and sustainability.
- (2) Technologies such as automation and AI will be developed, adopted and incorporated into corporate risk management to further improve internal control, and thereby support effective risk management and business growth.

2. Business development

- (1) Strengthened foundation for business expansion: Customer management resources and digital tools will be combined for greater customer reach. Furthermore, improved training will be applied to new recruits, senior employees and elites in order to build a professional service team.
- (2) Team expansion and management training: Attract and recruit the young generation by extending influence into external organizations. Meanwhile, enhancements will be made for training programs to facilitate managerial talents, ensuring the relevance between talent development and business strategies.
- (3) Resource integration and service scope expansion: Offer full range of financial services and hence improve operating efficiency of the entire group. Expand distribution channels and collaboration with external parties as means to sustain the growth.

3. Product development

- (1) Refine protection-oriented products in line with regulatory reform while maintaining the sale of investment products. Optimize product portfolio in ways to help accomplish the company's financial and operational targets.
- (2) Raise society's awareness towards aging population and health promotion etc. Design differentiated products for different customer segments.

4. Customer service

- (1) Apply digital technology in service design, and thereby improve learning and service efficiency across segments.
- (2) Enforce the fair customer treatment principle and apply customer experience management for improved customer relations. Create a consultation-friendly environment and solve customers' problems at the root from users' perspectives.
- (3) Adopt innovative technologies for the development of quality inbound/outbound consultation service, and raise customer experience through digital interaction.
- (4) Encourage service referral, enforce service-driven marketing, create value through telephone customer service, and aim toward the creation of an interactive center.

5. Digital development

Convey the concept of "What if We Could" and adopt innovative financial technologies to create the ultimate digital insurance experience. Create a digital insurance ecosystem through innovation

and cross-industry cooperation. Aim to incorporate insurance services and products into consumers' digital lifestyle for more convenient and customized consumer experience.

6. Talent development

The company will be improving its training system with employee-oriented perspectives to develop both compliance and professional capacity of its workforce. The training system will also aim at helping employees develop skills in different areas of expertise, including technology, and shaping a learning culture of "knowledge, feedback, and sharing." This new learning culture will improve the effectiveness in transferring knowledge and bring new growth momentum to the organization.

(II) 2019 business targets

The 2020 total insurance premium of NT\$697.9 billion.

(III) Important production and sales policies

1. Digital operations

- (1) Understanding the behaviors of internal and external customers for customer segmentation through data summarization and analysis, and interpreting the behaviors and preferences of each customer group for precise marketing to raise the overall user experience. Real-time monitoring of customer experience, collecting and corresponding to positive and negative evaluations, improving relationships with customers, and thereby strengthening the brand and the product loyalty from customers.
- (2) Responsible for developing new data analysis and risk scoring models to identify customers' risks, and is used in core businesses such as insurance claims fraud and underwriting decision-making, in order to assist companies in optimizing operational processes and making operating decisions.

2. Business promotion

- (1) Improve technology application and obtain better efficiency of business teams via digital tools.
- (2) Focus on the nature of insurance and promote protection-oriented products to provide the most basic life insurance protection, and make up for gaps related to long-term care, major illnesses, hospitalization, surgery, and accidents depending on customers' needs, in order to achieve comprehensive upgrade of insurance protection for the public.
- (3) Establish a stringent codes of conduct for solicitation, prevent improper solicitation, and strengthen risk management on the detection of abnormal contracts in order to prevent malpractices and ensure corporate and customer rights.

3. Sales control

- (1) Implement internal audit and internal control, continue to promote contract quality and enhance abnormal control, strictly abide by laws and regulations, and protect customers' rights.
- (2) Integrate risk monitoring and service evaluation systems to develop control measures for risk prevention in advance.

- (3) Improve personnel management by integrating system exclusive tools of education and training and customer service, taking into account service satisfaction and operational efficiency.

III. Future development strategy

(I) To apply the core function of “people-oriented value”

Cathay Life embraces its mission as “Cathay Life, Sunshine in Your Life,” and enforces its vision of “InsurTech, Happiness Gets.” Focusing on “protection,” the Company has built a seamless service network by cross-border thinking of insurance technology, aiming at stable and sound development in the insurance market, so that Cathay Life Insurance becomes the best partner for providing security in life.

(II) Enhance profitability and protect shareholders’ interests

In terms of business, the Company continues to adopt a multi-channel strategy and digital transformations, entering markets and expanding the customer base, while aiming at better organization quality with younger staff and high growth performance. In terms of finance, the Company secures income and maximize yield per dollar spent in order to enhance profitability.

(III) Improve customer satisfaction

The Company will observe customers’ experience via big data analysis, and dedicate efforts to providing a good customer experience in each stage, in order to gain positive word of mouth about high-quality experiences they had with us.

(IV) Implement corporate sustainability and improve global visibility

The Company will enforce its sustainable philosophy for the stability and well-being of society by contributing its financial expertise in cooperation with more stakeholders, and will continue to adopt PSI in order to bring visibility to Cathay Group with its international standards.

(V) Stable achievements and continuous improvement of corporate governance

The Company continues to improve legal compliance, internal audit and internal control, and effectiveness of risk control with the aim of keeping in line with international information security standards. These actions will help build a compliance culture within the organization, which serves as a solid foundation for corporate governance and sustainability.

(VI) Improve company value and employee value to create a win-win culture.

The Company will continue to incorporate accountability and innovation into its corporate culture, and develop top-down organizational awareness for the stability of its workforce. In response to digital and environmental changes, the Company has trained talents with the versatility to accomplish multiple fields of expertise for strengthening the competitiveness of companies and employees, and creating a win-win situation.

(VII) Overseas layout

The Company continues to obtain overseas market opportunities and develop future growth momentum, growing existing markets in China and Vietnam, and implementing the localization strategy, with continuous assessments on other opportunities in entering the overseas market and developing towards becoming “A Leading Financial Institution in Asia Pacific.”

(VIII) Financial technology is the main focus on development, with continuous upgrades in digital transformation.

Insurance businesses are undergoing some digital transformations in response to how financial technologies present opportunities and challenges to conventional financial businesses. In order to accelerate the momentum of fintech innovation, the competent authorities established mechanisms such as the regulatory sandbox and innovative trials, and by use of emerging technologies and through innovation and interdisciplinary cooperation, insurance is regarded not only as a product, but also as a customer-oriented service provider in this digital era.

IV. The effect of external competition, the legal environment, and the overall business environment

(I) External competition

During the fintech era, customer behavior shifted from passive to active amid expanded customer autonomy, and insurance companies will face more peer and interdisciplinary competition in terms of function, innovation and cost-effectiveness. In addition, the promotion of policies (such as updating relevant provisions of fintech innovative experimentation, also referred to as the Financial Regulatory Sandbox) allows insurers to apply technology on the trial test of innovative products or business models in specific fields. The government can perform joint experimentation with companies thanks to lifted restrictions, creating more opportunities for innovative products and service applications.

Taiwan is expected to become a hyper aged society in 2026 (20% of the population age 65 and above). In order to solve problems related to economic security for the elderly, the Financial Supervisory Commission established five main measures, including elderly security trust, the Housing Equity program, policy activation, encourage financial institutions to invest in long-term care, and continued advocacy of financial knowledge by use of the Financial Ombudsman Institution.

Encouraged by government policies, financial institutions have actively developed products and services for the elderly market in order to seize early business opportunities in the aging society and mitigate the government's social welfare burden.

(II) Legal environment

Since 2018, FSC has provided a safe environment for financial technology innovative experimentation with reference to the launch of "Fintech Innovative Experimentation" of the international level regulatory sandbox, assisting companies in launching innovative business models. By the end of November 2019, there were a total of 12 applications for the experimental sandbox for innovation, of which 7 (3 in banking, 2 in non-financial institutions, 1 in insurance, and 1 in securities) have already been approved, while another 28 businesses have started counseling services.

(III) Overall business environment

In the first half of 2019, factors such as the rapid rise of trade conflict between the US and China, the uncertainty of Brexit, and market concerns on the future economy have led to financial market fluctuations. However, as the world's major central banks have successively regained loose

monetary policy, the US and China have begun trade negotiations. The Conservative Party holds more voting power for the UK election, as a result, a rise in share and bond prices is expected in 2019. Due to the continuous impact from the US-China Trade War, geopolitical risks, and global debt issues, a slowdown in the global economy is expected, with the IMF global economic growth forecast trimmed to 3.5% at the end of 2019. Looking forward to the Taiwan economy in 2020, all major international forecasting institutes project higher economic growth rate in 2020 compared to that in 2019, and according to the latest forecast of Taiwan Institute of Economic Research in November 2019, the GDP in 2020 is expected to reach up to 2.45%.

Two. Company Profile

I. Date of Establishment: October 23, 1962

II. Company Profile:

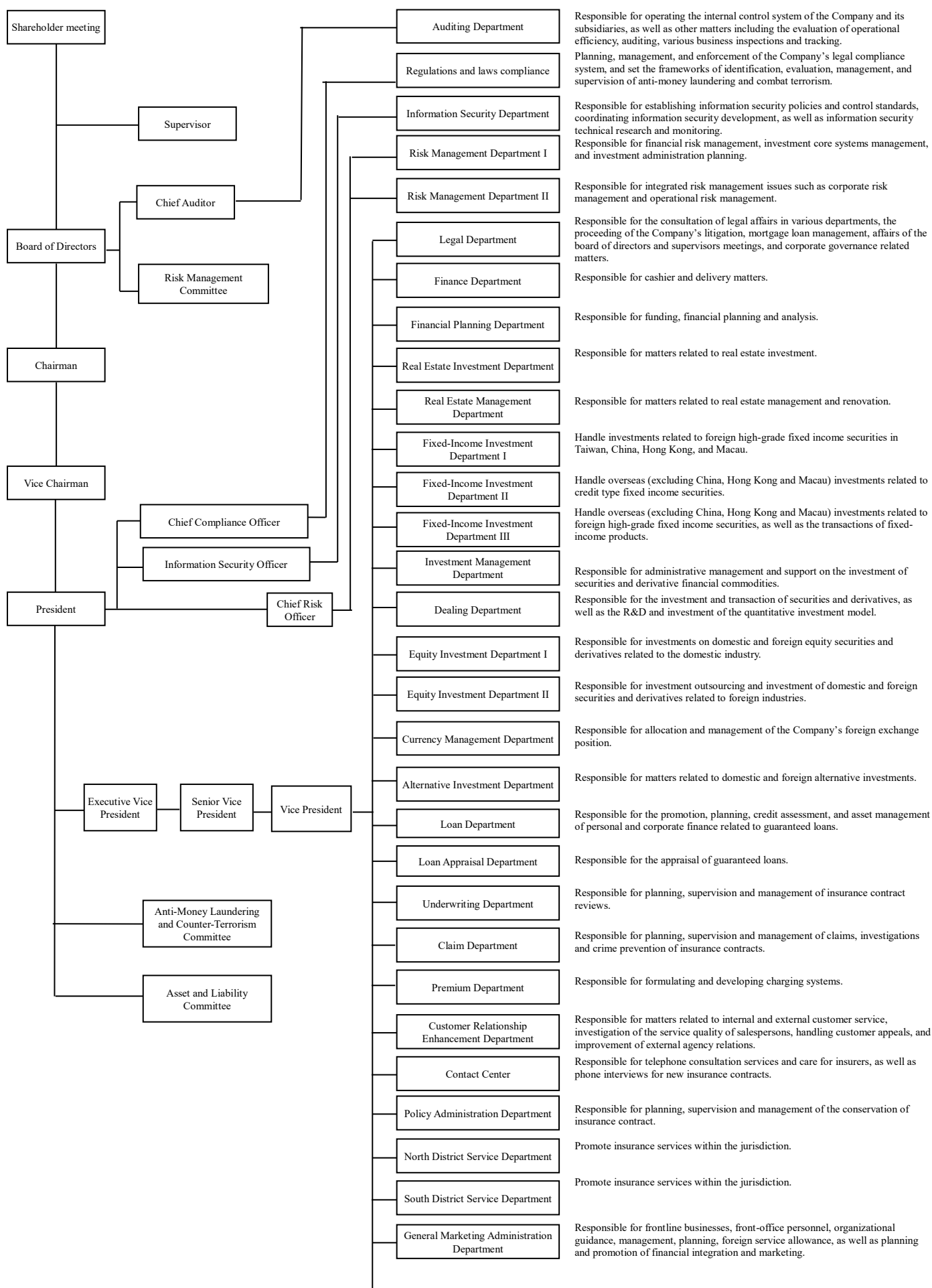
The company was incorporated on October 23, 1961. The head office is located at the Cathay Building, No. 90, Nanyang Street, Taipei, Taiwan. The head office was moved to the Cathay Trust Building at No. 1, Nanyang Street, Taipei, Taiwan on February 9, 1973, moved to Cathay Life Building at No. 1, Xiangyang Road, Taipei, Taiwan on September 9, 1977 and to No. 296, Sec. 4, Ren'ai Rd., Taipei, Taiwan on September 26, 1987.

In response to the government's policy on the popularization of securities and financial disclosure, the Company applied for listing on March 1, 1963, and was officially listed on November 7, 1964. On December 31, 2001, Cathay Life Insurance Co., Ltd. was reincorporated as Cathay Financial Holding Co., Ltd. through stock conversion, while its shares were listed on Taiwan Stock Exchange (TWSE) on the same day by approval of the Ministry of Finance. The Company was delisted on the same day to become a public offering company, and is one of the few popular Taiwan life insurance companies that discloses its financial information to the public.

As of December 31, 2019, the Company's paid-in capital was NT\$58,515,273,950, which was collected in full amount.

Three. Corporate Governance Report

I. Corporate structure and the tasks of its principal divisions:



Group Insurance Department	Responsible for group insurance businesses, front-office personnel, organizational guidance, management, planning, statistics, and foreign service allowance.
Direct Marketing Department	Responsible for trade marketing, front-office personnel, organizational guidance, management, planning, statistics, and foreign service allowance.
Bancassurance Department	Responsible for the planning and implementation of insurance agent businesses.
Education Training Department	Responsible for planning sales channel training, R & D of training content, digital learning, management of training measures, collection of company historical data.
Digital Marketing & Planning Department	Responsible for the Company's digital customer service strategy, digital insurance strategy, digital platform and sales channel digital auxiliary tool planning and operations, and e-commerce insurance.
Data and Intelligence Department	Responsible for the Company's data-driven business strategy and coordinate the Company's data science development and data governance.
Corporate Planning Department	Responsible for formulating the Company's mid- and long-term business strategies, research and development of new businesses/ new fields, and promoting corporate sustainability. It is also in charge of planning and execution on branding, customer relationships, and advertisement, as well as developing and managing marketing plans.
Product Management Department	Responsible for the payment system of front-office personnel, product strategy and other matters related to mathematical research and development.
Actuarial Department I	Responsible for withdrawing reserve funds, reversor bonus and statistical analysis.
Actuarial Department II	Responsible for the Company's capital, asset and liability management, setting up relative valuation systems, reinsurance, and R & D of related international standards, etc.
Investment Product Development Department	Responsible for the design, establishment and system introduction of investment-type insurance products.
Product Development Department	Responsible for the Company's product strategy, as well as the design, establishment and system introduction of traditional insurance products.
System Information Technology Department	Responsible for computer software, hardware and network management, as well as managing the host hardware, software, database, insured network deposit, testing and quality control, and information security management.
Life Insurance Information Technology Department	Responsible for the development and maintenance of the core life insurance system.
Investment Information Technology Department	Responsible for the development and maintenance of investment, finance, accounting, loan, general affairs systems.
Marketing Information Technology Department	Responsible for the development and maintenance of marketing channel support and insurer service system.
Human Resources Department	Responsible for internal personnel management and human resource development.
General Affairs Department	Responsible for document filing, general affairs, procurement, security of the head office building, protection and matters not covered by other departments.
Occupational Safety and Health Department	Responsible for occupational disaster prevention, as well as the planning and supervision of occupational safety and health in various departments.
Accounting Department	Responsible for accounting and statistics, budget and other related accounting matters.
Investment Accounting Department	Responsible for financial commodities investment, management and research of accounting matters.
North District Operation Management Department	Responsible for business supervision, channel integration, marketing and planning, reserving talent on sales management, as well as personnel management within the jurisdiction.
South District Operation Management Department	Responsible for business supervision, channel integration, marketing and planning, reserving talent on sales management, as well as personnel management within the jurisdiction.
Overseas business department	Responsible for overall overseas market development, overseas insurance management, overseas exchange among sectors of industry, government and academia, and cultivating overseas talents.
District	Divide counties and cities into several business regions, and set up special recruitment or exhibition departments to be responsible for business planning and supervision of frontline specialized recruitment and exhibition within the jurisdiction, as well as the education and management of front-office personnel.
Branch companies	Responsible for frontline business development.

II. Information on the company's directors, supervisors, president, vice presidents, and the supervisors of all the company's divisions and branch units

(I) Board Members and Supervisors:

1. Board Members and Supervisors Information (1):

March 31, 2020

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected	Shareholding when Elected		Current shareholding		Shareholdings of spouse and underage children		Shares held in the name of others		Education and selected past positions	Concurrent positions at the Company and other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remarks
							Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Chairman	R.O.C.	Tiao-Kuei Huang	M	2017.6.16	Three years	1998.8.24									Chairman of Cathay Life, Former Vice Chairman and Former President of Cathay Life (M.S., National Tsinghua University)	Director of Cathay Financial Holdings; Managing Supervisor of Cathay Medical Care; President of the Life Insurance Association of the R.O.C.				
Vice Chairman	R.O.C.	Ming-Ho Hsiung	M	2017.6.16	Three years	2002.5.18	Note 1	Note 1	Note 2	Note 2	-	-	-	-	Vice Chairman and former President of Cathay Life (M.S., University of Iowa, USA)	Director of Cathay Financial Holdings, Cathay Charity Foundation, and Cathay United Bank Culture and Charity Foundation, etc.				
Director	R.O.C.	Tzung-Han Tsai	M	2017.6.16	Three years	2005.5.18									Vice Chairman of Cathay United Bank (J.D., Georgetown University, USA)	Director of Conning Holdings Limited, The Taiwan Entrepreneurs Fund Limited, 7-Eleven Malaysia Holdings Berhad and Srisawad Corporation Public Company Limited; Vice President of Tung Chi Capital Co., Ltd., etc.				

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected	Shareholding when Elected		Current shareholding		Shareholdings of spouse and underage children		Shares held in the name of others		Education and selected past positions	Concurrent positions at the Company and other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remarks
							Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Director	R.O.C.	Chung-Yan Tsai	M	2017.6.16	Three years	2006.8.11	Note 1	Note 1	Note 2	Note 2	-	-	-	-	Senior Executive Vice President of Cathay Real Estate Development Co., Ltd. (M.A., San Francisco State University, USA)	Director of Cathay Real Estate Development Co., Ltd., Cathay Healthcare Management Co. Ltd., Cymbal Medical Network Co., Ltd., Xingde Co., Ltd. and Hsing Lin Medicine Industry Co., Ltd.; Vice President of Liang-Ting Co., Ltd., etc.				
Director	R.O.C.	Shan-Chi Liu	M	2017.6.16	Three years	2017.6.16									President of Cathay Life Insurance (M.B.A., National Taiwan University)	Director of Cathay Medical Care, etc.				
Director	R.O.C.	Chao-Ting Lin	M	2017.6.16	Three years	2013.6.27									Managing Senior Executive Vice President of Cathay Life Insurance (M.S., National Taiwan University)					
Director	R.O.C.	Yi-Tsung Wang	M	2017.6.16	Three years	2016.11.25									Senior Executive Vice President of Cathay Life Insurance (M.B.A., Massachusetts Institute of Technology, USA)	Director of Cathay Securities Investment Trust Co., Ltd.				
Director	Canada	John Chung- Chang Chu	M	2017.6.16	Three years	2014.12.16									Chairman of May Foong Woolen & Worsted Textile Mill. Ltd. (M.B.A., York University, Canada)	Chairman, May Foong Development Co., Ltd.; Director of Cathay Real Estate Development Co., Ltd.				

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected	Shareholding when Elected		Current shareholding		Shareholdings of spouse and underage children		Shares held in the name of others		Education and selected past positions	Concurrent positions at the Company and other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remarks
							Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Independent Director	R.O.C.	Li- Ling Wang	F	2019.6.26	Three years	2019.6.26	Note 1	Note 1	Note 2	Note 2	-	-	-	-	Chairman of Pension Fund Association of R.O.C.; Professor of Risk Management and Insurance, National Chengchi University; Vice President of National Chengchi University; Chairman of Financial Supervisory Commission; Director of First Financial Holding; Independent Director of China Life Insurance (Ph.D. in Risk Management and Insurance, Temple University; Master of Accounting, University of Hartford)	Independent Director of Cathay Financial Holding Co., Ltd.; Professor of Risk Management and Insurance, National Chengchi University; Chairman of Pension Fund Association of R.O.C.; Managing Director of Taiwan Risk and Insurance Association				
Independent Director	R.O.C.	Tang- Chieh Wu	M	2019.6.26	Three years	2019.6.26									Secretariat of Taiwan Financial Services Roundtable; Chairman of Hua Nan Financial Holdings; Chairman of Hua Nan Bank; Chairman of Land Bank of Taiwan; Political Deputy Minister of Finance; Vice Chairman of Financial Supervisory Commission and Director-General of Securities and Futures Bureau (Master of Finance, National Chengchi University)	Independent Director of Cathay Financial Holding Co., Ltd., Cathay United Bank, and Cathay Century Insurance; Managing Director of Cathay United Bank; Secretariat of Taiwan Financial Services Roundtable; Director of Accounting Research and Development Foundation and Foundation of Pacific Basin Financial Research and Development; Alumni of Finance, Vice Chairman of Alumni of Finance, National Taipei University; Managing Director of Alumni Association of National Taipei University; Supervisor of Taiwan-Russia Association				

Title (Note 1)	Nationality or Place of Registration	Name	Gender	On-Board Date	Office Term	Date first Elected	Shareholding when Elected		Current shareholding		Shareholdings of spouse and underage children		Shares held in the name of others		Education and selected past positions	Concurrent positions at the Company and other companies	Managers, directors or supervisors who are spouses or relatives within the second degree of kinship			Remarks
							Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Managing Supervisor	R.O.C.	Chih- ling Tsai	F	2017.6.16	Three years	2017.6.16	Note 1	Note 1	Note 2	Note 2	-	-	-	-	President of Ande Development Co., Ltd. (M.B.A., Pepperdine University, USA)	Director of Ande Development Co., Ltd.				
Supervisor	R.O.C.	Tso- Hsing Hsu	M	2017.6.16	Three years	2017.6.16									Supervisor of Cathay Hospitality Management (Master degree in Law, Southern Methodist University, USA)	Director of CCH Commercial (Cayman) Company Limited and Cathay Healthcare Management Limited(Cayman); Supervisor of Cathay Century Insurance Co., Ltd., Cathay Hospitality Management, Cathay Hospitality Management Consulting Co., Ltd., and Hangzhou Kunning Health Consulting Co., Ltd., etc.				
Supervisor	R.O.C.	Chih- Ming Lin	M	2017.6.16	Three years	2000.1.24									Former Director of Cathay General Hospital (MD, National Taiwan University)	Director and medical consultant of Cathay Medical Care				

Note 1: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd., directors and supervisors are legal representatives of the company, with a total of 5,431,527,395 shares held when appointed.

Note 2: Cathay Financial Holding Co., Ltd. holds 5,851,527,395 of common shares with 100% shareholding.

Note 3: Directors' and Supervisor' concurrent employments were accurate as of Feb.~Mar. 2020.

Major Shareholders of Institutional Shareholders:

April 14, 2020

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Cathay Financial Holding Co., Ltd.	Wanbao Development Co., Ltd. (15.71%), Lin Yuan Investment Co., Ltd. (13.72%), Labor Pension Fund (2.72%), Shin Kong Life Insurance Co., Ltd. (1.96%), Labor Insurance Fund (1.55%), Nan Shan Life Insurance Company, Ltd. (1.40%), Global Life Insurance Co., Ltd. (1.31%), Fubon Life Insurance Co., Ltd. (1.14%), Singapore Government Special Investment Account entrusted to Citi Taiwan (1.07%), China Life Insurance Co., Ltd. (1.06%)

Note 1: The name of the representative of corporate shareholder should be filled in for directors and supervisors that are representatives of corporate shareholders.

Note 2: Fill in the major corporate shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage (including common stock and preferred stock). Fill in Chart 2 below, if the major shareholders are institutions/corporate.

Note 3: For corporate shareholders that are not corporate entities, the name of capital contributor or donor and percentage of capital contribution or donation are shown instead of shareholder name and shareholding percentage.

Major shareholders that are institutions/corporate:

April 14, 2020

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Wan Pao Development Co., Ltd.	Tung Chi Capital Co., Ltd. (19.96%), Chia Yi Capital Co., Ltd. (19.85%), Liang Ting Industrial Co., Ltd. (17.85%), Lin Yuan Investment Co., Ltd. (14.70%), Wan Ta Investment Co., Ltd. (12.89%), Pai Hsing Investment Co., Ltd. (9.18%), Chen Sheng Industrial Co., Ltd. (3.57%), Tzung Lien Industrial Co., Ltd. (2.00%)
Lin Yuan Investment Co., Ltd.	Chia Yi Capital Co., Ltd. (19.75%), Tung Chi Capital Co., Ltd. (19.69%), Liang Ting Industrial Co., Ltd. (17.74%), Wan Pao Development Co., Ltd. (14.81%), Wan Ta Investment Co., Ltd. (13.01%), Pai Hsing Investment Co., Ltd. (9.45%), Chen Sheng Industrial Co., Ltd. (3.54%), Tzung Lien Industrial Co., Ltd. (2.01%)
Labor Pension Fund	None
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd. 100%
Labor Insurance Fund	None

Institutional Shareholders (Note 1)	Major Shareholders of Institutional Shareholders (Note 2)
Nan Shan Life Insurance Company, Ltd.	Trust account of Runcheng Investment Holdings entrusted to First Bank 60.01%, Runcheng Investment Holding Co., Ltd. 29.54%, Ying-Tsung Tu 2.89%, Ruentex Construction Co., Ltd. 0.29%, Runhua Textile Co., Ltd. 0.27%, Ruentex Development Co.,Ltd. 0.23%, Ruentex Industries Ltd. 0.21%, Trust account of Nanshan Life Investment Co., Ltd. entrusted to Taishin International Bank 0.20%, Yuan Hsin Investment Co., Ltd. 0.16%, Runtai Leasing Co., Ltd. 0.13%
TransGlobe Life Insurance Inc.	Chung Wei Yi Co., Ltd. (100%)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. 100%
Citibank (Taiwan) as Directed Trustee For GIC-Government of Singapore	None
China Life Insurance Co., Ltd.	China Development Financial Holding Corp. (26.16%), KGI Securities Co., Ltd. (8.66%), Cathay Life Insurance Co., Ltd. (3.04%), Videoland Inc. (2.42%), New Labor Pension Fund (1.61%), Linglang Chan (1.24%), Advanced Star Series Total International Stock Index Fund Investment Account entrusted to JP Morgan Chase Bank N.A., Taipei. Branch (1.21%), Singapore Government Special Investment Account entrusted to Citi Taiwan (1.17%), Norges Bank Special Investment Account entrusted to Citi Taiwan (1.12%), Labor Insurance Fund (1.03%)

Note 1: The name of the institutional shareholder should be filled in for an institutional investor, like that in Chart 1.

Note 2: Fill in the major shareholders (top-10 shareholdings) of the institutional shareholders and their individual holding percentage.

Note 3: For corporate shareholders that are not corporate entities, the name of capital contributor or donor and percentage of capital contribution or donation are shown instead of shareholder name and shareholding percentage.

2. Board Members and Supervisors Information (2):

March 31, 2020

Criteria Name (Note 1)	Has at least five years of relevant working experience and the following professional qualifications			Independence Criteria (Note 2)												Name of other Taiwanese Companies currently Serves as an independent Director
	An instructor of Commerce, Law Finance, Accounting, or other fields related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who possessed National Exam Certificate in profession necessary for the business of the company	Work experience in areas of commerce, law, finance, or accounting necessary for the business of the company	1	2	3	4	5	6	7	8	9	10	11	12	
Tiao-Kuei Huang	✓		✓	✓		✓	✓					✓	✓	✓		
Ming-Ho Hsiung			✓	✓		✓	✓					✓	✓	✓		
Tzung-Han Tsai			✓	✓		✓		✓		✓		✓	✓	✓		
Chung-Yan Tsai			✓			✓		✓	✓	✓		✓	✓	✓		
Shan-Chi Liu			✓			✓	✓	✓				✓	✓	✓		
Chao-Ting Lin			✓		✓	✓	✓	✓			✓	✓	✓	✓		
Yi-Tsung Wang			✓			✓	✓	✓		✓		✓	✓	✓		
John Chung-Chang Chu			✓	✓		✓	✓	✓	✓	✓		✓	✓	✓		
Li-Ling Wang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Tang-Chieh Wu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		2
Chih-ling Tsai			✓	✓		✓	✓	✓	✓	✓		✓	✓	✓		
Tso-Hsing Hsu			✓	✓		✓	✓	✓		✓		✓	✓	✓		

Chih-Ming Lin			✓			✓	✓	✓	✓	✓		✓	✓	✓		

Note 1: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd., directors and supervisors are legal representatives of the company.

Note 2: Directors or supervisors who, during the two years before being elected or during the term of office, meet any of the following situations, please tick (✓) the appropriate corresponding boxes.

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or supervisor of the company or any of its affiliated companies (this restriction does not apply to concurrent independent director positions in the company, its parent company, subsidiary, or another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names in an aggregate amount of 1% or more than the total outstanding shares of the Company or ranked in the top-10 holdings.
- (4) Not a manager listed in (1), or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in (2) or (3).
- (5) Not a director, supervisor, or employee of any corporate shareholder that: 1. holds 5% or more of the Company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the Company according to Paragraph 1 or 2, Article 27 of The Company Act. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).
- (6) Not a director, supervisor, or employee of any other company that controls directorship in the company or where more than half of total voting rights are controlled by a single party (this excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with the Securities and Exchange Act or local laws).
- (7) Does not assume concurrent duty as Chairman, President, or equivalent role, and is not a director, supervisor, or employee of another company or institution owned by a spouse. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiaries of the parent company that are compliant with The Company Act or local laws).
- (8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company (this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the Company, or in the Company's parent or subsidiary, or in another subsidiary of the parent that is compliant with the Securities and Exchange Act or local laws).
- (9) Not a professional who provides audit service, or commercial, legal, financial, accounting or related services for an accumulated sum of less than NT\$500,000 in the last 2 years, to the Company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliated companies. This excludes roles as Risk Management Committee, Public Acquisition Review Committee, or M&A Special Committee member appointed in accordance with the Securities and Exchange Act or Business Mergers And Acquisitions Act.
- (10) Not a relative within the second degree of kinship to any other director of the company.
- (11) Not been a person of any conditions defined in Article 30 of the Company Act.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

(II) Background information of the President, Vice Presidents, Assistant Vice Presidents, and heads of departments and branch offices:

December 31, 2019

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
President	R.O.C.	Shan-Chi Liu	M	2017.08.21							M.B.A., National Taiwan University	Director of Cathay Life Insurance Co., Ltd. and Cathay General Hospital				
Executive Vice President	R.O.C.	Chao-Ting Lin	M	2017.06.30							M.S., National Taiwan University	Director of Cathay Life Insurance Co., Ltd.				
Senior Vice President	R.O.C.	Yi-Tsung Wang	M	102.07.13							M.B.A., Massachusetts Institute of Technology, USA	Director of Cathay Life Insurance Co., Ltd. and Cathay Securities Investment Trust Co., Ltd.				
Senior Vice President	R.O.C.	Ta-Kun Liu	M	2017.06.30							M.B.A., Massachusetts Institute of Technology, USA					
Senior Vice President	R.O.C.	Li-Chiu Wang	F	2017.06.30							M.S. Insurance, Feng Chia University					
Senior Vice President	R.O.C.	Chun-Hung Wu	M	2017.12.22							M.S. Statistics, National Tsinghua University	Director of Cathay Securities Investment Consulting Co.,Ltd., Cathay Lujiazui Life Insurance Company Limited and Cathay Life Insurance (Vietnam) Co., Ltd.; Supervisor of Cathay Century (China)				
Senior Vice President	R.O.C.	Ming-Huan Chen	M	2019.01.31							Computer Science B., Soochow University	Director of Cathay Century (China)				
Vice President	R.O.C.	Chin-Shu Lin	M	2006.06.13							M.S. Risk Management, National Chengchi University	Chairman of Cathay Insurance(Vietnam); Director of Cathay Lujiazui Life Insurance Company Limited				
Chief Compliance Officer	R.O.C.	Mao-Chi Chung	M	2008.01.25							M.B.A., Fudan University	Chief Committee of Cathay Life Employees' Welfare Committee				
Vice President	R.O.C.	Chao-Chi Tsai	M	2014.01.09							Marine Transportation Management B., National Chiao Tung University					
Vice President	R.O.C.	Shih-Chiao Lin	M	2013.01.10							M.B.A., National Taiwan University	Director of Cathay Venture Inc. and Rizal Commercial Banking Corporation(RCBC)				

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Vice President	R.O.C.	Yi-Fang Tsai	F	2014.06.07							M.B.A., University of Illinois, USA	Director of Cathay Venture Inc.				
Vice President	R.O.C.	Shu-Ying Wu	F	2018.07.01							M.B.A., University of Michigan, USA	Vice President of Cathay Financial Holding Co., Ltd.; Director of PSS Co., Ltd., Tianji Energy Co., Ltd., Kaitai Energy Co., Ltd., Hongtai Energy Co., Ltd., Limei Energy Co., Ltd., Longxian Water Resources Co., Ltd., Tianji Power Co., Ltd., Hongtai Power Co., Ltd. and Greenhealth Water Resources Co., Ltd.				
Vice President	R.O.C.	Ta-Ching Hung	M	2013.12.28							M.B.A., National Chengchi University	Vice President of Cathay Financial Holding Co., Ltd.; Supervisor of Taiwan Star Telecom Corporation Limited				
Vice President	R.O.C.	Cheng-Fu Huang	M	2015.02.07							M.S. Statistics, National Chengchi University					
Vice President	R.O.C.	Chao-Ming Chang	M	2014.12.16							Economics B., National Taiwan University					
Vice President	R.O.C.	Wen-Kai Kuo	M	2015.02.07							Business Mathematics B., Soochow University	Director of PSS Co., Ltd., Nan-Gang International 1 Corp. and Nan-Gang International 2 Corp.; Chairman of Lin Yuan (Shanghai) Real Estate Co., Ltd. and director of Cathay Woolgate Exchange Holding 1 Limited, Cathay Woolgate Exchange Holding 2 Limited, Cathay Walbrook Holding 1 Limited, and Cathay Walbrook Holding 2 Limited				
Corporate Governance Officer	R.O.C.	Tu-Chih Kung	M	2016.04.28							LL.B., National Taiwan University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Vice President	R.O.C.	Hsun-Yu Li	M	2016.04.28							M.S., National Central University	Director/President of Cathay Life Insurance (Vietnam) Co., Ltd.				
Chief Risk Officer	R.O.C.	Ching-Lu Huang	M	2016.04.28							M.S. Statistics, National Tsinghua University	Chief Risk Officer of Cathay Financial Holding Co., Ltd.				
Vice President	R.O.C.	Ming-Hung Liao	M	2016.04.28							M.S. Insurance, Feng Chia University	Director/President of Cathay Lujiazui Life Insurance Company Limited				
Vice President	R.O.C.	Chu-Jui Hung	F	2016.04.28							Mathematics B., National Taiwan University					
Chief Auditor	R.O.C.	Shu-Chuan Chen	F	2016.11.22							Master degree in Law, American University Washington College of Law					
Vice President	R.O.C.	Fu-Min Wang	M	2017.03.30							Business Mathematics B., Soochow University	Vice President of Cathay Financial Holding Co., Ltd.; Supervisor of Cathay Life Insurance (Vietnam) Co., Ltd.				
Vice President	R.O.C.	Jung-Hsin Hu	M	2017.06.30							Business Management B., Chinese Culture University					
Vice President	R.O.C.	Tsung-Wei Wu	M	2017.06.30							M.B.A., Fudan University					
Vice President	R.O.C.	Yin-Shou Chang	M	2017.06.30							LL.B., National Chengchi University					
Vice President	R.O.C.	Chien-Hui Fan	F	2017.12.22							M.B.A., National Chengchi University					
Vice President	R.O.C.	Pei-Ching Lin	F	2017.12.22							M.S. IT management, National Taiwan University	Director of Dr Plus Beauty Co., Ltd., major shareholder of Leya International Co., Ltd., and Director of Yuanli Medical Beauty Group				
Vice President	R.O.C.	Wen-Jui Li	M	2019.01.31							M.S. Applied Mathematics, National Sun Yat-sen University					
Vice President	R.O.C.	Tsung-Nan Tsai	M	2019.11.14							M.B.A., Waseda University					
Senior VP	R.O.C.	Ting-Lun Li	M	2013.07.13							M.B.A., Alliance Manchester Business School, UK	Director of Cathay Woolgate Exchange Holding 1 Limited and Cathay Walbrook Holding 1 Limited				

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Senior VP	R.O.C.	Li-Hua Lo	F	2016.04.28							Accounting B., Chung Yuan Christian University					
Senior VP	R.O.C.	Chia-Lin Yang	M	2016.04.28							M.S. Public Finance, National Chengchi University					
Senior VP	R.O.C.	Ying-Chi Hsin	F	2016.04.28							M.B.A. Finance, National Chengchi University					
Senior VP	R.O.C.	Ju-Ping Chiu	F	2015.02.07							M.B.A., Boston University, USA	Director of Cathay Futures Co., Ltd.				
Senior VP	R.O.C.	Su-Ling Kuo	F	2017.03.30							M.B.A., National Chung Cheng University					
Senior VP	R.O.C.	Wei-Chi Li	F	2008.07.16							M.B.A. Finance, National Central University	Supervisor of Cathay Securities Investment Consulting Co., Ltd.; Director of Lin Yuan (Shanghai) Real Estate Co., Ltd.				
Senior VP	R.O.C.	Yu-Chih Lai	M	2017.08.17							M.B.A., National Chung Cheng University					
Senior VP	R.O.C.	Yu-Lien Li	F	2008.07.16							M.S. Insurance, National Chengchi University					
Senior VP	R.O.C.	Tzu-Ling Ko	F	2017.08.17							M.B.A., National Taiwan University					
Senior VP	R.O.C.	Chin-Hsiung Yen	M	2017.12.22							LL.B., Fu Jen Catholic University					
Senior VP	R.O.C.	Ling-Hao Chang	M	2002.10.10							Economics B., Soochow University					
Senior VP	R.O.C.	Chih-Jung Chen	M	2011.01.28							LL.B., Fu Jen Catholic University					
Senior VP	R.O.C.	Hsiang-Fu Lin	M	2006.10.14							M.B.A., National Sun Yat-sen University					
Senior VP	R.O.C.	Chieh-Fu Ting	M	2013.03.16							M.S. Risk Management and Insurance, National Kaohsiung University of Science and Technology					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Senior VP	R.O.C.	Yi-Lien Wan	F	2013.10.29							M.S. Risk Management, National Chengchi University					
Senior VP	R.O.C.	Min-Hsiung Chien	M	2007.11.21							Economics B., Fu Jen Catholic University					
Senior VP	R.O.C.	Tse-Ming Kang	M	2016.01.29							Accounting B., Tamkang University					
Senior VP	R.O.C.	Tsu-Yueh Hsueh	M	2014.07.22							M.S. Statistics, National Tsinghua University					
Senior VP	R.O.C.	Ling-Yung Chiu	F	103.06.07							M.S., National Taiwan University					
Senior VP	R.O.C.	Yi-Ju Tu	F	103.07.22							Statistics B., National Chung Hsing University					
Senior VP	R.O.C.	Ching-Mei Kuo	F	2016.04.28							M.B.A., Massachusetts Institute of Technology, USA					
Senior VP	R.O.C.	Chia-Lin Wu	M	2011.03.15							M.S. Insurance, Tamkang University	Vice President of Cathay Life Insurance (Vietnam) Co., Ltd.				
Senior VP	R.O.C.	Hsu-Cheng Tsai	M	2011.01.28							M.S. Insurance, Tamkang University	President of Cathay Lujiazui Life Insurance Company Limited Fujian Branch				
Senior VP	R.O.C.	Chien-Chang Li	M	2009.04.29							M.S. Applied Mathematics, National Cheng Kung University	Vice President of Cathay Lujiazui Life Insurance Company Limited and President of Henan Branch				
Senior VP	R.O.C.	Hsu-Feng Cheng	M	2013.12.28							M.S. Accounting, National Taiwan University	Partner of Zhida Certified Public Accountants Co.,Ltd.; Supervisor of Lin Yuan (Shanghai) Real Estate Co., Ltd. and Director of Cathay Woolgate Exchange Holding 1 Limited, Cathay Woolgate Exchange Holding 2 Limited				
Senior VP	R.O.C.	Wen-Yu Cho	F	2016.04.28							Business Administration B., National Taiwan University of Science and Technology					
Senior VP	R.O.C.	Chien-Chih Huang	M	2017.08.17							M.S. Statistics, National Tsinghua University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Senior VP	R.O.C.	Chia-Ying Lin	F	2017.12.22							M.S. Agricultural Economics, National Taiwan University					
Senior VP	R.O.C.	Fang-Hsing Wu	M	2013.01.10							M.S. Risk Management and Insurance, National Kaohsiung University of Science and Technology					
Senior VP	R.O.C.	Tai-Chou Chen	M	2011.01.28							Business Management B., National Chengchi University					
Senior VP	R.O.C.	Ping-Chieh Tsai	M	2017.03.30							M.S. Mathematical Statistics, National Chung Cheng University					
Senior VP	R.O.C.	Ming-Hsien Wu	M	2017.11.08							M.S. Civil Engineering, National Cheng Kung University					
Senior VP	R.O.C.	Ping-Yi Lin	M	2013.07.13							M.B.A., National Central University	Director of Shang Yang Enterprise Co., Ltd.				
Senior VP	R.O.C.	Ying-Hsiang Kao	M	2007.01.03							M.B.A., National Chengchi University					
Senior VP	R.O.C.	Min-Hung Shih	M	2013.01.10							M.S. Architecture, National Cheng Kung University	Director of Lin Yuan (Shanghai) Real Estate Co., Ltd., Cathay Woolgate Exchange Holding 1 Limited, Cathay Woolgate Exchange Holding 2 Limited, and Cathay Walbrook Holding 2 Limited				
Senior VP	R.O.C.	Chi-Feng Chen	M	2013.01.10							Land Economics B., National Chengchi University					
Senior VP	R.O.C.	Pi-Yu Tsao	M	2011.01.28							Cooperative Economics B., National Chung Hsing University					
Senior VP	R.O.C.	Shu-Ming Chang	M	2016.04.28							M.S. Mathematics, Tamkang University					
Senior VP	R.O.C.	Yu-Ju Liao	F	2016.05.24							Business Administration B., National Taiwan University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Senior VP	R.O.C.	Wen-Hsuan Wu	M	2007.08.22							LL B., National Chung Hsing University					
Senior VP	R.O.C.	Wan-Ju Lien	F	2017.08.17							M.S. Accounting, National Taiwan University					
Senior VP	R.O.C.	Ko-Wen Chang	M	2017.03.30							M.S. Applied Mathematics, National Cheng Kung University					
Senior VP	R.O.C.	Shih-Chieh Chen	M	2018.02.10							M.B.A, Tamkang University					
Senior VP	R.O.C.	Fan-Jung Tseng	M	2018.08.16							LL.B., Chinese Culture University					
Senior VP	R.O.C.	Chao-Cheng Chiang	M	2018.04.26							M.B.A. Finance, National Central University					
Senior VP	R.O.C.	Hsiao-Han Chen	F	2019.01.31							M.B.A., National Taiwan University					
Senior VP	R.O.C.	Cheng-Liang Chung	M	2019.07.11							M.S. Statistics, National Chengchi University					
Senior VP	R.O.C.	Tien-Hsiang Hsu	M	2019.03.22							LL.B., Soochow University					
Senior VP	R.O.C.	Chin-Chi Chen	M	2019.08.16							M.S. Economics, National Taiwan University	Director of Dali Energy Co., Ltd., Yong-Yue Energy Corp., Xiyi Co., Ltd., Baiyang Energy Co., Ltd., Xinritai Power Co., Ltd., Chinese Energy Holdings Limited, Cathy Sunrise Electric Power One Co., Ltd., Sunrise PV One Co., Ltd., Yunghan Co., Ltd., Cathy Sunrise Electric Power Two Co., Ltd., Taixu Energy Technology Co.Ltd., and Xinritai Energy Co., Ltd.				
Senior VP	R.O.C.	Tai-Hsu Chen	M	2019.01.31							Applied Mathematics, Fu Jen Catholic University	Vice President of Cathay Life Insurance (Vietnam) Co., Ltd.				
Senior VP	R.O.C.	Yi-Hui Chien	F	2019.11.14							M.B.A., State University of New York	Director of Cathay Woolgate Exchange Holding 2 Limited				
Senior VP	R.O.C.	Chien-Hsun Weng	M	2019.01.31							M.S. Statistics, Feng Chia University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Senior VP	R.O.C.	Ming-Ta Liu	M	2019.01.31							M.S. Statistics, National Tsinghua University					
Assistant Vice President of Regional offices	R.O.C.	Shu-Ping Tu	F	2015.08.20							Chungyu Institute of Technology					
Assistant Vice President of Regional offices	R.O.C.	Chin-Hsiung Chiang	M	2017.08.17							Public and Health B., China Medical University					
Assistant Vice President of Regional offices	R.O.C.	Han-Sung Wang	M	2012.12.21							Cooperative Economics B., Feng Chia University					
Assistant Vice President of Regional offices	R.O.C.	Kuo-Hsun Chen	M	2016.03.18							M.B.A. Finance, National Yunlin University of Science and Technology					
Assistant Vice President of Regional offices	R.O.C.	Hsiao-Hua Chu	M	2011.01.28							Industrial Management B., Tamsui Oxford University College	Director of DR. Water International Co., Ltd., Chairman of Yang Sheng Co., Executive Shareholder of Spot Enterprise Co. Ltd.				
Assistant Vice President of Regional offices	R.O.C.	Mei-Ling Wu	F	2008.12.30							KaiNan Vocational High School					
Assistant Vice President of Regional offices	R.O.C.	Chi-Yuan Hung	M	2015.04.30							Accounting B., Feng Chia University					
Assistant Vice President of Regional offices	R.O.C.	Li-Mei Chuang	F	2008.12.30							I-Lan Commercial Vocational Senior High School					
Assistant Vice President of Regional offices	R.O.C.	Yuan-Wen Lin	M	2017.03.30							Industrial Engineering and Management B., National Taipei University of Technology					
Assistant Vice President of Regional offices	R.O.C.	Lang-Ju Wu	M	2015.08.20							Economics B., Fu Jen Catholic University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Assistant Vice President of Regional offices	R.O.C.	Kuo-Hsing Wan	M	2012.06.01							Textile & Garment Engineering B., Feng Chia University					
Assistant Vice President of Regional offices	R.O.C.	Wen-Cheng Yen	M	2014.12.16							LL.B., Chinese Culture University					
Assistant Vice President of Regional offices	R.O.C.	Mou-Yung Huang	M	2016.11.15							M.B.A., National Central University					
Assistant Vice President of Regional offices	R.O.C.	Kuo-Shou Lin	M	2006.06.07							History B., Tamkang University					
Assistant Vice President of Regional offices	R.O.C.	Wen-Yao Tsai	M	2008.06.03							Accounting B., Feng Chia University					
Assistant Vice President of Regional offices	R.O.C.	Li-To Tseng	F	2011.06.29							Business Management B., Tunghai University					
Assistant Vice President of Regional offices	R.O.C.	Kun-Cheng Lai	M	2013.10.16							Business Management B., Chung Chou University of Science and Technology					
Assistant Vice President of Regional offices	R.O.C.	Chia-Hsiang Lin	M	2017.01.26							M.S. Financial Insurance, Shu-Te University					
Assistant Vice President of Regional offices (proxy)	R.O.C.	Yi-An Lu	M	2019.11.28							Business Management B., National Chung Hsing University					
Branch Manager	R.O.C.	Shih-Chieh Chen	M	2018.11.02							Industrial Management B., National United University					
Branch Manager	R.O.C.	Hung-Yi Huang	M	2007.08.22							Economics B., Soochow University	Director of Key Cook International Taiwan Inc.				

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Branch Manager	R.O.C.	Tsung-Chi Chien	M	2009.07.24							Industrial Management B., National Taiwan University of Science and Technology					
Branch Manager	R.O.C.	Ying-Man Hsiao	F	2018.11.02							Social Work B., Shih Chien University					
Branch Manager	R.O.C.	Po-Cheng Liao	M	2018.11.02							Business Management B., National Chung Hsing University					
Branch Manager	R.O.C.	Hsing Lin	M	2017.03.09							Electrical Engineering B., Chien Hsin University					
Branch Manager	R.O.C.	Ling-Chieh Chao	M	2017.04.27							Yuan Ze University					
Branch Manager	R.O.C.	Chih-Yuan Liu	M	2012.05.30							International Trade B., Shih Chien University					
Branch Manager	R.O.C.	Mei-Hung Chang	F	2003.09.01							Shu Guang Girls' Senior High school					
Branch Manager	R.O.C.	Chi-Chang Chang	M	2008.07.16							Banking and Insurance B., Feng Chia University					
Branch Manager	R.O.C.	Ming-Chin Chu	M	2018.06.21							Agricultural Engineering, National Chung Hsing University					
Branch Manager	R.O.C.	Chi-Jen Chang	M	2017.03.09							Chinese B., Soochow University					
Branch Manager	R.O.C.	Kuo-Liang Huang	M	2016.03.18							International Trade B., Feng Chia University					
Branch Manager	R.O.C.	Pei-Chi Hung	F	2019.01.31							Hotel Management B., Mingdao University					
Branch Manager	R.O.C.	Shih-Yi Wang	M	2012.06.28							M.B.A., Providence University					
Branch Manager	R.O.C.	Chih-Hua Tsai	M	2017.06.30							M.B.A., Asia University, Taiwan					
Branch Manager	R.O.C.	Che-Hao Huang	M	2018.11.02							Banking and Insurance B., Feng Chia University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Branch Manager	R.O.C.	Chi-Kuan Huang	M	2016.04.28							Taxation and Finance B., Tamsui Oxford University College					
Branch Manager	R.O.C.	Li-Ju Lin	F	2016.03.18							Tatung Institute of Commerce and Technology					
Branch Manager	R.O.C.	Chun-Wei Wu	M	2019.07.11							Finance, Chung Hua University					
Branch Manager	R.O.C.	Wen-Han Tsai	M	2008.01.25							International Trade B., Fu Jen Catholic University					
Branch Manager	R.O.C.	Shu-Man Lai	F	2019.08.16							Holy Savior Girls' Senior High School					
Branch Manager	R.O.C.	Ping-Hung Chen	M	2016.08.18							Banking and Insurance B., Feng Chia University					
Branch Manager	R.O.C.	Chun-Fu Chang	M	2013.08.23							M.B.A., I-Shou University					
Branch Manager	R.O.C.	Ming-Ta Chou	M	2017.06.30							Economics B., Chinese Culture University					
Branch Manager	R.O.C.	Chun-Hsiao Su	M	2014.12.16							Business Management B., Tamkang University					
Branch Manager	R.O.C.	Chi-Hsien Wang	M	2019.07.11							International Business Management, Cheng Shiu University					
Branch Manager	R.O.C.	Ming-Hung Chung	M	2017.01.26							International Business B., Tamkang University					
Branch Manager	R.O.C.	Sheng-Yi Chen	M	2015.05.21							Marine Engineering B., National Kaohsiung Marine University					
Branch Manager	R.O.C.	Hung-Chi Chen	M	2007.08.22							Business Management B., Soochow University					
Branch Manager	R.O.C.	Chuang-Lien Su	M	2018.02.10							College of Kinesiology, University of Taipei					
Branch Manager	R.O.C.	Jen-Chieh Lin	M	2015.05.21							Business Management B., Soochow University					

Title (Note 1)	Nationality	Name	Gender	On-Board Date	Number of shares held		Shares held by spouses, minor children		Shares held in the name of others		Education and selected past positions (Note 2)	Concurrent positions at other companies	Managers who are spouses or relatives within the second degree of kinship			Remarks (Note 3)
					Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding			Title	Name	Relationship	
Branch Manager	R.O.C.	Ping-Chieh Tsai	M	2018.04.26							M.S. Mathematical Statistics, National Chung Cheng University					

Note 1: This should include all President, Vice Presidents, Assistant Vice Presidents, and those who hold the equivalent positions (regardless the job titles), as well as, key managers from each department and branch entity, must be disclosed.

Note 2: Experiences related with current position. Detailed job title and the working responsibilities should be described if previously worked for the auditing accounting firm or its affiliated company.

Note 3: In situations where the Company's President or manager of the highest equivalent grade is the same person as or a spouse or first-degree relative of the Chairman, the reasons, rationality and necessity of such an arrangement and improvement measures for the future.

III. Remuneration Paid to directors, supervisors, presidents, vice presidents in the latest fiscal year

(I) Remuneration Paid to Directors (including independent directors)

Unit: NT\$ thousand

Title		Name (Note 1)	Remuneration Paid to Directors								Sum of A, B, C and D as percentage of Net Income (after-tax)		Relevant Remuneration Received by Directors Who are Also Employees								Sum of A, B, C ,D, E, F and G as percentage of Net Income after- tax		Compensation from parent company or invested businesses other than subsidiaries
			Compensation (A)		Pension upon retirement (B)		Director remuneration (C)		Service Expenses (D)				Base Compensation, Bonuses, and Allowances (E)		Pension upon retirement (F)		Employee remuneration (G)						
			The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries			The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company				
											Cash Amount	Stock Amount							Cash Amount	Stock Amount	The Company	Consolidated subsidiaries	
Director	Chairman	Cathay Financial Holding Co., Ltd. Tiao-Kuei Huang	59,447	59,447	-	-	-	-	1,220	1,220	0.16%	0.16%	78,065	78,065	-	-	5	-	5	-	0.37%	0.36%	4,245
	Vice Chairman	Cathay Financial Holding Co., Ltd. Ming-Ho Hsiung																					
	Director	Cathay Financial Holding Co., Ltd. Tzung-Han Tsai																					
	Director	Cathay Financial Holding Co., Ltd. Chung-Yan Tsai																					
	Director	Cathay Financial Holding Co., Ltd. Shan-Chi Liu																					
	Director	Cathay Financial Holding Co., Ltd. Chao-Ting Lin																					
	Director	Cathay Financial Holding Co., Ltd. Yi-Tsung Wang																					
	Director	Cathay Financial Holding Co., Ltd. John Chung-Chang Chu																					
Independent Director	Independent Director	Cathay Financial Holding Co., Ltd. Feng-Chiang Miao	-	-	-	-	-	-	313	313	-	-	-	-	-	-	-	-	-	-	-	-	13,513
	Independent Director	Cathay Financial Holding Co., Ltd. reTsing-Yuan Huang																					
	Independent Director	Cathay Financial Holding Co., Ltd. Li-Ling Wang (Note 2)																					
	Independent Director	Cathay Financial Holding Co., Ltd. Tang-Chieh Wu (Note 2)																					
1. Please explain the policy, system, standards, and structure by which independent director remuneration is paid, and association between the amount paid and independent directors’ responsibilities, risks, and time committed: Based on the Company’s “Guidelines for the Remuneration of Directors and Supervisors,” the allowances for independent directors to take charge of tasks includes the monthly allowance and attendance allowance for each board attendance.																							
2. Apart from the aforementioned disclosure, the remunerations for directors of the Company providing services (such as serving as a consultant that is not an employee) to consolidated subsidiaries: None.																							

Remuneration Paid to Directors by Range	Directors Name			
	Total Remuneration from (A+B+C+D)		Total Remuneration from (A+B+C+D+E+F+G)	
	The Company	Consolidated subsidiaries	The Company	Parent company and invested enterprises
Under NT\$1,000,000	Note 3	Note 3	Note 4	Includes Tzung-Han Tsai, Chung-Yan Tsai, John Chung-Chang Chu,
1,000,000 (inclusive) ~ 2,000,000 (exclusive)	—	—	—	—
2,000,000 (inclusive) ~ 3,500,000 (exclusive)	—	—	—	Tsing-Yuan Huang, Li-Ling Wang, Tang-Chieh Wu
3,500,000 (inclusive) ~ 5,000,000 (exclusive)	—	—	—	—
5,000,000 (inclusive) ~ 10,000,000 (exclusive)	—	—	—	Feng-Chiang Miao
10,000,000 (inclusive) ~ 15,000,000 (exclusive)	—	—	—	—
15,000,000 (inclusive) ~ 30,000,000 (exclusive)	Tiao-Kuei Huang	Tiao-Kuei Huang	Tiao-Kuei Huang, Shan-Chi Liu, Chao-Ting Lin, Yi-Tsung Wang	Tiao-Kuei Huang, Shan-Chi Liu, Chao-Ting Lin, Yi-Tsung Wang
30,000,000 (inclusive) ~ 50,000,000 (exclusive)	Ming-Ho Hsiung	Ming-Ho Hsiung	Ming-Ho Hsiung	Ming-Ho Hsiung
50,000,000 (inclusive) ~ 100,000,000 (exclusive)	—	—	—	—
Over NT\$100,000,000	—	—	—	—
Total	12	12	12	12

Note 1: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co. Ltd., directors and supervisors are legal representatives of the company.

Note 2: Li-Ling Wang and Tang-Chieh Wu were newly elected as independent directors for Cathay Financial Holdings Co., Ltd. on June 26, 2019.

Note 3: Includes Tzung-Han Tsai, Chung-Yan Tsai, Shan-Chi Liu, Chao-Ting Lin, Yi-Tsung Wang, John Chung-Chang Chu, Feng-Chiang Miao, Tsing-Yuan Huang, Li-Ling Wang and Tang-Chieh Wu

Note 4: Includes Tzung-Han Tsai, Chung-Yan Tsai, John Chung-Chang Chu, Feng-Chiang Miao, Tsing-Yuan Huang, Li-Ling Wang and Tang-Chieh Wu

(II) Remuneration Paid to Supervisors

Unit: NT\$ thousand

Title	Name (Note 1)	Remuneration Paid to Supervisors						Sum of A, B and C as percentage of Net Income		Compensation from parent company or invested businesses other than subsidiaries
		Compensation (A)		Remuneration (B)		Service Expenses (C)				
		The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	
Managing Supervisor	Chih-ling Tsai	4,709	4,709	-	-	484	484	0.01%	0.01%	1,200
Supervisor	Tso-Hsing Hsu									
Supervisor	Chih-Ming Lin									

Remuneration Paid to Supervisors by Range	Name of Supervisor	
	Total Remuneration from (A+B+C)	
	The Company	Parent company and invested enterprises
Under NT\$1,000,000	Tso-Hsing Hsu and Chih-Ming Lin	Tso-Hsing Hsu and Chih-Ming Lin
1,000,000 (inclusive) ~ 2,000,000 (exclusive)		
2,000,000 (inclusive) ~ 3,500,000 (exclusive)	-	-
3,500,000 (inclusive) ~ 5,000,000 (exclusive)	Chih-ling Tsai	-
5,000,000 (inclusive) ~ 10,000,000 (exclusive)	-	Chih-ling Tsai
10,000,000 (inclusive) ~ 15,000,000 (exclusive)	-	-
15,000,000 (inclusive) ~ 30,000,000 (exclusive)	-	-
30,000,000 (inclusive) ~ 50,000,000 (exclusive)		
50,000,000 (inclusive) ~ 100,000,000 (exclusive)		
Over NT\$100,000,000	-	-
Total	3	3

Note 1: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co. Ltd., directors and supervisors are legal representatives of the company.

(III) Remuneration Paid to Presidents and Vice Presidents

Unit: NT\$ thousand

Title (Note 1)	Name	Salary (A)		Pension upon retirement (B)		Bonuses & Allowance Paid (C)		Amount of Employee remuneration (D)				Sum of A, B, C and D as percentage of Net Income (%)		Compensation from parent company or invested businesses other than subsidiaries
		The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company		Consolidated subsidiaries		The Company	Consolidated subsidiaries	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Shan-Chi Liu	92,477	98,598	-	-	142,963	146,842	57	-	57	-	0.62%	0.64%	11,017
Executive Vice President	Chao-Ting Lin													
Senior Vice President	Yi-Tsung Wang													
Senior Vice President	Ta-Kun Liu													
Senior Vice President	Li-Chiu Wang													
Senior Vice President	Chun-Hung Wu													
Senior Vice President	Ming-Huan Chen													
Vice President	Chin-Shu Lin													
Chief Representative of Greater China	Chien-Yuan Wang (Note 2)													
Chief Compliance Officer	Mao-Chi Chung													
Vice President	Chao-Chi Tsai													
Vice President	Shih-Chiao Lin													
Vice President	Yi-Fang Tsai													
Vice President	Ta-Ching Hung													
Vice President	Cheng-Fu Huang													
Vice President	Chao-Ming Chang													
Vice President	Wen-Kai Kuo													
Corporate Governance Officer	Tu-Chih Kung													

Title (Note 1)	Name	Salary (A)		Pension upon retirement (B)		Bonuses & Allowance Paid (C)		Amount of Employee remuneration (D)				Sum of A, B, C and D as percentage of Net Income (%)		Compensation from parent company or invested businesses other than subsidiaries
		The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company	Consolidated subsidiaries	The Company		Consolidated subsidiaries		The Company	Consolidated subsidiaries	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
Vice President	Hsun-Yu Li													
Chief Risk Officer	Ching-Lu Huang													
Vice President	Ming-Hung Liao													
Vice President	Chu-Jui Hung													
Chief Auditor	Shu-Chuan Chen													
Vice President	Fu-Min Wang													
Vice President	Jung-Hsin Hu													
Vice President	Tsung-Wei Wu													
Vice President	Yin-Shou Chang													
Vice President	Chien-Hui Fan													
Vice President	Pei-Ching Lin													
Vice President	Wen-Jui Li (Note 3)													
Vice President	Tsung-Nan Tsai (Note 3)													
Vice President	Shu-Ying Wu													

Remuneration Paid to Directors by Range	President & Vice President Name	
	The Company	Parent company and invested enterprises
Under NT\$1,000,000	Ming-Hung Liao	-
1,000,000 (inclusive) ~ 2,000,000 (exclusive)	Tsung-Nan Tsai	Tsung-Nan Tsai
2,000,000 (inclusive) ~ 3,500,000 (exclusive)	Mao-Chi Chung, Shu-Ying Wu	Mao-Chi Chung
3,500,000 (inclusive) ~ 5,000,000 (exclusive)	Note 4	Note 4
5,000,000 (inclusive) ~ 10,000,000 (exclusive)	Note 5	Note 6
10,000,000 (inclusive) ~ 15,000,000 (exclusive)	-	Shu-Ying Wu
15,000,000 (inclusive) ~ 30,000,000 (exclusive)	Shan-Chi Liu, Chao-Ting Lin, Yi-Tsung Wang	Shan-Chi Liu, Chao-Ting Lin, Yi-Tsung Wang
30,000,000 (inclusive) ~ 50,000,000 (exclusive)	-	-
50,000,000 (inclusive) ~ 100,000,000 (exclusive)	-	-
Over NT\$100,000,000	-	-
Total	32	32

Note 1: Name of position as of 2019.

Note 2: Chien-Yuan Wang, general representative of Greater China Regional Office, retired on October 20, 2019.

Note 3: Vice President Wen-Jui Li took office on January 31, 2019, and Vice President Tsung-Nan Tsai took office on November 14, 2019.

Note 4: Includes Chien-Yuan Wang, Chao-Chi Tsai, Tsung-Wei Wu, Yin-Shou Chang, Chien-Hui Fan and Pei-Ching Lin.

Note 5: Includes Ta-Kun Liu, Li-Chiu Wang, Chun-Hung Wu, Ming-Huan Chen, Chin-Shu Lin, Shih-Chiao Lin, Yi-Fang Tsai, Ta-Ching Hung, Cheng-Fu Huang, Chao-Ming Chang, Wen-Kai Kuo, Tu-Chih Kung, Hsun-Yu Li, Ching-Lu Huang, Chu-Jui Hung, Shu-Chuan Chen, Fu-Min Wang, Jung-Hsin Hu and Wen-Jui Li.

Note 6: Includes Ta-Kun Liu, Li-Chiu Wang, Chun-Hung Wu, Ming-Huan Chen, Chin-Shu Lin, Shih-Chiao Lin, Yi-Fang Tsai, Ta-Ching Hung, Cheng-Fu Huang, Chao-Ming Chang, Wen-Kai Kuo, Tu-Chih Kung, Hsun-Yu Li, Ching-Lu Huang, Ming-Hung Liao, Chu-Jui Hung, Shu-Chuan Chen, Fu-Min Wang, Jung-Hsin Hu and Wen-Jui Li.

(IV) Employee Remuneration Distributed to Managers and Distribution Situation:

The remuneration allocated to managers and above shall be 5% of the total amount of employee compensation by resolution of the board of directors, and shall be evenly distributed according to the total number of managers. Please refer to “Chapter Three, II.” for the manager’s name and title for details. The amount of stock dividend is NT\$0, and the amount of cash dividend is NT\$198 thousand, giving a total of NT\$198 thousand, representing 0% of net profit.

(V) None of the Company chairman, president, and managerial officer in charge of financial or accounting affairs has served with the CPA Office or the affiliation thereof over the past year.

(VI) Compare respectively the ratio of the total amount of the remuneration paid to directors (including independent directors), supervisor, president and vice presidents of the Company and all companies covered in the consolidated financial statements in the past two years to after-tax net income shown through the individual or respective financial statements along with explanations of the policies, standards and composition for remuneration payment, procedures to fix remunerations and the interrelationship between business performance and future risks.

1. Directors’ (including independent directors’), Supervisors’, President’s and Vice Presidents’ remuneration are determined according to the Company’s “Director/Supervisor Compensation Guidelines” and “Manager Compensation Guidelines” based on an overall assessment of directors’ and managers’ duties, the salary level, their individual contributions, performance assessments, and expected or actual risks.
2. Total remuneration paid in the consolidated financial statements amounted to NT\$311,670 thousand in 2019 and NT\$313,060 thousand in 2018, representing 0.81% and 1.03% of net income in the respective years.
3. In the “Director/Supervisor Compensation Guidelines” (referred to as the “Guidelines” below), a director’s compensation includes fees, remuneration, transportation subsidy, and other allowances.
 - (1) Only the Company’s Chairman/Vice Chairman may be paid a fixed monthly fee, whereas other directors will be paid a transportation subsidy and other allowances. The fixed monthly fee for the Chairman/Vice Chairman is determined by the board of directors based on the level of the Chairman’s/Vice Chairman’s participation and contribution to the Company’s operations, and the usual peer level, and additional bonuses are paid using the same standards as managers. This performance bonus is linked to the Company’s overall performance and the performance of individual subjects during the year.
 - (2) Director remuneration is determined according to the Company’s Articles of Incorporation, which states that up to 0.1% of annual profit may be allocated and distributed at the percentages outlined in the Guidelines.
4. Managers’ compensation includes monthly salary, performance bonus, and retirement benefits. Managers’ monthly salaries are determined based on their responsibilities, performances, competence, and the industry compensation benchmark. Salaries are approved by the Chairman according to the Company’s “Manager Compensation Guidelines.”

IV. Implementation of Corporate Governance

(I) Functionality of the board of directors:

A total of 7 meetings (A) were held in the last year; below are directors' and supervisors' attendance records:

Title	Name (Note 1)	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Chairman	Tiao-Kuei Huang	7	0	100%	
Director	Ming-Ho Hsiung	6	1	86%	
Director	Tzung-Han Tsai	7	0	100%	
Director	Chung-Yan Tsai	7	0	100%	
Director	John Chung- Chang Chu	6	1	86%	
Director	Shan-Chi Liu	6	1	86%	
Director	Chao-Ting Lin	7	0	100%	
Director	Yi-Tsung Wang	6	1	86%	
Independent Director	Feng- Chiang Miau	4	0	100%	Resigned on June 26, 2019
Independent Director	Tsing-Yuan Huang	4	0	100%	Resigned on June 14, 2019
Independent Director	Li-Ling Wang	3	0	100%	Took office on June 26, 2019
Independent Director	Tang-Chieh Wu	3	0	100%	Took office on June 26, 2019
Managing Supervisor	Chih-ling Tsai	7	0	100%	
Supervisor	Tso-Hsing Hsu	6	0	86%	
Supervisor	Chih-Ming Lin	7	0	100%	

Note 1: Where directors and supervisors are corporate entities, the names of corporate shareholders and their representatives are stated.

Note 2: (1) The date of resignation is specified for directors or supervisors who had resigned prior to the close of the financial year. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held and the number of actual attendance

during active duty.

- (2) If a re-election of directors or supervisors had taken place prior to the close of the financial year, directors/supervisors of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the director/supervisor was elected in the previous term, the new term, or both. Actual attendance rate (%) was calculated on the basis of the number of board meetings held during each director's term and the number of meetings actually attended by that director.

Other items to be stated:

- I. Where the operation of the Board of Directors meets any of the following circumstances, the minutes concerned shall clearly state the meeting date, term, contents of motions, opinions of all independent directors and the Company's resolution of said opinions:
- (I) The circumstances referred to in Article 14-3 of the Securities and Exchange Act. Details are described as follows:

Meeting date and term	Motion	Opinions of independent directors and the Company's resolution of said opinions
2019.5.3 10th extraordinary meeting of the 19th board of directors	Passed the real estate transaction	None
2019.5.14 8th meeting of the 19th board of directors	Approved the partial amendments to the Company's Articles of Incorporation on behalf of the shareholders meeting	None
2019.5.14 8th meeting of the 19th board of directors	Passed the real estate transaction	None
2019.5.14 8th meeting of the 19th board of directors	Public offering of cumulative subordinated debts without maturity dates	None
2019.5.14 8th meeting of the 19th board of directors	Appoint Cathay Securities and Cathay United Bank as underwriters for public issues of the Company's corporate bonds	None
2019.5.14 8th meeting of the 19th board of directors	Transactions with Think Zone Technologies Co, Ltd.	None
2019.5.14 8th meeting of the 19th board of directors	Transactions with San-Ching Engineering Co., Ltd.	None
2019.5.14 8th meeting of the 19th board of directors	Transactions with Cathay Real Estate Development Co., Ltd.	None
2019.5.14 8th meeting of the 19th board of directors	Adjustment of monthly fees of the company's Chairman, Vice Chairman, and Managing Supervisor.	None

Meeting date and term	Motion	Opinions of independent directors and the Company's resolution of said opinions
2019.7.10 11th extraordinary meeting of the 19th board of directors	Passed the real estate transaction	None
2019.7.10 11th extraordinary meeting of the 19th board of directors	Participation in cash capital increase of stakeholders	None
2019.7.10 11th extraordinary meeting of the 19th board of directors	Investment in Lin Yuan Property Management Co.Ltd.	None
2019.8.15 9th meeting of the 19th board of directors	Investment of private equity fund	None
2019.8.15 9th meeting of the 19th board of directors	Capital increase of the Cathay Century	None
2019.8.15 9th meeting of the 19th board of directors	Transactions with Cathay Century Insurance Co., Ltd.	None
2019.8.15 9th meeting of the 19th board of directors	Loaning of funds to stakeholders	None
2019.8.15 9th meeting of the 19th board of directors	Signing the discretionary investment services Contracts with Global Evolution	None
2019.8.15 9th meeting of the 19th board of directors	Increasing discretionary investment services and advisory service charges of Conning, Inc.	None
2019.8.15 9th meeting of the 19th board of directors	Adjustment of discretionary investment management contract for Conning, Inc.	None
2019.8.15 9th meeting of the 19th board of directors	Acquisition of shares issued by stakeholders	None
2019.8.15 9th meeting of the 19th board of directors	Signed the Supplemental Lease Agreement with Cathay Hospitality Management	None
2019.8.15 9th meeting of the 19th board of directors	Transactions with Cathay Healthcare Management Co. Ltd.	None
2019.8.15 9th meeting of the 19th board of directors	Transactions with Xingde Co., Ltd.	None

Meeting date and term	Motion	Opinions of independent directors and the Company's resolution of said opinions
2019.8.15 9th meeting of the 19th board of directors	Transactions with Cathay United Bank Culture and Charity Foundation	None
2019.8.15 9th meeting of the 19th board of directors	Increase in cash capital (common shares) by private placement	None
2019.11.13 10th meeting of the 19th board of directors	Formulating the 2020 Audit Plan	None
2019.11.13 10th meeting of the 19th board of directors	Appointment of Vice President	None
2019.11.13 10th meeting of the 19th board of directors	Issue price of common shares	None
2019.11.13 10th meeting of the 19th board of directors	Appointment of financial statement auditors and of audit remuneration for 2020	None
2019.11.13 10th meeting of the 19th board of directors	Approved the partial amendments to the Company's Articles of Incorporation on behalf of the shareholders meeting	None
2019.11.13 10th meeting of the 19th board of directors	Passed the real estate transaction	None
2019.11.13 10th meeting of the 19th board of directors	Transactions with Ande Development Co., Ltd.	None
2019.11.13 10th meeting of the 19th board of directors	Transactions with Symphox Information Co., Ltd.	None
2019.11.13 10th meeting of the 19th board of directors	Transaction with Cathay United Bank Co., Ltd.	None
2019.11.13 10th meeting of the 19th board of directors	Transaction with Cathay United Bank Co., Ltd. (Singapore)	None
2019.11.13 10th meeting of the 19th board of directors	Transactions with San-Ching Engineering Co., Ltd.	None
2019.11.13 10th meeting of the 19th board of directors	Acquisition of shares issued by stakeholders	None

Meeting date and term	Motion	Opinions of independent directors and the Company's resolution of said opinions
2019.11.13 10th meeting of the 19th board of directors	Adjustment of lessee for the lease for Taoyuan Industrial Park Remote West Side Hotel	None
2019.11.13 10th meeting of the 19th board of directors	Transactions with Cathay Healthcare Management Co. Ltd.	None
2020.1.20 11th meeting of the 19th board of directors	Formulation and partial amendments of the Company's Articles of Incorporation	None
2020.1.20 11th meeting of the 19th board of directors	Passed the real estate transaction	None
2020.1.20 11th meeting of the 19th board of directors	Approval of year-end bonus, special bonus, and long-term incentives of the company's Chairman, Vice Chairman, and Managing Supervisor in 2019.	None
2020.3.11 12th meeting of the 19th board of directors	Investment of private equity funds	None
2020.3.11 12th meeting of the 19th board of directors	Acquisition of shares issued by stakeholders	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with Cathay Real Estate Development Co., Ltd.	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with Cathay Healthcare Management Co. Ltd.	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with Hsing Lin Medicine Industry Co., Ltd.	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with San-Ching Engineering Co., Ltd.	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with Cathay General Hospital	None
2020.3.11 12th meeting of the 19th board of directors	Transactions with Symphox Information Co., Ltd.	None
2020.3.27 13th meeting of the 19th board of directors	Passed the real estate transaction	None

(II) Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing: None.

II. In instances where an director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof for not voting and actual voting counts. Details are described as follows:

Meeting date and term	Directors Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
2019.5.14 8th meeting of the 19th board of directors	Feng-Chiang Miao Tsing-Yuan Huang Tzung-Han Tsai	Appoint Cathay Securities and Cathay United Bank as underwriters for public issues of the Company's corporate bonds	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.5.14 8th meeting of the 19th board of directors	Tzung-Han Tsai	Transactions with Think Zone Technologies Co, Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.5.14 8th meeting of the 19th board of directors	Tzung-Han Tsai Chung-Yan Tsai	Transactions with San-Ching Engineering Co., Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.5.14 8th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Transactions with Cathay Real Estate Development Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.5.14 8th meeting of the 19th board of directors	Tiao-Kuei Huang Ming-Ho Hsiung	Adjustment of monthly fees of the company's Chairman, Vice Chairman, and Managing Supervisor.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.7.10 11th extraordinary meeting of the 19th board of directors	Tzung-Han Tsai	Investment in Lin Yuan Property Management Co.Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.7.10 11th extraordinary meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Investment in Lin Yuan Property Management Co.Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Tang-Chieh Wu Tzung-Han Tsai	Capital increase of the Cathay Century	Matters involving directors' personal interests	Disassociated from discussion and voting

Meeting date and term	Directors Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
2019.8.15 9th meeting of the 19th board of directors	Tang-Chieh Wu Tzung-Han Tsai	Transactions with Cathay Century Insurance Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Tzung-Han Tsai	Loaning of funds to stakeholders	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Tzung-Han Tsai	Signing the discretionary investment services Contracts with Global Evolution	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Tzung-Han Tsai	Increasing discretionary investment services and advisory service charges of Conning, Inc.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Tzung-Han Tsai	Adjustment of discretionary investment management contract for Conning, Inc.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Acquisition of shares issued by stakeholders	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Signed the Supplemental Lease Agreement with Cathay Hospitality Management	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Chung-Yan Tsai	Transactions with Cathay Healthcare Management Co. Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	John Chung-Chang Chu	Transactions with Cathay Healthcare Management Co. Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Chung-Yan Tsai	Transactions with Xingde Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.8.15 9th meeting of the 19th board of directors	Ming-Ho Hsiung	Transactions with Cathay United Bank Culture and Charity Foundation	Matters involving directors' personal interests	Disassociated from discussion and voting

Meeting date and term	Directors Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
2019.11.13 10th meeting of the 19th board of directors	Shan-Chi Liu Chao-Ting Lin Yi-Tsung Wang	Formulating the 2020 audit plan	Financial inspection requesting on the independence of auditors	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Chung-Yan Tsai	Appointment of Vice President	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Tzung-Han Tsai	Transactions with Symphox Information Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Tang-Chieh Wu Tzung-Han Tsai	Transaction with Cathay United Bank Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Tang-Chieh Wu Tzung-Han Tsai	Transaction with Cathay United Bank Co., Ltd. (Singapore)	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Tzung-Han Tsai Chung-Yan Tsai	Transactions with San-Ching Engineering Co., Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Acquisition of shares issued by stakeholders	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Adjustment of lessee for the lease for Taoyuan Industrial Park Remote West Side Hotel	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	Chung-Yan Tsai	Transactions with Cathay Healthcare Management Co. Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2019.11.13 10th meeting of the 19th board of directors	John Chung-Chang Chu	Transactions with Cathay Healthcare Management Co. Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2020.1.20 11th meeting of the 19th board of directors	Tiao-Kuei Huang Ming-Ho Hsiung	Approval of year-end bonus, special bonus, and long-term incentives of the company's Chairman, Vice Chairman, and Managing Supervisor in 2019.	Matters involving directors' personal interests	Disassociated from discussion and voting

Meeting date and term	Directors Name	Motion	Reasons for avoiding conflict of interest	Participation in voting process
2020.3.11 12th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Acquisition of shares issued by stakeholders	Matters involving directors' personal interests	Disassociated from discussion and voting
2020.3.11 12th meeting of the 19th board of directors	Chung-Yan Tsai John Chung-Chang Chu	Transactions with Cathay Real Estate Development Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2020.3.11 12th meeting of the 19th board of directors	Chung-Yan Tsai	Transactions with Hsing Lin Medicine Industry Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting
2020.3.11 12th meeting of the 19th board of directors	Tzung-Han Tsai Chung-Yan Tsai	Transactions with San-Ching Engineering Co., Ltd.	Director recused himself/herself due to a conflict of interest	Disassociated from discussion and voting
2020.3.11 12th meeting of the 19th board of directors	Tiao-Kuei Huang Shan-Chi Liu Tzung-Han Tsai Chung-Yan Tsai	Transactions with Cathay General Hospital	Matters involving directors' personal interests	Disassociated from discussion and voting
2020.3.11 12th meeting of the 19th board of directors	Tzung-Han Tsai	Transactions with Symphox Information Co., Ltd.	Matters involving directors' personal interests	Disassociated from discussion and voting

III. TWSE/TPEX listed companies are required to disclose the cycle, duration, scope, method and detail of board performance self (or peer) evaluations performed.

1. Board Performance External Assessment for the most recent fiscal year

The Company conducts board of directors' performance evaluation once every year in accordance with Article 4 of "the Board and Performance Evaluation Policy and Evaluation Methods." In 2019, the performance evaluation questionnaire of all directors was filled in, and the evaluation results exceeded performance standards.

Assessment cycle	Assessment duration	Scope of assessment	Assessment method	Assessment details
Once a year	2019.1.1 ~ 2019.12.31	Board of Directors' Performance Evaluation	Self-Assessment of the Board of Directors	1. Level of participation in the Company's operations. 2. Enhancement of board decision quality. 3. Board composition and structure. 4. Board members' ongoing education. 5. Internal control.

Assessment cycle	Assessment duration	Scope of assessment	Assessment method	Assessment details
Once a year	2019.1.1 ~ 2019.12.31	Individual director performance assessment	Peer assessment	1. Other directors' understanding and participation in discussion meetings 2. Interactions between other directors and the business team. 3. Functionality of the board of directors and functional committees. 4. Other legal compliance of other directors. 5. Other directors' understanding of board functionality and roles. 6. Whether other directors fully exert their powers and functionality. 7. Whether other directors actively strengthen corporate governance. 8. Other directors' understanding of the Company, the Company's management team and industry. 9. Other matters designated by the competent authority or the board of directors.
Once a year	2019.1.1 ~ 2019.12.31	Individual director performance assessment	Board Members Self-Assessment	1. In person attendance (excluding by proxy). 2. Understanding and participation in discussion meetings. 3. Interactions with the business team. 4. Legal compliance. 5. Strengthening Corporate Governance. 6. Ongoing education on courses related to Corporate Governance. 7. Understanding of the Company, the Company's management team and industry. 8. Other matters designated by the competent authority or the board of directors.
Once a year	2019.1.1 ~ 2019.12.31	Supervisors' self-assessment	Self-assessment of members of the supervisory board	1. In person attendance. 2. Interactions with the Audit Department. 3. Legal compliance. 4. Strengthening Corporate Governance. 5. Ongoing education on courses related to Corporate Governance. 6. Other matters designated by the competent authority.

Assessment cycle	Assessment duration	Scope of assessment	Assessment method	Assessment details
Once every three years	2019.1.1 ~ 2019.12.31	Board of Directors' Performance Evaluation	Assessment by external institution or expert	1. Board's professional capacity: board composition and structure, election and education of directors. 2. Board's decision-making capacity: participation in the Company's operations, enhancement board decision quality. 3. Board's attention and supervision to the internal control. 4. Board's attitude toward corporate social responsibilities.

2. Risk Management Committee Performance Assessment for the most recent fiscal year

In accordance with Article 10 of Organization Rules for Risk Management Committee in Cathay Life Insurance Company, the committee performance assessment shall be conducted annually. In 2019, the performance assessment questionnaire was filled by all committee members, and the final result was assessed as "beyond standard".

Assessment cycle	Assessment duration	Scope of assessment	Assessment method	Assessment details
Once a year	2019.1.1 ~ 2019.12.31	Risk Management Committee performance assessment	Risk Management Committee self-assessment	1. Level of participation in Company operations. 2. Enhance the quality of the Committee decision making. 3. Composition and structure of the Committee. 4. Appointment and continuing education of the Committee members. 5. Internal control.

IV. Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc.), and the progress of such enhancements:

(I) Directors' and supervisors' ongoing education

Title	Name	Course date	Exam Administrator	Course name	Course hours
Chairman	Tiao-Kuei Huang	2019.5.24	Taiwan Corporate Governance Association	Board Functionality and Performance Evaluation	3.0
		2019.5.30	PricewaterhouseCoopers Taiwan (PwC Taiwan)	Final report of the first-stage introduction of IFRS 17	1.0

Title	Name	Course date	Exam Administrator	Course name	Course hours
		2019.6.21	Taiwan Corporate Governance Association	Value and Disclosure of Non-financial Performance - Global Trends and Impact to Taiwanese Enterprises	3.0
		2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.11	KPMG International	IFRS 17 Conference for Directors and Supervisors	3.0
		2019.12.27	Cathay United Bank Co., Ltd.	Senior Managers Gathering	3.0
Vice Chairman	Ming-Ho Hsiung	2019.5.30	PricewaterhouseCoopers Taiwan (PwC Taiwan)	Final report of the first-stage introduction of IFRS 17	1.0
		2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.10.2	Securities and Futures Institute	Mechanics and Applications of Blockchain	3.0
		2019.10.15	Securities and Futures Institute	Mechanics and Applications of AI	3.0
		2019.11.26	KPMG International	IFRS 17 General Ideology Training	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
Director	Tzung-Han Tsai	2019.1.25	Cathay United Bank Co., Ltd.	Business Management Conference	7.0
		2019.2.20	Taiwan Academy of Banking and Finance	Trust Supervisors (Including In-service Personnel) Workshop	6.0
		2019.4.15	Cathay United Bank Co., Ltd.	2019 First-half AML/CTF Course	1.0
		2019.7.12	Cathay United Bank Co., Ltd.	Business Management Conference	4.0
		2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.8.27	Cathay United Bank Co., Ltd.	2019 Second-half AML/CTF Course	1.0

Title	Name	Course date	Exam Administrator	Course name	Course hours
		2019.11.14	Cathay United Bank Co., Ltd.	AML and CTF Trends and Briefing on the Bank's Policy Measures/APG Mutual Evaluation	1.0
		2019.11.26	KPMG International	IFRS 17 General Ideology Training	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
Director	Chung-Yan Tsai	2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.11.26	KPMG International	IFRS 17 General Ideology Training	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.10	Taiwan Corporate Governance Association	Corporate strategies: Past, present, future	3.0
		2019.12.17	Taiwan Corporate Governance Association	Economic Sanctions, Export Control Regulations and US-China Trade War	3.0
Director	Shan-Chi Liu	2019.4.24	Insurance Institute of the Republic of China	Information Security Risk and Corporate Governance	3.0
		2019.5.30	PricewaterhouseCoopers Taiwan (PwC Taiwan)	Final report of the first-stage introduction of IFRS 17	1.0
		2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.11.26	KPMG International	IFRS 17 General Ideology Training	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.3	Insurance Institute of the Republic of China	Analysis of Financial Consumer Protection Act and Fair Customer Treatment Principle	3.0
		2019.12.27	Cathay United Bank Co., Ltd.	Senior Managers Gathering	3.0

Title	Name	Course date	Exam Administrator	Course name	Course hours
Director	Chao-Ting Lin	2019.4.25	Insurance Institute of the Republic of China	IFRS 17 Conference	8.0
		2019.6.4	Insurance Institute of the Republic of China	IFRS 17 Conference	2.0
		2019.5.30	PricewaterhouseCoopers Taiwan (PwC Taiwan)	Final report of the first-stage introduction of IFRS 17	1.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.27	Cathay United Bank Co., Ltd.	Senior Managers Gathering	3.0
Director	Yi-Tsung Wang	2019.7.26	Cathay Life Insurance Co., Ltd.	Senior Managers Gathering	3.0
		2019.11.12	Securities and Futures Institute	How Directors and Supervisors Should Supervise Fraud Detection and Implement Whistleblowing for Enhanced Corporate Governance	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.11	KPMG International	IFRS 17 Conference for Directors and Supervisors	3.0
		2019.12.27	Cathay United Bank Co., Ltd.	Senior Managers Gathering	3.0
Director	John Chung-Chang Chu	2019.4.10	Insurance Institute of the Republic of China	Green Finance	3.0
		2019.6.10	Insurance Institute of the Republic of China	Impact of IFRS 17 on Insurance Operations	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
Managing Supervisor	Chih-Iing Tsai	2019.4.10	Insurance Institute of the Republic of China	Green Finance	3.0

Title	Name	Course date	Exam Administrator	Course name	Course hours
		2019.4.24	Insurance Institute of the Republic of China	Information Security Risk and Corporate Governance	3.0
		2019.8.6	Securities and Futures Institute	Corporate Financial Statement Fraud - A Case Study	3.0
		2019.11.21	Insurance Institute of the Republic of China	Impact of IFRS 17 on Insurance Operations (Life Insurance)	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
Supervisor	Tso-Hsing Hsu	2019.10.2	Securities and Futures Institute	Mechanics and Applications of Blockchain	3.0
		2019.10.15	Securities and Futures Institute	Mechanics and Applications of AI	3.0
		2019.11.21	Insurance Institute of the Republic of China	Impact of IFRS 17 on Insurance Operations (Life Insurance)	3.0
		2019.11.26	Insurance Institute of the Republic of China	Impact of IFRS 17 on Insurance Operations (Property Insurance)	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
Supervisor	Chih-Ming Lin	2019.3.11	Insurance Institute of the Republic of China	Directors'/Supervisors' Responsibilities and Liability Insurance for Directors, Supervisors and Key Staff	3.0
		2019.10.1	Securities and Futures Institute	Major Corporate Fraud - Legal Risks and Responses of Directors and Supervisors	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.3	KPMG International	IFRS 17 Conference for Directors and Supervisors	3.0
Independent Director	Li-Ling Wang	2019.7.10	Cathay Life Insurance Co., Ltd.	IFRS 17 Insurance Contracts Project Report	2.0
		2019.10.16	Securities and Futures Institute	Corporate Performance from Human Resource and Skills Survey	3.0

Title	Name	Course date	Exam Administrator	Course name	Course hours
		2019.10.17	Securities and Futures Institute	Corporate Financial Crisis Alert and Analysis	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5
		2019.12.3	KPMG International	IFRS 17 Conference for Directors and Supervisors	3.0
Independent Director	Tang-Chieh Wu	2019.7.5	Taiwan Corporate Governance Association	Major Corporate Fraud Trends and Prevention	3.0
		2019.7.10	Cathay Life Insurance Co., Ltd.	IFRS 17 Insurance Contracts Project Report	2.0
		2019.8.1	Insurance Institute of the Republic of China	Corporate Governance Seminar (2019 Session 11) - Information Security Governance	3.0
		2019.9.17	Taiwan Corporate Governance Association	Directors' Corporate Leadership in an Environment of Rapid Technological Changes	3.0
		2019.10.24	Independent Director Association Taiwan (TIDA)	Global Economic Trends, Risk Assessment and Response	3.0
		2019.11.20	Taiwan Securities Association	Using Big Data Analysis on Operational Management	3.0
		2019.11.21	Insurance Institute of the Republic of China	Impact of IFRS 17 on Insurance Operations (Life Insurance)	3.0
		2019.11.26	Cathay Life Insurance Co., Ltd.	2019 Education and Training of Fair Customer Treatment Principle	0.5
		2019.11.26	Cathay Life Insurance Co., Ltd.	Education and Training on Anti-Money Laundering for Directors, Supervisors and Managerial Officers	0.5

- (II) The state of operations of the audit committee or the state of participation in board meetings by the supervisors:

A total of 7 meetings (A) were held in the last year; the attendance records are summarized as below:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Managing Supervisor	Chih-Iing Tsai	7	0	100%	
Supervisor	Tso-Hsing Hsu	6	0	86%	
Supervisor	Chih-Ming Lin	7	0	100%	

Note: Actual attendance rate (%) was calculated on the basis of the number of board meetings held during each director's term and the number of meetings actually attended by that director.

Other items to be stated:

I. Composition and responsibilities of supervisors:

- (I) Communication between supervisors and employees/shareholders: The supervisor shall communicate directly with employees and shareholders when necessary.
- (II) Communication between independent directors/ supervisors and internal auditors/ accountants
1. The Company has an Audit Office established directly under the board of directors to oversee organization and responsibilities of the internal audit system. A chief auditor has been assigned to oversee audit tasks and report to the board of directors the audit progress on a regular basis.
 2. The Company's Audit Office presents monthly internal audit reports prepared by the Company and subsidiaries to independent directors for review.
 3. The Company's Audit Office constantly keeps track of findings or weaknesses raised by the financial supervisory authority, parent financial holding company, the CPAs, the internal audit unit and internal departments, as well as improvements prompted in the declaration of internal control systems. Any progress made on such findings are reported to the board of directors in writing.
 4. At the end of each financial year, the Company's Audit Office prepares final audit plans for the upcoming year and submits them for approval by the independent directors and supervisors, with details recorded to be submitted for the board's resolution.
 5. The Audit Office follows Article 7 of "Corporate Governance Best-Practice Principles for Financial Holding Companies" and Article 3 of "Corporate Governance Best-Practice Principles for Insurance Enterprises," and convenes "internal control system defect review seminars" separately with the independent directors and supervisors, where all

independent directors and supervisors are invited to discuss with internal auditors about defects within the internal control system. Detailed minutes are recorded and presented to the board of directors during meetings.

Time	Communication channels	Participating staff members	Communication matters	Communication results
2019.3.8	Audit Symposium	Chih-ling Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor Managerial officer	Rectification of defect after financial inspections	Handled based on the proposals
2019.3.13	Audit Symposium	Chih-ling Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Transformation and responses of internal auditing	Handled based on the proposals
2019.3.20	Audit Symposium	Feng-Chiang Miao (Independent Director) Tsing-Yuan Huang (Independent Director) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Transformation and responses of internal auditing	Handled based on the proposals
2019.4.22	2018 Financial Statements Auditing Important Incidents Meeting	Chih-ling Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) CPA	2018 Financial Results	Submitted for Resolution of the Board of Directors After Review
2019.6.27	Audit Symposium	Tang-Chieh Wu (Independent Director) Chief Auditor and Managerial Officers of the Audit Office	Auditing Office execution report	Handled based on the proposals
2019.7.1	Audit Symposium	Li-Ling Wang (Independent Director) Chief Auditor and Managerial Officers of the Audit Office		
2019.8.5	Audit Symposium	Chih-ling Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Response to supervisor's opinions at the previous meeting	Handled based on the proposals

Time	Communication channels	Participating staff members	Communication matters	Communication results
2019.8.14	Audit Symposium	Li-Ling Wang (Independent Director) Tang-Chieh Wu (Independent Director) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Rectification progress of the previous meeting	Handled based on the proposals
2019.10.7	Audit Symposium	Li-Ling Wang (Independent Director) Tang-Chieh Wu (Independent Director) Chih-Iing Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor	2020 audit plan	Approval of the 2020 audit plan
2020.2.11	Audit Symposium	Tang-Chieh Wu (Independent Director) Chief Auditor and Colleagues of the Audit Office	Rectification of defect after financial inspections	Handled based on the proposals
2020.2.19	Audit Symposium	Tang-Chieh Wu (Independent Director) Chief Auditor Managerial officer	Reporting of recent important businesses	Handled based on the proposals
2020.2.27	Audit Symposium	Chih-Iing Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor Managerial officer	Reporting of recent important businesses	Handled based on the proposals
2020.3.5		Li-Ling Wang (Independent Director) Chief Auditor Managerial officer		
2020.3.5	2019 Financial Statements Auditing Important Incidents Meeting	Chih-Iing Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) CPA	2019 Financial Results	Submitted for Resolution of the Board of Directors After Review
2020.3.10	Audit Symposium	Li-Ling Wang (Independent Director) Tang-Chieh Wu (Independent Director) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Other internal control issues and the 2020 work plan	Handled based on the proposals

Time	Communication channels	Participating staff members	Communication matters	Communication results
2020.3.11	Audit Symposium	Chih-ling Tsai (Managing Supervisor) Tso-Hsing Hsu (Supervisor) Chih-Ming Lin (Supervisor) Chief Auditor	1. Rectification of defect after external audits 2. Main defects and rectification of defect after internal audits 3. Analysis of common defects and the control mechanism 4. Other internal control issues and the 2020 work plan	Handled based on the proposals

II. If a supervisor expresses an opinion in the Board of Directors Meeting, the minutes concerned shall clearly state the meeting date, term, contents of motions, the Company's resolution and opinions of all supervisors: None.

III. Supervisor's e-mail

Company Home Page > About Us > Company Profile > Corporate Governance, website:
<https://www.cathaylife.com.tw/cathaylife/about/info/about/governance>

(III) Functionality of the Risk Management Committee

A total of 7 meetings (A) were held in the last year (data range: January 1, 2019 ~ December 31, 2019), the attendance records are summarized as below:

Title	Name	Actual attendance (B) (Note 1)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
Independent Director	Tsing-Yuan Huang	2	0	100%	Re-elected on June 21, 2017; retired in June 14, 2019; required attendance: 2 sessions
Independent Director	Li-Ling Wang	5	0	100%	Newly appointed on June 26, 2019; required attendance: 5 sessions
President	Shan-Chi Liu	6	0	86%	Re-elected on June 21, 2017
Managing Senior Executive Vice President	Chao-Ting Lin	4	0	57%	Re-elected on June 21, 2017
Senior Executive Vice President	Yi-Tsung Wang	7	0	100%	Re-elected on June 21, 2017
Senior Executive Vice President	Ta-Kun Liu	5	0	71%	Newly appointed on October 2, 2017
Chief Compliance Officer	Mao-Chi Chung	5	0	71%	Newly appointed on January 30, 2019
Chief Risk Officer	Ching-Lu Huang	7	0	100%	Newly appointed on November 1, 2018

- I. Composition and qualification of the Risk Management Committee (Note 3):
The Committee shall have six to nine members, one of whom shall be the Committee chairman and appointed from the independent directors of the Company with background in insurance, accounting or finance.
- II. Duties of the Risk Management Committee (Note 4):
The duties of the Committee are as follows:
- (I) Formulate risk management policies, framework, and functions, establish qualitative and quantitative management standards, report the execution of risk management to the Board of Directors on a regular basis, and propose improvements if necessary.

Title	Name	Actual attendance (B) (Note 1)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note 2)	Remarks
(II) Execute the risk management decisions from the Board of Directors, and regularly review the development, establishment and execution of the Company's overall risk management mechanism. (III) Assist and supervise all departments to carry out risk management activities. (IV) Adjust the risk category, risk limit allocation and risk affordable method depending on the environment. (V) Coordinate the interaction and communication of risk management functions across departments. III. Meeting schedule of the Risk Management Committee (Note 5): The Committee chairman shall call a meeting on a quarterly basis and chairs the meeting. If necessary, a Committee meeting may be called on shorter notice.					

Note 1: The date of resignation is specified for members of the Risk Management Committee who had resigned prior to the close of the financial year. Actual attendance rate (%) is calculated based on the number of Risk Management Committee meetings held and the number of meetings actually attended during active duty.

Note 2: If a re-election of members had taken place prior to the close of the financial year, members of both the previous and the current term are listed; in which case, the remarks column would specify the re-election date and whether the members was elected in the previous term, the new term, or both. Actual attendance rate (%) was calculated on the basis of the number of Committee meetings held during each member's term and the number of meetings actually attended by that member.

Note 3: In accordance with Article 3 of Organization Rules for Risk Management Committee in Cathay Life Insurance Company

Note 4: In accordance with Article 2 of Organization Rules for Risk Management Committee in Cathay Life Insurance Company

Note 5: In accordance with Article 6 of Organization Rules for Risk Management Committee in Cathay Life Insurance Company

Discussion proposals and resolutions of the Risk Management Committee for the most recent fiscal year:

Meeting	Date	Case Summary	The board's resolution
1st meeting in 2019	2019/3/12	The Company's risk appetite and risk limits in 2019, as well as the amendment to Procedures for Overall Risk Measurement	Motion was passed as proposed by all attending members
		Amendment to Procedures for Financial Assets Impairment Control	Motion was passed as proposed by all attending members
		Amendment to Rules for Securities Investment Risk Limits	Motion was passed as proposed by all attending members

Meeting	Date	Case Summary	The board's resolution
		Amendment to Derivatives Transaction Plan for Enhancing the Investment Efficiency	Motion was passed as proposed by all attending members
		Risk Management Committee Performance Assessment Result for 2018	Motion was passed as proposed by all attending members
2nd meeting in 2019	2019/5/10	Amendment to Policies for Risk Management	Motion was passed as proposed by all attending members
		Establishment of Guidelines for Emerging Risk Management	Motion was passed as proposed by all attending members
		Amendment to Rules for Securities Investment Risk Limits	Motion was passed as proposed by all attending members
		Amendment to Policies and Procedures for Derivatives Transactions	Motion was passed as proposed by all attending members
		Amendment to Procedures for Financial Assets Impairment Control	Motion was passed as proposed by all attending members
4th meeting in 2019	2019/8/13	Amendment to Self-Discipline on Trading with Counterparties	Motion was passed as proposed by all attending members
6th meeting in 2019	2019/11/8	Amendment to Rules for Securities Investment Risk Limits	Motion was passed as proposed by all attending members. In the future, adjustment of relevant regulations are discussed, depending on the type of ETN products that are introduced and the risks that may arise.
		Amendment to Procedures for Financial Assets Impairment Control	Motion was passed as proposed by all attending members
		Amendment to Guidelines for Country Risk Management	Motion was passed as proposed by all attending members

(IV) Status of corporate governance, departures from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons for such departures:

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
I. Has the Company established and disclosed corporate governance principles based on “Corporate Governance Best Practice Principles for TWSE/TPEX-Listed Companies”?	Yes		The Company is an unlisted company, and has formulated the “Cathay Life Insurance Corporate Governance Best-Practice Principles” on April 28, 2014 (amended on August 15, 2019) in accordance with the “Corporate Governance Best-Practice Principles for Insurance Enterprises” and disclosed it in the Company’s official website and the Insurance Industry Public Information Observation Station.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.
II. Equity structure and shareholders’ rights of the company				
(I) Whether the company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure?			(I) The Company is a wholly-owned subsidiary of Cathay Financial Holdings, with no issues of shareholder opinions or disputes.	According to provisions in the Corporate Governance Best-Practice Principles for Insurance Enterprises regarding the rights of shareholders’ meetings, the Board of Directors are entitled to execute shareholders’ meeting functions in compliance with Paragraph 1, Article 15 of the Financial Holding Company Act and Paragraph 1, Article 128-1 of the Company Act as the company is a single juristic person
(II) Whether the company controls the financial holding company’s major shareholders and who are their ultimate owners?	Yes		(II) The Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. The parent company reports changes in share ownership of major shareholders on a monthly basis, and compares details of the shareholder registry on every book closure date for timely monitoring of major shareholders’ ownership position.	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
(III) Whether the company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?			(III) The company has already established and implemented the risk control and firewall related mechanisms between the Company and its affiliates: 1. Cathay Life Insurance Firewall Policy 2. Regulations Governing Transactions Other Than Loans between Cathay Life Insurance Co., Ltd. and Interested Parties. 3. Regulations for Extending Loans by Cathay Life Insurance Co., Ltd. to Interested Parties and Potential Counterparties 4. Regulation Governing Regulations Governing Transactions Other Than Loans between Cathay Life Insurance and the Same Person or Same Concerned Party or Same Affiliate. 5. Self-Discipline on Transactions Other Than Loans between Cathay Life Insurance Co., Ltd. and Potential Counterparties.	shareholder. Hence, the Company's the Board of Directors are entitled to execute shareholders' meeting functions related to the company's regulations on corporate governance.
(IV) Whether the company has established internal regulations to prohibit securities trading by use of the company's internal undisclosed information?			(IV) The company has clearly stated in the "Cathay Life Insurance Firewall Policy" that due to the interactive use of information or duties, relevant members or personnel of the Company shall not perform securities trading within a certain period before or after the actual knowledge of the client's undisclosed information.	

Scope of assessment		Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
		Yes	No	Summary (Note 2)	
III.	Composition and responsibilities of board of directors				
(I)	Does the board of directors formulate and implement a policy on diversified membership?	Yes		(I) The Company's "Procedures for Election of Directors and Supervisors" stipulates that board members ought to take into consideration the company's diversification, and set up appropriate diversification policies based on the operational framework, business development needs, such as basic conditions (i.e., gender, age, nationality, culture, etc.), professional knowledge/skills (i.e., business, finance/accounting, law, banking, actuarial/ mathematics, foreign investments, and risk management), and industry experience (banks, insurance, securities, asset management, construction/ real property, medical care/ health management).	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.
(II)	Is the company, in addition to establishing the Risk Management Committee and audit committee, pursuant to laws, willing to voluntarily establish any other functional committees?			(II) The company has established the risk management committee to enhance the operational mechanism of the Company's risk management, and strengthen the integrated risk management communication. In accordance with Article 10 of Organization Rules for Risk Management Committee in Cathay Life Insurance Company, the committee performance assessment shall be conducted annually. In 2019, the	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
(III) Has the company established a set of policies and assessment tools for evaluating board performance, and conducted performance evaluation on a yearly basis? Are performance evaluation results reported to the board of directors and used as reference for compensation, remuneration and nomination decisions?			performance assessment questionnaire was filled by 7 committee members and submitted to the board of directors. The self-assessment covers 5 dimensions (including: Level of participation in Company operations, Enhance the quality of the Committee decision making, Composition and structure of the Committee, Appointment and continuing education of the Committee members, and internal control) with a total of 17 indicators, and the final result was assessed as "beyond standard". (III) The Company conducts board of directors' performance evaluation once every year in accordance with "the Board and Performance Evaluation Policy and Evaluation Methods," of which evaluation methods include overall board performance, self-evaluation of individual directors, peer evaluation, and the review of self-evaluation by the supervisor. The overall board of directors' performance evaluation results were reported to the board in 2019, while self-evaluation results of the board members have been submitted to Cathay Financial Holdings as reference for appointing directors (independent directors) or supervisors, as well as for the human	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
(IV) Does the company conduct regular assessments regarding the independence of its financial statement auditors?			resources department on the distribution of the remuneration for directors/supervisors. (IV) The Company has formulated the “CPA Accountability and Performance Evaluation Method,” which annually evaluates professionalism and independence of CPAs, and the evaluation results are submitted to the board of directors for resolution and approval.	
IV. Has TWSE/TPEX listed company allocated adequate number of competent corporate governance staff and appointed a corporate governance officer to oversee corporate governance affairs (including but not limited to providing directors/supervisors with the information needed to perform their duties, assisting directors/supervisors with compliance issues, convention of board meetings and shareholder meetings, and preparation of board/shareholder meeting minutes)?	Yes		The Company has allocated corporate governance staff and appointed a corporate governance officer in accordance with “Corporate Governance Code of Conduct.” The Company’s Corporate Governance Team of the Legal Affairs Office is the board meeting unit responsible for handling meetings and affairs of directors, supervisors, and M&A special committees, supporting directors and supervisors in performing their duties and legal compliance, as well as other matters related to corporate governance matters.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.
V. Does the company have any means to communicate with stakeholders (including but not limited to shareholders, employees, customers, and suppliers etc), and set up an area for stakeholders on the official website for	Yes		The company provides a 24-hour insurance service hotline 0800-036599 which is responsible for communicating with policyholders. The company website also has a “Contact Us” page responsible for replying and handling insurance related issues. In addition, the company has set	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
adequate response to major CSR issues concerned by stakeholders?			up insurance service centers throughout Taiwan, which provides comprehensive services including consulting, insurance policy servicing and complaints handling, as well as a dedicated unit to handle complaints and appeals, in order to protect policyholders rights. The supervisor's E-mail is disclosed on the Company website to establish a channel of direct communication between the supervisor and all stakeholders. The company has also set up employee discussion forum, employee care hotline, and the Chairman's mailbox to promote labor-management communications. The Company has also disclosed and update the implementation status of corporate social responsibility regularly on the company website.	
VI. Does the Company appoint a stock agency to be responsible for affairs related to the shareholders' meeting.	Yes		The Company is a wholly-owned subsidiary and sole legal shareholder of Cathay Financial Holding Co., Ltd. In accordance with Article 128-1 of the Company Act and Article 15 of the Financial Holding Company Act, the rights and functions of the shareholders' meeting of the Company shall be exercised by the board of directors, and the provisions of the Company Act with respect to shareholder meetings shall not apply.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.
VII. Information Disclosure			Information disclosure shall be subject to relevant laws and regulations:	
(I) Establishment of a corporate website to disclose information concerning financial	Yes		(I) The Company's official website has been established to disclose the following information:	In compliance with Corporate Governance Best-Practice

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
affairs and corporate governance?			1. Finance Business: https://www.cathaylife.com.tw/cathaylife/about/info/finance 2. Corporate Governance https://www.cathaylife.com.tw/cathaylife/about/info/about/governance	Principles for Insurance Enterprises.
(II) Has the company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	Yes		(II) Other means to disclose information: 1. Assignment of specific personnel to collect and disclose corporate information on the following website: https://www.cathaylife.com.tw/cathaylife/about/info/public-info/company-profile 2. English website: https://www.cathaylife.com.tw/website/PFWeb/html/eng/index.html 3. Implementation of spokesperson system.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.
(III) Does the company publish and make official filing of annual financial reports within two months after the end of an accounting period, and publish/file Q1, Q2, and Q3 financial reports plus monthly business performance before the specified due dates?		No	(III) The company publishes and makes official filing of annual financial reports within three months after the end of an accounting period in accordance with Article 36 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises. As the Company is not a TWSE/TPEX listed company, it is not required to publish/file Q1, Q2, and Q3 financial reports plus monthly business performance before the	Not applicable.

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			specified due dates.	
VIII. Other important information enabling a better understanding of the company's corporate governance (including but not limited to employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors and supervisors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, purchase of liability insurance by the company for directors and supervisors, and donations to political parties, interested parties and public welfare groups)?	Yes		(I) The Company attaches great importance to social and service aspect of the insurance industry, and emphasizes the ethical behavior of employees by formulating the "Employee Code of Conduct" and "Ethical Behavior Guidelines," in the aim to regulate all employees on implementing management policies related to anti-money laundering and combat terrorism, as well as to comply with professional ethics. In addition, the Company conducts "behavior observation" on a regular basis for advanced training and to detect suspicious behavior. Meanwhile, the Company established an abnormal notification process to facilitate real-time progress and status, and annually report the results to the board of directors. (II) The company is committed to the practice of "Happy Workplace" so that every employee of Cathay Life can work happily in the high-quality working environment. Therefore, the company attaches great importance to employee welfare, training and development, and occupational safety.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			1. Employee welfare The Company adheres to the concept that employees are the company's important assets, with employee welfare as one of the 4 main business perspectives. The Company values the balance between work and life to provide employees with 5 main benefits as follows: (1) Protection benefits Employee welfare Group Insurance and Accident Insurance. (2) Financial benefits Moon Festival and Dragon Boat Festival gifts, birthday gifts, marriage allowance and maternity allowance, educational subsidies for children of employees, and mortgage discounts. (3) Recreation benefits Employee travel subsidies, mountain hiking on family day, singing competitions, fun competitions, health product subsidies, and year-end festival subsidies, clubs, Cathay T-Coin Competition, and e-sports. (4) Training and development benefits Internal and external training courses (full payment), foreign language course	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			subsidies, professional examination subsidies, lectures at Lin Yuan Life Plaza. (5) Service benefits Senior staff bonuses, uniform subsidies. In order to promote a friendly workplace and improve employee care, three employee welfare are provided as follows: (1) Established the Cathay Pregnancy Club, providing employees with three-stage pregnancy care, as well as gifts including “Love Mummy,” “Baby Care,” and “Handsome Daddy”, and planning parent-child classrooms from time to time to assist new parents in seizing opportunities during the critical period of childhood learning and development. (2) Formulated the “Pregnancy Checkup, Paternity, and Maternity Leave” provisions that are superior to other regulations: original 5 days plus 5 days paid maternity leave and original 5 days plus 2 days paid paternity leave, and lifted restrictions to provide paid maternity leave (miscarriage), in order to optimize maternity benefits and encourage pregnancy.	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			(3) The Company has launched the “Cathay Star Volunteer Program” in order to encourage employees to participate in volunteer activities. Volunteers can receive one day of paid annual leave as encouragement for their support in public welfare services, so that the love from individuals can put forward Positive vibe for the society. 2. Training and development The company has enhanced its ability in business operation and company development, continuously invested large amount of resources in cultivating financial professionals, and designed trainings based on functional requirements for various management levels. In addition, in order to train key staff, the Company developed a training plan for potential managers, and set up a phased and systematic comprehensive training plan based on organizational development and training needs of all employees at different career stages in the aim to continue to enhance team competitiveness. 3. Occupational Safety	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			(1) In the aim to promote the health of employees and provide a safe and healthy work environment, Cathay Life became the first domestic company to obtain the ISO-45001 and TOSHMS certification in August 2019, in order to implement occupational safety and health policies and develop the correct safety and health concepts among employees. (2) In order to maintain a safe working environment, the Company has set up five occupational safety and health managers to conduct workplace safety inspections on a regular basis in accordance with relevant laws, including the machinery and equipment for constructions and the workplace, as well as the introduction of risk assessment mechanisms for high-risk workplaces, and has dedicated efforts to prevent falls, electric shocks, cuts, pinches and other disasters in order to prevent occupational disasters. (3) The company has appointed 16 nurses responsible for labor health care service in accordance with relevant laws to provide	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			on-site health services, health care education and consultation for employees, health lectures, fitness testing, cancer screening and other health promotion activities, as well as conducting general health check-ups on a regular basis. (4) The health management system was introduced in August 2019 to improve the health management effectiveness of medical staff. (5) In December 2019, the Company became the first life insurance company in Taiwan to obtain the “Workplace Health Promotion Certification” for all its bases (a total of 199 locations). (III) In order to pay attention to each employee, the Company has attached importance on the communication and care of employees, and established a diversified communications system to receive employee opinions while conducting a variety of activities for employee health care: 1. Communication Channels (1) The company conducts employee engagement and well-being surveys on a regular basis to understand employee	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			satisfaction on corporate policies, discuss employee rights and interests via labor-management committee, and provide appropriate channels including employee discussion areas, the Chairman's mailbox in order to listen to the opinions of colleagues, and simultaneously assign a special unit to be responsible for responding to the suggestions from colleagues. (2) The Human Resources Department has set up an employee care hotline and sexual harassment prevention hotline to support the communication between employees, managers and colleagues, and help solve relevant concerns and problems. (3) The external professional consulting for the employee assistance program (EAP) was introduced to provide 24-hour consulting services, giving advice and assistance in psychological, legal, financial, medical and management, of which the contents are kept confidential throughout the process to protect employees. 2. Employee Health (1) Managers are provided with a selection of	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			health check-up plans, and regular health check-ups for employees once every 3 years. The company provides health check-up services (including blood glucose testing, cancer screening, and bone density testing), medical consultation, disaster hospitalization subsidy, medical and hospitalization offers, health lectures, CPR first aid training, and infection control and preventive care (flu vaccination, setting of alcohol hand sanitizer, and measuring body temperature) with appointed on-site physicians. (2) To actively promote employees to develop the habit of exercising, the Employee Welfare Committee also subsidizes a various sports clubs and health promotion activities (such as brisk walking and weight loss activities). (IV) In order to implement internal control management, the Company conducts internal control measures such as self-inspection and legal compliance tests every six months, with the effectiveness of internal control as the performance evaluation indicator.	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			(V) Regarding stakeholder rights, Cathay Financial Holdings shall handle all matters related to the “Directors and Officers Liability Insurance.” (VI) Apart from detailed explanation of the new insurance contract by business staff, the dedicated interview team also ensure that the customer has fully understood the insurance product so that customers can correctly select insurance products based on their requirements. The team actively assists customers to understand the insurance policy, while making sure that the process of solicitation is in compliance with requirements in order to prevent disputes. The interview also verifies the customers’ contact information to ensure that customers can receive the Company’s notification documents in the future. (VII) The Company has established a “Cathay Life Insurance Risk Management Policy.” The Company’s overall risk <u>appetite</u> are approved by the board of directors, and various risk limits are set up and monitored on a regular basis according to risk characteristics, and the <u>integrated</u> risk management report is submitted to the board of directors. (VIII) Directors’ and supervisors’ ongoing education:	

Scope of assessment	Implementation Status (Note 1)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
			Disclosures have been made on the Company's website: https://www.cathaylife.com.tw/cathaylife/about/info/public-info/company-profile) and the MOPS. (IX) CFH's renewal of liability insurance for the Company's directors and supervisors has already been reported to the board of directors in August 2019.	
IX. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies. (Companies not included in the evaluation are not required to be filled)			Not applicable.	In compliance with Corporate Governance Best-Practice Principles for Insurance Enterprises.

(V) Describe the composition, duties and operations of the Risk Management Committee established by the Company, if any: None.

(VI) Fulfillment of social responsibilities and deviation and causes of deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies:

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
I. Has the company conducted risk assessment on environmental, social and corporate governance issues that are relevant to its operations, and implemented risk management policies or strategies based on principles of materiality? (Note 3)	Yes		(I) Please refer to the Company's 2018 Corporate Sustainability Report: 1. Complying with the PSI (p.9 ~ 10) 2. Stakeholders and major issues Materiality (p.11 ~ 13) 3. Sustainability Strategy Blueprint (p.14 ~ 18) (II) Download the Company's 2018 Corporate Sustainability Report on the website: https://patron.cathaylife.com.tw/ODAB/ODAB8000	No significant difference.
II. Whether the Company establishes a dedicated unit (concurrently engaged in) to promote corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors who shall be responsible for reporting the status thereof to the Board of Directors?	Yes		The President of Cathay Life is one of the members of the Corporate Sustainability Committee, which has six working groups for corporate sustainability. The Committee conducts quarterly meetings to review the implementation status and effectiveness of corporate sustainability, and submits its working progress to the board of directors every six months.	No significant difference.
III. Environmental issues (I) Has the Company established environmental policies suitable for the Company's industrial characteristics?	Yes		(I) Since 2012, the Company has lead the industry in introducing ISO 14001 (environment management system) and ISO 50001 (energy	No significant difference.

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
			management system), and has planned various actions by examining the environmental benefits and impacts of its operating process according to international standards, followed by reviews and modifications, in order to achieve circular management and continuous improvement. Since 2017, it further implemented systems integration with affiliates so that the environment and energy management system cover the entire group. Internally, the company has appointed dedicated energy-saving personnel in all units to be responsible for the advocacy of various energy-saving measures and environmental education, and enhance the sustainability awareness of all employees (up to 30,000 employees in the Company) via diversified events including weekly environmental education briefings, monthly internal CSN programs, E-sports competitions in the summer, and fitness activities. Externally, the Company launched various activities in Taiwan, including beach clean-ups, coastal adoption, and campus rain water harvesting tank, in the aim to fulfill corporate social responsibility. The Company has won the “National Corporate Environmental Protection	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(II) Does the Company endeavor to upgrade the efficient use of available resources, and the use of environmental-friendly materials?			Awards” organized by Environmental Protection Administration of the Executive Yuan in 2019 regarding its continuous, diversified and in-depth environmental protection measures. (II) The Company introduced the ISO 20400 Sustainable Procurement-Guidance, giving priority to green products with low environmental impact for purchasing various commodities. With that, it received the Green Purchasing Enterprise Commendation from the Taipei City Department of Environmental Protection and Environmental Protection Administration for several consecutive years. For various business activities, in addition to continuously reducing paper consumption through multiple online services, the Company also promoted electronic insurance policies in the third quarter, introduced the ISO 14067 CFP inventory to assess the life cycle of life insurance services and clarified carbon emissions of the whole process, and obtained third-party verification in the fourth quarter. In addition, the Company adopted various management policies, such as FSC certified paper, metal lunch boxes, and recycled paper containers, in order for sustainability in reducing the environmental	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(III) Does the company assess potential risks and opportunities associated with climate change, and undertake measures in response to climate issues? (IV) Does the company maintain statistics on greenhouse gas emission, water usage and total waste volume in the last two years, and implement policies aimed at reducing energy, carbon, greenhouse gas, water, and waste?			impact. (III) i.e. Page 25 of Cathay Life's 2018 Corporate Sustainability Report (Responsible Investment / TCFD). (IV) Since 2012, the company has launched the greenhouse gas inventory, and has completed verification (ISO 14064-1) of all bases year by year since 2017. In 2018, inventory statistics are expanded to include water consumption (all bases) and waste (key buildings). In response to the government's green energy development policy, the Company not only subscribed for renewable energy certificates and set up rooftop solar panels in recent years, but also signed the first domestic power purchase agreement (PPA) for public welfare renewable energy in 2019, in order to achieve carbon reduction and renewable energy consumption in cooperation with the society.	
IV. Social issues (I) Whether the Company establishes the related	Yes		(I) To increase the respect and support from the	No significant difference.

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
management policies and procedures in accordance with the relevant laws and international human right conventions? (II) Has the company developed and implemented reasonable employee welfare measures (including compensation, leave of absence and other benefits), and appropriately reflected business performance or outcome in employees' compensations?			Company and staff, the Company stipulated “Code of Ethics”, “Employee Code of Conduct”, and “Regulations Governing Reporting Unethical or Dishonest Behavior Cases”. The Company also adopted with relevant laws and regulations to amend and publicly announced “Work Rules”. In addition, the content of regulations provided by labor laws is included into the inspection items in the regular law compliance self-assessment operation in order to ensure the compliance of labor laws and international human rights. (II) 1. The Company’s four major business concepts and six major working policies clearly stipulate on “enhancing employee welfare” and “work and benefits rationalization” to allow colleagues to feel reassured in the workplace. Employee welfare can be summarized into five key matters (such as security, economic, recreation, development, and service, please refer to Item 8 of the “Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons for such departures”). 2. The Company has formulated the distribution method for year-end bonuses, with the	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(III) Whether the Company provides the existence of a safe and healthy work environment; regular safety and health training to company employees?			Company's operating performance (after-tax profit/loss) linked to the base amount of year-end bonus. The monthly salaries of employees are annually reviewed in April, and the budget for salary adjustment is allocated based on the operating results. (III) 1. In the aim to promote the health of employees and provide a safe and healthy work environment, Cathay Life has become the first domestic life insurance company to gain ISO-45001 and TOSHMS certification in March 2019, in order to implement occupational safety and health policies and develop the correct safety and health concepts among employees. 2. In order to maintain a safe working environment, the Company has set up five occupational safety and health managers to conduct workplace safety inspections on a regular basis in accordance with relevant laws, including the machinery and equipment for constructions and the workplace, as well as the introduction of risk assessment mechanisms for high-risk workplaces, and has dedicated efforts to prevent falls, electric	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
			shocks, cuts, pinches and other disasters in order to prevent occupational disasters. 3. The company has appointed 16 nurses responsible for labor health care service in accordance with relevant laws to provide on-site health services, health care education and consultation for employees, health lectures, fitness testing, cancer screening and other health promotion activities, as well as conducting general health check-ups on a regular basis. 4. The health management system was introduced in August 2019 to improve the health management effectiveness of medical staff. 5. In December 2019, the Company became the first life insurance company in Taiwan to obtain the “Workplace Health Promotion Certification” for all its bases (a total of 199 locations). 6. Managers are provided with a selection and health check-up plans, and regular health check-ups for employees once every 3 years. The company provides health check-up services (including blood pressure and blood	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(IV) Has the Company established some effective career development training plan for employees?			glucose testing, cancer screening, and bone density testing), medical consultation, disaster hospitalization subsidy, medical and hospitalization offers, health lectures, CPR first aid training, and infection control and preventive care (flu vaccination, setting of alcohol hand sanitizer, and measuring body temperature) with appointed on-site physicians. The employee assistance program (EAP) (24-hour consulting services, giving advice and assistance in psychological, legal, financial, medical and management) was introduced. Meanwhile, to actively promote employees to develop the habit of exercising, the Employee Welfare Committee also subsidizes various sports clubs and health promotion activities (such as brisk walking and weight loss activities). (IV) The Company has enhanced its ability in business operation, continuously invested large amounts of resources in cultivating financial professionals, and designed training based on functional requirements for various management levels. In addition, in order to train key staff, the Company developed a training plan for potential managers,	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(V) Has the company complied with laws and international standards with respect to customers' health, safety and privacy, marketing and labeling in all products and services offered, and implemented consumer protection policies and complaint procedures?			and set up a phased and systematic comprehensive training plan based on organizational development and training needs of all employees at different career stages in the aim to continue to enhance team competitiveness. (V) The Company has complied with relevant rules of stipulated by the Financial Supervisory Commission with respect to the sale, marketing and labeling of products and services, and has implemented "Cathay Life Insurance Co., Ltd. Business Solicitation Policy and Procedures" based on Article 5 of the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises," as well as the "Cathay Life Insurance Co., Ltd. International Business Solicitation Policy and Procedures" based on Article 13 of the "Regulations Governing Offshore Insurance Branches" to regulate the referral and solicitation of agents and sales representatives. In accordance with the Insurance Act, Fair Trade Act, Consumer Protection Act, Financial Consumer Protection Act, and Self-Regulatory Rules Governing Marketing Advertisements of Insurance Industry, the Company has established	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
(VI) Has the company implemented a supplier			the “Cathay Life Insurance Co., Ltd Sales and Educational Material Management Policy” to ensure that commodity sales documents are in compliance with relevant laws and regulations. In order to protect consumer rights and interests and enhance the awareness of each unit as well as to improve the efficiency and quality of handling consumer disputes, the Company has stipulated the “Resolution Procedures for Consumption Disputes” in accordance with the Financial Consumer Protection Act and other relevant laws and regulations. Each company stipulates a policy of treating customers fairly with principles in accordance with the “Principles of Treating Customers Fairly” promulgated by FSC, and established the Fair Practices Committee, which is consistent with Cathay Financial Group’s service principles of “Start from the heart, treat customers with integrity, impress our customers, and create value,” and established the core corporate culture of “Full Service; Fair Hospitality” for sustainable development. (VI) Cathay Financial Holdings enforces sustainability in its procurement practices, and exerts influence	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
management policy that regulates suppliers' conducts with respect to environmental protection, occupational safety and health or work rights/human rights issues, and tracked suppliers' performance on a regular basis?			over the conduct of its suppliers in the upstream. Cathay Financial Holdings and subsidiaries have adopted ISO 20400:2017 - Sustainable Procurement Guidelines since 2018, which makes Cathay world's first financial institution to obtain the certification. Cathay Financial Holdings has developed Cathay Financial Holdings Sustainable Procurement Policy based on the 7 principles of sustainable purchase. Implementation of robust "Sustainable Procurement Procedures" combined with the support of online procurement platform, supplier sustainability self-assessment, 100% suppliers' commitment to Cathay sustainability statement, sustainability training and annual supplier conference, Cathay Financial Holdings is able to systematically influence supply partners and help them take steps toward achieving sustainability goals such as compliance, human rights protection and local employment. As part of Cathay Financial Holdings' supplier management practice, all potential suppliers are required to undergo assessment for compliance with the following codes before establishing business relationship; violators will have active status revoked:	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
			1. Environmental protection regulations. 2. Regulations governing occupational safety and health management. 3. Labor rights regulations. 4. Ethical norms regulations. Cathay Financial Holdings added CSR clauses in the contracts with suppliers, which requires suppliers to comply with laws and regulations governing environmental protection, labor conditions, labor safety and health, and labor rights. The Company requires suppliers to jointly fulfill CSR with actual conducts. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If a supplier is confirmed violating or failing to meet the norms, the Company may set a period and urge the supplier to fulfill or improve. If the supplier fails to fulfill or improve within that period, the Company may terminate or rescind the contract. Furthermore, the Company has adopted ISO 45001 and implemented “Contractor and Outsource Safety and Health” guidelines for enhanced management over contractors. In addition to hazard warnings and coordination	

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
			meetings, the subsidiaries also perform random safety inspections at work sites to ensure that occupational safety and health are maintained above satisfactory levels.	
V. Does the company prepare corporate social responsibility reports or any report of non-financial information based on international reporting standards or guidelines? Are the above mentioned reports supported by assurance or opinion of a third-party certifier?	Yes		Adhering to the Principles for Sustainable Insurance (PSI) of the United Nations, Cathay Life is required to annually disclose its results of complying to the four principles of PSI. In order for better integrity and quality of information disclosure, the Company also prepared the “2018 Cathay Life Corporate Sustainability Report” in accordance with GRI Standards and the framework for Integrated Reporting (IR). The report was entrusted to PwC to conduct limited assurance in accordance with Assurance Standards No. 1 “Assurance Cases of Auditing or Reviewing Non-Historical Financial Information” (stipulated in accordance with International Standard on Assurance Engagements ISAE3000) promulgated by Accounting Research and Development Foundation.	No significant difference.
VI. If the Company has established corporate social responsibility principles based on “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies”, please describe any discrepancy between the principles and their implementation: The practical implementation of the Company’s CSR has no discrepancy with the principles. The Company has not fully combined the employee performance evaluation system with the corporate CSR policy, but has incorporated the comprehensive planning department on the implementation of CSR.				
VII. Other information useful to the understanding of corporate social responsibilities: (I) The Company has long dedicated itself to corporate social responsibilities. Depending on changes in domestic and international corporate sustainability				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
trends which focuses on the influence of cash flows in the financial industry. The Corporate Sustainability Committee of Cathay Financial Holdings has set up 6 working groups including responsible investment, sustainable governance, responsible product, employee welfare, green operations, and mutual social prosperity, and formulated short/medium/long-term sustainability plans to be in line with global trends. The result in 2019 was excellent, and the key excellent performances are as follows: 1. Tiao-Kuei Huang, Chairman of Cathay Life and Chairperson of the Life Insurance Association, won the “8th Taiwan Insurance Excellence Awards - the Award of Excellence for Lifelong Achievement” issued by the Insurance Institute of the Republic of China, and Cathay Life also won nine awards, which covers 7 gold awards including the “Social Care,” “Policyholder Services,” “Talent Cultivation,” “Information Applications,” “Risk Management,” “Product Innovation Projects,” “Micro Insurance Promotion,” and two silver awards including the “Protection-Oriented Products Promotion,” and “Information Security Promotion.” 2. CFH Chairman Hong-Tu Tsai won the 21st “Faith, Hope & Love Awards of Insurance - Special Contribution Award” recognized by RMIM Inc., while Cathay Life has won the excellence corporate awards including “Best Social Responsibility,” “Insurance Expertise,” “Insurance Education Contribution,” “Best Communication - Changhua Office,” and outstanding awards for “Best Product Design” and “Best Communication Channel Strategy.” 3. Cathay Life Insurance won “Sports Activist Awards” organized by Sports Administration, for 11 consecutive years as a “Sponsor” and a “Promoter,” and has been certified for “Long-term Sponsorship” for 7 years. 4. In the Micro Insurance Contest of the Financial Supervisory Commission’s Insurance Competition, Cathay Life once again won the Excellent Award and Sprint Award in the Micro Insurance Category; the Elderly Friendly Award for Small Amount Whole Life Insurance; and Excellence in the Project Investment Category for Investment in Startups/Public Construction/Long-Term Care. 5. Cathay Life participated in the 2018 Health Promotion Award Program of the Department of Health, Taipei City Government for the first time and won the First Place, Outstanding Team Award. 6. Cathay Life received national recognition in the 1st National Enterprises Environmental Protection Award organized by the Environmental Protection Administration, Executive Yuan. 7. Cathay Life won the “3rd Term CSR Impact Bronze Award” organized by PwC and Cannes Lions, which has been the second consecutive year in winning the award.				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
8. Cathay Life won the “Gold Award” and “Talent Development Award” of “TCSA Taiwan Corporate Sustainability” organized by Taiwan Institute for Sustainable Energy.				
(II) Other useful information to understand corporate social responsibilities:				
Cathay Life makes good use of the Company’s resources and volunteer network, and actively implements the original brand concept of “Providing Happiness to People Is Happiness Itself,” promoting services on social welfare and public interests, visit and care for disadvantaged families, and conduct volunteer activities such as charity auctions and blood donations for helping others, and advanced programs for cultivating the second generation of new residents, children and youth students from remote areas, to enable them to build up confidence in progressing towards their dreams. The main public welfare projects in 2019 are briefly described as follows:				
1. Social welfare activities				
(1) Child welfare				
With the growing second generation of new residents, the innovative “New Human Resources Development Program” was conducted in collaboration with Li-Chan Lin Legislator’s Office, Cathay Life’s CFP lecturer, external lecturers, etc. The program consists of three major courses, including “Financial Risks” “Soft Skills Training” and “New Second Generation Advantage Forum,” in order to cultivate more competitive future talents. In addition, the Company has continued to form deep partnerships with the Eden Social Welfare Foundation, K-12 Education Administration of the Ministry of Education, Dongshan District Schools of Tainan City, and the Chongwen Women’s Association of Yunlin County. This provides learning support for the children of the second generation, such as “Multiple Smarts Training Course” and “after-school care,” which strengthen the children of the second generation on their cultural competitiveness in order to increase their confidence.				
In addition, the Company joined the Eden Social Welfare Foundation, YMCA Taichung and YMCA Kaohsiung to organize 3 “Charity Bazzars.” More than 14,000 participated and a sum of NT\$3.59 million was raised. All the raised money will be used to support the education of the second generation.				
The 6th “Cathay Children’s Dream Come True Program” in which 21 remotely located elementary schools were also selected to receive more than NT\$3 million in donations, in order to support teachers to lead students in remote areas to chase their dreams. In addition, a 4-day-3-night “Cathay Children’s Development Camp” was held during summer vacation, which invited hundreds of teachers and students to participate in Cathay Group’s various sports, arts, health care, financial education, and other learning courses and activities in Taipei.				
The Company organized the “Winter Warmth Program” before Christmas and the Spring Festival, where employees’ donations were distributed to				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
95 remotely located elementary schools nationwide across 15 counties/cities and 62 townships/districts, including Shuang-Xi of New Taipei City, Linbian of Pingtung, Changbin of Taitung, Hsinchen of Hualien, and Liujiao of Chiayi, which benefited more than 7,100 children. (2) Low-income households and medical subsidies In 2019, Cathay volunteer groups also cared for and supported 209 disadvantaged families, and paid approximately NT\$2.05 million of subsidies after internal review in order to help disadvantaged families to overcome financial difficulties. In addition, large social welfare organizations and local volunteer groups continue to promote micro insurance for low and middle-class households, or to subsidize disadvantaged children in urgent need of medical care. (3) Scholarships for Financially Disadvantaged Students The Cathay Scholarship has been donated to a total of 50 financially disadvantaged students with excellent performances to help reduce financial difficulties so that they can concentrate on their studies and develop future competitiveness. (4) Benefits for the disabled Support the disabled in the “Mixed Disabled Troupe” performance group, with 9 shows in campuses and prisons. In addition to providing a stage for the disabled, the life story of the performance group members also convey the value of life to high school, junior high school students and juvenile prisoners, which inspired nearly 5,000 people in cherishing their lives. (5) Temporary donations and volunteer services Sponsor various social welfare activities, subsidize college servicing clubs, provide emergency and disaster relief assistance, and praise the enthusiastic volunteers of the Group who for their services on public welfare. 2. Social welfare activities (1) Cathay Youth Excellence Scholarship Continuously organize the “Cathay Youth Excellence Scholarship” program to provide support for students with exceptional contributions, and encourage individuals or teams to be involved in specialized research or public projects with an innovative vision for positive development of the society, focusing on education and community development, sustainability, Fintech, and emerging issues, of which a total of 29 outstanding individuals and groups were awarded in 2019. (2) Cathay Summer Blood Donation Campaign For 20 consecutive years, the Charity Foundation of Cathay Life cooperated with the Taiwan Blood Services Foundation to conduct blood donation				

Scope of assessment	Implementation Status (Note 1)			Deviation(s) from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and Reason(s)
	Yes	No	Summary (Note 2)	
activities during the summer holidays to combat blood shortage. In 2019, there were 383 blood donation stations across Taiwan, which have collected a total of 57,122 bags of donated blood from 40,000 people, hitting a record high, with a total of more than 350,000 bags of donated blood over the past 20 years.				
(3) Tree planting campaigns Cathay Volunteers collaborated with local community and non-profit organizations to organize 5 tree plantation and bitter vine removal events in New Taipei City, Keelung, Nantou, and Yilan, with a total of 2,250 participants. 9,390 trees were planted for creating a sustainable lifestyle for enterprises and the society, and protecting the environment while giving back to the society.				
(4) “Teach For Taiwan” program Cathay Public Welfare Group launched a three-year TFT program and jointly support TFT’s recruitment and training of local teachers with TFT’s three foundations, encouraging young talents in learning at classrooms, and to create an equal educational environment for children in remote areas with improved educational quality.				
(5) Elderly care activities Since Taiwan is close to becoming a hyper aged society, the Charity Foundation of Cathay Life focuses on mutualism in the community to establish a good interactive relationship with community residents through local forces together with corporate volunteers, while investing in non-toxic organic production, introducing core business functions, promoting financial anti-fraud board games, and assisting in asset protection and asset management of elderlies. To promote a healthy mental and physical development and good interpersonal development of the elderly, so that they can achieve the vision of aging in place and enjoying their retirement life.				

Note 1: If Implementation Status is specified “Yes,” please explain the key policies, strategies and measures taken and the current progress; if Implementation Status is specified “No,” please provide reasons and explain any policy, strategy and measure planned for the future.

Note 2: Where the Company has prepared a Corporate Social Responsibility Report, the summary thereof may not be required only if this report specifies that please refer to the Corporate Social Responsibility Report, or may be replaced by the index page number.

Note 3: Materiality principle refers to environmental, social and corporate governance issues that are of material impact to the Company’s investors and stakeholders.

(VII) Enforcement of business integrity, deviation and causes of deviation from Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies:

Scope of assessment		Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
		Yes	No	Summary	
I.	Enactment of ethical management policy and program	Yes		(I) Cathay Financial Holdings has implemented “Ethical Behavior Guidelines” and a “Business Integrity Code of Conduct” to serve as standards for ethical behavior of employees of the financial group and strengthen core values. The Company also has an “Employee Code of Conduct” formulated by the Board of Directors to strengthen the code of conduct for insurance personnel. In addition, the Company engages in business activities based on the principles of fairness, honesty, trustworthiness, and transparency. In order to implement the integrity management policy and actively prevent unethical behavior, the Company formulated the “Procedures for Ethical Management and Guidelines for Conduct” in accordance with the “Cathay Financial Holdings Integrity Code of Conduct.”	No Difference.
(I)	Has the company established a set of board-approved business integrity policy, and stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the senior management committed to fulfilling this commitment?				

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
(II) Has the company developed systematic practices for assessing integrity risks? Does the company perform regular analyses and assessments on business activities that are prone to higher risk of dishonesty, and implement preventions against dishonest conducts that include at least the measures mentioned in Paragraph 2, Article 7 of “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”?			(II) 1. The Company’s “Employee Code of Conduct” has clearly stipulated that the heads of all units shall periodically evaluate their subordinates, and be aware of unethical behaviors of subordinates in daily operations management. 2. The Company established the “Business Integrity Procedures and Behavioral Guidelines” in order to implement the integrity management policy and actively prevent dishonest conducts. The standard preventive measures include: (1) Prohibition against providing or accepting improper benefits. (2) Procedures for receiving regular social gifts and entertainment. (3) Procedures for handling political contributions. (4) Procedures for handling charitable donations or sponsorships. (5) Recusal. (6) Confidentiality and protection of intellectual properties. (7) Prohibition against unfair competition. (8) Prohibition against damage to an interested	

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
(III) Has the company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conducts? Are the above measures reviewed and revised on a regular basis?			party. (9) Prohibition against insider trading and the confidentiality regime. (III) The Company not only formulated the “Business Integrity Procedures and Behavioral Guidelines,” but also stipulated various violations, disciplinary standards, opinions and appeal procedures in the “Employee Rewards and Punishments Policy,” with reviews and amendments for changes in relevant laws and regulations.	
II. Implementation of ethical management (I) Has the Company assessed a trading counterpart’s ethical management record, and expressly states the ethical management clause in the contract to be signed with the trading counterpart?	Yes		(I) Chapter IV of the Company’s Procurement Management Policy covers review of supplier qualifications and relevant prohibitions, which includes provisions requiring review of supplier qualifications and credit investigation, and rejects transactions of suppliers that violate the integrity of transactions. The example of the contract covers provisions including sub-contract prohibitions, guarantee clauses, confidentiality obligations, rights and interests, personal protection, legal compliance, corporate social responsibility, and legal relations in order to have integrity restrictions on counterparties.	No Difference.

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
(II) Does the company have a unit that enforces business integrity directly under the board of directors? Does this unit report its progress (regarding implementation of business integrity policy and prevention against dishonest conducts) to the board of directors on a regular basis (at least once a year)?			(II) 1. The Company’s “Business Integrity Procedures and Behavioral Guidelines” clearly stipulates that Cathay Life’s Corporate Sustainability (CS) team shall be responsible for monitoring the implementation of business integrity, of which its subordinating Sustainable Governance team is responsible for enforcing business integrity related matters, while the human resources department is responsible for business integrity planning and implementation of related education and training. 2. The Corporate Sustainability (CS) team is directly supervised by the president. It not only conducts quarterly meetings to review the implementation status and effectiveness of corporate sustainability, but also submits its working progress to the board of directors on a regular basis (twice every year). The progress report covers the CS promotion plan for the whole fiscal year (including goal setting) and the implementation status. 3. The Company conducts behavior observation on a regular basis (twice a year) on board	

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
(III) Has the Company defined any policy against conflict of interest, provides adequate channel thereof, and fulfills the same precisely?			members and all colleagues, and verifies whether business integrity is implemented via performance evaluation and review of ethical behavior, which covers money laundering, terrorism, and ethical conduct. The annual implementation results are then reported to the board of directors. (III) The Company has formulated the Regulations Governing Transactions Other Than Loans between Cathay Life Insurance Co., Ltd. and Interested Parties, as well as the “Regulations for Extending Loans by Cathay Life Insurance Co., Ltd. to Interested Parties and Potential Counterparties to prevent conflicts of interest. In addition, the company has appropriate communication channels for insurers and employees, including the insurer complaints hotline, fax and e-mail, as well as the Chairman’s e-mail.	
(IV) Has the company implemented an effective accounting policy and internal control system to maintain business integrity? Has the internal audit unit or an entrusted accountant been assigned to devise audit plans based on the outcome of integrity risk assessment, and to audit			(IV) The Company has established an effective accounting system and internal control system. The audit unit conducts periodic audits, and an entrusted accountant was appointed to conduct audits for the internal control system to ensure	

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
employees’ compliance with various preventions against dishonest conduct? (V) Has the Company organized internal/external education training program for ethical management periodically?			continuous and effective implementation of the system. Relevant operations are handled in accordance with the “Business Integrity Procedures and Behavioral Guidelines.” (V) Arrange training for new employees, managers and colleagues. 1. New employees: Arrange a company introduction course on the first day to communicate corporate culture and core values (Integrity, Accountability and Creativity) 2. Managers: The manager meeting involves communications between managers on the company’s business strategy and corporate vision. The President not only gives instructions, but also encourages managers to abide by the Business Integrity Code of Conduct in order to maximize enterprise value. 3. Colleagues: During the departmental meeting, the Company’s four business concepts (“attach importance on business ethics and professional conscience” is one of them) and six work policies are advocated. In addition, the Company’s education and training program incorporates the online courses on “Employees	

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
			Code of Ethical Conduct,” in order to remind colleagues to abide by the Business Integrity Code of Conduct during business promotions.	
III. Status of the Company’s complaint system (I) Has the Company defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?	Yes		(I) The Company has established a whistleblower system that has been approved by the board of directors, which provides multiple and convenient whistleblower channels to be disclosed on the Company’s website, including the complaints mailbox, whistleblowing hotlines, e-mail, and postal mail, etc. The Company also designated a legal compliance unit with independent functions to accept and investigate the reported issues. In addition, the “Rewards and Punishments for Employees” has been established, which specify the principles, reporting procedures and types of rewards and punishment, as well as providing examples for corresponding behaviors. Except the rewards and punishments for audits of the auditing department which are transferred to the human resources department, the rewards and punishments of other units transfer to each personnel management unit after it is submitted to the top-level manager by the audit authorities or	No Difference.

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
(II) Has the company implemented any standard procedures for handling reported misconducts, and subsequent actions and confidentiality measures to be undertaken upon completion of an investigation? (III) Has the Company adopted any measures to prevent the complainants from being abused after filing complaints?			the employee’s direct manager. Employees verified to have violated the regulations may be appropriately punished based on relevant conditions in accordance with relevant laws and internal company regulations, or shall be delivered to the court and assume on his own the civil, criminal or legal liabilities. (II) The Company has established standard procedures for handling, filing and investigation of reported misconducts in the reporting system. If any major incident or violation is discovered after investigation, the Company will report to the competent authority, or file a notice or report to the procuratorate, and ensure confidentiality in related procedures. (III) In addition to confidentiality of the complainants’ identity, the Company has also adopted measures to protect complainants, stipulating that it shall not dismiss, demote, reduce the wage of, or render other unfair treatment to an complainant after he/she files a complaint.	
IV. Enhancing Information Disclosure Has the Company disclosed the Ethical Management Principles and effect of implementation thereof on its	Yes		The Company has disclosed its ethical management matters on the corporate website: https://www.cathaylife.com.tw/cathaylife/about/info	No Difference.

Scope of assessment	Implementation Status (Note 1)			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary	
website and Market Observation Post System?			/about	
V. If the Company has established ethical management principles based on “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the principles and their implementation: In order to establish the Company’s corporate culture and sound development on business integrity, the parent company formulated the “Cathay Financial Holdings Integrity Code of Conduct” with reference to the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies” for CFH’s subsidiaries (including the Company) and other enterprises or juristic persons directly or indirectly controlled by the Company.				
VI. Other information material to the understanding of ethical management operation: (e.g. discussion of an amendment to the ethical management best practice principles defined by the Bank) . The Company engages in business activities based on the principles of fairness, honesty, trustworthiness, and transparency. In order to implement the integrity management policy and actively prevent unethical behavior, the Company formulated the “Procedures for Ethical Management and Guidelines for Conduct” in accordance with the “Cathay Financial Holdings Integrity Code of Conduct,” specifically regulating the matters that the employees shall be aware of when performing their duties.				

Note 1: Regardless if “Yes” or “No,” the status shall be stated in the Remarks section.

(VIII) Disclosure of how the corporate governance best-practice principles or related bylaws are to be searched:

1. The Company has stipulated regulations such as the Articles of Incorporation (specifying the organization, qualifications and rights of the board of directors in Articles 21 to 22), Regulations Governing Procedure for Board of Directors Meetings, Terms of Reference of Independent Directors, Corporate Governance Principles, and the Board and Performance Evaluation Policy.
2. The search method is as follows: Cathay Life website → information disclosure → corporate governance → corporate governance structure and rules
(<https://www.cathaylife.com.tw/cathaylife/about/info/public-info/info-governance>)

(IX) Other information material to the understanding of corporate governance within the Company: None.

(X) Implementation of internal control system:

1. Declaration of Internal Control System:

Cathay Life Insurance Co., Ltd.
Declaration of Internal Control System

Declaration of the Company's internal control system from January 1 to December 31, 2019 according to the results of self-inspection are as follows:

- I. The Company has already set up the system regarding the responsibility of the board of directors and management level on establishment, implementation and maintenance of the internal control system. The purpose of the internal control system is to provide reasonable assurance for achieving the objectives for business operations, financial reporting and legal compliance. The Company's business objective is the effectiveness and efficiency of operations, including profitability, performance and safeguarding of asset security. The objective of financial reporting is the reliableness of external financial reporting, while the objective of legal compliance is to comply with relevant laws and regulations. The legal compliance system is part of the internal control system for achieving legal compliance. The financial records and statements are prepared on a consistent basis in accordance with the Insurance Act and relative laws and regulations, including part of the achievements of the internal control system for financial reporting.
- II. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control system can only provide reasonable assurance for achieving the above three objectives, and the effectiveness of internal control system may vary due to the changing environmental circumstances. However, the company's internal control system has a self-monitoring mechanism which will take corrective actions in a timely manner once the deficiencies are identified.
- III. The Company has established the self-inspection system in accordance with "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises" (hereinafter referred to as "the regulations") of the Financial Supervisory Commission to assess on effective design and implementation of the internal control system with respect to the assessment items stipulated in "the regulations." The internal control system is classified into five elements: 1. control environment, 2. risk assessment, 3. control operations, 4. information and communication, and 5. supervision. Each element also includes several assessment items. For the aforementioned assessment items, please refer to the provisions of "the regulations."
- IV. The Company has already applied the above items for judging the internal control system in order to verify the effectiveness of the design and implementation of the internal control system.
- V. Based on inspection results in the preceding paragraph, the Company believes that apart from the matters listed in the table, the design and implementation of the internal control system (including business operations, financial reporting and legal compliance) is effective during aforementioned period, and reasonably ensures that the board of directors and managers understand the extent of achievement of the business objective and that the financial reporting and legal compliance objectives have already been achieved. The Company also believed that The financial records and statements are prepared on a consistent basis and is presented fairly and correctly in accordance with the Insurance Act and relative laws and regulations.
- VI. This statement forms an integral part of the Company's annual report and prospectus, and shall be duly disclosed to the public. Any illegal misrepresentation or non-disclosure in the public statement above is subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement was passed by the board of directors on March 11, 2020.

To:

Financial Supervisory Commission

Declarers:

Chairman:	Tiao-Kuei Huang	(signature)
President:	Shan-Chi Liu	(signature)
Chief Auditor:	Shu-Chuan Chen	(signature)
Chief Compliance Officer:	Mao-Chi Chung	(signature)

Dated: March 11, 2020

Cathay Life Insurance Co., Ltd. Areas of Improvement and Rectification of the Internal Control System

(Baseline date: December 31, 2019)

Table

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
FTP servers for online service were not placed according to rules	FTP servers have been placed outside the DMZ according to policy. Furthermore, the Company has made proper segmentation and applied control for production, parallel-testing, and test servers.	Already completed.
Security patches should be installed more quickly after the weakness scan; security leaks announced by key network equipment manufacturers were not patched in time; the corporate website and employee portal were under-encrypted, which undermined security of the information system.	The information security department gathers vulnerability information from F-ISAC, makes weekly reports, and patches security leaks. Management policies have been amended to specify the frequency of vulnerability scans and timeframe within which vulnerabilities have to be corrected. The Company also engages third-party consultants for services such as consultation and vulnerability correction. The under-encrypted TLS 1.0 protocol has been disabled for both corporate and employee portals.	Already completed.
Data transmitted outside of the organization was checked for personal information, but e-mail address was not included as part of the detection criteria; no control was implemented to detect attempts to transmit personal information in small volumes over multiple e-mails; and no filter or control was implemented to monitor the appropriateness of files containing personal information that are transmitted externally through open ports or firewall exceptions, which undermines the efforts in preventing leakage of personal information.	1. After discussing with the 2nd Risk Management Department, the Company has addressed the lack of protection against drip leaks by tightening drip rules to block data drips above 20 records a day. This new rule is currently in force. 2. Transmission of personal information using ports such as HTTP, HTTPS, Mail, FTP etc. are subject to DLP control.	Already completed.
Data modification feature on the mobile APP used by sales representatives has poorly designed control.	Change of application form details such as address, telephone, and e-mail address previously did not require additional signature from customers, but do so now.	Already completed.

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
The pricing rationality checks and monthly trade price to market price deviation checks were found to exhibit: lack of consistent pricing rationality guidelines, non-conformity with check and balance in existing standards, and inconsistent basis of comparison.	The Company has implemented policies to check for deviations in the price of transaction/investment. Offshore bonds are uniformly compared on a trade date basis.	Already completed.
The same shares were accounted as held for trading and available-for-sale at the same time, or carried at fair value through profit and loss (FVTPL) and at fair value through profit and loss using the overlay method (FVTPL+Overlay) at the same time. As a result, the subsidiary's stop-loss mechanism was rendered unenforceable, which undermined its risk management efforts.	Amendments to stop-loss control: 1. For investment positions that are subject to stop-loss, employees now have to complete disposal or produce report within 7 days after the conditions are met. Furthermore, the frequency of secondary loss control report has been shortened to 2 months. 2. Loss control reports for FVTPL are now subject to approval by Deputy General Manager. If the report recommends additional purchase, the decision has to be approved by the President and will be subject to checks and balances and exposure controls.	Already completed.
Risk assessment for investments in subordinated perpetual bonds (without maturity date) with loss absorption terms was considered inadequate.	1. The investment recommendation report now has to explain in details in the investment summary field the quality of assets, the conditions being triggered, and loss absorption terms of the underlying asset. 2. "Pre-transaction Risk Limit Checklist" has to be duly completed. 3. Bloomberg page printout and related descriptions now have to be attached. 4. The process has been included as part of regular self-audit.	Already completed.

2. The CPAs' audit report for which the company has retained CPAs to exclusively audit its internal control systems:

The CPAs' audit report of the internal control system

To: Board of Directors of Cathay Life Insurance Co., Ltd.

Attached is the statement on March 11, 2020 that Cathay Life Insurance Co., Ltd.'s internal control system (including the report for the competent authority in accordance with the financial reporting internal control system) is a valid declaration for design and implementation from January 1, 2019 to December 31, 2019, and is part of the legal compliance system (based on items stipulated in Tai-Cai-Bao-Zi No.0930014734 of the Ministry of Finance) that has been audited by a CPA. The Company's managers are responsible for maintaining an appropriate internal control system and assessing its effectiveness, while CPAs are designated to express audit opinions on the effectiveness of the internal control system and the Company's declaration of internal control system according to audit results.

The CPA conducts audits based on the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises," "Regulations Governing Foreign Investments by Insurance Companies," and the letter of Tai-Cai-Bao-Zi No. 0930014734 issued on March 30, 2004 by the Ministry of Finance. The procedures include understanding the internal control system, evaluating the process by which management assesses the effectiveness of the overall internal control system, testing and evaluating the effectiveness of the design and implementation of internal control system, and other inspection procedures deemed necessary by the CPA. The audits are believed to serve as a reasonable basis for supporting the CPA review opinion.

Since any internal control system has its inherent limitations, the internal control system of Cathay Life Insurance Co., Ltd. may still fail to prevent or detect mistakes or malpractices that have already occurred. In addition, the extent of compliance to the internal control system may also be reduced in face of the changing environment in the future. Therefore, a current effective internal control system does not imply that it would still be effective in the future.

According to the CPA's opinion, Cathay Life Insurance Co., Ltd.'s declaration on the effective design and implementation of the internal control system from January 1 to December 31, 2019 with respect to financial reporting (including the accuracy of financial information the Company files with the competent authority based on the internal control system stated in the financial report), and safeguarding of asset security (preventing unauthorized acquisition, use,

and disposition of assets) is based on the assessment items of the internal control system in accordance with the “Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises” and the “Regulations Governing Establishment of Internal Control Systems by Public Companies,” except for improvements prompted in the declaration of internal control system of Cathay Life, the declaration is determined to maintain its effectiveness in all significant respects. On March 11, 2020, Cathay Life’s declaration on effective design and implementation of internal control system with respect to external financial reporting and safeguarding of asset security (including call reports for the competent authority and legal compliance based on the internal control system stated in the financial report) from January 1 to December 31, 2019 is determined to be fair presentation in all significant respects.

Deloitte & Touche

Certified Public Accountant

Cheng-Hung Kuo

Certified Public Accountant

Li-Chi Chen

Dated: March 23, 2020

Cathay Life Insurance Co., Ltd. Areas of Improvement and Rectification of the Internal Control System

Table

(Baseline date: December 31, 2019)

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
FTP servers for online service were not placed according to rules	FTP servers have been placed outside the DMZ according to policy. Furthermore, the Company has made proper segmentation and applied control for production, parallel-testing, and test servers.	Already completed.
Security patches should be installed more quickly after the weakness scan; security leaks announced by key network equipment manufacturers were not patched in time;	The information security department gathers vulnerability information from F-ISAC, makes weekly reports, and patches security leaks. Management policies have been amended to specify the frequency of vulnerability scans and timeframe within which vulnerabilities have to be corrected. The Company also engages third-party consultants for services such as consultation and vulnerability correction.	Already completed.
the website and employee portal were under-encrypted, which undermined security of the information system.	The under-encrypted TLS 1.0 protocol has been disabled for both corporate and employee portals.	
Data transmitted outside of the organization was checked for personal information, but e-mail address was not included as part of the detection criteria; no control was implemented to detect attempts to transmit personal information in small volumes over multiple e-mails; and no filter or control was implemented to monitor the appropriateness of files containing personal information that are transmitted externally through open ports or firewall exceptions, which undermines the subsidiary's efforts in preventing leakage of personal information.	1. After discussing with the 2nd Risk Management Department, the Company has addressed the lack of protection against drip leaks by tightening drip rules to block data drips above 20 records a day. This new rule is currently in force. 2. Transmission of personal information using ports such as HTTP, HTTPS, Mail, FTP etc. are subject to DLP control.	Already completed.
Data modification feature on the mobile APP used by sales representatives has poorly designed control.	Change of application form details such as address, telephone, and e-mail address previously did not require additional signature from customers, but do so now.	Already completed.

Deficiencies to be Corrected	Corrective Action	Scheduled Completion Time
The pricing rationality checks and monthly trade price to market price deviation checks were found to exhibit: lack of consistent pricing rationality guidelines, non-conformity with check and balance in existing standards, and inconsistent basis of comparison.	The Company has implemented policies to check for deviations in the price of transaction/investment. Offshore bonds are uniformly compared on a trade date basis.	Already completed.
The same shares were accounted as held for trading and available-for-sale at the same time, or carried at fair value through profit and loss (FVTPL) and at fair value through profit and loss using the overlay method (FVTPL+Overlay) at the same time. As a result, the subsidiary's stop-loss mechanism was rendered unenforceable, which undermined its risk management efforts.	Amendments to stop-loss control: 1. For investment positions that are subject to stop-loss, employees now have to complete disposal or produce report within 7 days after the conditions are met. Furthermore, the frequency of secondary loss control report has been shortened to 2 months. 2. Loss control reports for FVTPL are now subject to approval by Senior Executive VP. If the report recommends additional purchase, the decision has to be approved by the President and will be subject to checks and balances and exposure controls.	Already completed.
Risk assessment for investments in subordinated perpetual bonds (without maturity date) with loss absorption terms was considered inadequate.	1. The investment recommendation report now has to explain in details in the investment summary field the quality of assets, the conditions being triggered, and loss absorption terms of the underlying asset. 2. "Pre-transaction Risk Limit Checklist" has to be duly completed. 3. Bloomberg page printout and related descriptions now have to be attached. 4. The process has been included as part of regular self-audit.	Already completed.

(XI) For the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, disclose any sanctions imposed in accordance with the law upon the company or its internal personnel, any sanctions imposed by the company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements:

1. The following defects were found during FSC's 2018 securities investment special inspection on the Company:

- (1) The pricing rationality checks and monthly trade price to market price deviation checks were found to exhibit: lack of consistent pricing rationality guidelines, non-conformity with check and balance in existing standards, and inconsistent basis of comparison.
- (2) The same shares were accounted as held for trading and available-for-sale at the same time, or carried at fair value through profit and loss (FVTPL) and at fair value through profit and loss using the overlay method (FVTPL+Overlay) at the same time. As a result, the subsidiary's stop-loss mechanism was rendered unenforceable, which undermined its risk management efforts.
- (3) Risk assessment for investments in subordinated perpetual bonds (without maturity date) with loss absorption terms was considered inadequate.

The Financial Supervisory Commission issued 3 orders of rectification on July 2, 2019.

Improvement: The Company has made improvements to Items (1) and (2) above; improvement measures for Item (3) have been submitted to the authority in writing and are currently being reviewed.

2. The following defects were found during FSC's 2018 special e-commerce system inspection on the Company:

- (1) FTP servers for online service were not placed according to rules.
- (2) Security patches should be installed more quickly after weakness scan; security leaks announced by key network equipment manufacturers were not patched in time; the website and employee portal were under-encrypted, which undermined security of the information system.
- (3) Data transmitted outside of the organization was checked for personal information, but e-mail address was not included as part of the detection criteria; no control was implemented to detect attempts to transmit personal information in small volumes over multiple e-mails; and no filter or control was implemented to monitor the appropriateness of files containing personal information that are transmitted externally through open ports or firewall exceptions, which undermines the subsidiary's efforts in preventing leakage of personal information.
- (4) Data modification feature on the mobile APP used by sales representatives has poorly designed control.

The Financial Supervisory Commission issued 4 orders of rectification on September 16, 2019.

Improvement: The Company has made improvements to Items (1) and (4) above; improvement measures for Item (2) and (3) have been submitted to the

authority in writing and are currently being reviewed.

3. The following defects were found during the FSC's general inspection in 2018:

- (1) With regards to complaints about sales representatives having persuaded customers to terminate insurance policies or undertake financed purchase of investment-linked policies, the subsidiary did not develop adequate control systems to check transaction patterns and prevent sales representatives from engaging in improper solicitation.
- (2) One of the branches of a Mainland insurance company that the subsidiary is a co-investor of was issued the administrative penalty to suspend new accident insurance services by the local financial authority, but the Company did not notify FSC in time upon receiving news of the administrative penalty.
- (3) Did not develop proper underwriting procedures for corporate insurance applicants. Furthermore, the subsidiary lacked reasonable controls to evaluate whether changes in insurance applicant or beneficiary are consistent with the initial insurance purpose.
- (4) Inappropriate sales talks were found in telemarketing activities.
- (5) Did not adopt reasonable measures to verify customers' identity; customer due diligence and enhanced due diligence measures were not fully enforced; insurance policies of high policy value reserve are considered to exhibit high money laundering risk, but online sale of which was not subjected to risk assessment and transaction pattern monitoring.
- (6) Investigation of policyholders' complaint found that the subsidiary had not followed up on policyholder's complaint about the private cash exchange between sales representatives and customers that may give rise to consumer dispute. The subsidiary should enhance its awareness promotion and management over the issue.
- (7) For structured note-linked insurance products, policyholders are issued "Insurance Principal Overdue Collection Advice" (via ordinary mail) and contacted by phone if proceeds are uncollected within 2 months after maturity, but no call record is maintained.
- (8) Post-investment management on venture capital companies was too focused on performance evaluation, and lacked analysis and disclosure on whether investment positions are consistent with investment plans.
- (9) Did not evaluate the necessity of SWIFT user accounts that were unused for an extended period of time, in order to keep user access to the minimum; monitoring of abnormal activities in the event log was limited only to transactions completed during non-office hours, and there was no monitoring of other abnormal activities.

The Financial Supervisory Commission imposed NT\$5.6 million in fines and issued 6 orders of rectification on February 18, 2020.

Improvement: The Company has made improvements to most of the defects mentioned above, except for Items (1), (3) and (5) where improvement measures have been submitted to the authority in writing and are currently being reviewed.

(XII) Shareholder meeting(s) and significant board resolutions during the most recent year and up to the date of publication of this annual report :

1. Major resolutions of the Board of Directors entitled to execute stockholders' meeting functions and the execution progress

Time	Major resolutions	Implementation Status
2019.5.3	Acknowledgment of 2018 Business Report and financial statements.	Announced to the public after resolution.
2019.5.3	Acknowledgment of the Company's 2018 earnings appropriation.	Resolution results conclude to allocate legal reserves of NT\$2.87 billion and special reserve of NT\$12.73 billion, of which NT\$1.24 billion of special reserve is for the reimbursement of previous losses, with undistributed earnings at the end of the period of NT\$0.
2019.5.14	Partial amendments to the "Procedures for Capital Utilization," "Procedures for the Acquisition and Disposal of Assets," "Rules of Securities Investment Risk Limits," and "Procedures for Derivatives Transactions."	Amendments announced to the public after resolution.
2019.11.13	Partial amendments to the "Procedures for the Acquisition and Disposal of Assets" and "Rules of Securities Investment Risk Limits."	Amendments announced to the public after resolution.
2020.3.11	Formulation of the "Procedures for the Election of Directors and Supervisors," and partial amendments to the Company's Articles of Incorporation, Procedures for Capital Utilization, Procedures for the Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises, and Rules of Securities Investment Risk Limits.	Amendments announced to the public after resolution.
2020.3.27	Reporting of the Company's "Internal Control System Defect Review Seminar" records in order to strengthen corporate governance	All cases are discussed for reference.

2. Major resolutions approved by the Board

- (1) May 3, 2019, 10th extraordinary meeting of the 19th board of directors
Passed the real estate transaction.
- (2) May 14, 2019, 8th meeting of the 19th board of directors
Passed the 2019 first-quarter financial statements.
Appointment of Corporate Governance Officer.
Passed the transactions with Ally Logistic Property Co., Ltd., etc..
Passed the real estate transaction.
Public offering of cumulative subordinated debts without maturity dates.
- (3) July 10, 2019, 11th extraordinary meeting of the 19th board of directors
Passed the real estate transaction.
- (4) August 15, 2019, 9th meeting of the 19th board of directors
Passed the 2019 first-half financial statements.
Investment of private equity fund.
Capital increase of the Cathay Century.
Signing the discretionary investment services Contracts with Global Evolution.
Increasing discretionary investment services and advisory service charges of Conning, Inc.
Adjustment of discretionary investment management contract for Conning, Inc.
Increase in cash capital (common shares) by private placement.
- (5) November 13, 2019, 10th meeting of the 19th board of directors
Passed the 2019 three-quarter financial statements
Issue price of common shares.
Appointment of financial statement auditors and the 2020 audit remuneration.
Signed an audit agreement with the Deloitte Touche Tohmatsu LLC Qualified Foreign Institutional Investors (QFII) investment account.
Passed the real estate transaction.
Transaction with Cathay United Bank Co., Ltd. (Singapore).
Transactions with San-Ching Engineering Co., Ltd..
- (6) January 20, 2020, 11th meeting of the 19th board of directors
Capital increase of Cathay Securities Investment Consulting Co., Ltd.
Passed the real estate transaction.

- (7) March 11, 2020, 12th meeting of the 19th board of directors
- Passed the 2019 Business Report
 - Passed the 2019 distribution of compensation for employees, directors and supervisors
 - Passed the 2019 financial statements
 - Passed the 2019 earnings distribution
 - Investment of private equity funds.
 - Passed the transactions with Ally Logistic Property Co., Ltd. and Xu Yuan Construction Co., Ltd.
 - Transactions with San-Ching Engineering Co., Ltd..

- (8) March 27, 2020, 13th meeting of the 19th board of directors
- Passed the real estate transaction.

(XIII) The main contents of important resolutions passed by the Board of Directors regarding in which directors or Supervisors have voiced differing opinions on the record or in writing, during the most recent year and up to the date of publication of this annual report: None.

(XIV) A summary of resignations and dismissals, during the most recent fiscal year and up to the date of the publication of the annual report, of the company's Chairman, President, accounting officer, financial officer, internal audit officer, and R&D officer: None.

V. Professional Fees to the CPA

Accounting firm name	Names of Auditors		Audit period	Remarks
Deloitte & Touche	Cheng-Hung Kuo	Li-Chi Chen	2019.1.1 ~ 2019.12.31	

Unit: NT\$ thousand

Range		Fee Item	Audit Fee	Non-audit Fee	Total
1	Under NT\$2,000,000				
2	NT\$2,000,000 (inclusive) ~ NT\$4,000,000				
3	NT\$4,000,000 (inclusive) ~ NT\$6,000,000				
4	NT\$6,000,000 (inclusive) ~ NT\$8,000,000				
5	NT\$8,000,000 (inclusive) ~ NT\$10,000,000				
6	Over NT\$10,000,000 (inclusive)		16,040	12,274	28,314

- (I) The non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto:

Unit: NT\$ thousand

Accounting firm name	Names of Auditors	Audit Fee	Non-audit Fee					Audit period	Remarks
			Designing regulations	Business registration	Human resources	Others	Subtotal		
Deloitte & Touche	Cheng-Hung Kuo	16,040				12,274	12,274	2019.1.1 ~ 2019.12.31	Other items include project and advisory service charges.
	Li-Chi Chen								

- (II) The company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year: None.
- (III) The audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more: None.

VI. Information of Independent Auditor replacement:

(I) Information relating to the former CPA:

Date of reappointment	During the board of directors meeting dated December 4, 2018, a decision was made to reappoint accounting firm and CPAs starting from 2019.		
Reason for reappointment	The decision to reappoint accounting firm and CPAs was made to accommodate the Group’s long-term strategies, internal management, and the world’s corporate governance trends		
Was the termination of audit services initiated by the principal or by the CPA	Contracting Party Conditions	Certified Public Accountant	Principal
	Service terminated by		V
	Service no longer accepted (continued) by		
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
Whether there was any disagreement between the Company and the insurance industry	Yes		Accounting principles or practices
			Disclosure of financial report
			Scope or steps of audit
			Others
	None	V	
Explanation			
Other disclosures (Matters that shall be disclosed in Point 4, Item 1, Subparagraph 2, Article 24 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises)	None		

(II) Information relating to the succeeding CPA:

CPA Office	Deloitte & Touche
Names of Auditors	Cheng-Hung Kuo, Li-Chi Chen
Date of appointment	During the board of directors meeting dated December 4, 2018, a decision was made to reappoint accounting firm and CPAs starting from 2019.
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to appointment	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

VII. The facts about the Company chairman, president, managerial officer in charge of financial or accounting affairs having served with the CPA Office or the affiliation thereof over the past year: None.

VIII. Facts of equity transfer and change in equity pledge about the director or supervisor, managerial office, or shareholders having held the equity exceeding 10%: None.

IX. Information of stakeholders, spouse, and relative within the second degree of kinship of the top ten shareholders: None.

- X. Invested businesses jointly held between the financial holding company, its directors, supervisors, managers, and enterprises directly or indirectly controlled by the company; disclose shareholding in aggregate of the above parties:

December 31, 2019

Invested enterprise	Held by the Company		Held by Directors, Supervisors, Managers, and Directly/Indirectly Controlled Businesses		Total Investment	
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding
WK Technology Fund VI Co., Ltd	10,837,211	21.43%	-	0.00%	10,837,211	21.43%
Dasheng Venture Capital Co., Ltd.	95,711,836	25.00%	-	0.00%	95,711,836	25.00%
Dasheng IV Venture Capital Co., Ltd.	75,000,000	21.43%	-	0.00%	75,000,000	21.43%
Symphox Information Co., Ltd.	24,511,000	49.12%	-	0.00%	24,511,000	49.12%
Cathay Securities Investment Consulting Co., Ltd.	7,000,000	100.00%	-	0.00%	7,000,000	100.00%
Cathay Venture Inc.	114,128,665	25.00%	-	0.00%	114,128,665	25.00%
Greenhealth Water Resources Co., Ltd.	45,600,000	30.00%	-	0.00%	45,600,000	30.00%
Taixu Energy Technology Co.Ltd.	67,500,000	45.00%	-	0.00%	67,500,000	45.00%
Kaitai Energy Co., Ltd.	27,000,000	45.00%	-	0.00%	27,000,000	45.00%
Xinritai Energy Co., Ltd.	67,500,000	45.00%	-	0.00%	67,500,000	45.00%
Ding Teng Co., Ltd.	37,283,845	27.36%	-	0.00%	37,283,845	27.36%
PSS Co., Ltd.	13,451,843	36.70%	-	0.00%	13,451,843	36.70%
Rizal Commercial Banking Corporation	452,018,582	23.35%	-	0.00%	452,018,582	23.35%
PT Bank Mayapada Internasional Tbk.	2,550,766,676	37.33%	-	0.00%	2,550,766,676	37.33%
CMG International One Co., Ltd..	67,500,000	45.00%	-	0.00%	67,500,000	45.00%
CMG International Two Co., Ltd.	67,500,000	45.00%	-	0.00%	67,500,000	45.00%
Cathay Lujiazui Life Insurance Company Limited	-	50.00%	-	0.00%	-	50.00%
Cathay Insurance Company Limited (China)	-	24.50%	-	0.00%	-	24.50%
Cathay Life Insurance (Vietnam) Co., Ltd.	-	100.00%	-	0.00%	-	100.00%
Lin Yuan (Shanghai) Real Estate Co., Ltd.	-	100.00%	-	0.00%	-	100.00%
Cathay Woolgate Exchange Holding 1 Limited	326,700,000	100.00%	-	0.00%	326,700,000	100.00%
Cathay Woolgate Exchange Holding 2 Limited	3,300,000	100.00%	-	0.00%	3,300,000	100.00%
Cathay Walbrook Holding 1 Limited	213,750,000	100.00%	-	0.00%	213,750,000	100.00%
Cathay Walbrook Holding 2 Limited	11,250,000	100.00%	-	0.00%	11,250,000	100.00%
Conning Holdings Limited	2,029,287	100.00%	-	0.00%	2,029,287	100.00%

Note: Investments are accounted for using the equity method

Four. Capital Overview

I. Capital and Shares

(I) Source of Capital:

Date	Issue price	Registered Capital		Total Paid-in Capital		Remarks		
		Number of shares	Amount (NTD)	Number of shares	Amount (NTD)	Source of Capital	Assets except cash is offset against share payments	Others
2002.08	10	5,068,615,765	50,686,157,650	5,068,615,765	50,686,157,650	-	-	-
2008.06	75	5,268,615,765	52,686,157,650	5,268,615,765	52,686,157,650	Increase in cash capital (common shares)	-	Note 1
2008.12	50	10,000,000,000	100,000,000,000	5,568,615,765	55,686,157,650	Series A Preferred Share by private placement	-	Note 2
2009.12	50	10,000,000,000	100,000,000,000	5,768,615,765	57,686,157,650	Series B Preferred Share by private placement	-	Note 3
2010.06	10	10,000,000,000	100,000,000,000	5,806,527,395	58,065,273,950	Capitalization of retained earnings (common shares)	-	Note 4
2011.10	40	10,000,000,000	100,000,000,000	5,931,527,395	59,315,273,950	Series C Preferred Share by private placement	-	Note 5
2015.12	50	10,000,000,000	100,000,000,000	5,631,527,395	56,315,273,950	Reduction of Series A Preferred Share	-	Note 6
2016.10	50	10,000,000,000	100,000,000,000	5,431,527,395	54,315,273,950	Reduction of Series B Preferred Share	-	Note 7
2018.07	100	10,000,000,000	100,000,000,000	5,851,527,395	58,515,273,950	Increase in cash capital (common shares by private placement)	-	Note 8
2018.07	40	10,000,000,000	100,000,000,000	5,726,527,395	57,265,273,950	Reduction of Series C Preferred Share	-	Note 9
2019.12	80	10,000,000,000	100,000,000,000	5,851,527,395	58,515,273,950	Increase in cash capital (common shares by private placement)	-	Note 10

Note 1: Approved per Order No. Financial-Supervisory-Securities-I-0970029593 of the Financial Supervisory Commission, Executive Yuan on June 20, 2008.

Note 2: Approved per Order No. Financial-Supervisory-Insurance-I-09702202150 of the Financial Supervisory Commission, Executive Yuan on November 18, 2008.

Note 3: Approved per Jin-Guan-Bao-Cai-Zi No. 09802210770 of the Financial Supervisory Commission, Executive Yuan on December 14, 2009.

Note 4: Approved per Jin-Guan-Zheng-Fa-Zi No. 0990024790 of the Financial Supervisory Commission, Executive Yuan on May 24, 2010.

Note 5: Approved per Jing-Guan-Zheng-Fa-Zi No. 10002516340 of the Financial Supervisory Commission, Executive Yuan on October 26, 2011.

Note 6: Approved per Jing-Shou-Shang-Zi No. 10401282050 of the Ministry of Economic Affairs on January 12, 2016.

Note 7: Approved per Jing-Shou-Shang-Zi No. 10501286010 of the Ministry of Economic Affairs on December 13, 2016.

Note 8: Approved per Jing-Shou-Shang-Zi No. 10701098950 of the Ministry of Economic Affairs on August 14, 2018.

Note 9: Approved per Jing-Shou-Shang-Zi No. 10701098980 of the Ministry of Economic Affairs on August 22, 2018.

Note 10: Approved per Jing-Shou-Shang-Zi No. 10801187990 of the Ministry of Economic Affairs on January 6, 2020.

Share Type	Registered Capital			Remarks
	Outstanding shares	Un-issued shares	Total	
Common stock issued by public companies	5,306,527,395	4,148,472,605	9,455,000,000	—
Common stock issued by private placement	545,000,000	0	545,000,000	—

(II) Shareholder structure:

March 2020

Quantity \ Shareholder structure	Government authorities	Financial institution	Other juristic (corporate) persons	Individuals	Foreign institutions and juristic (corporate) persons	Total
Number of shareholders	—	1	—	—	—	1
Number of shares held	—	5,851,527,395	-	-	-	5,851,527,395
Ratio of shareholding	—	100%	—	—	—	100%

Note: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd.

(III) Fact of equity scattering:

Common shares
At NT\$10 par value

March 2020

Shareholding levels	Number of shareholders	Number of shares held	Ratio of shareholding
Over 1,000,001	1	5,851,527,395	100%
Total	1	5,851,527,395	100%

(IV) List of major shareholders:

Names of major shareholders \ Shares	Number of shares held	Ratio of shareholding
Cathay Financial Holding Co., Ltd.	5,851,527,395	100%

Note: The Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd.

(V) Per share information (including market price, book value, earnings, share dividend) from the last two years:

Item \ Year		2018	2019	As of March 31, 2020
Market Share Price	Highest	—	—	—
	Lowest	—	—	—
	Average	—	—	—
Share Book Value	Before payout	62.27	100.59	100.59 (Note 1)
	After payout	62.27	(Note 2)	(Note 2)
Earnings Per Share	Weighted Average No of Shares	5,521,705,477	5,736,116,436	5,736,116,436
	Earnings Per Share	5.47	6.60	6.60 (Note 1)
Per Share Dividend	Cash Dividend		(Note 2)	(Note 2)
	Stock Dividend	From Retained Earnings	—	(Note 2)
		From Special Reserve	—	(Note 2)
	Accumulated Unpaid Dividend		—	—
ROI Analysis	Price/Earnings Ratio		—	—
	Price/Dividend Ratio		—	—
	Cash Dividend Yield		—	—

Note 1: Filled in according to the 2019 financial statements which is the information verified by CPA in the most recent quarter up to the date of publication of the annual report.

Note 2: The data is not available after the earnings distribution in 2019, as the company has not yet convened a shareholders' meeting for resolution of earnings distribution.

(VI) Dividend Policy and Implementation:

1. Surpluses concluded from a financial year are first subject to taxation and reimbursement of previous losses, followed by provision for legal reserve, provision/reversal of special reserve, and distribution of preferred dividends. The remaining balance (referred to as "Current Year Earnings" below) plus undistributed earnings carried from previous periods are available for distribution. The distributable earnings shall be first appropriated to preferred shares as stipulated in the Articles of Incorporation, followed by common shares, and the remaining amount is appropriated according to the earnings distribution proposed by the board of directors which is submitted for resolution by the shareholders' meeting.
2. The Company's dividend policy considers the external environment and growth phase of the Company's commodities, businesses and services. Unless otherwise specified by other statutes and the issuance terms and conditions of preferred shares, dividends are distributed

to common shareholders in cash to maintain the goal of stable dividends. The distribution of stock dividends shall not be more than 50% of total dividends. However, the aforementioned dividend policy can be adjusted based on the Company's business requirements, earnings and other related factors.

3. Implementation: Proposal of no dividend and bonus in 2019 by resolution of the board of directors' meeting.

(VII) Impact to 2019 Business Performance and EPS Resulting from the Proposal of Stock Dividend Distribution Made at the Recent Shareholders' Meeting: None.

(VIII) Remuneration of Employees, Directors and Supervisors:

1. Under the Articles of Incorporation: Surpluses concluded from a financial year are first subject to taxation and reimbursement of previous losses, followed by provision for legal reserve, provision/reversal of special reserve, and distribution of preferred dividends. The remaining balance (referred to as "Current Year Earnings" below) plus undistributed earnings carried from previous periods are available for distribution. The distributable earnings shall be first appropriated to preferred shares as stipulated in the Articles of Incorporation, followed by common shares, and the remaining amount is appropriated according to the earnings distribution proposed by the board of directors which is submitted for resolution by the shareholders' meeting.
2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: On March 17, 2016, 0.01% to 0.1% of profit of the current year is distributable as employees' compensation and no higher than 0.1% of profit of the current year is distributable as remuneration to directors/supervisors. However, the company's accumulated losses shall have been covered. The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Any discrepancy between the actual distributed amount by resolution of the board of directors and the estimated figure shall be recognized as income (loss) of the next fiscal year.
3. Information on any approval by the board of directors of distribution of compensation:

- (1) The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors in 2019: The amount of any employee compensation and compensation for directors and supervisors distributed in 2019 are NT\$3,961,274 and NT\$5,700,000 respectively.
 - (2) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for 2019 and total employee compensation: None.
 - (3) EPS after the distribution of employee, director, and supervisor compensation: NT\$6.60.
4. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated: In 2018, the distribution amount of employees' compensation and remuneration to directors/supervisors are NT\$2,760,379 and NT\$5,700,000 respectively. There was no discrepancy between the actual distribution of employee, director, and supervisor compensation for 2018 and the recognized expenses in the 2018 financial statements.

(IX) Share repurchases: None.

II. Issuance of corporate bonds, preferred shares, Global Depositary Receipts, employee stock option, new restricted employee shares, and merger (including merger and acquisitions and splits):

(I) Issuance of Corporate Bonds:

Corporate bond type (Note 2)	1 st unsecured corporate bonds (private placement)	2 nd unsecured corporate bonds (Note 5)	3 rd unsecured corporate bonds (Note 5)
Date issued	December 13, 2016	May 12, 2017	June 26, 2019
Face value	NT\$1 billion	NT\$1 million	NT\$1 million
Place of issuance and exchange (Note 3)	Taiwan	Taiwan	Taiwan
Issue price	Interest rate: 3.6%	Interest rate: 3.3%	Interest rate: 3%
Total	NT\$35 billion	NT\$35 billion	NT\$10 billion
Interest rate	The coupon rate is a fixed rate of 3.6% from the issue date to the tenth year, (based on the 10-year Government Bond Yield on the pricing date November 9, 2016, the aforementioned mark up is also referred to as “issue spread”). At ten years from the issue date and every ten years thereafter (referred to as the “interest rate reset date”), if the bond has not been redeemed, the coupon rate will be reset based on the 10-year Government Bond Yield plus the issue spread. The “Interest record date” shall be the previous 2 business day for financial institutions in Taipei. The 10-year Government Bond Yield shall be the GVTWTO10 INDEX as published by Bloomberg on the interest record date. If the above quotations cannot be obtained on the interest record date shall be decided by the issuer in good faith and taken into account of reasonable market rate.	Plus 1% for the coupon rate if the corporate bonds are not redeemed after the tenth year maturity.	Fixed interest rate: 3%
Duration	No maturity date	No maturity date	No maturity date
Guaranteeing institution	None	None	None
Trustee	None	CTBC Bank Co., Ltd.	CTBC Bank Co., Ltd.
Underwriting institution	None	Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd. and Yuanta Securities	Cathay Securities Co., Ltd., Cathay United Bank Co., Ltd., Yuanta Securities and KGI Securities Co., Ltd.
Certifying attorney	None	Baker & Mckenzie	Baker & Mckenzie
Certifying CPA	None	Ernst & Young	Deloitte & Touche

Repayment method		Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.	If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.	If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
Outstanding principal balance		NT\$35 billion	NT\$35 billion	NT\$10 billion
Terms for redemption or early repayment		Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.	If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.	If Cathay Life's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, Cathay Life may, with the approval of the competent authorities, redeem the bonds in full after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
Restriction Clause (Note 4)		None	None	None
Name of credit rating organization, rating date, bond rating results		None	None	None
Other rights of bondholders	Converted (exchanged or optioned) amount of common stock, global depository receipts, or other securities up to the date of publication of the annual report	None	None	None
	Issuance and conversion (traded or subscribed) regulations	None	None	None
Possible dilution of equity and impact on equity of existing shareholders due to issuance and conversion, trading or subscription rules, or issuance terms		None	None	None

Name of commissioned custodial institution for objects exchanged	None	None	None

Note 1: Corporate bond handling includes publicly offered and privately raised corporate bonds. Publicly offered corporate bonds undertaken refers to those already taken effect (approved by the board); privately raised corporate bond refer to those that have passed a board resolution.

Note 2: The number of columns is adjusted by the number of issuances or application approvals.

Note 3: To be filled for those falling under overseas corporate bonds.

Note 4: Such as restrictions on the distribution of cash dividends, external investments, or requirement to maintain a specific asset ratio.

Note 5: If a private offering, please indicate prominently.

Note 6: Those falling under conversion of corporate bonds, exchange of corporate bonds, general declaration of corporate bond issuance, or bonds with attached warrant shall disclose in tabulated form conversion corporate bond data, exchange corporate bond data, general declaration of corporate bond issuance, and bonds with attached warrant.

(II) Preferred shares: None.

(III) Issuance of Global Depositary Receipts, Employee Stock Option, and Merger (Including Merger and Acquisitions and Splits): None.

III. Implementation of the Capital Utilization Plans:

Year: 2019 Security type: Common shares

March 31, 2020

Purpose of private placement	Others			
Planned amount	10,000,000,000	Total planned amount and percentage%	10,000,000,000	100.00%
Actual amount used	10,000,000,000	Total actual amount and percentage%	10,000,000,000	100.00%
Purposes for unused capital	None			
Reasons for advanced or delayed actions and improvement plans	None			
Filing date	2020/01/03			
1st confirmation date	2020/01/03			

Five. Overview of Operations

I. The content of business

(I) The scope of business

1. The content of principal business:

The Company is a life insurer and is engaged in the sales of life insurance policies and related products.

2. Proportion:

Unit: NT\$100 million

Commodity type \ Item	2019 total premium income (excluding reinsurance premium)	%
Life Insurance	4,843.9	71.8%
Accidental injury insurance	160.6	2.4%
Health insurance	918.5	13.6%
Annuity	10.8	0.2%
Investment-linked insurance	807.7	12.0%
Subtotal	6,741.5	100.0%

3. Main products:

Traditional Insurance Main Contracts	
San-kao-hsin-an Term Health Insurance	An-an Medical Whole Life Insurance
Yung-kang Surgery Medical Term Health Insurance	Chen-hsin-he-hu Major Illnesses Term Insurance
Hsin-mei-li-chung-le Specific Illness USD Whole Life Insurance	An-hsin-chiu-chiu Disability Support Whole Life Insurance
Shou-hu-kung-chiao Long-Term Care Health Insurance	Hsin-ai-shou-hu Cancer Term Insurance
Shou-hu-tien-shih Cord Blood Stem Cell Transplant Health Insurance	E pa-chaoc Term Life Insurance
Shou-hu-ma-mi Endowment Insurance	Shuang-tien-li-to Interest Sensitive Whole Life Insurance
Huo-li-yu Term Life Insurance	Le-tien-li-to Interest Sensitive Whole Life Insurance
Hsin- GO-pao-chang 100 Term Life Insurance	Chang-li-nien-nien Interest Sensitive 1 Whole Life Insurance
Hsin-yung-pao-an-kang Hospitalization Medical Whole Life Health Insurance	Shuang-mei-tien-li USD Interest Sensitive Whole Life Insurance

Hsin-shou-hu-i-sheng Long-Term Care Whole Life Insurance	Chuan-mei-nien-nien USD Whole Life Insurance
Hsin-an-chia-pao-pen Term Life Insurance	Le-mei-chia-li USD Interest Sensitive Whole Life Insurance
Hsin-tsai Whole Life Insurance	Ao-li-ssu-nien AUD Interest Sensitive Whole Life Insurance
Chung-hsin-chuan-tan Major Illness Health Insurance	Hsin-chao-hsi-li Interest Sensitive Annuity Insurance (Type A)
Hen shou-hu Long-Term Care Term Health Insurance (XDT)	Ao-li-wei Universal Endowment Insurance
Chao-an-hsin Hospitalization Whole Medical Life Insurance	Lu-mei-li USD Interest Sensitive Whole Life Insurance (regular payment)
Chung-to-ai Specific Illness Whole Life Insurance	Chang-le-nien-nien Whole Life Insurance
OIU mei-tien GO li USD Interest Sensitive Whole Life Insurance	Hsin-hsiang-nien-nien Whole Life Insurance
Micro Personal Term Life Insurance	Kao-chen-wu-yu Endowment Insurance
Wei-hsin-ai Small Amount Whole Life Insurance	Mei-le-nien-nien USD Whole Life Insurance
Yang-an-hsin Hospitalization Medical Whole Life Insurance	Shang-yu-li Interest Sensitive Whole Life Insurance
He-hu-kung-chiao Long-Term Care Whole Life Health Insurance	Lu-li-nien-nien Interest Sensitive Whole Life Insurance
Wei-hsin i Small Amount Whole Life Insurance	Shang-mei-tien-li USD Interest Sensitive Whole Life Insurance
Pei-kan-shou-hu Long-Term Care Health Insurance	Lu-li-mei-nien USD Interest Sensitive Whole Life Insurance
Hsin-chen-an-shun Surgery Medical Whole Life Insurance	Chang-fa-tien-li Interest Sensitive Whole Life Insurance
Hsin-le-chuan Guardian Long-Term Care Whole Life Insurance	Le-Mei-Tien Variable Interest Rate USD Life Insurance
Hsin-chung-hu Specific Illness Whole Life Insurance	iMoney Interest Sensitive Annuity Insurance (Type A)
Chung-mei-he-hu Major Illness USD Whole Life Insurance	Lu-mei-nien-nien USD Whole Life Insurance
Le-chuan-jen-sheng Deferred Annuity Insurance	Shang-mei-li USD Interest Sensitive Whole Life Insurance
Le-chuan-chien-kang Hospitalization Medical Whole Life Insurance	Mei-li-ssu-nien USD Interest Sensitive Whole Life Insurance
Chung-hsin-he-hue Major Illness Term Insurance	Lung-teng-ssu-hai RMB Interest Sensitive Whole Life Insurance

Chung-hsing-fu Specific Illness Whole Life Insurance	Wang-li-ssu-nien Interest Sensitive Whole Life Insurance
OIU hao-li High USD Interest Sensitive Whole Life Insurance	Shang-wei-li Interest Sensitive Whole Life Insurance (regular payment)
Chung-sheng-he-hu Walker Major Illness Whole Life Insurance	Hsin- ao-to-hsin AUD Whole Life Insurance
Yang-shun-hsin Surgery Medical Whole Life Insurance	Ying-li-shuang-nien Interest Sensitive Whole Life Insurance
Hsin-chen-shou-hu-ping-an Whole Life Insurance	Chuan-hsiang-nien-nien Whole Life Insurance
Hsin-fu Whole Life Insurance (regular payment)	Lu-hsiang-nien-nien Whole Life Insurance
Chao-ching-tien 101 USD Whole Life Insurance (regular payment)	Hsin- Money Interest Sensitive Annuity Insurance (Type A)
Wei-hsin-hu Whole Life Health Insurance	Hen chi-li Interest Sensitive Term Insurance
Yang-chung-fu Specific Illness Whole Life Health Insurance	Lu-hsiang-nien-nien Whole Life Insurance
Chung-le-huo Specific Illness Whole Life Health Insurance	Mei-ssu-nien-nien USD Interest Sensitive Annual Whole Life Insurance
Hen-chien-kang Term Health Insurance	Shuang-mei-yueh-li USD Interest Sensitive Whole Life Insurance
Hen-chung-i Major Illness Term Health Insurance	Lung-yu-ssu-hai RMB Interest Sensitive Whole Life Insurance (regular payment)
Hen-ai-ni Term Insurance	I-mei-li-chia USD Interest Sensitive Whole Life Insurance
Kang-ai-wu-yu Hospitalization Medical Whole Life Health Insurance (Type A)	Chin-mei-hsin USD Interest Sensitive Whole Life Insurance
Chung-hsin Walker Major Illness Whole Life Insurance	I-li-to-to Interest Sensitive Whole Life Insurance
Hsing-fu-chuan-tan Insurance	Wei-li-i-sheng Interest Sensitive Whole Life Insurance (regular payment)
Yang-he-hu Disability Support Term Health Insurance	Fu-li-to-to Whole Life Insurance
Hsin-he-hu-chiu-chiu Disability Support Whole Life Insurance	Hi-li-shih-tai Interest Sensitive Whole Life Insurance (regular payment)
Chung-ai-chien-kang Major Illness Term Health Insurance (Type A)	Hua-mei-li USD Interest Sensitive Whole Life Insurance (regular payment)

Hsin-kang-hu Cancer Whole Life Insurance	Mei-li-i-sheng USD Interest Sensitive Whole Life Insurance (regular payment)
Hsin-tai-tai-hsing-fu Decrement Term Life Insurance	Hsin-lung-teng-ssu-hai RMB Interest Sensitive Whole Life Insurance
Hsin-tai-tai-hsing-fu Parity Term Life Insurance	I-mei-to-to USD Interest Sensitive Whole Life Insurance
Chung-sheng-he-hu Major Illness Whole Life Insurance	I-mei-li USD Interest Sensitive Whole Life Insurance
Chung-sheng-mei-man Major Illness USD Whole Life Insurance	
Traditional Insurance Rider and Endorsement	
GO an-hsin 100 USD Term Life Insurance Rider	Health Rider Endorsement
Chen-an-i Premium Waiver Rider	Beneficiaries Designation and Disposal Right Within the Scope of Claims and Debts Endorsement
Chen-kuai-pao-pei Health Insurance Rider	Hsin-yung-chien Hospitalization Daily Health Insurance Rider
Chen-kuan-huai Premium Waiver Rider	Accident Insurance Rider Amendment Right Endorsement
Accident Rider Death Insurance Endorsement (Applicable to One-Year Accident Insurance for Under 15 Years of Age)	Maturity Benefit Beneficiaries Endorsement
Hsin GO Guarantee 100 Term Life Insurance Rider	Expanded Surgery Agreement Coverage Endorsement
Hsin-chen-chuan-i Hospitalization Medical Health Insurance Rider	Chung-ai-chien-kang Rider Extension Endorsement
Hsin-chung-an Specific Illness Term Health Insurance Rider	Hen he-hu Long-Term Care Term Health Insurance Rider
Chen-pao-pei Accident Insurance Rider (Type A)	Hen an-chuan Term Accident Insurance Rider
Chung-chu-fu Major Illness Term Health Insurance Rider (Type B)	Ta-hsin Hospitalization Medical Health Insurance Rider
Chen-chuan-fang-wei Accident Insurance Rider	Micro Personal Accident Medical Insurance Rider
Chen-hao-ku-li Accident Insurance Rider	Chung-sheng-he-hu Walker Additional Clause
Ping-an-ai Accident and Hospitalization Medical Insurance Rider	Chung-sheng-mei-man Walker Additional Clause

Chen-kang-ai Cancer Whole Life Health Insurance Rider	Foreign Currency Insurance Policy Loans Endorsement (Non-Investment Product)
Additional Accident Insurance Benefit Specific Contract (Family) Death Insurance Endorsement	Motorcycle/Bicycle Accident Insurance Additional Clause
Elderly Hospitalization Advance Payment Additional Clause	Pedestrian/Public Transport Accident Insurance Additional Clause
Long Term Rider Renewal Endorsement	Holiday Accident Insurance Additional Clause
Continuation Annotation Endorsement	Accident Medical Limited Coverage Accident Insurance Additional Clause
Personal Accident Insurance Free Extended Warranties Endorsement	Fracture Accident Insurance Additional Clause
Personal Injury Insurance Free Extended Warranties Additional Clause	
Investment-linked Insurance Main Contract	
Hsin-fu-shih-chi Variable Life Insurance (Type A)	Hsin-to-chin-te-li Foreign Currency Variable Annuity Insurance
Hsin-cho-yueh-li-tsai Variable Universal Life Insurance	Hsin-to-chin-fu-li Foreign Currency Variable Annuity Insurance
Hsin-fei-fan-jen-sheng Variable Annuity Insurance (Type A)	Hsiang-le 88 Foreign Currency Variable Life Insurance
Hsin-fei-hsiang-jen-sheng Variable Annuity (Type A)	Hsiang-le 88 Foreign Currency Variable Annuity Insurance
Hsin-fu-fhih-chi Variable Universal Life Insurance (Type C)	Hsiang-le 88 Variable Annuity Insurance
Hsin-chi-fu-jen-sheng Variable Annuity Insurance	Yueh-yueh-fei-yang Variable Life Insurance
Hsin-yu-shih-chi Variable Universal Life Insurance	Yueh-yueh-yu li Variable Life Insurance
Hsin-yuehueh-yueh-hsin-an Variable Universal Life Insurance	Yueh-yueh-yu li Variable Annuity Insurance
Hsin-lee-jen-shang Variable Life Insurance	Yueh-yueh-yu li Foreign Currency Variable Annuity Insurance
Hsin-fu-li-shuang-hsiang Foreign Currency Variable Annuity Insurance	Yueh-yueh-ao-li Foreign Currency Variable Life Insurance
Hsinao-li-fu Foreign Currency Variable Annuity Insurance	He-chia-ai Variable Universal Life Insurance
Hsin-le-hsiang-jen-sheng Variable Annuity Insurance	Hsin-le-hsiang Life Foreign Currency Variable Life Insurance
Hsin-chin-tsai-chueh-lun Variable Life Insurance	Hsin-fu-kuei-pao-pen Investment Chain Insurance

Hsin-to-chin-te-li Variable Life Insurance	Hsin-shih-chieh-tung Foreign Currency Variable Annuity Insurance
Hsin to-chin-te-li Variable Life Insurance	Yueh-yueh-hsiang-fu Variable Life Insurance
Hsin chin-tsai-wan-fen Variable Annuity Insurance	Yueh-yueh-hao-li Variable Life Insurance
Le-fu-jen-sheng Variable Annuity Insurance	Yueh-yueh-hao-li Foreign Currency Variable Life Insurance
Hsin-to-chin-te-li Variable Annuity Insurance	Yueh-yueh-hao-li Variable Annuity Insurance
Hsin-to-chin-fu-li Variable Annuity Insurance	Yueh-yueh-hao-li Foreign Currency Variable Annuity Insurance
OIU nien-nien-chi-li Foreign Currency Annual Variable Life Insurance	Yueh-yueh-hsiang-fu Foreign Currency Variable Life Insurance
Fei-yang-jen-sheng Variable Annuity Insurance	Hen hao-yeh Variable Life Insurance
Fei-yang-jen-sheng Foreign Currency Variable Annuity Insurance	Le-fu PLUS Variable Life Insurance
Chien-tan-i Variable Universal Life Insurance	Le-fu PLUS Foreign Currency Variable Life Insurance
Yueh-yueh-kang-li Variable Annuity Insurance	He-kou-ai Variable Universal Life Insurance
Yueh-yueh-kang-li Foreign Currency Variable Annuity Insurance	Le-huo-fei-yang Variable Life Insurance
Hsin-fu-li-to Variable Life Insurance	Le-huo-fei-yang Foreign Currency Variable Life Insurance
Hsin-fu-li-to Foreign Currency Variable Annuity Insurance	Yueh-yueh Walker Variable Universal Life Insurance
New hao-shih-cheng-shuang Variable Universal Life Insurance	Yueh-yueh-li Hi Profit Variable Annuity Insurance
Hsin-hsin-hsin-hsiang-lien Variable Universal Life Insurance	Walker yu-li Variable Annuity Insurance
Hsin- fu-li-shuang-hsiang Variable Life Insurance	Yueh-hsiang-le-tui Variable Annuity Insurance
Hsin- chin-huan-tsuan RMB Variable Annuity Insurance	Fei-hsiang-le-tui Variable Annuity Insurance
Hsin-yueh-yueh-hsiang-li Variable Annuity Insurance	Fei-hsiang-le-tui Foreign Currency Variable Annuity Insurance
Hsin-yueh-yuen-hsiang-li Foreign Currency Variable Annuity Insurance	Fei Young jen-sheng Variable Annuity Insurance
Hsin-le-hsiang-jen-sheng Foreign Currency Variable Annuity Insurance	Fei Young jen-sheng Foreign Currency Variable Annuity Insurance

Le-fu-jen-sheng Variable Life Insurance	Yueh-yueh-chia-hsin Variable annuity Insurance
Le-fu-jen-sheng Foreign Currency Variable Annuity Insurance	Yueh-yueh-chia-hsin Foreign Currency Variable Annuity Insurance
Hsin-chin-tsai-wan-fen Foreign Currency Variable Annuity Insurance	Fu-li-to-hsin Variable Life Insurance
Investment-linked Insurance Rider and Endorsement	
Evaluation Day Plus Chuang-shih-chi Variable Universal Life Insurance Endorsement	Chin-tsai-chueh-lun Investment Target Endorsement
Chuang-shih-chi Variable Universal Life Insurance Value-Added Bonus Additional Clause	Hsiang-le 88 Investment Target Endorsement
Variable Universal Life Insurance plus Forever Safe Premium Waiver Health Insurance Rider Endorsement	Entrusted Investment Account Investment Target Endorsement (II)
Accidental Life Care Insurance Additional Clause	Investment Target Entrusted to Schroder Investment Account Endorsement (Growth Accumulating Type)
Fortune Profit Investment Target Endorsement	Entrusted Investment Account Investment Target Endorsement (I)
Investment Target Endorsement	Income Distribution/ Return of Asset Payment and Partial Withdrawal Endorsement
Parent-Subsidiary Fund Investment Target Endorsement	Fortune Double Enjoyment Platform Endorsement
OIU nien-nien-ke-li Investment Target Endorsement	Fu-li-shuang-hsiang Investment Target Endorsement
Chin-huan-tsuan Investment Target Endorsement	Yueh-yueh-kang-li Investment Target Endorsement
Investment Target Conversion Fee Endorsement	Entrusted Investment Account Investment Target Endorsement (III)
Investment Target Entrusted to Alliance Bernstein Investment Account Endorsement	Entrusted Investment Account Investment Target Endorsement (IV)
Fu-li-shuang-hsiang Investment Target Endorsement	Entrusted Investment Account Investment Target Endorsement (V)
Investment Target Entrusted to BlackRock Investment Account Endorsement (Growth Income Type)	Entrusted Investment Account Investment Target Endorsement (VI)
Ao-li-fu Investment Target Endorsement	Hsin-cho-yueh Financial Double Platform Endorsement

Yung-an Premium Waiver Health Insurance Rider	Entrusted Investment Account Investment Target Endorsement (VII)
Structured Commodity Plus Investment Type Foreign Currency Insurance Policy Loans Endorsement	Entrusted Investment Account Investment Target Endorsement (VIII)
Investment Target Entrusted to BlackRock Investment Account Endorsement	Entrusted Investment Account Investment Target Endorsement (IX)
Investment Insurance Initial Investment Allocation Date Endorsement	
Accidental injury insurance	
E yu-yu Insurance	Micro Personal Accident Insurance
Construction Workers Group Accident Insurance	Micro Accident Insurance
Vehicle Passenger Travel Insurance	Hsin-ping-an Group Insurance
Travel Insurance	Hsin-liu-hsueh-yu-shou Accident Insurance
Hsin-e-lu Travel Accident Insurance	Chen-chuan-fang-wei Accident Insurance
Group Insurance Main Contract	
Group Term Life Insurance	Group Occupational Accident Insurance
Group One Year Term Major Illness Life Insurance	Group Ao-yu-shih-tai Health Insurance (Type A, Type B)
Hsin-chin-man-fu Group Endowment Insurance	Cathay Life Shou-hu-kung-chiao Long-Term Care Health Insurance
New Group Term Life Insurance	Fei-hsiang-shih-tai College Student Insurance (Type A, Type B)
Group Accident Insurance	2018 Group Insurance for Students Below High School and for Kindergarten Children
Group Disability Health Insurance	Hsin-fu-chi Group Interest Sensitive Annuity Insurance
Fishermen's Group Insurance	He-hu-kung-chiao Group and Long-Term Care Health Insurance
Group Micro Accident Insurance	He-hu-shih-tai Group and Long-Term Care Health Insurance
Group Business Travel Insurance	Group and Long-Term Care Health Insurance (XDT)
New Group Accident Medical Alternative Benefit Accident Insurance	2019 Group Insurance for Students Below High School and for Kindergarten Children

Group Accidental Death Insurance	Hsieh=chin-min-li-chih-hsing-chin-wu Group Accident Insurance
Child Group Insurance	Group Newly Diagnosed Specific Cancer Health Insurance
Group Incapacity Health Insurance	
Group Insurance Rider and Endorsement	
Group Accident Hospitalization Daily Benefit Accident Insurance Rider	An-shun Group Cancer One-Year Term Health Insurance Rider
Group Accident Limited Coverage Medical Accident Insurance Rider	Group Chuan-i Hospitalization Limited Coverage Medical Health Insurance Rider
Group Accident Medical Alternative Benefit Accident Insurance Rider	Group Hospital Surgery Limited Coverage Health Insurance Additional Clause
Group Insurance Air Accident Additional Clause	Group Outpatient Surgery Limited Coverage Health Insurance Additional Clause
Group Accident Insurance Fracture Non-Hospitalized Medical Benefits Additional Clause	Group Illness Level 2-11 Disability Health Insurance Additional Clause
Group Burn Injury Coverage Accident Insurance Additional Clause	An-hsin Group Newly Diagnosed Cancer One-Year Term Health Insurance Rider
Group Disability Coverage Accident Insurance Additional Clause	Group Outpatient Limited Amount Health Insurance Additional Clause
Group ICU Accident Insurance Additional Clause	Group Hospitalization Medical Expense Limited Coverage Health Insurance Rider
Group Land and Sea Public Transport Accident Insurance Additional Clause	New Group Hospitalization Daily Health Insurance Rider
Group Occupational Accident Insurance Additional Clause	Group Inpatient Medical Expense Limited Coverage Health Insurance Rider
Group Disability Level 2-11 Accident Insurance Additional Clause	Group Major Illness One-year Term Health Insurance Rider (Type A)
Group Elevator Accident Insurance Additional Clause	Group Illness Level 2-7 Disability Health Insurance Additional Clause
Group Accident Outpatient Coverage Accident Insurance Additional Clause	Group Incapacity Medical Coverage Health Insurance Additional Clause
Group Specific Accident Insurance Additional Clause	Group Hospitalization Daily Increment Health Insurance Rider
Group Accident Emergency Limited Coverage Accident Insurance Rider	Group Hospitalization Fixed Sum Health Insurance Rider

Group Accident Insurance Rider	Group New Hospitalization Surgery Limited Coverage Health Insurance Additional Clause
Group Disability Living Allowance Accident Additional Clause	Group Hsin-chuan-i Hospitalization Limited Coverage Medical Health Insurance Rider
Group New Accident Medical Limited Coverage Accident Insurance Rider	Group New Outpatient Surgery Limited Coverage Health Insurance Additional Clause
Group Wen-hsin Hospitalization Daily Health Insurance Rider	Group Fei-hsiang-shih-tai Colleges Subsidies Major Surgery Benefit Health Insurance Additional Clause
Group Wen-hsin Hospitalization Medical Health Insurance Rider (Type A)	Insurance Contract Change Terms Endorsement
Group Wen-hsin Hospitalization Medical Health Insurance Rider (Type B)	Group Overseas Sudden Illness/ Burn Injury Medical Insurance Premiums Additional Clause
Group Hospitalization Limited Coverage Medical Health Insurance Rider (Type A, Type B)	Group Occupational Disaster Benefit Medical Health Insurance Additional Clause
Group Hospitalization and Return Visit Health Insurance Additional Clause	Group Hospitalization NT\$120 Per Day Health Insurance Rider
Group Intensive Care/ Burn Injury Health Insurance Additional Clause	Group Cancer Treatment Health Insurance Additional Clause
Group Outpatient Surgery Health Insurance Additional Clause	Group Occupational Death or Level 1 Disability Insurance Additional Clause
Group Newly Diagnosed Cancer One-Year Term Insurance Rider	Group Fei-hsiang-shih-tai College Student Hospitalization Medical Health Insurance Additional Clause
Group Newly Diagnosed Cancer One-Year Term Hospitalization Health Insurance Rider	Group Flying Fei-hsiang-shih-tai College Student Surgery Limited Coverage Health Insurance Additional Clause
Group Maternity Benefits Health Insurance Additional Clause	Group Fei-hsiang-shih-tai College Accident Outpatient Limited Coverage Accident Insurance Additional Clause
Group Hospitalization Daily Health Insurance Rider	Group Fei-hsiang-shih-tai College Student Medical and X-ray Examination Fee Limited Coverage Health Insurance Additional Clause
Group Hospitalization Two-Week Return Visit Health Insurance Additional Clause	Group Fei-hsiang-shih-tai College Food Poison Condolences Accident Insurance Additional Clause

Group Emergency Limited Coverage Health Insurance Additional Clause	Group Fei-hsiang-shih-tai College Student Newly Diagnosed Cancer Health Insurance Additional Clause
Group Hospitalization Fixed Sum Medical Health Insurance Rider	Group Overseas Sudden Illness/ Injury Medical Insurance Premiums Additional Clause
Group Insurance Additional Clause Before and After Hospitalization	Group Fei-hsiang-shih-tai College Major Illness Health Insurance Additional Clause
Group Accident Medical Limited Coverage Accident Insurance Endorsement	Group Fei-hsiang-shih-tai College Student Fracture Non-Hospitalization Allowance Additional Clause
Group Hospitalization Preferential Medical Health Insurance Endorsement	Group Ao-yu-shih-tai Outpatient Emergency Limited Amount Health Insurance Additional Clause
Group Chuan-i Hospitalization Preferential Medical Health Insurance Endorsement	Appointment and Amendment of Death Benefit Beneficiaries Endorsement
Group Hospitalization Surgery Limited Coverage Health Insurance Endorsement	Change Insured Person Endorsement
Group Chuan-i Hospitalization Limited Coverage Medical Health Insurance Endorsement	Exempt from Insurance Addition/ Cancellation Endorsement
Group Hospitalization Increment Compensation Payment Health Insurance Endorsement	Group Insurance War Limit Deletion Amendment Endorsement
Group Newly Diagnosed Cancer Health Insurance Endorsement	Group Accident Exclusion Endorsement
Group Hsin-chuan-i Hospitalization Preferential Medical Health Insurance Endorsement	Change of Insured Application Method Endorsement
Welfare Group Health Insurance Rider Premium Payment Limit Endorsement	Employee Group Effective Method for Change of Insured Endorsement
Death Insurance/ Funeral Expenses Insurance Beneficiaries Specific Endorsement	Non-Employee Group Effective Method for Change of Insured Endorsement
Group Business Travel Accident Insurance Medical Coverage Additional Clause	Group Insurance Experience Dividend Endorsement
Group Fei-hsiang-shih-tai College Student Hospitalization Medical Health Insurance Endorsement	Specific Endorsement of Unpaid Medical Insurance Death Benefits for Dependents
Group Intensive Care/ Burn Injury Insurance Additional Clause	Group Insurance Contract Health Promotion Feedback Endorsement

(II) Industry Overview, Technology, Research and Development, and Long and Short-term Business Development Plan

1. Industry Overview:

In 2019, the penetration rate of Taiwan insurance companies reached 18.3%, maintaining its top position in the world, while the total life insurance premium income reached NT\$3.5 trillion, with total assets of NT\$29.4 trillion, which grew steadily by 11.7% YoY compared to 2018.

2. Technology, Research and Development

Please refer to the contents in Chapter One: I. (IV).

3. Short-term business development plan:

The insurance business environment currently faces a number of challenges including changes in accounting standards, regulatory environment, insurance technology and demographics, for which the company has responded with the following short-term business plans:

- (1) Enhance data governance and reshape core operations to increase mortality savings, and thereby improve business health.
- (2) Upgrade the insurance value chain and observe customers' needs through digital innovation and service for enhanced service experience in all lifestyle scenarios.
- (3) Maintain corporate flexibility, develop innovative business models and undergo total digital transformation to increase insurance value.
- (4) Optimize business channels in response to social and environmental changes; maintain growth in balanced quality and quantity.

4. Long-term business development plan:

Cathay Life embraces its mission as "Cathay Life, Sunshine in Your Life," and enforces its vision of "InsurTech, Happiness Gets." The four main strategies below have been proposed as means to accomplish the above:

(1) Creation of an insurance ecosystem

Coordinate resources across group affiliates and participants of different industries for collective customer management. By integrating resources and service scenarios throughout the group, the company will offer extended insurance solutions to facilitate interaction with customers and promote health protection.

- (2) Segmentation and precision marketing
Using statistical data, the company aims to gain insight into customers' needs for more efficient customer segmentation, product recommendation and overall business management.
- (3) Consistent customer experience across channels
Develop a smart insurance platform with AI and machine learning, and increase speed of service with the support of a strong mid/back office. Integrate virtual and physical channels and offer personalized service through a consumer-centric approach.
- (4) Smart Working
Create a working environment characterized by open communication, energy, flexibility, and competitiveness for improved work quality and productivity.

II. An analysis of the market as well as the production and marketing situation:

(I) Market Analysis:

1. Market share:

Year \ Item	First-year-premium	Subsequent-year-premium	Total premium
2017	18.5%	24.8%	22.5%
2018	15.3%	22.0%	19.4%
2019	15.8%	21.6%	19.4%

Source: The Life Insurance Association of the R.O.C.

2. Macroeconomic environment:

The trade conflicts in major countries had not completely subsided, weakened by global economic demand, with market forecasts on further loosening of monetary policies in the US and Europe. Despite influences from the trade of major countries which caused weak performance for Taiwan's foreign trade in the first half of 2019, Taiwan's economic growth still remained above 2%, and would further recover quarter by quarter. Given that the US-China trade war may possibly ease, part of the production lines shifting back to Taiwan, acceleration of 5G infrastructure, and limited decline in international raw material prices, we expect positive performances in Taiwan's exports.

3. Regulatory environment

- (1) Utilize technology to link with insurance and services and at the same time, enhance the application of digital tech continuously

In order to accelerate the innovation momentum of financial technology, companies are encouraged to use emerging technologies to provide more convenient and customized financial products and services through innovation and cross-industry cooperation. In addition to launching the regulatory sandbox experimentation, the competent authority also released the “Procedures for Insurance Application Trials” to encourage life insurance companies to simultaneously apply innovative emerging financial technologies on insurance businesses.

- (2) Use the blockchain sharing platform to create an insurance passbook account

The competent authority launched the “Insurance Blockchain Alliance Technology Application Sharing Platform,” and established the insurance blockchain sharing platform in cooperation with Chunghwa Telecom and the Insurance Crime Prevention Center, which was tested and verified by eight major life insurance companies to work together on POC verification for linking e-insurance policies. In the future, we will be able to develop services such as electronic insurance passbooks, fast claims settlement, and insurance crime prevention via this platform, which bring about unified specifications for electronic insurance.

- (3) By enhancing the operating structure, life insurance industry will be focused on 5 major aspects in 2020

In May 2019, under the consideration of both prudential supervision and sound development of the insurance industry, the conference of Financial Supervisory Commission and the insurance companies plans to discuss and adopt relevant supervision and support measures to improve the structure of the insurance industry from 5 major aspects: (1) uphold the conception of protection as the nature of insurance, (2) protect consumer rights, (3) enhance the loss and risk taking tendency of insurance companies, (4) strengthen the ability of insurance companies in managing exchange rate risks and assets and liabilities, and (5) help the insurance companies to adopt IFRS 17 smoothly.

The aforementioned relevant measures are expected to guide Taiwan’s insurance industry on stable operations, which may contribute to sustainability in the insurance industry, and bring positive impact to both policyholders and shareholders.

4. Analysis of future market supply and demand:

- (1) Given the ongoing digital transformation of the financial industry, the Company will continue making improvements to its product and service models, optimizing service procedures in favor of digital marketing, and effectively applying smart technology to channel operations and insurance services. With proper integration of virtual and physical channels, the Company will be able to deliver higher operational efficiency and better customer experience.

Following the FSC's deregulation on new insurance products, the Company will direct its focus towards promoting insurance policies featuring health checkups and in-kind benefits. Usage-based insurance plans will also be introduced to encourage policyholders in managing their own health, and thereby advocating the concept from "ex-post compensation" to "ex-ante prevention."

5. Positive and negative factors for future development

(1) Positive factors

- A. Insurance businesses are undergoing digital transformations in response on how financial technologies present opportunities and challenges to conventional financial businesses. The industry continues to adopt digital technologies on an increasing scale; while blockchain technology is being used for claims processing, Life Insurance Association and Taiwan Insurance Institute have joined efforts to develop a sharing platform for more in-depth application of new technologies.
- B. Focus on the promotion of protection-oriented products, while extending the insurance value from "ex-post compensation" to "ex-ante prevention." The company had shifted its product design and business promotion efforts toward "protection" before the authority introduced new policies; in addition, resources are being committed to design diverse and innovative protection products, including association with health promotion platforms to bring more dimensions into usage-based policies.
- C. Taiwan is close to becoming a hyper aged society, and increased life expectancy makes aging a highly discussed topic in the insurance market. Insurance companies are expected to continue developing products that are targeted toward senior individuals, and with the implementation of government

policies on long-term nursing, it is foreseeable for future products to be designed closely in connection with social insurance and focus on retirement and healthcare benefits.

(2) Negative factors

- A. The low-interest environment should persist as central banks around the world are expected to continue interest rate cuts, whereas the trade conflict between the US and China remains unresolved, and uncertainties associated with economic and geopolitical risks are likely to undermine growth of the global economy and cause instability to financial markets worldwide, which will ultimately affect investment returns of the life insurance industry. The company will respond by monitoring market changes and directing attention toward asset quality, security, balance sheet management, and risk control.
- B. The Financial Supervisory Commission approved three online-only banking licenses in 2019, all of which are expected to commence business activities in 2020. Although their operations will focus primarily on general banking in the short term, online-only banks will inevitably venture into online insurance and bring more competition to the market.
- C. Adopting international rules (such as IFRS) and ensuring compliance with Asia/Pacific Group on Money Laundering and the Common Reporting Standard (CRS) will affect net worth calculation as a life insurance business and incur additional compliance costs.
- D. NTD and foreign currency interest rates on liability reserve will be lowered whereas product premium rate may rise to undermine product sales in the first half of 2020.

- (II) Usage and manufacturing processes for the company's main products: None.
- (III) Supply situation for the company's major raw materials: None.
- (IV) A list of any suppliers and clients accounting for 10 percent or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each, and an explanation of the reason for increases or decreases in the above figures: None.

(V) Production volume for the 2 most recent fiscal years: None.

(VI) Volume of units sold for the 2 most recent fiscal years:

Item Year	Total insurance premium (NT\$ 100 Million; excluding reinsurance premium)	In-force general individual life insurance (Ten thousand cases)	Total operating income (NT\$ Million)
2018	6,806.8	1270.3	799,467
2019	6,741.5	1319.4	906,585

III. Employee profile (population, years of service, age and highest educational attainment) for the last two years and before the printing date of the Report.

Year		2018	2019	As of March 31
Number of employees	Back-Office Personnel	5,011	4,917	4,850
	Front-Office Personnel	27,003	28,292	28,304
	Total	32,014	33,209	33,154
Avg. Age		43.70	43.73	43.84
Average years of services		12.00	12.01	12.06
Highest educational attainment	Doctorate	0.02%	0.04%	0.04%
	Master	7.32%	7.52%	7.58%
	Bachelor	50.23%	51.55%	51.79%
	High School	39.29%	38.03%	37.80%
	Below High School	3.14%	2.86%	2.79%

IV. Disbursements for environmental protection:

The company is part of the insurance service industry, which is not an industry with major pollution issues.

V. Labor relations:

(I) Current related agreements and implementation:

1. The company has built up a harmonious labor relation for more than 50 years since its establishment. In April 1998, the scope of application of the Labor Standards Act was successfully introduced. The Company not only adopted "Work Rules" in accordance with laws and regulations, but also signed labor contracts with employees to establish clear employee rights and obligations and avoid labor disputes.
2. The Company always attaches importance to the organizational commitment across employees, and improves gender equality, the working environment, education and training in order to accept the opinions of employees. It also conducts employee engagement and wellbeing surveys on a regular basis, with employee satisfaction

maintained at good levels in recent years. The Company has been awarded as a two-star Best Companies to Work For by the Department of Labor, Taipei City Government (from overall evaluation of the parent company Cathay Financial Holdings), and has won international recognition including the “Improved Quality of Working Life” award by the International Federation Of Training And Development Organizations (IFTDO), and the “Best Companies to Work for in Asia.”

(II) Employee benefit programs

1. Labor Insurance and National Health Insurance for employees: In order to safeguard the health of employees and their families, the employees are fully insured of Labor Insurance and National Health Insurance, with insurance protections including death benefits, injury and sickness benefits, occupational accident medical benefits, maternity benefits, permanent disability benefits and old-age pension benefits.
2. Employee Benefit Group Insurance: Employees are insured with Group Insurance which covers death benefits, disability benefits, dependent death benefits, and medical compensation (including dependents).
3. Accident Insurance for employees: Each employee is insured with NT\$3 million in accident insurance to provide employees with better livelihood protection.
4. Establish an Employee Welfare Committee to be responsible for related employee activities and benefits:
 - (1) Birthday gifts for employees.
 - (2) Employees’ Year-End Party.
 - (3) Employees’ year-end gift certificates.
 - (4) Education subsidies and scholarship for children of employees, as well as foreign language education and on-job training subsidies.
 - (5) Employee traveling activities, hiking, family day activities.
 - (6) Employee clubs and activities.
 - (7) Marriage allowance and maternity allowance.
 - (8) Other benefits.
5. Year-end bonus: Employees receive a generous year-end bonus based on the Company’s annual earnings, .

(III) Education and Training

1. Various business-related training: The Company designed training blueprints for employees based on their functional requirements for various management levels, and continuously invested large amounts

of resources in cultivating financial professionals. A training plan has also been set up to train key staff based on organizational development and training needs of all employees at different career stages in the aim to continue to enhance team competitiveness.

2. Domestic and foreign research and study: In order to keep in line with the market, latest technology and knowledge, corresponding colleagues are assigned to participate in domestic and foreign seminars based on various professional requirements, in order to enhance the Company's competitiveness.
3. Professional or degree courses: Outstanding colleagues are assigned to participate in short-term professional or degree courses of well-known domestic and foreign institutions on a regular basis, and related costs are fully subsidized.

(IV) Retirement and resigning system

1. Bereavement pensions / compensation: Employees who have died in service or died on duty are given bereavement pensions or compensation.
2. Pensions: Employees who retire at the age or apply for retirement can receive retirement benefits, of which employees that reported for duty before March 31, 1998 shall be paid in a maximum of 61 base units of average monthly salary in accordance with the Labor Standards Act and work rules, while employees that reported for duty after April 1, 1998 shall be paid in a maximum of 45 base units of average monthly salary, or paid based on relevant provisions of the Labor Pension Act.
3. Severance pay: Employees who have served prior to the work rules of Labor Standard Act, and those who have been resigned for a certain period of time or more, can apply for severance pay according to relative application requirements, with a maximum of 35 base units of average monthly salary.
4. Man Sau Club: Retired employees with up to 15 years of service may be members of the Man Sau Club.
5. Other benefits such as group insurance and social activities for retired employees.

(V) Loss from labor disputes in the recent years up to the publication of this annual report: None.

(VI) Labor inspection results

Punishments for violations of against the Labor Standards Act after labor inspection:

1. On October 8, 2018, a fine of NT\$40,000 was imposed on the Company for violation against Paragraph 2, Article 22 of the Labor Standards Act.
2. On March 19, 2019, a fine of NT\$100,000 was imposed on the Company for violation against Paragraph 6, Article 30 of the Labor Standards Act.

VI. Important contracts and commitments

Contract Type	Contracting Party	Valid Period	Purpose	Restriction Clause
Major reinsurers and reinsurance contracts	Central Reinsurance Corporation	1970/9/30~	Reinsurance contracts for life, casualty insurance policies	None
	Swiss Reinsurance Company Ltd	1970/9/30~	Reinsurance contracts for life and health insurance policies	
	Munich Reinsurance Company	1975/4/1~	Reinsurance contracts for life, health and casualty insurance policies	
	RGA Reinsurance Company	1998/9/1~	Reinsurance contracts for life and health insurance policies	
	SCOR Global Life SE	1998/1/1~	Reinsurance contracts for life, health and casualty insurance policies	
	Hannover Rück SE	2003/1/1~	Reinsurance contracts for life, health, casualty and group insurance policies	

Note: If both parties of the reinsurance contracts of life and health insurance are in consent, the contracts will be automatically renewed. Other contracts are one-year contracts.

Six. Financial Report

I. Five Year Condensed Balance Sheet and Income Statement Summary

(I) Five Year Condensed Balance Sheet Summary

1. Consolidated financial statement

Unit: NT\$ thousand

Year Item		Five Year Financial Results					Financial Information as of March 31, 2020
		2019	2018	2017	2016	2015	
Cash and cash equivalents		\$402,051,684	\$175,332,205	\$210,543,885	\$148,761,072	\$140,897,419	(Note 4)
Receivable		82,467,914	74,970,469	81,845,945	70,613,079	60,139,218	
Financial assets and loans		5,850,011,560	5,437,465,863	5,116,300,938	4,717,764,496	4,383,563,620	
Reinsurance assets		1,743,932	1,518,910	758,458	738,779	664,054	
Property and equipment		32,271,269	32,381,622	31,077,311	29,498,116	27,342,746	
Intangible assets		41,346,899	44,044,960	46,272,945	49,045,554	47,605,978	
Other assets (Note 1)		675,730,248	625,680,600	610,855,079	540,529,378	519,664,004	
Total assets		7,085,623,506	6,391,394,629	6,097,654,561	5,556,950,474	5,179,877,039	
Payables		30,964,602	32,822,268	25,235,969	24,352,689	19,662,867	
Financial Liabilities		83,005,228	97,499,106	76,104,658	67,028,652	53,920,232	
Insurance liabilities, Reserve for Insurance Contracts With The Nature Of Financial Products and Reserve for Foreign Exchange Valuation		5,683,423,989	5,313,166,664	4,944,291,611	4,567,324,451	4,228,117,401	
Provisions		233,871	225,277	472,002	424,226	4,399,449	
Other liabilities (Note 2)		693,477,828	585,551,888	610,368,958	533,836,536	525,542,337	
Total liabilities	undistribut ed	6,491,105,518	6,029,265,203	5,656,473,198	5,192,966,554	4,831,642,286	
	distributed	(Note 3)	6,029,265,203	5,656,473,198	5,192,966,554	4,831,642,286	
Capital stock		58,515,274	57,265,274	53,065,274	53,065,274	53,065,274	
Capital surplus		60,607,456	51,535,925	13,767,663	13,767,663	13,028,012	
Retained earnings	undistribut ed	364,423,657	331,036,962	326,660,113	298,348,294	283,470,744	
	distributed	(Note 3)	331,036,962	316,679,364	290,369,975	268,219,634	
Other equity		105,072,396	(83,245,452)	42,094,995	42,094,995	(3,656,933)	
Non-controlled interests		5,899,205	5,536,717	5,593,318	5,593,318	2,327,656	
Total equity	undistribut ed	594,517,988	362,129,426	441,181,363	363,983,920	348,234,753	
	distributed	(Note 3)	362,129,426	431,200,614	356,005,601	332,983,643	
Note 1: Other assets include right-of-use assets, deferred tax assets, and separate account product assets.							
Note 2: Other liabilities include current income tax liabilities, lease liabilities, deferred tax liabilities and separate account product liabilities.							
Note 3: The data is not available after the earnings distribution in 2019, as the company has not yet convened a shareholders’ meeting for resolution of earnings distribution.							
Note 4: According to Paragraph 1, Article 19 of the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” financial data for the most recent period has not been audited and attested or reviewed by a CPA before the date of publication of the annual report, and need not be disclosed.							

2. Parent Company Only Statement

Unit: NT\$ thousand

Year Item		Five Year Financial Results					Financial Information as of March 31, 2020
		2019	2018	2017	2016	2015	
Cash and cash equivalents		\$392,341,567	\$164,504,001	\$201,115,297	\$140,831,329	\$137,148,959	(Note 4)
Receivable		78,031,177	70,860,435	77,861,873	67,241,645	57,251,695	
Financial assets and loans		5,830,260,811	5,429,239,626	5,108,414,329	4,723,135,998	4,384,490,801	
Reinsurance assets		1,677,797	1,480,860	726,118	703,844	638,818	
Property and equipment		29,653,823	29,848,752	29,532,953	27,983,884	25,684,589	
Intangible assets		31,478,209	33,545,574	35,653,303	37,657,462	39,684,351	
Other assets (Note 1)		671,416,154	621,937,547	607,385,501	537,028,697	517,415,266	
Total assets		7,034,859,538	6,351,416,795	6,060,689,374	5,534,582,859	5,162,314,479	
Payables		25,554,039	27,799,042	16,112,637	21,434,245	17,906,669	
Financial Liabilities		82,974,334	97,499,106	76,104,658	66,982,208	53,859,128	
Insurance liabilities, Reserve for Insurance Contracts With The Nature Of Financial Products and Reserve for Foreign Exchange Valuation		5,647,301,880	5,285,984,127	4,923,976,857	4,553,416,301	4,216,412,106	
Provisions		56,245	56,245	56,245	56,245	4,350,842	
Other liabilities (Note 2)		690,354,257	583,485,566	608,850,932	531,398,699	523,878,637	
Total liabilities	undistributed	6,446,240,755	5,994,824,086	5,625,101,329	5,173,287,698	4,816,407,382	
	distributed	(Note 3)	5,994,824,086	5,625,101,329	5,173,287,698	4,816,407,382	
Capital stock		58,515,274	57,265,274	53,065,274	53,065,274	53,065,274	
Capital surplus		60,607,456	51,535,925	13,767,663	13,767,663	13,028,012	
Retained earnings	undistributed	364,423,657	331,036,962	326,660,113	298,348,294	283,470,744	
	distributed	(Note 3)	331,036,962	316,679,364	290,369,975	268,219,634	
Other equity		105,072,396	(83,245,452)	(83,245,452)	42,094,995	(3,886,875)	
Total equity	undistributed	588,618,783	356,592,709	435,588,045	361,295,161	345,907,097	
	distributed	(Note 3)	356,592,709	425,607,296	353,316,842	330,655,987	
Note 1: Other assets include right-of-use assets, deferred tax assets, and separate account product assets.							
Note 2: Other liabilities include current income tax liabilities, lease liabilities, deferred tax liabilities and separate account product liabilities.							
Note 3: The data is not available after the earnings distribution in 2019, as the company has not yet convened a shareholders’ meeting for resolution of earnings distribution.							
Note 4: According to Paragraph 1, Article 19 of the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” financial data for the most recent period has not been audited and attested or reviewed by a CPA before the date of publication of the annual report, and need not be disclosed.							

(II) Five Year Condensed Income Statement

1. Consolidated financial statement

Unit: NT\$ thousand(excluding earnings per share)

Item \ Year	Five Year Financial Results					Financial Information as of March 31, 2020
	2019	2018	2017	2016	2015	(Note 1)
Operating income	\$928,939,094	\$819,418,217	\$876,379,516	\$848,067,953	\$726,256,487	
Operating cost	859,448,121	763,040,422	815,057,155	790,882,784	660,343,638	
Operating expenses	30,691,802	29,165,453	28,790,215	30,768,264	23,020,564	
Non-operating income and expenses	1,709,895	1,312,360	1,441,684	1,956,244	1,264,940	
Profit before income tax	40,509,066	28,524,702	33,973,830	28,373,149	44,157,225	
Net profit this term	38,293,071	30,297,261	36,267,725	30,234,621	38,447,380	
Other comprehensive income (loss) (net amount after tax)	(173,901,169)	(173,901,169)	45,818,490	(572,728)	(45,309,133)	
Total comprehensive income (loss) this term	222,300,511	(143,603,908)	82,086,215	29,661,893	(6,861,753)	
Net profit attributable to equity holders of the parent	37,845,953	30,189,320	36,290,138	30,128,660	38,242,639	
Net profit belonging to non-controlled equity	447,118	107,941	(22,413)	105,961	204,741	
Total amount of comprehensive profit (loss) attributable to equity holders of the parent	221,704,543	(143,618,129)	82,272,008	29,898,718	(7,143,966)	
Total amount of comprehensive profit (loss) attributable to non-controlling interests	595,968	14,221	(185,793)	(236,825)	282,213	
Earnings Per Share (NTD)	6.60	5.47	6.84	5.68	7.21	

Note 1: According to Paragraph 1, Article 19 of the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” financial data for the most recent period has not been audited and attested or reviewed by a CPA before the date of publication of the annual report, and need not be disclosed.

2. Parent Company Only Statement

Unit: NT\$ thousand(excluding earnings per share)

Item \ Year	Five Year Financial Results					Financial Information as of March 31, 2020
	2019	2018	2017	2016	2015	(Note 1)
Operating income	\$906,585,211	\$799,466,715	\$861,140,395	\$836,502,388	\$719,744,096	
Operating cost	846,503,873	751,709,190	807,086,790	786,309,932	656,926,461	
Operating expenses	22,141,294	21,472,697	21,676,305	24,154,280	20,380,952	
Non-operating income and expenses	1,663,036	1,310,502	1,429,361	1,955,342	1,284,333	
Profit before income tax	39,603,080	27,595,330	33,806,661	27,993,518	43,721,016	
Net profit this term	37,845,953	30,189,320	36,290,138	30,128,660	38,242,639	
Other comprehensive income (loss)	183,858,590	(173,807,449)	45,981,870	(229,942)	(45,386,605)	
Earnings Per Share (NTD)	6.60	5.47	6.84	5.68	7.21	

Note 1: According to Paragraph 1, Article 19 of the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” financial data for the most recent period has not been audited and attested or reviewed by a CPA before the date of publication of the annual report, and need not be disclosed.

(III) Names of external auditors and audit opinions in recent five years:

Year	Certifying CPA	Audit results
2015	Bob Chang, Daniel Hsu	Audit Report with amended unqualified (unreserved) opinion
2016	Bob Chang, Daniel Hsu	Audit Report with unqualified opinion
2017	Bob Chang, Daniel Hsu	Audit Report with unqualified opinion
2018	Bob Chang, Daniel Hsu	Audit Report with unqualified opinion
2019	Cheng-Hung Kuo, Li-Chi Chen	Audit Report with unqualified opinion

II. Five Year Financial Analysis

1. Consolidated financial statement

Title			Year	Five Year Financial Analysis					As of March 31, 2020
			2019	2018	2017	2016	2015		
Financial structure (%)	Liabilities to assets ratio (%)		91.61	94.33	92.76	93.45	93.28	(Explanation 2)	
	Ratio of long-term capital to property, plant and equipment		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)		
	Net worth ratio (%) (Note 1) (Explanation 3)		9.58	6.20	7.96	7.19	7.41		
Ability to repay debts (%)	Liquidity ratio		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)		
	Quick ratio		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)		
	Affiliate Investment/Equity (%) (Note 2)		7.26	10.88	7.60	8.88	7.11		
Operational ability (%)	Premium rate of new insurance contract (Note 3)		22.82	18.82	16.40	21.50	18.12		
	Premium income change (Note 4)		8.67	(8.67)	(0.06)	16.59	7.62		
	Capital utilization ratio		100.48	99.88	100.53	99.78	99.20		
	Persistency rate	97.96	98.36	98.19	98.28	97.60	97.89		
		96.36	94.71	94.29	92.24	91.80	94.92		
	Profitability	ROA (%)		0.60	0.49	0.63	0.56	0.78	
ROE (%)		8.01	7.54	9.01	8.49	11.36			
Ratio of pre-tax income to total paid-in capital (%) (Note 5)		34.01	26.22	50.83	42.45	66.81			
Net profit margin (%)		4.12	3.70	4.14	3.57	5.29			
Earnings Per Share (NTD) (Note 6)		6.60	5.47	6.84	5.68	7.21			
Cash flows		Cash flow ratio (%) (Note 7)		457.89	(121.52)	150.74	(36.27)	(314.99)	
	Net cash flow adequacy rate (%)		(74.05)	(85.22)	(13.69)	12.51	27.32		
	Cash re-investment rate (%) (Note 7)		2.43	(1.44)	0.59	(0.68)	(4.92)		
Leverage	Operation leverage		121.89	141.04	126.94	133.85	115.77		
	Financial leverage		108.26	111.20	107.07	100.21	100.12		
Note 1: Mainly due to higher equity in 2019 compared to that in 2018.									
Note 2: Mainly due to higher equity in 2019 compared to that in 2018.									
Note 3: Mainly due to the higher cost of the new contract in 2019 compared to that in 2018.									
Note 4: Mainly due to wider change in premiums as income 2019 compared to that in 2018.									
Note 5: Mainly due to higher income before tax in 2019 compared to that in 2018.									
Note 6: Mainly due to higher net income in 2019 compared to that in 2018.									
Note 7: Mainly due to higher net cash flow from operating activities in 2019 compared to that in 2018.									

Explanation 1: In accordance with Jin-Guan-Bao-Cai-Zi No. 09802506492 in December 30, 2009, financial ratios such as the long-term debt-to-asset ratio, quick ratio, current ratio are not required to be disclosed after 2011.

Explanation 2: According to Paragraph 1, Article 19 of the “Guidelines for Recording Matters in Annual Reports of Publicly-issued Companies,” as of the publication date of the annual report, it has not been completed by an accountant, so it is exempt from disclosure.

Explanation 3: In accordance with Jin-Guan-Bao-Cai-Zi No. 10804960006, insurance companies who have generally assumed problem insurance companies prior to the promulgation of the amendment of the Regulations Governing Capital Adequacy of Insurance Companies on December 4, 2019, from the calculation of the net worth ratio in the first half of 2019, the segregated account shall be counted into the non-segregated account at a growth rate of 10% per year.

2. Parent Company Only Statement

Title		Year	Five Year Financial Analysis					As of March 31, 2020
			2019	2018	2017	2016	2015	
Financial structure (%)	Liabilities to assets ratio (%)		91.63	94.39	92.81	93.47	93.04	(Explanation 2)
	Ratio of long-term capital to property, plant and equipment		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	
	Net worth ratio (%) (Note 1) (Explanation 3)		9.57	6.14	7.91	7.17	7.39	
Ability to repay debts (%)	Liquidity ratio		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	
	Quick ratio		(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	(Explanation 1)	
	Affiliate Investment/Equity (%) (Note 2)		17.87	27.61	20.63	23.75	21.41	
Operational ability (%)	Premium rate of new insurance contract (Note 3)		22.82	18.82	16.40	21.50	18.12	
	Premium income change (Note 4)		8.67	(8.67)	(0.06)	16.59	7.62	
	Capital utilization ratio		100.48	99.88	100.53	99.78	99.20	
	Persistency rate	97.96	98.36	98.19	97.60	97.60	97.89	
		96.36	94.71	94.29	91.80	91.80	94.92	
Profitability	ROA (%)		0.60	0.49	0.63	0.56	0.78	
	ROE (%)		8.01	7.32	9.11	8.52	11.38	
	Ratio of pre-tax income to total paid-in capital (%) (Note 5)		33.25	25.36	50.58	41.89	66.15	
	Net profit margin (%)		4.17	3.78	4.21	3.60	5.31	
	Earnings Per Share (NTD) (Note 6)		6.60	5.47	6.84	5.68	7.21	
Cash flows	Cash flow ratio (%) (Note 7)		536.43	(131.62)	199.63	(40.92)	(325.42)	
	Net cash flow adequacy rate (%)		(82.15)	(82.03)	(8.11)	12.82	27.72	
	Cash re-investment rate (%) (Note 7)		2.46	(1.45)	0.67	(0.71)	(4.90)	
Leverage	Operation leverage		118.74	126.17	120.98	128.68	114.85	
	Financial leverage		108.46	110.63	106.79	100.21	100.14	

Note 1: Mainly due to higher equity in 2019 compared to that in 2018.

Note 2: Mainly due to higher equity in 2019 compared to that in 2018.

Note 3: Mainly due to the higher cost of the new contract in 2019 compared to that in 2018.

Note 4: Mainly due to wider change in premiums as income 2019 compared to that in 2018.

Note 5: Mainly due to higher income before tax in 2019 compared to that in 2018.

Note 6: Mainly due to higher net income in 2019 compared to that in 2018.

Note 7: Mainly due to higher net cash flow from operating activities in 2019 compared to that in 2018.

Explanation 1: In accordance with Jin-Guan-Bao-Cai-Zi No. 09802506492 in December 30, 2009, financial ratios such as the long-term debt-to-asset ratio, quick ratio, current ratio are not required to be disclosed after 2011.

Explanation 2: According to Paragraph 1, Article 19 of the “Guidelines for Recording Matters in Annual Reports of Publicly-issued Companies,” as of the publication date of the annual report, it has not been completed by an accountant, so it is exempt from disclosure.

Explanation 3: In accordance with Jin-Guan-Bao-Cai-Zi No. 10804960006, insurance companies who have generally assumed problem insurance companies prior to the promulgation of the amendment of the Regulations Governing Capital Adequacy of Insurance Companies on December 4, 2019, from the calculation of the net worth ratio in the first half of 2019, the segregated account shall be counted into the non-segregated account at a growth rate of 10% per year.

The equations for calculation are shown below:

1. Financial structure

- (1) Liabilities to assets ratio = total liabilities / total assets.
- (2) Ratio of long-term capital to property, plant and equipment = (Net equity + non-current liabilities) / net property, plant and equipment.
- (3) Net worth ratio = owner's equity / total assets excluding separate accounts for investment-linked insurance.

2. Ability to repay debts

- (1) Liquidity ratio = current assets / current liabilities
- (2) Quick ratio = (current assets – inventories – prepaid expenses) / current liabilities
- (3) Affiliate Investment to Equity Ratio = Affiliate Investment / Equity

3. Operational ability

- (1) Premium rate of new insurance contract = cost of new insurance contract / revenue of new insurance contract
- (2) Premium income change = (Current accumulated premium income – accumulated premium income for the previous year) / accumulated premium income for the previous year.
- (3) Capital utilization ratio = total capital utilization / (insurance liabilities + equity).
- (4) Retention ratio (13 month, 25 month) = $P_{ry} = BF_x + y / NB'_x \times 100\%$

4. Profitability

- (1) Return on Assets (ROA) = [corporate earnings + interest expenses $\times$ (1 – tax rate)] / average total assets.
- (2) Return on Equity (ROA) = corporate earnings / average net equity.
- (3) Net Profit Margin (NPM) = corporate earnings / total operating income.
- (4) Earnings per share (EPS) = corporate earnings / weighed average quantity of outstanding shares.

5. Cash flows

- (1) Cash flow ratio = net cash flow from operation / current liabilities
- (2) Net cash flow adequacy ratio = net cash flows from operating activities in the last 5 years / (capital expenditure + cash dividend) in the last 5 years
- (3) Cash reinvestment ratio = (Net cash flow in operating activities – cash dividend) / (Gross property, plant and equipment + long-term investment + other non-current assets + working capital)

6. Leverage:

- (1) Operation leverage = (net income – variable expenses) / operating income
- (2) Financial leverage = operating income / (operating income – interest expenses)

III. Audit Report from the Supervisors on the Latest Financial Statements

Audit Report from the Supervisors

The financial statements of Cathay Life Insurance covering the period from January 1 to December 31, 2019, and the business report and earning distribution plan have been prepared and submitted by the Board of Directors of the Company. The financial statements were audited by CPA Cheng-Hung Kuo and Li-Chi Chen of Deloitte Taiwan, who issued an auditors' report. The aforementioned business report, financial statements, and earning distribution plan have been reviewed by the supervisor, and in the supervisor's opinion, these are fairly presented as stated. submitted and prepared by the board of directors of the Company, and are reported in accordance with Article 219 of the Company Act. Please review and approve.

To:

Board of Directors (entitled to execute stockholders' meeting functions)

Cathay Life Insurance Co., Ltd.

Managing Supervisor: Chih-Iing Tsai

Supervisor: Tso-Hsing Hsu

Supervisor: Chih-Ming Lin

March 18, 2020

IV. Audited consolidated financial reports of the parent and subsidiaries in the most recent year

Declaration

It is hereby declared that as the Affiliation Report for 2019 (from January 1, 2019 to December 31, 2019) pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises was required to be included in the consolidated financial statements of affiliates under these Criteria are all the same as companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in Financial Accounting Criteria Gazette No. 10, and if 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, the Company shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby certify

Company name: Cathay Life Insurance Co., Ltd.

Chairman: Tiao-Kuei Huang

Dated: March 11, 2019

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Cathay Life Insurance Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheet as of December 31, 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the 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, 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended 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 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 auditing standards generally accepted in 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, 2019. 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2019 are as follows:

Valuation of Policy Reserve and Liability Adequacy Test

The management of Cathay Life Insurance Co., Ltd. adopted the actuarial model and its related multiple significant assumptions for the estimation of the policy reserve and liability adequacy test. Significant assumptions in the measurement of the policy reserve include the mortality rate, discount rate, lapse rate, morbidity rate, etc. These assumptions are made based on legislation and regulations, taking into consideration its actual experience as well as industry-specific experience. The liability adequacy test on insurance contracts is performed in accordance with the requirements issued by the Actuarial Institute of Chinese Taipei, and the discount rates for future years used in the test are based on its best estimate scenario as well as the rate of the portfolio return under current information. Since any changes in the actuarial model and significant assumptions may lead to a material impact on the estimation results of the policy reserve and the liability adequacy test, the valuation of policy reserves and liability adequacy test was identified as a key audit matter. For the related accounting policies, accounting estimates, estimation uncertainty and relevant disclosure information, refer to Notes 4, 5 and 25 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood the internal controls related to management's valuation of policy reserves and liability adequacy test as well as evaluated the operating effectiveness of these internal controls.
2. We obtained the actuarial report issued by the contracted actuary which was used as the basis for the management's valuation of policy reserves and liability adequacy test, and evaluated the contracted actuary's professional competence and capability.
3. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the valuation of the policy reserve. The actuarial specialist:
 - a. Randomly sampled the insurance products to examine whether the calculations of the policy reserve were made in accordance with the requirements.
 - b. Evaluated the actuarial model and significant assumptions used in its valuation of policy reserve based on the sampled insurance policies and verified the recognized amount of the policy reserve.
 - c. Performed profiling tests on long-term insurance policies as of December 31, 2019 to identify any abnormalities on the recognized amounts of policy reserve on each individual insurance policy.
 - d. Assessed the reasonableness of the amount of provision for the policy reserve by considering the amount of policy reserve as of the end of the prior year and the business development for the year ended December 31, 2019.

4. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the liability adequacy test. The actuarial specialist:
 - a. Tested on a sample basis the correctness of classification of the newly issued insurance products for the year ended December 31, 2019.
 - b. Sampled the significant assumptions provided by the management for our audits in order to examine whether the assumptions were consistent with the requirements and the important built-in assumptions in the information system.
 - c. Tested and assessed the actuarial model and its significant assumptions used by the management in its liability adequacy test on a sample basis and performed recalculations on the individual insurance policies.
 - d. Assessed the reasonableness of the calculation results of the liability adequacy test as a whole based on a comparative analysis of the previous year's results and taking into consideration the business development for the year ended December 31, 2019.

Assessment of the Fair values of Investment Properties

The investment properties of Cathay Life Insurance Co., Ltd. are measured at their fair values. To support the management in making reasonable estimates, the Company used the fair values assessed by external independent appraisers. As the appraisal method and parameters used in the assessment of fair values involve significant judgments and estimates, we determined the assessment of the fair values of investment properties as a key audit matter. For the accounting policies, accounting estimates, assumption uncertainty and relevant disclosure information on the assessment of fair values of investment properties, refer to Notes 4, 5 and 15 to the accompanying consolidated financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We evaluated the professional competence, capability and objectivity of the external independent appraisers, and verified the qualification of the appraisers.
2. We appointed an internal valuation specialist to evaluate the reasonableness of the appraisal reports adopted by its management, including the appraisal methods, main parameters and discount rate of the appraisal reports.

Other Matter

The consolidated financial statements of the Group as of and for the year ended December 31, 2018 were audited by other auditors, who expressed an unmodified opinion with an emphasis of matter section on those statements on March 21, 2019.

We have also audited the financial statements of the Company as of and for the year ended December 31, 2019 on which we have issued an unmodified opinion with other matter paragraph.

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 the 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 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 auditing standards generally accepted in 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 auditing standards generally accepted in 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, 2019 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 audit resulting in this independent auditors' report are Cheng-Hung Kuo and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 11, 2020

Notice to Readers

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

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 36)	\$ 402,051,684	6	\$ 175,332,205	3
RECEIVABLES (Notes 4, 5, 7 and 36)	82,467,914	1	74,970,469	1
CURRENT TAX ASSETS	-	-	6,238	-
INVESTMENTS				
Financial assets at fair value through profit or loss (Notes 4, 5, 8 and 41)	1,331,028,157	19	1,167,751,185	18
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9, 39 and 41)	854,341,271	12	921,968,246	15
Financial assets measured at amortized cost (Notes 4, 5, 13, 39 and 41)	2,616,585,170	37	2,258,673,041	35
Financial assets for hedging (Notes 4, 5 and 10)	548,075	-	216,611	-
Investments accounted for using the equity method (Notes 4 and 12)	44,557,549	1	40,780,828	1
Other financial assets (Notes 4, 5 and 14)	-	-	1,999,406	-
Investment property (Notes 3, 4, 5, 15 and 36)	483,871,717	7	461,352,381	7
Investment property under construction (Notes 4, 15 and 36)	4,546,717	-	2,785,640	-
Prepayments for buildings and land - investments (Notes 4 and 15)	1,152,363	-	722,686	-
Loans (Notes 4, 5, 16 and 36)	<u>513,380,541</u>	<u>7</u>	<u>581,215,839</u>	<u>9</u>
Total investments	<u>5,850,011,560</u>	<u>83</u>	<u>5,437,465,863</u>	<u>85</u>
REINSURANCE ASSETS (Notes 4, 17 and 25)	1,743,932	-	1,518,910	-
PROPERTY AND EQUIPMENT (Notes 4 and 18)	32,271,269	-	32,381,622	-
RIGHT-OF-USE ASSETS (Notes 3, 4 and 19)	1,577,679	-	-	-
INTANGIBLE ASSETS (Notes 4 and 20)	41,346,899	1	44,044,960	1
DEFERRED TAX ASSETS (Notes 4 and 35)	36,156,766	-	38,252,456	1
OTHER ASSETS (Notes 3, 21, 36 and 39)	30,453,369	-	40,457,645	1
SEPARATE ACCOUNT INSURANCE PRODUCT ASSETS (Notes 4 and 37)	<u>607,542,434</u>	<u>9</u>	<u>546,964,261</u>	<u>8</u>
TOTAL	<u>\$ 7,085,623,506</u>	<u>100</u>	<u>\$ 6,391,394,629</u>	<u>100</u>
LIABILITIES AND EQUITY				
PAYABLES (Notes 3, 22 and 36)	\$ 30,964,602	1	\$ 32,822,268	1
CURRENT TAX LIABILITIES (Note 4)	635,483	-	636,050	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	2,974,334	-	27,499,106	-
FINANCIAL LIABILITIES FOR HEDGING (Notes 4, 5 and 10)	30,894	-	-	-
BONDS PAYABLE (Notes 23 and 36)	80,000,000	1	70,000,000	1
INSURANCE LIABILITIES (Notes 4, 5 and 25)				
Unearned premium reserve	17,832,203	-	16,752,317	-
Loss reserve	11,042,612	-	8,903,331	-
Policy reserve	5,592,979,067	79	5,225,589,886	82
Special reserve	11,084,624	-	11,084,254	-
Premium deficiency reserve	19,679,457	1	22,548,304	1
Other reserve	<u>1,873,141</u>	<u>-</u>	<u>1,894,570</u>	<u>-</u>
Total insurance liabilities	<u>5,654,491,104</u>	<u>80</u>	<u>5,286,772,662</u>	<u>83</u>
RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS (Notes 4 and 26)	10,932,008	-	9,318,713	-
RESERVE FOR FOREIGN EXCHANGE VALUATION (Notes 4 and 27)	18,000,877	-	17,075,289	-
PROVISIONS (Notes 4 and 29)	233,871	-	225,277	-
LEASE LIABILITIES (Notes 3, 4, 19 and 36)	10,381,894	-	-	-
DEFERRED TAX LIABILITIES (Notes 4 and 35)	55,730,622	1	29,213,220	-
OTHER LIABILITIES (Notes 3, 30 and 36)	19,187,395	-	8,738,357	-
SEPARATE ACCOUNT INSURANCE PRODUCT LIABILITIES (Notes 4 and 37)	<u>607,542,434</u>	<u>9</u>	<u>546,964,261</u>	<u>9</u>
Total liabilities	<u>6,491,105,518</u>	<u>92</u>	<u>6,029,265,203</u>	<u>94</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 32)				
Share capital				
Ordinary shares	<u>58,515,274</u>	<u>1</u>	<u>57,265,274</u>	<u>1</u>
Capital surplus	<u>60,607,456</u>	<u>1</u>	<u>51,535,925</u>	<u>1</u>
Retained earnings				
Legal reserve	43,338,466	1	40,466,946	1
Special reserve	289,432,530	4	277,886,402	4
Unappropriated earnings	<u>31,652,661</u>	<u>-</u>	<u>12,683,614</u>	<u>-</u>
Total retained earnings	<u>364,423,657</u>	<u>5</u>	<u>331,036,962</u>	<u>5</u>
Other equity	<u>105,072,396</u>	<u>1</u>	<u>(83,245,452)</u>	<u>(1)</u>
Total equity attributable to owners of the Company	588,618,783	8	356,592,709	6
NON-CONTROLLING INTERESTS (Notes 4 and 32)	<u>5,899,205</u>	<u>-</u>	<u>5,536,717</u>	<u>-</u>
Total equity	<u>594,517,988</u>	<u>8</u>	<u>362,129,426</u>	<u>6</u>
TOTAL	<u>\$ 7,085,623,506</u>	<u>100</u>	<u>\$ 6,391,394,629</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 11, 2020)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE				
Retained earned premium (Notes 4, 28 and 36)				
Written premium	\$ 610,706,903	65	\$ 561,114,753	68
Reinsurance premium	125,595	-	123,890	-
Premium income	610,832,498	65	561,238,643	68
Less: Reinsurance expense	(2,191,534)	-	(1,852,798)	-
Net changes in unearned premium reserve (Notes 4 and 25)	(820,799)	-	(457,101)	-
Total retained earned premium	607,820,165	65	558,928,744	68
Reinsurance commission income	356,060	-	762,190	-
Fee income (Notes 36 and 37)	8,450,463	1	9,147,558	1
Net investment incomes (losses)				
Interest income (Notes 4, 34 and 36)	161,452,785	17	148,195,571	18
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4 and 8)	201,446,622	22	(127,441,329)	(15)
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 9)	27,765,727	3	12,010,835	2
Gain on derecognition of financial assets measured at amortized cost (Notes 4 and 13)	9,926,012	1	4,735,339	1
Share of profit of associates accounted for using the equity method (Notes 4 and 12)	1,062,203	-	970,753	-
Foreign exchange (loss) gain	(53,159,604)	(6)	55,798,945	7
Net changes in reserve for foreign exchange valuation (Notes 4 and 27)	(925,588)	-	(5,486,151)	(1)
Gain on investment property (Notes 4 and 36)	13,136,871	2	10,923,103	1
Reversal of expected credit loss (expected credit loss) on investments (Notes 4 and 34)	1,691,395	-	(519,606)	-
Other net investment income	510,578	-	344,099	-
(Loss) gain on reclassification using overlay approach (Notes 4 and 8)	(120,353,756)	(13)	117,455,992	14
Other operating revenue (Note 36)	6,106,508	1	5,507,866	1
Separate account insurance product income (Notes 4 and 37)	63,652,653	7	28,084,308	3
Total operating revenue	928,939,094	100	819,418,217	100
OPERATING COSTS				
Retained claims payments (Notes 4 and 28)				
Insurance claims payments	350,354,693	38	358,227,407	44
Less: Claims and payments recovered from reinsurers	(1,196,201)	-	(983,094)	-
Total retained claims payments	349,158,492	38	357,244,313	44

(Continued)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Net changes in other insurance liabilities (Notes 4, 5 and 25)				
Net changes in loss reserve	\$ 2,158,826	-	\$ 1,317,010	-
Net changes in policy reserve	393,587,815	42	337,612,918	41
Net changes in special reserve	370	-	436	-
Net changes in premium deficiency reserve	(2,744,650)	-	(3,811,357)	-
Net changes in other reserve	(21,429)	-	(22,000)	-
Total net changes in other insurance liabilities	392,980,932	42	335,097,007	41
Net changes in reserve for insurance contracts with the nature of financial products (Notes 4 and 26)	698,222	-	(1,381,439)	-
Underwriting expenses (Note 34)	23,243,255	3	17,696,518	2
Commission expenses (Note 34)	20,590,879	2	16,203,324	2
Other operating costs (Note 36)	6,393,512	1	7,765,029	1
Finance costs (Notes 23 and 36)	2,730,176	-	2,331,362	-
Separate account insurance product expenses (Notes 4 and 37)	63,652,653	7	28,084,308	3
Total operating costs	859,448,121	93	763,040,422	93
OPERATING EXPENSES (Notes 34 and 36)				
General expenses	12,263,219	1	11,767,130	2
Administrative expenses	18,351,731	2	17,241,315	2
Employee training expenses	75,975	-	91,551	-
Non-investment expected credit loss (Notes 4 and 34)	877	-	65,457	-
Total operating expenses	30,691,802	3	29,165,453	4
OPERATING INCOME	38,799,171	4	27,212,342	3
NON-OPERATING INCOME AND EXPENSES (Notes 34 and 36)	1,709,895	-	1,312,360	-
PROFIT BEFORE INCOME TAX	40,509,066	4	28,524,702	3
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 35)	(2,215,995)	-	1,772,559	-
NET INCOME	38,293,071	4	30,297,261	3

(Continued)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 4 and 32)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 431,430	-	\$ 403,459	-
Gain (loss) on equity instruments at fair value through other comprehensive income	6,094,585	1	(2,493,898)	-
Share of other comprehensive loss of associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	(165,599)	-	(37,030)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 35)	(603,520)	-	270,829	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating financial statements of foreign operations	(726,137)	-	(701,808)	-
Gain (loss) on debt instruments at fair value through other comprehensive income	85,755,154	9	(76,864,945)	(10)
Gain (loss) on hedging instruments	206,220	-	(28,747)	-
Share of other comprehensive income (loss) of associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	241,659	-	(375,064)	-
Other comprehensive income (loss) reclassified using overlay approach	120,353,756	13	(117,455,992)	(14)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 35)	<u>(27,580,108)</u>	<u>(3)</u>	<u>23,382,027</u>	<u>3</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>184,007,440</u>	<u>20</u>	<u>(173,901,169)</u>	<u>(21)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 222,300,511</u>	<u>24</u>	<u>\$ (143,603,908)</u>	<u>(18)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 37,845,953	4	\$ 30,189,320	4
Non-controlling interests	<u>447,118</u>	<u>-</u>	<u>107,941</u>	<u>-</u>
	<u>\$ 38,293,071</u>	<u>4</u>	<u>\$ 30,297,261</u>	<u>4</u>

(Continued)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
TOTAL COMPREHENSIVE INCOME (LOSS)				
ATTRIBUTABLE TO:				
Owners of the Company	\$ 221,704,543	24	\$(143,618,129)	(18)
Non-controlling interests	<u>595,968</u>	<u>-</u>	<u>14,221</u>	<u>-</u>
	<u>\$ 222,300,511</u>	<u>24</u>	<u>\$(143,603,908)</u>	<u>(18)</u>
EARNINGS PER SHARE (Note 33)				
Basic earnings per share	<u>\$ 6.60</u>		<u>\$ 5.47</u>	

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

(With Deloitte & Touche audit report dated March 11, 2020)

(Concluded)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company												Total	Non-controlling Interests	Total Equity
						Other Equity									
	Share Capital Ordinary Shares	Capital Surplus	Retained Earnings		Exchange Differences on Translating Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Gain (Loss) on Hedging Instruments	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income (Loss) Reclassified Using Overlay Approach				
			Legal Reserve	Special Reserve	Unappropriated Earnings										
BALANCE AT JANUARY 1, 2018	\$ 53,065,274	\$ 13,767,663	\$ 33,208,919	\$ 259,379,137	\$ 34,072,057	\$ (9,958,336)	\$ -	\$ 51,550,393	\$ 203,646	\$ 110,471	\$ 188,821	\$ -	\$ 435,588,045	\$ 5,593,318	\$ 441,181,363
Effect of retrospective application and restatement	-	-	-	-	(2,914,533)	-	31,488,614	(51,550,393)	-	-	-	55,611,592	32,635,280	8,904	32,644,184
BALANCE AT JANUARY 1, 2018 AS RESTATED	53,065,274	13,767,663	33,208,919	259,379,137	31,157,524	(9,958,336)	31,488,614	-	203,646	110,471	188,821	55,611,592	468,223,325	5,602,222	473,825,547
Appropriation of 2017 earnings															
Legal reserve	-	-	7,258,027	-	(7,258,027)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	20,494,964	(20,494,964)	-	-	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(9,980,749)	-	-	-	-	-	-	-	(9,980,749)	-	(9,980,749)
Reversal of special reserve	-	-	-	(3,661,684)	3,661,684	-	-	-	-	-	-	-	-	-	-
Provision of special reserve for catastrophic events and fluctuation of risks	-	-	-	1,673,985	(1,673,985)	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	(31,738)	-	-	-	-	-	-	-	-	-	-	(31,738)	-	(31,738)
Net profit for the year ended December 31, 2018	-	-	-	-	30,189,320	-	-	-	-	-	-	-	30,189,320	107,941	30,297,261
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(173,807,449)	(93,720)	(173,901,169)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	30,189,320	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(143,618,129)	14,221	(143,603,908)
Issuance of ordinary shares for cash	4,200,000	37,800,000	-	-	-	-	-	-	-	-	-	-	42,000,000	-	42,000,000
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(12,917,189)	-	12,917,189	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(79,726)	(79,726)
BALANCE AT DECEMBER 31, 2018	57,265,274	51,535,925	40,466,946	277,886,402	12,683,614	(10,796,480)	(20,547,627)	-	173,288	287,100	187,503	(52,549,236)	356,592,709	5,536,717	362,129,426
Appropriation of 2018 earnings															
Legal reserve	-	-	2,871,520	-	(2,871,520)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	9,820,004	(9,820,004)	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(7,910)	7,910	-	-	-	-	-	-	-	-	-	-
Provision of special reserve for catastrophic events and fluctuation of risks	-	-	-	1,734,034	(1,734,034)	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	138,932	-	-	-	-	-	-	-	-	-	-	138,932	-	138,932
Recognition of share-based payments granted by the parent company	-	182,599	-	-	-	-	-	-	-	-	-	-	182,599	-	182,599
Net profit for the year ended December 31, 2019	-	-	-	-	37,845,953	-	-	-	-	-	-	-	37,845,953	447,118	38,293,071
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(390,550)	73,620,105	-	158,641	160,594	-	110,309,800	183,858,590	148,850	184,007,440
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	37,845,953	(390,550)	73,620,105	-	158,641	160,594	-	110,309,800	221,704,543	595,968	222,300,511
Issuance of ordinary shares for cash	1,250,000	8,750,000	-	-	-	-	-	-	-	-	-	-	10,000,000	-	10,000,000
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(4,459,258)	-	4,459,258	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(233,480)	(233,480)
BALANCE AT DECEMBER 31, 2019	\$ 58,515,274	\$ 60,607,456	\$ 43,338,466	\$ 289,432,530	\$ 31,652,661	\$ (11,187,030)	\$ 57,531,736	\$ -	\$ 331,929	\$ 447,694	\$ 187,503	\$ 57,760,564	\$ 588,618,783	\$ 5,899,205	\$ 594,517,988

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

(With Deloitte & Touche audit report dated March 11, 2020)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 40,509,066	\$ 28,524,702
Adjustments for:		
Depreciation expenses	1,379,541	762,849
Amortization expenses	2,634,639	2,634,955
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(178,486,945)	150,478,303
Gain on financial assets at fair value through other comprehensive income	(26,039,641)	(10,413,839)
Gain on derecognition of financial assets measured at amortized cost	(9,926,012)	(4,735,339)
Finance costs	2,898,751	2,740,267
Interest income	(161,452,785)	(148,195,571)
Dividend income	(24,685,763)	(24,633,969)
Net changes in insurance liabilities	367,390,340	362,832,193
Net changes in reserve for insurance contracts with the nature of financial products	1,613,295	557,104
Net changes in reserve for foreign exchange valuation	925,588	5,486,151
(Reversal of) expected credit loss on investments	(1,691,395)	519,606
Non-investments expected credit loss	877	65,457
Compensation costs of share-based payments	182,599	-
Share of profit of associates accounted for using equity method	(1,062,203)	(970,753)
Loss (gain) on reclassification using overlay approach	120,353,756	(117,455,992)
Gain on disposal and retirement of property and equipment	(11,499)	(7,612)
Loss (gain) on disposal of investment property	7,320	(14,163)
Loss on disposal of investment accounted for using equity method	32,107	10,773
(Gain) loss on changes in fair value of investment property	(899,479)	771,123
Net changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	107,083,675	(11,419,743)
Decrease in financial assets at fair value through other comprehensive income	185,666,085	35,673,553
Increase in financial assets measured at amortized cost	(346,966,842)	(394,984,673)
(Increase) decrease in financial assets for hedging	(93,567)	1,087
Decrease in other financial assets	2,000,000	1,500,000
Increase in premium receivable	(1,385,658)	(224,073)
Decrease in notes receivable	16,727	209,652
(Increase) decrease in other receivables	(3,657,391)	18,469,834
Increase in prepaid expenses and other prepayments	(775,591)	(1,198,062)
Decrease (increase) in guarantee deposits paid	7,308,562	(11,142,568)
Decrease (increase) in reinsurance assets	103,080	(760,452)
Decrease (increase) in other assets	721,845	(229,266)
Decrease in financial liabilities at fair value through profit or loss	(116,399,015)	(116,025,131)
Decrease in notes payable	(150,332)	(3,944,711)
Increase in claims payable	70,643	78,353
(Decrease) increase in other payables	(3,523,147)	11,970,489

(Continued)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Increase (decrease) in due to reinsurers and ceding companies	\$ 189,627	\$ (25,850)
Increase (decrease) in commissions payable	1,666,645	(466,470)
Increase in advance receipts	63,548	27,366
Increase (decrease) in guarantee deposits received	10,416,610	(5,503,603)
Increase (decrease) in provisions	8,594	(246,725)
Decrease in deferred fee income	(11,575)	(9,775)
Decrease in other liabilities	(19,484)	(3,663,669)
Cash used in operations	(23,994,804)	(232,958,192)
Interest received	160,158,631	144,460,393
Dividends received	25,237,978	25,183,108
Interest paid	(2,971,707)	(2,758,298)
Income tax paid	(2,933,174)	(6,630,702)
Net cash generated from (used in) operating activities	<u>155,496,924</u>	<u>(72,703,691)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using the equity method	(2,038,492)	(7,312,307)
Proceeds from disposal of investments accounted for using the equity method	87,107	119,873
Proceeds from return of capital from capital reduction of investments accounted for using the equity method	-	120,368
Acquisition of property and equipment	(768,460)	(1,386,924)
Proceeds from disposal of property and equipment	34,835	34,843
Acquisition of intangible assets	(140,745)	(102,294)
Decrease in loans	68,266,534	22,827,828
Acquisition of investment property	(14,507,120)	(4,681,144)
Proceeds from disposal of investment property	<u>65,562</u>	<u>516,032</u>
Net cash generated from investing activities	<u>50,999,221</u>	<u>10,136,275</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	10,000,000	-
Repayments of preference shares liabilities	-	(5,000,000)
Repayments of the principle portion of lease liabilities	(495,122)	-
Dividends paid	-	(9,980,749)
Proceeds from issuance of ordinary shares	10,000,000	42,000,000
Changes in non-controlling interests	<u>(233,480)</u>	<u>(79,726)</u>
Net cash generated from financing activities	<u>19,271,398</u>	<u>26,939,525</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>951,936</u>	<u>416,211</u>
		(Continued)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 226,719,479	\$ (35,211,680)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>175,332,205</u>	<u>210,543,885</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 402,051,684</u>	<u>\$ 175,332,205</u>

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

(With Deloitte & Touche audit report dated March 11, 2020)

(Concluded)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 11, 2020.

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

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

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

- IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

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

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

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

The Group also applies the following practical expedients:

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

The difference between the (i) lease liabilities recognized on January 1, 2019, and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

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

The Group as lessor

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

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

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

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

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

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

- IFRS 17 “Insurance Contracts”

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

Level of aggregation

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

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

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

Recognition

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

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

Measurement on initial recognition

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

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

Subsequent measurement

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

Onerous contracts

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

Premium Allocation Approach (“PAA”)

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

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

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

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

Investment contracts with discretionary participation features

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

Modification and derecognition

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

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

Transition

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises 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 and investment properties which are measured at fair value, and net defined benefit assets which are measured at the fair value of plan assets less the present value of the defined benefit obligation.

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Basis of consolidation

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

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

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

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

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

See Note 11, Table 1 and Table 5 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Foreign currencies

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

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

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

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

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

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

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

e. Investments in associates

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

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

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

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

is insufficient, the shortage is debited to retained earnings.

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

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

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

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

f. Property and equipment

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

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

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

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

g. Investment properties

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

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

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

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

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

h. Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

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

i. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss. Fair value is determined in the manner described in Note 41.

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

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

ii. Financial assets at amortized cost

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

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

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

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

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

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

- i) Significant financial difficulty for the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is more likely than not that the borrower will file for bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for the financial asset due to financial difficulties.

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

iii. Investments in debt instruments at FVTOCI

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

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

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

iv. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets

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

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

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

d) Offsetting of financial instruments

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading. Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

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

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

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

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

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

1. Hedge accounting

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

1) Fair value hedges

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

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

2) Cash flow hedges

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

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

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

3) Hedges of net investments in foreign operations

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

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

m. Separate account insurance products

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

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

n. Insurance liabilities

1) The Company

Funds reserved for insurance contracts and financial instruments with or without discretionary participation feature are determined in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and validated by the certified actuarial professionals approved by the FSC. The provision of reserve for short-term group insurance is based upon the greater of premium received or calculated according to Jin Guan Bao Tsai No. 10704504821. Provision of reserve for the other insurance liabilities is as follows:

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

a) Unearned premium reserve

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

b) Loss reserve

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

c) Policy reserve

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

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

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

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

d) Special reserve

When selling participating life insurance policies, according to the Rule Governing application of revenue and expenses related to participating/nonparticipating policy reported to the authority, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from special reserve - participating policies dividends reserve. The excess dividend should be accounted as special reserve - provisions for risk of dividends.

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

e) Premium deficiency reserve

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

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

f) Other reserve

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

g) Liability adequacy reserve

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

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

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

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

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

o. Liability adequacy test

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

p. Reserve for insurance contract with the nature of financial products

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

q. Reserve for Foreign exchange valuation

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

r. Recognition of insurance premium income and expenses

1) The Company

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

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

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

2) Cathay Lujiazui Life

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

3) Cathay Life (Vietnam)

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

s. Classification of insurance products

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

Insurance contracts with features of financial instruments are contracts that transfer significant financial risks. Financial risks refer to the risks that the changes in one or more specific indicators may cause, including interest rates, financial commodity prices, product prices, exchange rates, price index, rate

index, credit ratings and other indicators. If the above indicators are not financial, these indicators exist in both sides under the contracts.

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

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

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

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

t. Reinsurance

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

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

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

For a reinsurance contracts that transfers a significant insurance risks, if the Group can measure its saving element separately, the insurance element and the saving element of the reinsurance contract are recognized separately. That is, the Group recognizes the contract premium received (or paid) less the amount of insurance as financial liabilities (or assets) rather than income (or expenses). The financial

liabilities (or assets) are recognized at the fair values based on the present values of future cash flows.

u. Provisions

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

v. Leases

2019

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

1) The Group as lessor

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

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

2) The Group as lessee

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

Right-of-use assets are initially measured at cost, and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets, except for those that meet the definition of investment properties. With respect to the recognition and measurement of right-of-use assets that meet the definition of investment properties, refer to Note 4 g. for the accounting policies for investment properties.

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

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

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

2018

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

1) The Group as lessor

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

2) The Group as lessee

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

w. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

x. Taxation

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

1) Current tax

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

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets

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

b. Fair value measurements and valuation processes

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Notes 15 and 41.

c. Valuation of policy reserve and liability adequacy test

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

All insurance contracts are subject to a liability adequacy test, which reflects the best current estimate of

future cash flows. Best estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expenses are based on current expense levels, adjusted using the expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 258,876	\$ 234,078
Cash in banks	178,571,320	108,749,193
Time deposits	165,013,491	49,111,685
Cash equivalents	<u>58,207,997</u>	<u>17,237,249</u>
	<u>\$ 402,051,684</u>	<u>\$ 175,332,205</u>

7. RECEIVABLES

	December 31	
	2019	2018
Notes receivable	\$ 275,228	\$ 291,955
Premium receivables	15,222,934	13,837,276
Other receivables	66,972,565	60,882,965
Overdue receivables	<u>11,919</u>	<u>56,340</u>
	82,482,646	75,068,536
Less: Loss allowance	<u>(14,732)</u>	<u>(98,067)</u>
	<u>\$ 82,467,914</u>	<u>\$ 74,970,469</u>

The movements in the loss allowance are as follows:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 98,067	\$ 39,465
(Reversal) provision for the current year	(37,201)	103,595
Amounts written off	<u>(46,134)</u>	<u>(44,993)</u>
Ending balance	<u>\$ 14,732</u>	<u>\$ 98,067</u>

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
<u>Financial assets mandatorily classified as at FVTPL</u>		
Non-derivative financial assets		
Domestic stocks	\$ 258,526,486	\$ 373,957,880
Beneficiary certificates	558,404,095	277,060,915
Corporate bonds	-	1,021,572
Government bonds	399,968	-
Financial debentures	14,475,317	17,079,909
Overseas stocks	220,739,840	290,847,269
Real estate investment trust	16,161,514	14,213,506
Overseas bonds	230,049,274	188,192,375
Structured time deposits	4,011,973	-
Derivative financial assets (not under hedge accounting)		
Currency swap contracts ("SWAP")	18,728,825	3,816,318
Foreign exchange forward contracts ("Forward")	9,332,640	1,551,231
Cross currency swap contracts ("CCS")	148,872	-
Options	49,353	10,210
	<u>\$ 1,331,028,157</u>	<u>\$ 1,167,751,185</u>

Financial liabilities held for trading

Derivative financial liabilities (not under hedge accounting)		
SWAP	\$ 1,810,120	\$ 22,636,490
Forward	1,138,856	4,838,945
Interest rate swap contracts ("IRS")	7,342	23,671
Options	18,016	-
	<u>\$ 2,974,334</u>	<u>\$ 27,499,106</u>

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

	December 31	
	2019	2018
<u>Financial assets mandatorily classified as at FVTPL</u>		
Domestic stocks	\$ 256,601,805	\$ 371,075,775
Beneficiary certificates	523,997,872	261,762,059
Financial debentures	14,475,317	17,079,909
Overseas stocks	220,010,748	285,553,447
Real estate investment trust	16,161,514	14,213,506
Overseas bonds	229,427,152	187,795,448
Structured time deposits	4,011,973	-
	<u>\$ 1,264,686,381</u>	<u>\$ 1,137,480,144</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the years ended December 31, 2019 and 2018 are as follows:

	For the Year Ended December 31	
	2019	2018
Gains (loss) due to applying IFRS 9 to profit or loss	\$ 204,393,853	\$ (31,335,179)
Gains if applying IAS 39 to profit or loss	<u>(84,040,097)</u>	<u>(86,120,813)</u>
Loss (gains) reclassified due to application of overlay approach	<u>\$ 120,353,756</u>	<u>\$ (117,455,992)</u>

Due to application of overlay approach, the amount of gain or loss on financial assets and liabilities at FVTPL for the years ended December 31, 2019 and 2018 had decreased from gain of \$201,446,622 thousand to gain of \$81,092,866 thousand and decreased from loss of \$127,441,329 thousand to loss of \$9,985,337 thousand, respectively.

- b. As of December 31, 2019 and 2018, structured notes accounted for financial instruments at FVTPL amounted to \$105,784,237 thousand and \$74,755,376 thousand, respectively.
- c. Refer to Note 39 for the financial assets at FVTPL that were pledged.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Equity instrument investments at FVTOCI		
Domestic stocks	\$ 26,813,635	\$ 25,235,503
Overseas stocks	<u>8,815,869</u>	<u>5,025,643</u>
	<u>35,629,504</u>	<u>30,261,146</u>
Debt instrument investments at FVTOCI		
Government bonds	41,077,782	93,149,452
Overseas bonds	778,747,472	800,838,518
Less: Litigation deposits	(45,748)	(1,720)
Less: Deposits to Central Bank	(1,067,739)	(2,111,016)
Less: Derivative instrument collaterals	<u>-</u>	<u>(168,134)</u>
	<u>818,711,767</u>	<u>891,707,100</u>
	<u>\$ 854,341,271</u>	<u>\$ 921,968,246</u>

- a. These investments in equity instruments are not held for trading, and thus were designated as financial assets at FVTOCI.
- b. Dividend income recognized relating to investments in equity instruments at FVTOCI still held by the Group on the balance sheet date for the years ended December 31, 2019 and 2018 were \$1,726,086 thousand and \$1,596,995 thousand, respectively. Those related to investments derecognized for the years ended December 31, 2019 and 2018 were \$735,772 thousand and \$489,914 thousand, respectively.
- c. In consideration of investment strategies, the Group sold equity instrument investments at FVTOCI at fair values of \$24,819,436 thousand and \$38,447,898 thousand at the time of sale, and transferred unrealized loss of \$4,459,258 thousand and \$12,917,189 thousand from other equity to retained earnings for the years ended December 31, 2019 and 2018, respectively.
- d. Refer to Note 39 for the financial assets at FVTOCI that were pledged.

- e. Refer to Note 41 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.

10. HEDGING INSTRUMENT

	December 31	
	2019	2018
<u>Financial Assets For Hedging</u>		
IRS	\$ 185,206	\$ 216,611
CCS	<u>362,869</u>	<u>-</u>
	<u>\$ 548,075</u>	<u>\$ 216,611</u>
<u>Financial liabilities For Hedging</u>		
IRS	<u>\$ 30,894</u>	<u>\$ -</u>

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

11. SUBSIDIARIES

- a. Subsidiaries included in the consolidated financial statements

Investors	Investees	Business	Ownership Interest		Explanation
			December 31, 2019	December 31, 2018	
The Company	Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	50.00	50.00	
The Company	Cathay Life Insurance (Vietnam) Co., Ltd.	Life insurance	100.00	100.00	
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	100.00	100.00	
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00	
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00	
The Company	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00	
The Company	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00	
The Company	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00	
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00	
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00	
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00	
CHL	Conning Asia Pacific Ltd.	Asset management services	82.85	82.85	
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00	
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00	
Conning Holdings Corp.	Conning & Company ("C&C")	Holding company	100.00	100.00	
C&C	Conning Inc.	Asset management services	100.00	100.00	
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00	
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00	
C&C	Octagon Credit Investors, LLC ("Octagon")	Asset management services	81.89	81.89	

(Continued)

Investors	Investees	Business	Ownership Interest		Explanation
			December 31, 2019	December 31, 2018	
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00	
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00	
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00	
Octagon	Octagon Funding I, LLC	Fund management services	-	100.00	Note
Octagon	Octagon Funding II, LLC	Fund management services	-	100.00	Note
Octagon	Octagon Funding III, LLC	Fund management services	-	100.00	Note

(Concluded)

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

b. Subsidiaries excluded from the consolidated financial statements

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

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

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2019	2018
Investments in unconsolidated subsidiaries	\$ 333,089	\$ 278,780
Investments in associates	<u>44,224,460</u>	<u>40,502,048</u>
	<u>\$ 44,557,549</u>	<u>\$ 40,780,828</u>

Refer to Table 1 and Table 5 for the nature of business activities, main operating locations and countries of incorporation of the unconsolidated subsidiaries and associates.

a. Investments in unconsolidated subsidiaries

	December 31	
	2019	2018
Cathay Securities Investment Consulting	<u>\$ 333,089</u>	<u>\$ 278,780</u>

b. Investments in associates

Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2019	2018
The Group' share of:		
Net income	\$ 904,907	\$ 851,167
Other comprehensive income (loss)	<u>76,085</u>	<u>(420,927)</u>
Total comprehensive income for the period	<u>\$ 980,992</u>	<u>\$ 430,240</u>

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

The investments in associates were not pledged.

13. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	December 31	
	2019	2018
Time deposits	\$ 2,641,269	\$ 611,285
Financial debentures	50,049,481	53,765,350
Corporate bonds	25,294,942	27,893,879
Government bonds	39,073,691	38,187,773
Overseas bonds	2,508,736,300	2,154,677,348
Asset-backed securities	1,189,350	1,143,199
Less: Litigation deposits	(1,343,931)	(1,345,625)
Less: Deposits to Central Bank	(7,858,911)	(7,864,253)
Less: Derivative instruments collateral	-	(6,075,419)
Less: Loss allowance (Note)	<u>(1,197,021)</u>	<u>(2,320,496)</u>
	<u>\$ 2,616,585,170</u>	<u>\$ 2,258,673,041</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of December 31, 2019 and 2018, the amounts were \$891 thousand and \$910 thousand, respectively.

- a. For the years ended December 31, 2019 and 2018, the Group disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$3,032,793 thousand and \$1,027,382 thousand, respectively; bonds disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$11,598,209 thousand and \$5,906,106 thousand, respectively; bonds disposal due to other situations such as repayments at maturities resulted in gain on disposal of \$1,360,596 thousand and loss on disposal of \$143,385 thousand, respectively.
- b. Refer to Note 39 for information relating to investments in financial assets at amortized cost pledged as security.
- c. Refer to Note 41 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

14. OTHER FINANCIAL ASSETS

	December 31	
	2019	2018
Structured time deposits	\$ -	\$ 2,000,000
Less: Loss allowance	-	(594)
	<u>\$ -</u>	<u>\$ 1,999,406</u>

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

	Investment Property		Total	Investment Property Under Construction	Prepayments for Buildings and Land - Investments
	Land	Buildings			
January 1, 2018	\$ 346,372,382	\$ 112,803,156	\$ 459,175,538	\$ 3,541,501	\$ 690,203
Additions	38,074	6,926	45,000	3,927,795	708,349
Disposals	(62,869)	(439,000)	(501,869)	-	-
Reclassification	348,277	4,271,016	4,619,293	(4,683,656)	(675,866)
Loss on changes in fair value of investment property	(8,165)	(762,958)	(771,123)	-	-
Exchange differences	(419,677)	(794,781)	(1,214,458)	-	-
December 31, 2018	<u>\$ 346,268,022</u>	<u>\$ 115,084,359</u>	<u>\$ 461,352,381</u>	<u>\$ 2,785,640</u>	<u>\$ 722,686</u>
January 1, 2019	\$ 346,268,022	\$ 115,084,359	\$ 461,352,381	\$ 2,785,640	\$ 722,686
Adjustment on initial application of IFRS 16	9,014,035	-	9,014,035	-	-
Additions	-	-	-	3,959,386	10,547,734
Disposals	(40,153)	(32,729)	(72,882)	-	-
Reclassification	9,969,169	2,330,483	12,299,652	(2,198,309)	(10,118,057)
Gain (loss) on changes in fair value of investment property	1,985,012	(1,085,533)	899,479	-	-
Exchange differences	212,020	167,032	379,052	-	-
December 31, 2019	<u>\$ 367,408,105</u>	<u>\$ 116,463,612</u>	<u>\$ 483,871,717</u>	<u>\$ 4,546,717</u>	<u>\$ 1,152,363</u>

	For the Year Ended December 31	
	2019	2018
Rental income from investment property	\$ 12,266,651	\$ 11,680,064
Direct operating expenses of investment property that generate rental income	(703,000)	(668,312)
Direct operating expenses of investment property that do not generate rental income	<u>(132,887)</u>	<u>(141,313)</u>
	<u>\$ 11,430,764</u>	<u>\$ 10,870,439</u>

- a. Certain properties are held to earn rental or to achieve capital appreciation, and the others are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component of a property couldn't be sold separately, it would be classified as investment properties only when owner occupation is lower than 5% of the property.

- b. As of on December 31, 2019, the investment properties belong to the Company amounted to \$445,624,222 thousand. The investment properties are held mainly for lease business. All the lease agreements of the Group's lease business are operating leases and the primary terms of lease agreements are the same with general lease agreement. Rents from investment property are received annually, semi-annually, quarterly, monthly or in lump sum. Investment properties held by the Group were not pledged.
- c. The ownership of the Group's investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other debts; the ownership of its trust property is not subject to restrictions. Besides, the Group are not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of Regulations Governing Foreign Investments by Insurance Companies.
- d. Valuation has been performed by the following appraisers of joint appraisers offices meeting the qualification requirements for real estate appraisers in the R.O.C., with valuation dates at December 31, 2019 and 2018:

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

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

The main inputs used are as follows:

	December 31	
	2019	2018
Direct capitalization rates (net)	0.62%-6.30%	0.62%-4.39%
Discount rates	3.14%-4.23%	3.14%-4.23%

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

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

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

Reconciliation for fair value measurements in Level 3 movements:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 455,726,383	\$ 452,495,844
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Gain (loss) from investment property	899,479	(771,123)
Amount recognized in other comprehensive income (loss)		
Exchange differences resulting from translating the financial statements of foreign operations	379,052	(1,214,458)
Acquisitions	-	45,000
Disposals	(41,615)	(501,792)
Transfers from investment property under construction	2,182,971	4,683,656
Transfers from prepayments for buildings and land	716,272	675,826
Transfers from investment property measured at cost	2,874,260	1,053,619
Other reclassification	(2,104)	(740,189)
Ending balance	<u>\$ 471,748,733</u>	<u>\$ 455,726,383</u>

The above amounts did not include those measured at cost.

16. LOANS

	December 31	
	2019	2018
Life insurance policy loans(a)	\$ 160,404,111	\$ 159,046,285
Premium loans(b)	12,012,426	11,491,146
Secured loans(c)	345,132,183	415,518,261
Non-accrual receivables	<u>657,797</u>	<u>968,753</u>
	518,206,517	587,024,445
Less: Loss allowance	<u>(4,825,976)</u>	<u>(5,808,606)</u>
	<u>\$ 513,380,541</u>	<u>\$ 581,215,839</u>

- a. Life insurance policy loans were secured by policies issued by the Group.
- b. Policyholders may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due and interest of the premium loan (as well as the principal and interest of the life insurance policy loan, if applicable) from the policyholders' policy value reserve after the second installment becomes overdue in order to maintain the effective insurance policy. Policyholders may also inform the insurer in writing to terminate the premium loan option prior to the next due date of premium payment.
- c. Secured loans are secured by government bonds, stocks, corporate bonds and real estate. The Group applied IFRS 9 and assessed impairment in accordance with the Regulations Governing the Procedures for Insurance Enterprises to Evaluate Assets and Deal with Non-performing/Non-accrual Loans Refer to Note 41 for related information of loss allowance for the years ended December 31, 2019 and 2018.

17. REINSURANCE ASSETS

	December 31	
	2019	2018
Claims and payments recoverable from reinsurers	\$ -	\$ 803
Due from reinsurers and ceding companies	403,575	505,852
Reinsurance reserve assets		
Ceded unearned premium reserve	894,878	624,337
Ceded loss reserve	24,014	22,509
Ceded policy reserve	<u>421,465</u>	<u>365,409</u>
	<u>\$ 1,743,932</u>	<u>\$ 1,518,910</u>

- a. CNY co-reinsurance business

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

- 1) Purpose, rationalization and expected benefit

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

2) Reinsurance expense, claims recovered from reinsurers and commission

	For the Year Ended December 31	
	2019	2018
Reinsurance expense	\$ 73,343	\$ 75,604
Claims recovered from reinsurers	11,736	10,706
Reinsurance commission	8,229	7,692

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

Net income from reinsurance of \$2,677 thousand had occurred for the year ended December 31, 2019 from CNY co-reinsurance business. The amount is calculated as follows:

Reinsurance commission of \$8,229 thousand + Claims recovered from reinsurers of \$11,736 thousand + Net changes in reinsurance reserve assets of \$71,880 thousand - Foreign exchange gains of \$15,825 thousand - reinsurance expense of \$73,343 thousand.

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

5) Accounting treatment for ceded CNY co-reinsurance business

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

6) Other notes designated by authorities: None.

18. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Leasehold Improvement	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
Cost									
Balance at January 1, 2018	\$ 19,940,687	\$ 21,587,872	\$ 2,612,817	\$ 276,132	\$ 359,487	\$ 11,751	\$ 3,792,098	\$ 154,477	\$ 48,735,321
Additions	84	-	332,191	-	146,692	3	140,720	767,318	1,387,008
Disposals	(6,126)	(4,896)	(97,477)	-	(8,608)	(5)	(31,757)	-	(148,869)
Reclassification	432,542	833,446	-	-	-	-	-	(525,759)	740,229
Exchange differences	-	(51,743)	5,761	4	3,151	(93)	749	-	(42,171)
Balance at December 31, 2018	<u>\$ 20,367,187</u>	<u>\$ 22,364,679</u>	<u>\$ 2,853,292</u>	<u>\$ 276,136</u>	<u>\$ 500,722</u>	<u>\$ 11,656</u>	<u>\$ 3,901,810</u>	<u>\$ 396,036</u>	<u>\$ 50,671,518</u>
Depreciation and impairment									
Balance at January 1, 2018	\$ 103,134	\$ 11,633,988	\$ 2,110,426	\$ 275,876	\$ 224,457	\$ 7,768	\$ 3,302,361	\$ -	\$ 17,658,010
Depreciation expenses	-	409,644	186,503	81	43,484	1,823	121,314	-	762,849
Disposals	-	(3,168)	(80,747)	-	(8,608)	(5)	(29,026)	-	(121,554)
Exchange differences	-	(4,463)	(1,430)	2	(3,192)	(37)	(289)	-	(9,409)
Balance at December 31, 2018	<u>\$ 103,134</u>	<u>\$ 12,036,001</u>	<u>\$ 2,214,752</u>	<u>\$ 275,959</u>	<u>\$ 256,141</u>	<u>\$ 9,549</u>	<u>\$ 3,394,360</u>	<u>\$ -</u>	<u>\$ 18,289,896</u>
Carrying amounts at December 31, 2018	<u>\$ 20,264,053</u>	<u>\$ 10,328,678</u>	<u>\$ 638,540</u>	<u>\$ 177</u>	<u>\$ 244,581</u>	<u>\$ 2,107</u>	<u>\$ 507,450</u>	<u>\$ 396,036</u>	<u>\$ 32,381,622</u>
Cost									
Balance at January 1, 2019	\$ 20,367,187	\$ 22,364,679	\$ 2,853,292	\$ 276,136	\$ 500,722	\$ 11,656	\$ 3,901,810	\$ 396,036	\$ 50,671,518
Additions	-	-	423,304	-	27,222	-	98,596	219,338	768,460
Disposals	(12,249)	(18,562)	(29,563)	-	-	(340)	(59,447)	-	(120,161)
Reclassification	-	450,854	(63)	(276,136)	-	-	2	(434,140)	(259,483)
Exchange differences	-	(69,736)	(25,995)	-	(13,605)	(132)	(1,742)	-	(111,210)
Balance at December 31, 2019	<u>\$ 20,354,938</u>	<u>\$ 22,727,235</u>	<u>\$ 3,220,975</u>	<u>\$ -</u>	<u>\$ 514,339</u>	<u>\$ 11,184</u>	<u>\$ 3,939,219</u>	<u>\$ 181,234</u>	<u>\$ 50,949,124</u>
Depreciation and impairment									
Balance at January 1, 2019	\$ 103,134	\$ 12,036,001	\$ 2,214,752	\$ 275,959	\$ 256,141	\$ 9,549	\$ 3,394,360	\$ -	\$ 18,289,896
Depreciation expenses	-	412,318	195,079	-	53,133	773	128,136	-	789,439
Disposals	-	(11,139)	(28,342)	-	-	(340)	(57,004)	-	(96,825)
Reclassification	-	-	-	(275,959)	-	-	-	-	(275,959)
Exchange differences	-	(8,916)	(10,504)	-	(8,610)	(87)	(579)	-	(28,696)
Balance at December 31, 2019	<u>\$ 103,134</u>	<u>\$ 12,428,264</u>	<u>\$ 2,370,985</u>	<u>\$ -</u>	<u>\$ 300,664</u>	<u>\$ 9,895</u>	<u>\$ 3,464,913</u>	<u>\$ -</u>	<u>\$ 18,677,855</u>
Carrying amounts at December 31, 2019	<u>\$ 20,251,804</u>	<u>\$ 10,298,971</u>	<u>\$ 849,990</u>	<u>\$ -</u>	<u>\$ 213,675</u>	<u>\$ 1,289</u>	<u>\$ 474,306</u>	<u>\$ 181,234</u>	<u>\$ 32,271,269</u>

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

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

19. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Buildings	\$ 1,541,327
Office equipment	13,386
Transportation equipment	<u>22,966</u>
	<u>\$ 1,577,679</u>
The right-of-use assets presented as investment properties	<u>\$ 8,781,429</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 253,605</u>
Depreciation expense for right-of-use assets	
Buildings	\$ 569,032
Office equipment	4,757
Transportation equipment	<u>16,313</u>
	<u>\$ 590,102</u>

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	<u>\$ 10,381,894</u>

Range of discount rates for lease liabilities was as follows:

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

20. INTANGIBLE ASSETS

	Computer Software	Franchises	Trademarks	Customer Relationships	Goodwill	Other Intangible Assets	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 2,055,594	\$ 37,659,600	\$ 391,576	\$ 3,518,004	\$ 10,279,814	\$ 208,190	\$ 54,112,778
Additions - acquired separately	102,294	-	-	-	-	-	102,294
Disposals	(25)	-	-	-	-	-	(25)
Exchange differences	(3,847)	-	11,610	104,310	218,268	6,173	336,514
Balance at December 31, 2018	<u>\$ 2,154,016</u>	<u>\$ 37,659,600</u>	<u>\$ 403,186</u>	<u>\$ 3,622,314</u>	<u>\$ 10,498,082</u>	<u>\$ 214,363</u>	<u>\$ 54,551,561</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2018	\$ 1,730,537	\$ 5,198,458	\$ -	\$ 795,546	\$ -	\$ 115,292	\$ 7,839,833
Amortizations	122,508	2,079,383	-	391,108	-	41,956	2,634,955
Disposals	(25)	-	-	-	-	-	(25)
Exchange differences	(3,616)	-	-	31,217	-	4,237	31,838
Balance at December 31, 2018	<u>\$ 1,849,404</u>	<u>\$ 7,277,841</u>	<u>\$ -</u>	<u>\$ 1,217,871</u>	<u>\$ -</u>	<u>\$ 161,485</u>	<u>\$ 10,506,601</u>
Carrying amounts at December 31, 2018	<u>\$ 304,612</u>	<u>\$ 30,381,759</u>	<u>\$ 403,186</u>	<u>\$ 2,404,443</u>	<u>\$ 10,498,082</u>	<u>\$ 52,878</u>	<u>\$ 44,044,960</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 2,154,016	\$ 37,659,600	\$ 403,186	\$ 3,622,314	\$ 10,498,082	\$ 214,363	\$ 54,551,561
Additions - acquired separately	140,745	-	-	-	-	-	140,745
Disposals	(253)	-	-	-	-	-	(253)
Exchange differences	(9,310)	-	(8,225)	(73,902)	(154,637)	(4,374)	(250,448)
Balance at December 31, 2019	<u>\$ 2,285,198</u>	<u>\$ 37,659,600</u>	<u>\$ 394,961</u>	<u>\$ 3,548,412</u>	<u>\$ 10,343,445</u>	<u>\$ 209,989</u>	<u>\$ 54,441,605</u>
<u>Amortization and impairment</u>							
Balance at January 1, 2019	\$ 1,849,404	\$ 7,277,841	\$ -	\$ 1,217,871	\$ -	\$ 161,485	\$ 10,506,601
Amortizations	135,205	2,079,383	-	400,501	-	19,550	2,634,639
Disposals	(253)	-	-	-	-	-	(253)
Exchange differences	(7,757)	-	-	(34,746)	-	(3,778)	(46,281)
Balance at December 31, 2019	<u>\$ 1,976,599</u>	<u>\$ 9,357,224</u>	<u>\$ -</u>	<u>\$ 1,583,626</u>	<u>\$ -</u>	<u>\$ 177,257</u>	<u>\$ 13,094,706</u>
Carrying amounts at December 31, 2019	<u>\$ 308,599</u>	<u>\$ 28,302,376</u>	<u>\$ 394,961</u>	<u>\$ 1,964,786</u>	<u>\$ 10,343,445</u>	<u>\$ 32,732</u>	<u>\$ 41,346,899</u>

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

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

- b. As of December 31, 2019 and 2018, the carrying amounts of goodwill were \$10,343,445 thousand and \$10,498,082 thousand, respectively. The goodwill arose from the acquisition of which the Company assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. except for their reserved assets and liabilities on July 1, 2015, the acquisition of 100% of Conning Holdings Limited on September 18, 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on February 1, 2016.

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

21. OTHER ASSETS

	December 31	
	2019	2018
Insurance Industry Stability Fund (a)	\$ 11,019,381	\$ 10,000,070
Less: Reserve for Insurance Industry Stability Fund (a)	(11,019,381)	(10,000,070)
Guarantee deposits paid (b)	23,151,476	32,195,253
Deferred acquisition costs (c)	3,629	10,401
Prepayments	282,823	614,283
Net defined benefit assets	6,422,413	5,685,091
Others	<u>593,028</u>	<u>1,952,617</u>
	<u>\$ 30,453,369</u>	<u>\$ 40,457,645</u>

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

	December 31	
	2019	2018
Insurance operation guarantee deposit	\$ 11,534,498	\$ 13,123,842
Deposit for futures and options trading	8,374,909	5,262,750
Deposit for derivatives trading	1,117,064	11,594,697
Other guarantee deposits	<u>2,125,005</u>	<u>2,213,964</u>
	<u>\$ 23,151,476</u>	<u>\$ 32,195,253</u>

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

c. Deferred acquisition costs

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 10,401	\$ 16,659
Additions	-	2,331
Amortization	<u>(6,772)</u>	<u>(8,589)</u>
Ending balance	<u>\$ 3,629</u>	<u>\$ 10,401</u>

22. PAYABLES

	December 31	
	2019	2018
Notes payable	\$ 1,276,384	\$ 1,426,716
Claims payable	885,438	814,795
Commissions payable	4,072,121	2,405,476
Due to reinsurers and ceding companies	630,445	440,818
Other payables	<u>24,100,214</u>	<u>27,734,463</u>
	<u>\$ 30,964,602</u>	<u>\$ 32,822,268</u>

23. BONDS PAYABLE

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

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

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

- 4) Coupon rate: From the issue date to the tenth year, the coupon rate is 3.6%; from the day following the tenth year maturity and on every tenth year maturity from then on, if the bonds are not redeemed, the coupon rate will be adjusted to a fixed annual rate of Taiwan 10-y government bond plus the issue spread.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date. The Company may stop making interest payments and such interest payments will not be cumulated or deferred under the following circumstances: The Company has no earnings or the earnings are insufficient to make interest payments; the Company would fail to meet the required risk-based capital ratio or other minimum requirements from the authorities if making those interest payments; the Company has other essential considerations.
 - 6) Right of early redemption: The Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest. The Company may redeem the bond once a year.
 - 7) Forms of bonds: Physical certificate.
 - 8) Interest expense: Interest expense amounting to \$1,260,000 thousand and \$1,260,000 thousand for the years ended December 31, 2019 and 2018, respectively. The expense was recorded as finance costs.
- b. Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, the Company issued first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$35,000,000 thousand.
 - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - 3) Years to maturity: Perpetual.
 - 4) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year maturity.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - 7) Forms of bonds: Book-entry securities.
 - 8) Interest expense: Interest expense amounting to \$1,152,970 thousand and \$1,155,000 thousand for the years ended December 31, 2019 and 2018, respectively. The expense was recorded as finance costs.

- c. Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, the Company issued first perpetual non-cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$10,000,000 thousand.
 - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - 3) Years to maturity: Perpetual.
 - 4) Coupon rate: Fixed rate of 3%.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
 - 7) Forms of bonds: Book-entry securities.
 - 8) Interest expense: Interest expense amounting to \$154,920 thousand for the year ended December 31, 2019. The expense was recorded as finance costs.

24. PREFERENCE SHARES LIABILITY

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

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

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

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

25. INSURANCE LIABILITIES

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

a. The Company

1) Unearned premium reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 81,756	\$ -	\$ 81,756	\$ 73,117	\$ -	\$ 73,117
Individual injury insurance	6,854,370	-	6,854,370	6,484,348	-	6,484,348
Individual health insurance	9,362,205	-	9,362,205	8,797,520	-	8,797,520
Group insurance	1,092,315	-	1,092,315	991,397	-	991,397
Investment-linked insurance	114,231	-	114,231	112,153	-	112,153
	<u>17,504,877</u>	<u>-</u>	<u>17,504,877</u>	<u>16,458,535</u>	<u>-</u>	<u>16,458,535</u>
Less ceded unearned premium reserve:						
Individual life insurance	713,629	-	713,629	509,092	-	509,092
Individual injury insurance	17,678	-	17,678	9,703	-	9,703
Individual health insurance	163,571	-	163,571	105,542	-	105,542
	<u>894,878</u>	<u>-</u>	<u>894,878</u>	<u>624,337</u>	<u>-</u>	<u>624,337</u>
	<u>\$ 16,609,999</u>	<u>\$ -</u>	<u>\$ 16,609,999</u>	<u>\$ 15,834,198</u>	<u>\$ -</u>	<u>\$ 15,834,198</u>

The changes in unearned premium reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 16,458,535	\$ -	\$ 16,458,535	\$ 15,653,614	\$ -	\$ 15,653,614
Provision	17,504,890	-	17,504,890	16,458,545	-	16,458,545
Recovery	(16,458,535)	-	(16,458,535)	(15,653,614)	-	(15,653,614)
Foreign exchange	(13)	-	(13)	(10)	-	(10)
Ending balance	<u>17,504,877</u>	<u>-</u>	<u>17,504,877</u>	<u>16,458,535</u>	<u>-</u>	<u>16,458,535</u>
Less ceded unearned premium reserve:						
Beginning balance	624,337	-	624,337	300,568	-	300,568
Increase	<u>270,541</u>	<u>-</u>	<u>270,541</u>	<u>323,769</u>	<u>-</u>	<u>323,769</u>
Ending balance	<u>894,878</u>	<u>-</u>	<u>894,878</u>	<u>624,337</u>	<u>-</u>	<u>624,337</u>
Net ending balance	<u>\$ 16,609,999</u>	<u>\$ -</u>	<u>\$ 16,609,999</u>	<u>\$ 15,834,198</u>	<u>\$ -</u>	<u>\$ 15,834,198</u>

2) Loss reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance						
Filed but not paid	\$ 2,437,380	\$ 31,200	\$ 2,468,580	\$ 1,479,672	\$ 9,145	\$ 1,488,817
Not yet filed	31,859	-	31,859	72,309	-	72,309
Individual injury insurance						
Filed but not paid	40,400	-	40,400	27,337	-	27,337
Not yet filed	1,855,652	-	1,855,652	1,780,799	-	1,780,799
Individual health insurance						
Filed but not paid	1,282,698	-	1,282,698	851,238	-	851,238
Not yet filed	3,051,864	-	3,051,864	2,777,967	-	2,777,967
Group insurance						
Filed but not paid	60,760	-	60,760	38,689	-	38,689
Not yet filed	1,592,067	-	1,592,067	1,275,114	-	1,275,114
Investment-linked insurance						
Filed but not paid	180,254	-	180,254	218,680	-	218,680
Not yet filed	477	-	477	620	-	620
	<u>10,533,411</u>	<u>31,200</u>	<u>10,564,611</u>	<u>8,522,425</u>	<u>9,145</u>	<u>8,531,570</u>
Less ceded loss reserve						
Individual life insurance	3,074	-	3,074	8,479	-	8,479
Individual health insurance	658	-	658	314	-	314
	<u>3,732</u>	<u>-</u>	<u>3,732</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>
	<u>\$ 10,529,679</u>	<u>\$ 31,200</u>	<u>\$ 10,560,879</u>	<u>\$ 8,513,632</u>	<u>\$ 9,145</u>	<u>\$ 8,522,777</u>

The changes of loss reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 8,522,425	\$ 9,145	\$ 8,531,570	\$ 7,238,115	\$ 2,678	\$ 7,240,793
Provision	10,538,170	31,200	10,569,370	8,516,576	9,145	8,525,721
Recovery	(8,522,425)	(9,145)	(8,531,570)	(7,238,115)	(2,678)	(7,240,793)
Foreign exchange	(4,759)	-	(4,759)	5,849	-	5,849
Ending balance	<u>10,533,411</u>	<u>31,200</u>	<u>10,564,611</u>	<u>8,522,425</u>	<u>9,145</u>	<u>8,531,570</u>
Less ceded loss reserve						
Beginning balance	8,793	-	8,793	1,955	-	1,955
Increase	-	-	-	6,838	-	6,838
Decrease	(5,061)	-	(5,061)	-	-	-
Ending balance	<u>3,732</u>	<u>-</u>	<u>3,732</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>
Net ending balance	<u>\$ 10,529,679</u>	<u>\$ 31,200</u>	<u>\$ 10,560,879</u>	<u>\$ 8,513,632</u>	<u>\$ 9,145</u>	<u>\$ 8,522,777</u>

3) Policy reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance (Note 1)	\$ 4,812,427,110	\$ 3,747	\$ 4,812,430,857	\$ 4,519,398,687	\$ 8,236	\$ 4,519,406,923
Injury insurance	7,268,700	-	7,268,700	7,446,584	-	7,446,584
Health insurance	725,104,907	-	725,104,907	652,473,787	-	652,473,787
Annuity insurance	1,388,012	20,476,035	21,864,047	1,395,567	25,839,454	27,235,021
Investment-linked insurance	<u>450,698</u>	<u>-</u>	<u>450,698</u>	<u>438,045</u>	<u>-</u>	<u>438,045</u>
Total (Note 2)	5,546,639,427	20,479,782	5,567,119,209	5,181,152,670	25,847,690	5,207,000,360
Less ceded policy reserve						
Life insurance	<u>421,465</u>	<u>-</u>	<u>421,465</u>	<u>365,409</u>	<u>-</u>	<u>365,409</u>
	<u>\$ 5,546,217,962</u>	<u>\$ 20,479,782</u>	<u>\$ 5,566,697,744</u>	<u>\$ 5,180,787,261</u>	<u>\$ 25,847,690</u>	<u>\$ 5,206,634,951</u>

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

Note 2: Total policy reserve after including policy-reserve payables for the insured amounted to \$5,567,592,302 thousand and \$5,207,460,951 thousand as of December 31, 2019 and 2018, respectively.

The changes of policy reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 5,181,152,670	\$ 25,847,690	\$ 5,207,000,360	\$ 4,816,868,641	\$ 32,918,998	\$ 4,849,787,639
Provision	670,669,816	1,043,751	671,713,567	627,938,526	374,465	628,312,991
Recovery	(279,755,554)	(6,411,621)	(286,167,175)	(290,271,517)	(7,420,310)	(297,691,827)
Foreign exchange	<u>(25,427,505)</u>	<u>(38)</u>	<u>(25,427,543)</u>	<u>26,617,020</u>	<u>(25,463)</u>	<u>26,591,557</u>
Ending balance	<u>5,546,639,427</u>	<u>20,479,782</u>	<u>5,567,119,209</u>	<u>5,181,152,670</u>	<u>25,847,690</u>	<u>5,207,000,360</u>
Less ceded policy reserve						
Beginning balance	365,409	-	365,409	301,806	-	301,806
Increase	71,881	-	71,881	73,160	-	73,160
Foreign exchange	<u>(15,825)</u>	<u>-</u>	<u>(15,825)</u>	<u>(9,557)</u>	<u>-</u>	<u>(9,557)</u>
Ending balance	<u>421,465</u>	<u>-</u>	<u>421,465</u>	<u>365,409</u>	<u>-</u>	<u>365,409</u>
Net ending balance	<u>\$ 5,546,217,962</u>	<u>\$ 20,479,782</u>	<u>\$ 5,566,697,744</u>	<u>\$ 5,180,787,261</u>	<u>\$ 25,847,690</u>	<u>\$ 5,206,634,951</u>

4) Special reserve

	December 31							
	2019				2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Participating policies dividends reserve	\$ (56,900)	\$ -	\$ -	\$ (56,900)	\$ (62,254)	\$ -	\$ -	\$ (62,254)
Dividend risk reserve	58,200	-	-	58,200	63,184	-	-	63,184
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>

The changes of special reserve are summarized below:

	For the Year Ended December 31							
	2019				2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254	\$ 889	\$ -	\$ 11,083,324	\$ 11,084,213
Effects of retrospective application and restatement of IFRS 9	-	-	-	-	(395)	-	-	(395)
Beginning balance, as adjusted	930	-	11,083,324	11,084,254	494	-	11,083,324	11,083,818
Provision for participating policies dividends reserve	17,100	-	-	17,100	5,488	-	-	5,488
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)	(7,990)	-	-	(7,990)
Provision (recovery) for dividend risk reserve	(4,984)	-	-	(4,984)	2,938	-	-	2,938
Ending balance	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>

5) Premium deficiency reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 18,282,478	\$ -	\$ 18,282,478	\$ 20,966,673	\$ -	\$ 20,966,673
Individual injury insurance	1,078	-	1,078	1,229	-	1,229
Individual health insurance	1,347,284	-	1,347,284	1,508,079	-	1,508,079
Group insurance	<u>48,617</u>	<u>-</u>	<u>48,617</u>	<u>72,323</u>	<u>-</u>	<u>72,323</u>
	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>

The changes of premium deficiency reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	148,615	-	148,615	172,966	-	172,966
Recovery	(2,893,265)	-	(2,893,265)	(3,984,323)	-	(3,984,323)
Foreign exchange	<u>(124,197)</u>	<u>-</u>	<u>(124,197)</u>	<u>127,344</u>	<u>-</u>	<u>127,344</u>
Ending balance	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>

6) Other reserve

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Other	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

The changes of other reserve are summarized below:

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(21,429)</u>	<u>-</u>	<u>(21,429)</u>	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>
Ending balance	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

7) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature	
	December 31	
	2019	2018
Unearned premium reserve	\$ 17,504,877	\$ 16,458,535
Policy reserve	5,567,592,302	5,207,000,360
Premium deficiency reserve	19,679,457	22,548,304
Other reserve	<u>1,873,141</u>	<u>1,894,570</u>
Book value of insurance liabilities	<u>\$ 5,606,649,777</u>	<u>\$ 5,247,901,769</u>
Estimated present value of cash flows	<u>\$ 4,515,206,417</u>	<u>\$ 4,230,271,471</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>

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

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

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

Liability adequacy testing methodology is listed as follows:

	December 31	
	2019	2018
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Significant assumptions		
i. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
ii. Discount rate	Under assets allocation plan on September 30, 2019, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

b. Cathay Lujiazui Life

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

1) Unearned premium reserve

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual injury insurance	\$ 5,461	\$ -	\$ 5,461	\$ 5,911	\$ -	\$ 5,911
Individual health insurance	28,293	-	28,293	38,600	-	38,600
Group insurance	<u>268,054</u>	<u>-</u>	<u>268,054</u>	<u>234,496</u>	<u>-</u>	<u>234,496</u>
	<u>\$ 301,808</u>	<u>\$ -</u>	<u>\$ 301,808</u>	<u>\$ 279,007</u>	<u>\$ -</u>	<u>\$ 279,007</u>

The changes of unearned premium reserve are summarized below:

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 279,007	\$ -	\$ 279,007	\$ 315,955	\$ -	\$ 315,955
Provision	349,388	-	349,388	284,169	-	284,169
Recovery	(315,792)	-	(315,792)	(314,266)	-	(314,266)
Foreign exchange	<u>(10,795)</u>	<u>-</u>	<u>(10,795)</u>	<u>(6,851)</u>	<u>-</u>	<u>(6,851)</u>
Ending balance	<u>\$ 301,808</u>	<u>\$ -</u>	<u>\$ 301,808</u>	<u>\$ 279,007</u>	<u>\$ -</u>	<u>\$ 279,007</u>

2) Loss reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance						
Filed but not paid	\$ 1,169	\$ -	\$ 1,169	\$ 1,323	\$ -	\$ 1,323
Not yet filed	10,535	-	10,535	5,984	-	5,984
Individual injury insurance						
Filed but not paid	105	-	105	25	-	25
Not yet filed	3,424	-	3,424	229	-	229
Individual health insurance						
Filed but not paid	7,062	-	7,062	15,129	-	15,129
Not yet filed	54,959	-	54,959	35,035	-	35,035
Group insurance						
Filed but not paid	7,848	-	7,848	12,774	-	12,774
Not yet filed	380,909	-	380,909	297,007	-	297,007
	<u>466,011</u>	<u>-</u>	<u>466,011</u>	<u>367,506</u>	<u>-</u>	<u>367,506</u>
Less ceded loss reserve						
Individual life insurance	663	-	663	-	-	-
Individual injury insurance	1,063	-	1,063	-	-	-
Individual health insurance	18,499	-	18,499	13,716	-	13,716
Group insurance	57	-	57	-	-	-
	<u>20,282</u>	<u>-</u>	<u>20,282</u>	<u>13,716</u>	<u>-</u>	<u>13,716</u>
	<u>\$ 445,729</u>	<u>\$ -</u>	<u>\$ 445,729</u>	<u>\$ 353,790</u>	<u>\$ -</u>	<u>\$ 353,790</u>

The changes of loss reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 367,506	\$ -	\$ 367,506	\$ 332,627	\$ -	\$ 332,627
Provision	567,060	-	567,060	387,799	-	387,799
Recovery	(451,874)	-	(451,874)	(344,344)	-	(344,344)
Foreign exchange	(16,681)	-	(16,681)	(8,576)	-	(8,576)
Ending balance	<u>466,011</u>	<u>-</u>	<u>466,011</u>	<u>367,506</u>	<u>-</u>	<u>367,506</u>
Less ceded loss reserve						
Beginning balance	13,716	-	13,716	7,729	-	7,729
Increase	62,944	-	62,944	6,282	-	6,282
Decrease	(55,652)	-	(55,652)	-	-	-
Foreign exchange	(726)	-	(726)	(295)	-	(295)
Ending balance	<u>20,282</u>	<u>-</u>	<u>20,282</u>	<u>13,716</u>	<u>-</u>	<u>13,716</u>
Net ending balance	<u>\$ 445,729</u>	<u>\$ -</u>	<u>\$ 445,729</u>	<u>\$ 353,790</u>	<u>\$ -</u>	<u>\$ 353,790</u>

3) Policy reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance	\$ 19,294,499	\$ -	\$ 19,294,499	\$ 13,750,483	\$ -	\$ 13,750,483
Health insurance	1,855,047	-	1,855,047	1,156,197	-	1,156,197
Investment-linked insurance	<u>2,599</u>	<u>-</u>	<u>2,599</u>	<u>2,496</u>	<u>-</u>	<u>2,496</u>
	<u>\$ 21,152,145</u>	<u>\$ -</u>	<u>\$ 21,152,145</u>	<u>\$ 14,909,176</u>	<u>\$ -</u>	<u>\$ 14,909,176</u>

The changes of policy reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contract	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 14,909,176	\$ -	\$ 14,909,176	\$ 9,387,494	\$ -	\$ 9,387,494
Provision	9,100,795	-	9,100,795	6,474,900	-	6,474,900
Recovery	(2,100,388)	-	(2,100,388)	(627,253)	-	(627,253)
Foreign exchange	<u>(757,438)</u>	<u>-</u>	<u>(757,438)</u>	<u>(325,965)</u>	<u>-</u>	<u>(325,965)</u>
Ending balance	<u>\$ 21,152,145</u>	<u>\$ -</u>	<u>\$ 21,152,145</u>	<u>\$ 14,909,176</u>	<u>\$ -</u>	<u>\$ 14,909,176</u>

4) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature	
	December 31	
	2019	2018
Unearned premium reserve	\$ 301,808	\$ 279,007
Policy reserve	<u>21,152,145</u>	<u>14,909,176</u>
Book value of insurance liabilities	<u>\$ 21,453,953</u>	<u>\$ 15,188,183</u>
Estimated present value of cash flows	<u>\$ 17,163,162</u>	<u>\$ 12,150,546</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>

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

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

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

Liability adequacy testing methodology is listed as follows:

	December 31	
	2019	2018
Test method:	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups:	Integrated testing	Integrated testing
Significant assumptions		
i. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
ii. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

c. Cathay Life (Vietnam)

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

1) Unearned premium reserve

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual injury insurance	\$ 12,351	\$ -	\$ 12,351	\$ 7,312	\$ -	\$ 7,312
Individual health insurance	<u>13,167</u>	<u>-</u>	<u>13,167</u>	<u>7,463</u>	<u>-</u>	<u>7,463</u>
	<u>\$ 25,518</u>	<u>\$ -</u>	<u>\$ 25,518</u>	<u>\$ 14,775</u>	<u>\$ -</u>	<u>\$ 14,775</u>

The changes of unearned premium reserve are summarized below:

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 14,775	\$ -	\$ 14,775	\$ 8,630	\$ -	\$ 8,630
Provision	11,389	-	11,389	6,036	-	6,036
Foreign exchange	<u>(646)</u>	<u>-</u>	<u>(646)</u>	<u>109</u>	<u>-</u>	<u>109</u>
Ending balance	<u>\$ 25,518</u>	<u>\$ -</u>	<u>\$ 25,518</u>	<u>\$ 14,775</u>	<u>\$ -</u>	<u>\$ 14,775</u>

2) Loss reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance						
Filed but not paid	\$ 2,423	\$ -	\$ 2,423	\$ 1,417	\$ -	\$ 1,417
Individual injury insurance						
Filed but not paid	275	-	275	483	-	483
Not yet filed	1,321	-	1,321	826	-	826
Individual health insurance						
Filed but not paid	2,385	-	2,385	665	-	665
Not yet filed	3,439	-	3,439	864	-	864
Investment-linked insurance						
Filed but not paid	<u>2,147</u>	<u>-</u>	<u>2,147</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,990</u>	<u>\$ -</u>	<u>\$ 11,990</u>	<u>\$ 4,255</u>	<u>\$ -</u>	<u>\$ 4,255</u>

The changes of loss reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 4,255	\$ -	\$ 4,255	\$ 2,477	\$ -	\$ 2,477
Provision	8,071	-	8,071	1,747	-	1,747
Foreign exchange	<u>(336)</u>	<u>-</u>	<u>(336)</u>	<u>31</u>	<u>-</u>	<u>31</u>
Ending balance	<u>\$ 11,990</u>	<u>\$ -</u>	<u>\$ 11,990</u>	<u>\$ 4,255</u>	<u>\$ -</u>	<u>\$ 4,255</u>

3) Policy reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance	\$ 4,065,218	\$ -	\$ 4,065,218	\$ 3,219,759	\$ -	\$ 3,219,759
Investment-linked insurance	<u>169,402</u>	<u>-</u>	<u>169,402</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,234,620</u>	<u>\$ -</u>	<u>\$ 4,234,620</u>	<u>\$ 3,219,759</u>	<u>\$ -</u>	<u>\$ 3,219,759</u>

The changes of policy reserve are summarized below:

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 3,219,759	\$ -	\$ 3,219,759	\$ 1,978,535	\$ -	\$ 1,978,535
Provision	1,112,897	-	1,112,897	1,217,267	-	1,217,267
Foreign exchange	<u>(98,036)</u>	<u>-</u>	<u>(98,036)</u>	<u>23,957</u>	<u>-</u>	<u>23,957</u>
Ending balance	<u>\$ 4,234,620</u>	<u>\$ -</u>	<u>\$ 4,234,620</u>	<u>\$ 3,219,759</u>	<u>\$ -</u>	<u>\$ 3,219,759</u>

4) Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature	
	December 31	
	2019	2018
Unearned premium reserve	\$ 25,518	\$ 14,775
Policy reserve	<u>4,234,620</u>	<u>3,219,759</u>
Book value of insurance liabilities	<u>\$ 4,260,138</u>	<u>\$ 3,234,534</u>
Estimated present value of cash flows	<u>\$ 3,121,262</u>	<u>\$ 1,885,077</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>

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

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

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

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

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

a. The Company

	December 31	
	2019	2018
Life insurance	\$ 75,004	\$ 87,604
Investment-linked insurance	<u>926,987</u>	<u>843,050</u>
	<u>\$ 1,001,991</u>	<u>\$ 930,654</u>
	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 930,654	\$ 472,573
Claims and payments	(227,022)	(172,324)
Net provision of statutory reserve	302,968	625,700
Foreign exchange	<u>(4,609)</u>	<u>4,705</u>
Ending balance	<u>\$ 1,001,991</u>	<u>\$ 930,654</u>

b. Cathay Lujiazui Life

	December 31	
	2019	2018
Life insurance	<u>\$ 9,930,017</u>	<u>\$ 8,388,059</u>
	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 8,388,059	\$ 8,289,036
Premiums received	3,853,105	2,442,568
Claims and payments	(2,351,066)	(136,938)
Net reserve (recovery) of statutory reserve	395,254	(2,007,139)
Foreign exchange	<u>(355,335)</u>	<u>(199,468)</u>
Ending balance	<u>\$ 9,930,017</u>	<u>\$ 8,388,059</u>

27. RESERVE FOR FOREIGN EXCHANGE VALUATION

a. The hedge strategy and risk exposure

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

b. Reconciliation for reserve for foreign exchange valuation

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision		
Compulsory reserve	8,765,999	5,712,886
Additional reserve	<u>12,174,679</u>	<u>6,990,539</u>
	20,940,678	12,703,425
Reversal	<u>(20,015,090)</u>	<u>(7,217,274)</u>
Ending balance	<u>\$ 18,000,877</u>	<u>\$ 17,075,289</u>

c. Effects due to reserve for foreign exchange valuation

Items	For the Year Ended December 31, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income attributable to owners of the Company	\$ 38,586,423	\$ 37,845,953	\$ (740,470)
Earnings per share	6.73	6.60	(0.13)
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Equity attributable to owners of the Company	599,416,587	588,618,783	(10,797,804)

Items	For the Year Ended December 31, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income attributable to owners of the Company	\$ 34,578,241	\$ 30,189,320	\$ (4,388,921)
Earnings per share	6.26	5.47	(0.79)
Reserve for foreign exchange valuation	-	17,075,289	17,075,289
Equity attributable to owners of the Company	366,650,043	356,592,709	(10,057,334)

28. RETAINED EARNED PREMIUM AND RETAINED CLAIM PAYMENTS

a. Retained earned premium

1) The Company

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 596,188,657	\$ 1,098,686	\$ 597,287,343	\$ 549,215,594	\$ 394,173	\$ 549,609,767
Reinsurance premium	<u>125,595</u>	<u>-</u>	<u>125,595</u>	<u>123,890</u>	<u>-</u>	<u>123,890</u>
Premium income	596,314,252	1,098,686	597,412,938	549,339,484	394,173	549,733,657
Less: Reinsurance expenses	(2,051,751)	-	(2,051,751)	(1,749,175)	-	(1,749,175)
Net changes in unearned premium reserve	<u>(775,814)</u>	<u>-</u>	<u>(775,814)</u>	<u>(481,162)</u>	<u>-</u>	<u>(481,162)</u>
Retained earned premium	<u>\$ 593,486,687</u>	<u>\$ 1,098,686</u>	<u>\$ 594,585,373</u>	<u>\$ 547,109,147</u>	<u>\$ 394,173</u>	<u>\$ 547,503,320</u>

2) Cathay Lujiazui Life

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 12,004,189	\$ -	\$ 12,004,189	\$ 10,593,973	\$ -	\$ 10,593,973
Reinsurance premium	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Premium income	12,004,189	-	12,004,189	10,593,973	-	10,593,973
Less: Reinsurance expenses	(139,712)	-	(139,712)	(103,623)	-	(103,623)
Net changes in unearned premium reserve	<u>(33,596)</u>	<u>-</u>	<u>(33,596)</u>	<u>30,097</u>	<u>-</u>	<u>30,097</u>
Retained earned premium	<u>\$ 11,830,881</u>	<u>\$ -</u>	<u>\$ 11,830,881</u>	<u>\$ 10,520,447</u>	<u>\$ -</u>	<u>\$ 10,520,447</u>

3) Cathay Life (Vietnam)

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 1,415,371	\$ -	\$ 1,415,371	\$ 911,013	\$ -	\$ 911,013
Reinsurance premium	-	-	-	-	-	-
Premium income	1,415,371	-	1,415,371	911,013	-	911,013
Less: Reinsurance expenses	(71)	-	(71)	-	-	-
Net changes in unearned premium reserve	(11,389)	-	(11,389)	(6,036)	-	(6,036)
Retained earned premium	<u>\$ 1,403,911</u>	<u>\$ -</u>	<u>\$ 1,403,911</u>	<u>\$ 904,977</u>	<u>\$ -</u>	<u>\$ 904,977</u>

b. Retained claim payments

1) The Company

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct Insurance claim payments	\$ 341,523,358	\$ 6,941,553	\$ 348,464,911	\$ 349,196,087	\$ 7,492,342	\$ 356,688,429
Reinsurance claim payments	40,376	-	40,376	160,934	-	160,934
Insurance claim payments	341,563,734	6,941,553	348,505,287	349,357,021	7,492,342	356,849,363
Less: Claims recovered from reinsures	(1,079,421)	-	(1,079,421)	(894,281)	-	(894,281)
Retained claim payments	<u>\$ 340,484,313</u>	<u>\$ 6,941,553</u>	<u>\$ 347,425,866</u>	<u>\$ 348,462,740</u>	<u>\$ 7,492,342</u>	<u>\$ 355,955,082</u>

2) Cathay Lujiazui Life

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct Insurance claim payments	\$ 1,704,179	\$ -	\$ 1,704,179	\$ 1,288,225	\$ -	\$ 1,288,225
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	1,704,179	-	1,704,179	1,288,225	-	1,288,225
Less: Claims recovered from reinsures	(116,780)	-	(116,780)	(88,813)	-	(88,813)
Retained claim payments	<u>\$ 1,587,399</u>	<u>\$ -</u>	<u>\$ 1,587,399</u>	<u>\$ 1,199,412</u>	<u>\$ -</u>	<u>\$ 1,199,412</u>

3) Cathay Life (Vietnam)

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct Insurance claim payments	\$ 145,227	\$ -	\$ 145,227	\$ 89,819	\$ -	\$ 89,819
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	145,227	-	145,227	89,819	-	89,819
Less: Claims recovered from reinsures	-	-	-	-	-	-
Retained claim payments	<u>\$ 145,227</u>	<u>\$ -</u>	<u>\$ 145,227</u>	<u>\$ 89,819</u>	<u>\$ -</u>	<u>\$ 89,819</u>

29. PROVISIONS

	December 31	
	2019	2018
Beginning balance	\$ 225,277	\$ 472,002
Provision	-	165,798
Reversal	-	(419,894)
Foreign exchange	<u>8,594</u>	<u>7,371</u>
Ending balance	<u>\$ 233,871</u>	<u>\$ 225,277</u>

30. OTHER LIABILITIES

	December 31	
	2019	2018
Advance receipts	\$ 456,211	\$ 392,663
Deferred fee income	7,210	18,785
Guarantee deposits received	13,315,767	2,899,157
Others	<u>5,408,207</u>	<u>5,427,752</u>
	<u>\$ 19,187,395</u>	<u>\$ 8,738,357</u>

Deferred fee income

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 18,785	\$ 28,560
Amortization	(11,390)	(8,858)
Foreign exchange	<u>(185)</u>	<u>(917)</u>
Ending balance	<u>\$ 7,210</u>	<u>\$ 18,785</u>

31. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company of the Group adopted a pension plan under the Labor Pension Act (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. Subsidiaries in China and other foreign countries of the Group adopted pension plans, which are defined contribution plans in accordance with local government regulations.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% 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 Group 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 Group 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 Group has no right to influence the investment policy and strategy.

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

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 13,641,235	\$ 13,419,411
Fair value of plan assets	<u>(20,063,648)</u>	<u>(19,104,502)</u>
Net defined benefit assets	<u>\$ (6,422,413)</u>	<u>\$ (5,685,091)</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, 2018	<u>\$ 12,709,374</u>	<u>\$ (17,270,435)</u>	<u>\$ (4,561,061)</u>
Service cost			
Current service cost	261,086	-	261,086
Interest expense (income)	<u>123,506</u>	<u>(172,746)</u>	<u>(49,240)</u>
Recognized in profit or loss	<u>384,592</u>	<u>(172,746)</u>	<u>211,846</u>
Return on plan assets (excluding amounts included in net interest)	-	(1,559,031)	(1,559,031)
Actuarial loss			
Changes in financial assumptions	824,972	-	824,972
Experience adjustments	<u>330,600</u>	<u>-</u>	<u>330,600</u>
Recognized in other comprehensive income (loss)	<u>1,155,572</u>	<u>(1,559,031)</u>	<u>(403,459)</u>
Contributions from the employer	-	(932,417)	(932,417)
Benefits paid	<u>(830,127)</u>	<u>830,127</u>	<u>-</u>
Balance at December 31, 2018	<u>13,419,411</u>	<u>(19,104,502)</u>	<u>(5,685,091)</u>
Service cost			
Current service cost	280,804	-	280,804
Interest expense (income)	<u>116,083</u>	<u>(169,296)</u>	<u>(53,213)</u>
Recognized in profit or loss	<u>396,887</u>	<u>(169,296)</u>	<u>227,591</u>
Return on plan assets (excluding amounts included in net interest)	-	(1,137,289)	(1,137,289)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Actuarial loss			
Changes in financial assumptions	\$ 356,936	\$ -	\$ 356,936
Experience adjustments	<u>348,923</u>	<u>-</u>	<u>348,923</u>
Recognized in other comprehensive income (loss)	<u>705,859</u>	<u>(1,137,289)</u>	<u>(431,430)</u>
Contributions from the employer	-	(533,483)	(533,483)
Benefits paid	<u>(880,922)</u>	<u>880,922</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 13,641,235</u>	<u>\$ (20,063,648)</u>	<u>\$ (6,422,413)</u> (Concluded)

Through the defined benefit plan under the labor standards law, the Group is exposed to the following risks:

- 1) Investment risk: The discount rate for determining the present value of defined benefit obligation is based on the government bond yield. If the actual return on investment of the retirement fund assets is lower than the yield, the insufficiency of defined benefit liabilities will increase. The retirement fund assets which are managed by the Bureau of Labor Funds, Ministry of Labor are deposited in the labor retirement fund accounts, whose investment and operation are uniformly managed by the government. Therefore, the Company has remote control over investment of the retirement fund assets.
- 2) Interest rate: A decrease in government bond yield will increase the present value of the defined benefit obligation. The interest rate risk is the main source of risk in the retirement benefit plan.
- 3) Longevity risk: In the calculation of the present value of defined benefit obligation, the estimated mortality rate during employee service period is based on 100% of the fifth life table (2011TSO) of the life insurance industry. If the actual mortality rate is lower than the assumption, the present value of defined benefit obligation will increase.
- 4) Salary adjustment risk: In the calculation of the present value of defined benefit obligation, the salary of an employee at the time of retirement is based on the assumed annual salary increase rate. If the actual adjustment to the employee's salary is higher than the assumed rate in the future, the defined benefit obligation will increase.

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:

	December 31	
	2019	2018
Discount rate	0.69%	0.90%
Expected rate of salary increase	1.50%	1.50%

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

	December 31	
	2019	2018
Discount rate		
0.5% increase	<u>\$ (586,573)</u>	<u>\$ (603,874)</u>
0.5% decrease	<u>\$ 627,497</u>	<u>\$ 657,551</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 613,856</u>	<u>\$ 630,712</u>
0.5% decrease	<u>\$ (572,932)</u>	<u>\$ (590,454)</u>

The 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.

	December 31	
	2019	2018
Expected contributions to the plans for the next year	<u>\$ 572,248</u>	<u>\$ 406,071</u>
Average duration of the defined benefit obligation	8.8 years	9.3 years

32. EQUITY

a. Share capital

	December 31	
	2019	2018
Number of shares authorized (in thousands)	<u>10,000,000</u>	<u>10,000,000</u>
Shares authorized	<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,851,527</u>	<u>5,726,527</u>
Shares issued	<u>\$ 58,515,274</u>	<u>\$ 57,265,274</u>

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

On April 25, 2018, the Company's board of directors (on behalf of the shareholders) resolved to issue 420,000 thousand ordinary shares with a par value of \$10, for a consideration of \$100 per share which increased the share capital issued and fully paid to \$57,265,274 thousand. On May 15, 2018, the above transaction was approved by the FSC, and the subscription base date was determined by the board of directors to be June 28, 2018.

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

b. Capital surplus

	December 31	
	2019	2018
Additional paid-in capital	\$ 59,550,000	\$ 50,800,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Changes in amount of associates accounted for using the equity method	845,715	706,783
Share-based payments granted by the parent company to the Company's employees	<u>182,599</u>	<u>-</u>
	<u>\$ 60,607,456</u>	<u>\$ 51,535,925</u>

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

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

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

c. Retained earnings and dividends policy

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

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

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash. Pursuant to Jin Guan Bao Tsai No.10202501991, if a life insurance enterprise intends to appropriate legal reserve under Article 145-1 of the Insurance Act and to distribute, in accordance with Article 241 of the Company Act, its legal reserve and capital surplus by cash to its shareholders in proportion to the number of shares being held by each of them, it should be approved by the FSC before shareholders' meeting.

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

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

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

The changes in the accumulated balance of gains or losses on disposals of debt instruments are as follows:

	For the Year Ended December 31, 2019
Accumulated balance at the end of the previous year	\$ -
Realized capital gains of \$33,729,437 thousand, net of income tax of \$6,745,887 thousand	26,983,550
Net amortization for the current year	<u>(1,492,321)</u>
Accumulated balance at the end of the year	<u>\$ 25,491,229</u>

As of December 31, 2019, the Company set aside special reserve of \$0 thousand in accordance with the laws and regulations; in 2020, the board of directors will resolve to set aside the special reserve according to the changes of \$25,491,299 thousand in the current year. The accumulated balance of special reserve will be at \$25,491,229 thousand subsequently.

The amortization table for the balance at the end of the previous year and the additions in the current year is as follows:

Year	Net Amortization of the Accumulated Balance of disposal Gains or Losses at the End of the Previous Year (1)	Disposal Gains or Losses After Tax in the Current Year (2)	Net Amortization of the Accumulated Balance of disposal Gains or Losses at the End of the Current Year (1)+(2)
2019	\$ -	\$ 1,492,321	\$ 1,492,321
2020	-	1,406,919	1,406,919
2021	-	1,394,980	1,394,980
2022	-	1,391,707	1,391,707
2023	-	1,367,982	1,367,982
2024	-	1,343,733	1,343,733
2025	-	1,309,968	1,309,968
2026	-	1,255,087	1,255,087
2027	-	1,247,427	1,247,427
2028	-	1,194,481	1,194,481
2029 to 2038	-	8,771,104	8,771,104
2039 to 2048	-	4,532,058	4,532,058
2049 to 2117	-	<u>275,783</u>	<u>275,783</u>
Total (Note)	<u>\$ -</u>	<u>\$ 26,983,550</u>	<u>\$ 25,491,229</u>

Note: Column (1)+(2) does not include the amortization in the year of 2019 of the accumulated balance of disposal gains or losses.

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

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

	Appropriation of Earnings For the Year Ended December 31	
	2018	2017
Legal reserve	\$ 2,871,520	\$ 7,258,027
Special reserve	12,730,041	22,713,045

The appropriations of earnings for 2019, which had been resolved by the Company's board of directors on March 11, 2020, were as follows:

	Appropriation of Earnings For the Year Ended December 31, 2019
Legal reserve	\$ 6,677,339
Special reserve	57,890,965

In addition, the board of directors resolved to offset the deficits by legal reserve of \$31,181,609 thousand.

The appropriation of earnings and offsetting the deficits by legal reserve are subject to resolution of the board of directors meeting (on behalf of the shareholders) to be held on April 29, 2020.

d. Special reserves

	December 31	
	2019	2018
Special reserve for catastrophic events and fluctuation of risks (1)	\$ 14,552,237	\$ 14,165,457
Special reserve for the foreign exchange valuation reserve (2)	11,731,067	9,948,187
Special reserve appropriated at the first-time adoption of IFRSs (3)	47,327,860	47,327,860
Special reserve for investment properties at fair value model in subsequent measurement (4)	147,568,965	147,359,748
Others (5)	<u>68,252,401</u>	<u>59,085,150</u>
	<u>\$ 289,432,530</u>	<u>\$ 277,886,402</u>

1) Special reserve for catastrophic events and fluctuation of risks

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

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

a) Special reserve for catastrophic events

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

b) Special reserve for fluctuation of risks

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

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

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

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

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

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

	December 31, 2018		
	Financial Instruments with Discretionary Participation Features		
	Insurance Contracts		Total
Life insurance	\$ 110,364	\$ -	\$ 110,364
Injury insurance	4,762,465	-	4,762,465
Health insurance	5,240,790	-	5,240,790
Group insurance	4,051,838	-	4,051,838
	<u>\$ 14,165,457</u>	<u>\$ -</u>	<u>\$ 14,165,457</u>

2) Special reserve for foreign exchange valuation reserve

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

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

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

At the first-time adoption of IFRSs, the Company chose to use fair values as the deemed costs of investment properties and in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects at the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. According to Bao (Tsai) No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Jin Guan Bao Tsai No. 10102508861.

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

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

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

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

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

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

e. Other equity

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ (10,796,480)	\$ (9,958,336)
Recognized for the year	(523,856)	(602,959)
Share of associates accounted for using the equity method	213,285	(375,064)
Tax effects	(79,979)	139,879
Other comprehensive income (loss) recognized for the year	(390,550)	(838,144)
Ending balance	\$ (11,187,030)	\$ (10,796,480)

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

	For the Year Ended December 31	
	2019	2018
Beginning balance per IFRS 9	\$ (20,547,627)	\$ 31,488,614
Recognized for the year	117,889,380	(68,945,004)
Share of associate accounted for using the equity method	93,881	140,294
Reclassification adjustment		
Disposal of investments in debt instruments	(26,039,641)	(10,413,839)
Tax effects	(18,323,515)	14,265,119
Other comprehensive income (loss) recognized for the year	73,620,105	(64,953,430)
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	4,459,258	12,917,189
Ending balance	\$ 57,531,736	\$ (20,547,627)

3) Gain (loss) on hedging instruments

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 173,288	\$ 203,646
Recognized for the year	272,121	54,891
Reclassification adjustment		
Hedged item that affects profit or loss	(65,901)	(83,638)
Tax effects	(47,579)	(1,611)
Other comprehensive income (loss) recognized for the year	<u>158,641</u>	<u>(30,358)</u>
Ending balance	<u>\$ 331,929</u>	<u>\$ 173,288</u>

4) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 287,100	\$ 110,471
Recognized for the year (Note 31)	431,430	403,459
Share of associate accounted for using the equity method	(231,106)	(177,324)
Tax effects	(39,730)	(49,506)
Other comprehensive income (loss) recognized for the year	<u>160,594</u>	<u>176,629</u>
Ending balance	<u>\$ 447,694</u>	<u>\$ 287,100</u>

5) Property revaluation surplus

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 187,503	\$ 188,821
Tax effects	-	(1,318)
Ending balance	<u>\$ 187,503</u>	<u>\$ 187,503</u>

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

	For the Year Ended December 31	
	2019	2018
Beginning balance per IFRS 9	\$ (52,549,236)	\$ 55,611,592
Recognized for the year	157,019,328	(65,437,587)
Reclassification adjustment		
Disposal of investments in financial instruments	(37,016,703)	(52,023,535)
Tax effects	(9,692,825)	9,300,294
Other comprehensive income (loss) recognized for the year	<u>110,309,800</u>	<u>(108,160,828)</u>
Ending balance	<u>\$ 57,760,564</u>	<u>\$ (52,549,236)</u>

f. Non-controlling interests

	For the Year Ended December 31	
	2019	2018
Beginning balance per IFRS 9	\$ 5,536,717	\$ 5,602,222
Net income attributed to non-controlling interests		
Net profit for the year	447,118	107,941
Other comprehensive income (loss) for the year		
Exchange differences on translating financial statements of foreign operations	(202,281)	(98,849)
Other comprehensive income (loss) reclassified using overlay approach	351,131	5,129
Others	<u>(233,480)</u>	<u>(79,726)</u>
Ending balance	<u>\$ 5,899,205</u>	<u>\$ 5,536,717</u>

33. EARNINGS PER SHARE

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	<u>\$ 6.60</u>	<u>\$ 5.47</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	<u>\$ 37,845,953</u>	<u>\$ 30,189,320</u>

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

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share	<u>5,736,116</u>	<u>5,521,705</u>

If reserve for foreign exchange valuation was not applied, basic earnings per share would be \$6.73 and \$6.26 for the years ended December 31, 2019 and 2018, respectively.

34. NET PROFIT FOR THE YEAR

a. Interest income

	For the Year Ended December 31	
	2019	2018
Financial assets at FVTOCI	\$ 35,171,001	\$ 38,579,811
Financial assets measured at amortized cost	106,159,621	89,322,666
Loans	16,529,838	17,534,836
Others	<u>3,592,325</u>	<u>2,758,258</u>
	<u>\$ 161,452,785</u>	<u>\$ 148,195,571</u>

b. Expected credit impairment losses and gains on reversal

	For the Year Ended December 31	
	2019	2018
Operating revenues - expected credit impairment losses and gains on reversal from investments		
Debt instrument investments at FVTOCI	\$ 149,826	\$ 54,361
Financial assets measured at amortized cost	1,071,601	(861,548)
Other receivables	38,138	(38,139)
Other financial assets	594	307
Loans	<u>431,236</u>	<u>325,413</u>
	1,691,395	(519,606)
Operating expenses - expected credit impairment losses from non-investments		
Receivables	<u>(877)</u>	<u>(65,457)</u>
	<u>\$ 1,690,518</u>	<u>\$ (585,063)</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits		
Salaries	\$ 44,282,394	\$ 33,890,684
Labor and health insurance expenses	3,206,531	2,937,043
Post-employment benefits		
Defined contribution plans	1,209,212	1,054,031
Defined benefit plans (Note 31)	227,591	211,846
Remuneration of directors	83,104	67,128
Other employee benefits	<u>1,225,281</u>	<u>1,058,586</u>
	<u>\$ 50,234,113</u>	<u>\$ 39,219,318</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 38,747,674	\$ 29,459,570
Operating expenses	<u>11,486,439</u>	<u>9,759,748</u>
	<u>\$ 50,234,113</u>	<u>\$ 39,219,318</u>

For the years ended December 31, 2019 and 2018, the average numbers of the Group's employees were 39,723 and 37,996, including 15 and 17 non-executive directors, respectively.

For the years ended December 31, 2019 and 2018, the average employee benefits expense of the Group was \$1,263 thousand and \$1,031 thousand, respectively, and the average salaries of the Group were \$1,115 thousand and \$892 thousand, respectively, with the average adjustment in employee salaries at 25%.

d. Employees' compensation and remuneration of directors and supervisors

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

In compliance with the Company's Articles of Incorporation, the Company accrued employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, respectively, as follows:

	For the Year Ended December 31	
	2019	2018
Employees' compensation	\$ 3,961	\$ 2,760
Remuneration of directors and supervisors	5,700	5,700

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.

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

	For the Year Ended December 31	
	2018	2017
Employees' compensation	\$ 2,760	\$ 3,382
Remuneration of directors and supervisors	5,700	5,700

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

e. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property and equipment	\$ 789,439	\$ 762,849
Right-of-use assets	590,102	-
Intangible assets	<u>2,634,639</u>	<u>2,634,955</u>
	<u>\$ 4,014,180</u>	<u>\$ 3,397,804</u>

(Continued)

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating expenses	<u>\$ 1,379,541</u>	<u>\$ 762,849</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 2,634,639</u>	<u>\$ 2,634,955</u>
		(Concluded)

f. Non-operating income and expenses

	For the Year Ended December 31	
	2019	2018
Gain on disposal of property and equipment	\$ 11,499	\$ 7,612
Dividend on preferred share liabilities	-	(50,704)
Other	<u>1,698,396</u>	<u>1,355,452</u>
	<u>\$ 1,709,895</u>	<u>\$ 1,312,360</u>

35. INCOME TAXES

a. Income tax recognized in profit or loss

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

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ (998,669)	\$ 3,328,637
Adjustments for prior years	18,635	(55,073)
Deferred tax		
In respect of the current year	(42,422)	(4,638,814)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	3,420,102
Other		
Additional income tax under the Alternative Minimum Tax Act	(1,961,280)	-
Tax effect under integrated income tax system	<u>767,741</u>	<u>(282,293)</u>
Income tax (expense) benefit recognized in profit or loss	<u>\$ (2,215,995)</u>	<u>\$ 1,772,559</u>

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

	For the Year Ended December 31	
	2019	2018
Profit before tax	<u>\$ 40,509,066</u>	<u>\$ 28,524,702</u>
Income tax expense calculated at the statutory rate	\$ 8,101,812	\$ 5,704,942
Tax-exempt income	(8,776,722)	(9,462,337)
Nondeductible expenses in determining taxable income	100,124	521,008
Cash dividends	966,770	3,452,344
Effect of income tax on deferred tax assets (liabilities)	29,551	10,071
Unrealized loss carryforwards	(32,816)	56,446
Withholding tax on foreign investments	3,040	1,532,721
Land value increment tax	582,375	(935,441)
Corporate income tax in China	545	624
Investment income (loss)	(4,512)	69,665
Additional income tax under the Alternative Minimum Tax Act	1,961,280	-
Effect of different tax rates of group entities operating in other jurisdictions	70,924	84,868
Tax effect under integrated income tax system	(767,741)	282,293
Effect of tax rate changes	-	(3,420,102)
Adjustments for prior years' tax	<u>(18,635)</u>	<u>330,339</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 2,215,995</u>	<u>\$ (1,772,559)</u>

Foreign withholding taxes of \$3,803 thousand and \$1,533,554 thousand were recognized in tax expense for the years ended December 31, 2019 and 2018, respectively, since the Company evaluated that foreign withholding taxes were not tax-deductible. The Income Tax Act in the R.O.C. was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings had been reduced from 10% to 5%.

b. Income tax recognized directly in equity

	For the Year Ended December 31	
	2019	2018
Current tax		
Derecognition of equity instruments at FVTOCI	\$ 374,914	\$ 738,866
Deferred tax		
Effect of tax rate changes	-	(26,633)
Derecognition of equity instruments at FVTOCI	(374,914)	(738,866)
Capital surplus	<u>(32,121)</u>	<u>(3)</u>
Total income tax benefit recognized directly in equity	<u>\$ (32,121)</u>	<u>\$ (26,636)</u>

c. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Recognized in other comprehensive income		
Effect of tax rate changes	\$ -	\$ (2,053,402)
(Gains) losses on hedging instruments	(47,579)	5,749
Unrealized (gains) losses on equity instruments at FVTOCI	(564,359)	125,592
(Gains) losses on debt instruments at FVTOCI	(17,757,927)	15,331,397
Remeasurement of defined benefit plans	(86,286)	(80,692)
Shares of other comprehensive (loss) income of subsidiaries, associates, and joint ventures accounted for using the equity method	(34,652)	140,887
Other comprehensive (loss) income reclassified using overlay approach	<u>(9,692,825)</u>	<u>10,183,325</u>
Total income tax recognized in other comprehensive income	<u>\$(28,183,628)</u>	<u>\$ 23,652,856</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Exchange Difference	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Property and equipment	\$ 298,660	\$ (10,574)	\$ -	\$ -	\$ -	\$ 288,086
Investment property	(25,740,275)	(1,009,964)	-	-	14,083	(26,736,156)
Financial assets at FVTPL	(1,314,436)	(4,470,250)	-	-	-	(5,784,686)
Financial assets at FVTPL applying overlay approach	4,408,705	-	(11,217,934)	-	-	(6,809,229)
Equity instruments at FVTOCI	318,834	-	(544,783)	(353,566)	-	(579,515)
Debt instruments at FVTOCI	6,176,944	(29,709)	(17,757,927)	-	-	(11,610,692)
Financial assets for hedging	(43,323)	(18,064)	(47,579)	-	-	(108,966)
Financial assets measured at amortized cost	(167,189)	73,291	-	-	-	(93,898)
Financial liabilities at FVTPL	5,480,945	(4,908,086)	-	-	-	572,859
Rent leveling	(132,226)	3,581	-	-	-	(128,645)
Other payables	70,057	17,730	-	-	(1,868)	85,919
Defined benefit assets	(1,137,018)	(61,178)	(86,286)	-	-	(1,284,482)
Investments accounted for using the equity method	(319,093)	(63,830)	(34,652)	(32,121)	594	(449,102)
Lease liabilities	-	1,839,673	-	-	-	1,839,673
Right-of-use assets	-	(1,787,384)	-	-	-	(1,787,384)
Goodwill and franchises	35,339	10,097	-	-	-	45,436
Unrealized foreign exchange losses (gains)	14,663,933	10,616,395	1,505,533	(21,348)	-	26,764,513
Allowance for doubtful account	297,447	(65,731)	-	-	-	231,716
Other assets	457,155	(238,312)	-	-	-	218,843
Other liabilities	(359,660)	(5,686)	-	-	7,479	(357,867)
Unused tax losses	<u>6,044,437</u>	<u>65,579</u>	<u>-</u>	<u>-</u>	<u>(295)</u>	<u>6,109,721</u>
Net deferred tax assets (liabilities)	<u>\$ 9,039,236</u>	<u>\$ (42,422)</u>	<u>\$ (28,183,628)</u>	<u>\$ (407,035)</u>	<u>\$ 19,993</u>	<u>\$ (19,573,856)</u>
Deferred tax assets	<u>\$ 38,252,456</u>					<u>\$ 36,156,766</u>
Deferred tax liabilities	<u>\$ 29,213,220</u>					<u>\$ 55,730,622</u>

For the year ended December 31, 2018

	<u>Opening Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Recognized Directly in Equity</u>	<u>Exchange Difference</u>	<u>Closing Balance</u>
<u>Deferred tax assets</u>						
Temporary differences						
Property and equipment	\$ 260,332	\$ 38,328	\$ -	\$ -	\$ -	\$ 298,660
Investment property	(25,458,325)	(289,150)	(1,319)	-	8,519	(25,740,275)
Financial assets at FVTPL	(2,606,358)	1,291,922	-	-	-	(1,314,436)
Financial assets at FVTPL applying overlay approach	(7,047,497)	-	11,456,202	-	-	4,408,705
Equity instruments at FVTOCI	743,398	-	291,001	(715,565)	-	318,834
Debt instruments at FVTOCI	(7,773,323)	6,802	13,943,465	-	-	6,176,944
Financial assets for hedging	(41,712)	-	(1,611)	-	-	(43,323)
Financial assets measured at amortized cost	(152,347)	(14,842)	-	-	-	(167,189)
Financial liabilities at FVTPL	171,747	5,309,198	-	-	-	5,480,945
Rent leveling	(110,841)	(21,385)	-	-	-	(132,226)
Other payables	69,475	104	-	-	478	70,057
Defined benefit assets	(775,380)	(277,243)	(84,395)	-	-	(1,137,018)
Investments accounted for using the equity method	(321,616)	(175,414)	195,347	(26,636)	9,226	(319,093)
Goodwill and franchises	21,456	13,883	-	-	-	35,339
Unrealized foreign exchange losses (gains)	24,774,906	(7,941,838)	(2,145,834)	(23,301)	-	14,663,933
Allowance for doubtful account	265,840	31,607	-	-	-	297,447
Other assets	245,169	212,021	-	-	(35)	457,155
Other liabilities	(382,860)	33,765	-	-	(10,565)	(359,660)
Unused tax losses	<u>2,856,623</u>	<u>3,187,267</u>	<u>-</u>	<u>-</u>	<u>547</u>	<u>6,044,437</u>
Net deferred tax assets (liabilities)	<u>\$ (15,261,313)</u>	<u>\$ 1,405,025</u>	<u>\$ 23,652,856</u>	<u>\$ (765,502)</u>	<u>\$ 8,170</u>	<u>\$ 9,039,236</u>
Deferred tax assets	<u>\$ 29,408,946</u>					<u>\$ 38,252,456</u>
Deferred tax liabilities		<u>\$ 44,670,259</u>				<u>\$ 29,213,220</u>

- e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheet

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Loss carryforwards		
Expiry in 2019	\$ 15,129	\$ 137,995
Expiry in 2023	<u>1,908,009</u>	<u>1,908,009</u>
	<u>\$ 1,923,138</u>	<u>\$ 2,046,004</u>
Investment credits		
Promotion of private participation in infrastructure projects	\$ 124,952	\$ -
Biotech and new pharmaceuticals industry	7,975	-
Research and development expenses	<u>1,156</u>	<u>-</u>
	<u>\$ 134,083</u>	<u>\$ -</u>

The unrecognized investment credit will expire in 2020 to 2022.

f. Information about unused investment credits, unused loss carryforwards and tax-exemptions

As of December 31, 2019, investment tax credits comprised:

<u>Laws and Statutes</u>	<u>Tax Credit Source</u>	<u>Remaining Creditable Amount</u>	<u>Expiry Year</u>
Act for Promotion of Private Participation in Infrastructure Projects	Promote private participation in infrastructure projects	\$ 124,952	2022
Act for the Development of Biotech and New Pharmaceuticals Industry	Biotech and new pharmaceuticals industry	20	2020
		7,910	2021
		45	2022
Regulations Governing the Application of Investment Credits of Research and Development Expenses for a Company or Limited Partnership	Research and development expenses	<u>1,156</u>	2020
		<u>\$ 134,083</u>	

Loss carryforwards as of December 31, 2019 comprised:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 15,129	2019
1,908,009	2023
17,725,372	2024
<u>12,750,715</u>	2028
<u>\$ 32,399,225</u>	

g. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$1,930,898 thousand and \$730,310 thousand, respectively.

h. Income tax assessments

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

36. TRANSACTIONS WITH RELATED PARTIES

a. Related party name and category

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

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

b. Significant transactions with related parties:

1) Property transactions

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

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

Name	For the Year Ended December 31			
	2019		2018	
	Items	Amount	Items	Amount
Subsidiary of associate				
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	\$ 830,027	Wuri E-commerce Building, etc.	\$ 869,331
Other related party				
Lin Yuan Property Management Co., Ltd.	Cathay Life Head Office Building, etc.	13,602	Cathay Land Mark, etc.	17,910
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	2,204,548	THSR Taoyuan Commercial Park, etc.	1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	306,419	Minsheng Jingguo Building, etc.	586,426
		<u>2,524,569</u>		<u>1,955,468</u>
		<u>\$ 3,354,596</u>		<u>\$ 2,824,799</u>

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Group and Ally Logistic Property Co., Ltd. were \$1,130,238 thousand and \$3,383,783 thousand, respectively.

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Group and San Ching Engineering Co., Ltd. were \$4,196,448 thousand and \$1,838,045 thousand, respectively.

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Group and Cathay Real Estate Development Co., Ltd. were \$0 thousand and \$1,742,250 thousand, respectively.

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

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 100,535	\$ 58,613
Subsidiary		
Cathay Securities Investment Consulting	9,245	8,944
Associate and its subsidiary		
Symphox Information Co., Ltd.	49,833	41,126
Ally Logistic Property Co., Ltd.	588,833	499,776
Cathay Insurance Company Limited (China)	10,733	30,353
	<u>649,399</u>	<u>571,255</u>
Fellow subsidiaries and its subsidiary		
Cathay United Bank Co., Ltd.	651,615	681,206
Cathay Century Insurance Co., Ltd.	107,625	108,092
Cathay Securities Investment Trust Co., Ltd.	48,933	48,087
Cathay Securities Corporation	42,776	39,358
Cathay Venture Inc.	4,931	4,742
Cathay Futures Co., Ltd.	7,029	6,271
	<u>862,909</u>	<u>887,756</u>

(Continued)

Name	For the Year Ended December 31	
	2019	2018
Other related party		
Cathay Medical Care Corp.	\$ 186,848	\$ 186,308
Cathay Real Estate Development Co., Ltd.	18,097	18,466
Cathay Healthcare Management Co., Ltd.	68,812	56,574
Cathay Hospitality Management Co., Ltd.	193,976	218,778
San Ching Engineering Co., Ltd.	5,658	5,610
Cathay Hospitality Consulting Co., Ltd.	98,896	-
Lin Yuan Property Management Co., Ltd.	5,648	-
	<u>577,935</u>	<u>485,736</u>
	<u>\$ 2,200,023</u>	<u>\$ 2,012,304</u>
		(Concluded)

Name	Guarantee Deposits Received December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 30,071	\$ 12,588
Associate and its subsidiary		
Symphox Information Co., Ltd.	13,070	10,363
Ally Logistic Property Co., Ltd.	123,085	57,040
Cathay Insurance Company Limited (China)	-	7,030
	<u>136,155</u>	<u>74,433</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	188,158	189,738
Cathay Century Insurance Co., Ltd.	26,580	25,167
Cathay Securities Investment Trust Co., Ltd.	10,991	10,991
Cathay Securities Corporation	<u>10,858</u>	<u>9,393</u>
	<u>236,587</u>	<u>235,289</u>
Other related party		
Cathay Medical Care Corp.	11,393	11,260
Cathay Real Estate Development Co., Ltd.	3,959	3,803
Cathay Healthcare Management Co., Ltd.	16,505	15,628
Cathay Hospitality Management Co., Ltd.	<u>184,944</u>	<u>206,166</u>
	<u>216,801</u>	<u>236,857</u>
	<u>\$ 619,614</u>	<u>\$ 559,167</u>

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

c) Lease arrangements

Name	Acquisition of Right-of-use Assets For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	\$ 18,400	\$ -

		Lease Liabilities	
		December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 30,983	\$ -
		Rental Expense	
		For the Year Ended December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 8,913	\$ 52,745
Other related party			
Cathay Real Estate Development Co., Ltd.		-	7,413
		\$ 8,913	\$ 60,158
		Guarantee Deposits Paid	
		December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 12,019	\$ 12,019
d) Acquisition of equipment			
<u>Computer equipment and software</u>			
		For the Year Ended December 31	
Name		2019	2018
Subsidiary of associate			
ThinkPower Information Co., Ltd.		\$ 11,349	\$ -
e) Disposal of building decoration equipment			
		For the Year Ended December 31	
Name		2019	2018
Other related party			
Cathay Hospitality Management Co., Ltd.		\$ -	\$ 452,540
Gain on disposal of building decoration equipment to Cathay Hospitality Management Co., Ltd. was \$13,540 thousand.			

2) Shares transactions

a) Issuance of shares for cash by the Company

Name	Items	For the Year Ended December 31	
		2019	2018
Parent company			
Cathay Financial Holdings	Ordinary shares	\$ 10,000,000	\$ 42,000,000

b) Acquisition of shares issued by the related parties

Name	Items	For the Year Ended December 31	
		2019	2018
Associate			
Rizal Commercial Banking Corporation	Ordinary shares	\$ -	\$ 1,992,264
PT Bank Mayapada Internasional Tbk	Ordinary shares	-	1,628,071
Greenhealth Water Resources Co., Ltd.	Ordinary shares	470,916	-
PSS Co., Ltd.		-	407,671
		<u>470,916</u>	<u>4,028,006</u>
Fellow subsidiary			
Cathay Venture Inc.	Ordinary shares	<u>1,567,574</u>	-
		<u>\$ 2,038,490</u>	<u>\$ 4,028,006</u>

3) Cash in banks

Name	Items	December 31	
		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	Time deposit	\$ 864,340	\$ 2,715,620
	Demand deposit	23,881,382	28,726,895
	Check deposit	240,154	268,337
	Security deposit	6	6
Subsidiary of fellow subsidiaries			
Indovina Bank Limited	Time deposit	485,177	1,536,338
	Demand deposit	<u>12,042</u>	<u>8,344</u>
		<u>\$ 25,483,101</u>	<u>\$ 33,255,540</u>

For the years ended December 31, 2019 and 2018, interest income from Cathay United Bank Co., Ltd. were \$84,971 thousand and \$61,162 thousand, respectively.

For the years ended December 31, 2019 and 2018, interest income from Indovina Bank Limited were \$61,057 thousand and \$52,841 thousand, respectively.

As of December 31, 2019 and 2018, time deposit pledged which were included in the above deposits were \$0 thousand and \$3,000 thousand.

4) Loans

Name	For the Year Ended December 31, 2019		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,042,084</u>	1.03%-3.44%	<u>\$ 971,199</u>

Name	For the Year Ended December 31, 2018		
	Maximum	Rate	Ending Balance
Other related party	<u>\$ 1,085,539</u>	1.03%-3.74%	<u>\$ 973,182</u>

For the years ended December 31, 2019 and 2018, interest income from other related parties were \$14,904 thousand and \$14,152 thousand, respectively.

5) Balance of beneficiary certificates purchased from related parties

Name	Items	Guarantee Deposits Paid	
		December 31	
		2019	2018
Subsidiary's associate			
Global Evolution Holding ApS	Market value	<u>\$ 2,874,903</u>	<u>\$ 2,138,492</u>
	Cost	<u>\$ 2,642,230</u>	<u>\$ 2,142,144</u>
Fellow subsidiaries			
Cathay Securities Investment Trust Co., Ltd.	Market value	<u>\$ 61,234,575</u>	<u>\$ -</u>
	Cost	<u>\$ 59,796,572</u>	<u>\$ -</u>
Subsidiary of fellow subsidiaries			
Cathay Private Equity Co., Ltd.	Market value	<u>\$ 490,168</u>	<u>\$ -</u>
	Cost	<u>\$ 494,150</u>	<u>\$ -</u>

6) Discretionary account management balance

Name	December 31	
	2019	2018
Subsidiary's associate		
Global Evolution Holding ApS	\$ 22,215,022	\$ 6,494,247
Fellow subsidiaries		
Cathay Securities Investment Trust Co., Ltd.	<u>213,072,442</u>	<u>210,965,710</u>
	<u>\$ 235,287,464</u>	<u>\$ 217,459,957</u>

7) Other receivables

Name	December 31	
	2019	2018
Parent company		
Cathay Financial Holdings (Note)	\$ 10,147,500	\$ 8,998,563
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	31,050	-
Cathay Century Insurance Co., Ltd.	67,834	60,668
Cathay Securities Investment Trust Co., Ltd.	51,416	48,365
Indovina Bank Limited	31,672	-
	<u>181,972</u>	<u>109,033</u>
	<u>\$ 10,329,484</u>	<u>\$ 9,107,596</u>

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

8) Prepayments for investments

Name	December 31	
	2019	2018
Associate		
Cathay Insurance Company Limited (China)	\$ -	\$ 1,100,344

9) Guarantee deposits paid (deposits for future transactions)

Name	December 31	
	2019	2018
Fellow subsidiaries		
Cathay Futures Co., Ltd.	\$ 3,078,757	\$ 1,511,584

For the years ended December 31, 2019 and 2018, interest income of the above deposits for future transactions were \$2,472 thousand and \$1,471, respectively.

10) Guarantee deposits received

Name	December 31	
	2019	2018
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	\$ 151,275	\$ 139,386
Other related party		
Lin Yuan Property Management Co., Ltd.	5,000	5,000
San Ching Engineering Co., Ltd.	453,225	440,700
Cathay Hospitality Management Co., Ltd.	51,000	256,883
Cathay Hospitality Consulting Co., Ltd.	108,145	107,074
	<u>617,370</u>	<u>809,657</u>
	<u>\$ 768,645</u>	<u>\$ 949,043</u>

11) Other payables

Name	December 31	
	2019	2018
Parent company		
Cathay Financial Holdings (Note)	\$ 65,589	\$ 65,589
Subsidiary		
Cathay Securities Investment Consulting	30,164	-
Associate		
Symphox Information Co., Ltd.	4,871	9,718
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	43,208	89,605
Cathay Century Insurance Co., Ltd.	1,539	7,372
Cathay Securities Investment Trust Co., Ltd.	13,412	13,166
	<u>58,159</u>	<u>110,143</u>
	<u>\$ 158,783</u>	<u>\$ 185,450</u>

Note: The payables were accrued interests of bonds payable.

12) Bonds payable

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

13) Premium income

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 5,090	\$ 3,162
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	67,136	51,299
Cathay Century Insurance Co., Ltd.	20,185	19,867
Cathay Securities Investment Trust Co., Ltd.	4,007	3,747
Cathay Securities Corporation	8,648	7,901
	<u>99,976</u>	<u>82,814</u>
Other related party		
Cathay Real Estate Development Co., Ltd.	3,491	2,060
Cathay Medical Care Corp.	45,671	44,017
Lin Yuan Property Management Co., Ltd.	3,142	3,184
San Ching Engineering Co., Ltd.	2,889	3,365
Other	369,504	259,323
	<u>424,697</u>	<u>311,949</u>
	<u>\$ 529,763</u>	<u>\$ 397,925</u>

14) Fee income

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Securities Investment Trust Co., Ltd.	\$ 65,352	\$ 68,106

15) Insurance expenses

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	\$ 105,568	\$ 107,023

16) Indemnity income

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	\$ 12,721	\$ 17,158

17) Other operating revenue

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Securities Investment Trust Co., Ltd.	\$ 138,776	\$ 130,908

18) Other operating costs

Name	For the Year Ended December 31	
	2019	2018
Subsidiary's associate		
Global Evolution Holding ApS	\$ 5,219	\$ -
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	1,163,173	1,024,363
Cathay Securities Investment Trust Co., Ltd.	182,830	402,183
	<u>1,346,003</u>	<u>1,426,546</u>
	\$ 1,351,222	\$ 1,426,546

19) Finance costs

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 1,260,000	\$ 1,260,000

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

20) Operating expenses

Name	For the Year Ended December 31	
	2019	2018
Subsidiaries		
Cathay Securities Investment Consulting	\$ 39,566	\$ -
Associate and its subsidiary		
Symphox Information Co., Ltd.	238,252	248,531
ThinkPower Information Co., Ltd.	8,315	-
Seaward Card Co., Ltd.	75,246	85,498
	<u>321,813</u>	<u>334,029</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	6,178,311	6,067,566
Cathay Venture Inc.	11,765	5,928
Cathay Futures Co., Ltd.	6,849	1,757
Cathay Securities (Hong Kong) Limited	6,236	6,049
	<u>6,203,161</u>	<u>6,081,300</u>
Other related party		
Lin Yuan Property Management Co., Ltd.	767,009	793,716
Cathay Real Estate Development Co., Ltd.	3,857	4,718
Cathay Healthcare Management Co., Ltd.	41,181	33,175
Cathay Medical Care Corp.	5,071	14,847
Cathay Charity Foundation	5,300	5,300
San Ching Engineering Co., Ltd.	3,950	3,672
	<u>826,368</u>	<u>855,428</u>
	<u>\$ 7,390,908</u>	<u>\$ 7,270,757</u>

21) Non-operating income

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 8,557	\$ 4,415
Associate and its subsidiary		
Symphox Information Co., Ltd.	3,358	2,926
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	677,314	629,342
Cathay United Bank Co., Ltd.	168,589	188,212
Cathay Securities Investment Trust Co., Ltd.	22,707	23,668
Cathay Securities Corporation	41,281	18,824
	<u>909,891</u>	<u>860,046</u>
Other related party		
Cathay Healthcare Management Co., Ltd.	5,554	4,938
Cathay Medical Care Corp.	3,719	3,702
	<u>9,273</u>	<u>8,640</u>
	<u>\$ 931,079</u>	<u>\$ 876,027</u>

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

22) Non-operating expense

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ <u> -</u>	\$ <u> 50,704</u>

The non-operating expenses were interest expenses of preferred share liabilities issued by the Company.

23) Other

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

Item	December 31	
	2019	2018
SWAP	<u>US\$ 2,615,000</u>	<u>US\$ 3,752,000</u>

c. Key management personnel compensation

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 167,074	\$ 171,146
Post-employment benefits	<u>2,413</u>	<u>1,779</u>
	<u>\$ 169,487</u>	<u>\$ 172,925</u>

The key management includes chairman, directors, president, senior executive vice president and senior vice general managers.

37. SEPARATE ACCOUNT INSURANCE PRODUCTS

a. The Company

The related accounts of the Company were summarized as follows:

	December 31	
	2019	2018
<u>Separate account insurance product assets</u>		
Cash in bank	\$ 518,576	\$ 888,274
Financial assets at FVTPL	600,237,158	539,874,109
Other receivables	<u>6,668,998</u>	<u>6,090,351</u>
	<u>\$ 607,424,732</u>	<u>\$ 546,852,734</u>

(Continued)

	December 31	
	2019	2018
<u>Separate account insurance product liabilities</u>		
Other payables	\$ 467,361	\$ 743,442
Reserve for separate account - insurance contracts	244,601,804	220,038,873
Reserve for separate account - investment contracts	<u>362,355,567</u>	<u>326,070,419</u>
	<u>\$ 607,424,732</u>	<u>\$ 546,852,734</u>
		(Concluded)

	For the Year Ended December 31	
	2019	2018
<u>Separate account insurance product income</u>		
Premium income	\$ 34,766,303	\$ 43,335,095
Interest income	1,593	2,500
Gains (losses) from financial assets at FVTPL	33,575,852	(19,148,899)
Foreign exchange (losses) gains	<u>(4,712,309)</u>	<u>3,907,175</u>
	<u>\$ 63,631,439</u>	<u>\$ 28,095,871</u>

<u>Separate account insurance product expenses</u>		
Claims and payments	\$ 9,064,671	\$ 19,184,402
Cash surrender value	26,020,768	29,582,214
Dividends	5	4
(Recovery) reserve of separate account reserve	24,989,146	(24,332,150)
Administrative expenses	3,696,556	3,781,782
Non-operating income and expenses	<u>(139,707)</u>	<u>(120,381)</u>
	<u>\$ 63,631,439</u>	<u>\$ 28,095,871</u>

For the years ended December 31, 2019 and 2018, the rebates earned from counterparties due to the business of separate account insurance products were \$913,947 thousand and \$1,039,335 thousand, respectively, which were recorded under fee income.

b. Cathay Lujiazui Life

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

	December 31	
	2019	2018
<u>Separate account insurance product assets</u>		
Cash in bank	\$ 5,231	\$ 17,902
Financial assets at FVTPL	112,315	94,126
Interest receivables	1	55
Other	<u>155</u>	<u>(556)</u>
	<u>\$ 117,702</u>	<u>\$ 111,527</u>
		(Continued)

	December 31	
	2019	2018
<u>Separate account insurance product liabilities</u>		
Other payables	\$ (134)	\$ 8
Reserve for separate account	117,836	98,690
Other	<u>-</u>	<u>12,829</u>
	<u>\$ 117,702</u>	<u>\$ 111,527</u> (Concluded)
For the Year Ended December 31		
	2019	2018
<u>Separate account insurance product income</u>		
Premium income	\$ 230	\$ 464
Gains (losses) from financial assets at FVTPL	20,839	(13,722)
Interest income	145	178
Tax expenses	<u>-</u>	<u>1,517</u>
	<u>\$ 21,214</u>	<u>\$ (11,563)</u>
<u>Separate account insurance product expenses</u>		
Cash surrender value	\$ 9,846	\$ 9,456
Reserve (recovery) of separate account reserve	8,660	(22,722)
Administrative expenses	1,503	1,703
Tax expenses	<u>1,205</u>	<u>-</u>
	<u>\$ 21,214</u>	<u>\$ (11,563)</u>

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

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

39. PLEDGED ASSETS

a. The Company

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

	December 31	
	2019	2018
Guarantee deposits paid - government bonds	\$ 10,315,438	\$ 11,321,833
Guarantee deposits paid - time deposits	458,667	495,000
Guarantee deposits paid - others	<u>39,996</u>	<u>80,461</u>
	<u>\$ 10,814,101</u>	<u>\$ 11,897,294</u>

b. Cathay Lujiazui Life

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

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

c. Cathay Life (Vietnam)

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

	December 31	
	2019	2018
Guarantee deposits paid - time deposits	<u>VND12,000,000</u>	<u>VND12,000,000</u>

40. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- The Company has its own formal control and response policies to manage legal claims. Once the losses can be reasonably estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial figures resulting from the claims.
- As of December 31, 2019, the remaining capital commitments for the contracted private equity fund of the Company were NT\$1,701,800 thousand, US\$2,825,760 thousand, EUR405,339 thousand and GBP1,558 thousand.

41. FINANCIAL INSTRUMENTS

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

- 1) The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to their short maturities.
- 2) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- 3) Fair value of equity instruments without an active market (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and P/B ratio of similar entities).
- 4) Fair value of debt instruments without an active market is determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by Taipei Exchange, average prices for fixed rate commercial paper published by Reuters and credit risk information).
- 5) The fair values of derivatives which are not options and without an active market is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivatives is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- 6) The Group evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Group will not default, the Group determine their credit value adjustment by multiplying three factors, specifically probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Group calculates their debit value adjustment by multiplying three factors, specifically probability of default, loss given default, and exposure at default, of the Group. The Group decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Group sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current year is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

b. Financial instruments not measured at fair value

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

December 31, 2019

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

December 31, 2018

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

Note: Guarantee deposits paid in bonds are included.

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

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

1) Fair value hierarchy

Items	December 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>								
Assets								
Financial assets at FVTPL								
Stocks	\$479,266,326	\$431,941,221	\$ 42,710,567	\$ 4,614,538	\$664,805,149	\$587,635,828	\$ 72,200,110	\$ 4,969,211
Bonds	244,924,559	1,966,609	241,202,978	1,754,972	206,293,856	2,488,966	202,301,743	1,503,147
Other	578,577,582	469,343,181	15,113,562	94,120,839	291,274,421	194,722,071	19,550,417	77,001,933
Financial assets at FVTOCI								
Stocks	35,629,504	30,305,530	-	5,323,974	30,261,146	26,030,760	154,309	4,076,077
Bonds (Note)	819,825,254	42,244,016	777,581,238	-	893,987,970	29,684,763	864,303,207	-
<u>Derivative instruments</u>								
Assets								
Financial assets at FVTPL	28,259,690	49,353	28,210,337	-	5,377,759	10,210	5,367,549	-
Financial assets for hedging	548,075	-	548,075	-	216,611	-	216,611	-
Liabilities								
Financial liabilities at FVTPL	2,974,334	18,016	2,956,318	-	27,499,106	-	27,499,106	-
Financial liabilities for hedging	30,894	-	30,894	-	-	-	-	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

For the year ended December 31, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value on a recurring basis. For the year ended December 31, 2018, the Group transferred stocks mandatorily classified as FVTPL of \$2,450,314 thousand from Level 2 to Level 1 due to the availability of market prices.

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

	For the Year Ended December 31, 2019	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
Beginning balance	\$ 83,474,291	\$ 4,076,077
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	4,183,044	-
Gains on reclassification using overlay approach	23,170	-
Recognized in other comprehensive income		
Exchange differences on translating financial statements of foreign operations	(37,159)	(96)
Other comprehensive gains (losses) reclassified using overlay approach	(23,170)	-
Gains on equity instruments at fair value of FVTOCI	-	1,037,046
Purchases	27,910,155	258,400
Disposals	(15,016,833)	(47,453)
Transfers out of Level 3	<u>(23,149)</u>	<u>-</u>
Ending balance	<u>\$ 100,490,349</u>	<u>\$ 5,323,974</u>

	For the Year Ended December 31, 2018	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
Beginning balance	\$ 59,420,556	\$ 4,631,596
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	11,910,451	-
Loss on reclassification using overlay approach	(7,748,963)	-
Recognized in other comprehensive income		
Exchange differences on translating financial statements of foreign operations	20,806	105
Other comprehensive gains (losses) reclassified using overlay approach	7,748,963	-
Losses on equity instruments at fair value of FVTOCI	-	(463,425)
Purchases	25,664,367	119,700
Disposals	(12,091,586)	(185,788)
Transfers into Level 3	941,655	-
Transfers out of Level 3	<u>(2,391,958)</u>	<u>(26,111)</u>
Ending balance	<u>\$ 83,474,291</u>	<u>\$ 4,076,077</u>

Regarding the above amounts recognized in profit or loss for the years ended December 31, 2019 and 2018, unrealized losses of \$1,114,661 thousand and unrealized gains of \$827,467 thousand were related to financial assets held at the end of the year, respectively.

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

The significant unobservable inputs applied for recurring Level 3 fair value measurement were as follows:

December 31, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Market approach	Discount for lack of liquidity	11%-30%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	23%-39%	The higher the discount for lack of liquidity and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48)%-265%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	0%-140%	The higher the dividend payout ratio, the higher the fair value estimates
December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Market approach	Discount for lack of liquidity	11%-30%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	22%-37%	The higher the discount for lack of liquidity and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48)%-(36)%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	70%-140%	The higher the dividend payout ratio, the higher the fair value estimates

4) Valuation process for Level 3 fair value measurement

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

d. Categories of financial instruments

Items	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 1,331,028,157	\$ 1,167,751,185
Financial assets at FVTOCI	854,341,271	921,968,246
Measured at amortized cost		
Cash and cash equivalents (Note)	401,792,808	175,098,127
Receivables	72,320,392	65,971,895
Financial assets measured at amortized cost	2,616,585,170	2,258,673,041
Other financial assets	-	1,999,406
Loans	513,380,541	581,215,839
Guarantee deposits paid	23,151,476	32,195,253
Financial assets for hedging	548,075	216,611
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	2,974,334	27,499,106
Financial liabilities at amortized cost		
Payables	30,964,602	32,822,268
Bonds payable	80,000,000	70,000,000
Lease liabilities	10,381,894	-
Guarantee deposits received	13,315,767	2,899,157
Financial liabilities for hedging	30,894	-

Note: Cash on hand was excluded.

e. Financial risk management objectives and policies

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

1) Sources of market risk

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

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

a) Value at Risk

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

b) Stress testing

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

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

i. Simple sensitivity test

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

ii. Scenario analysis

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

i) Historical scenario

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

ii) Hypothetical scenario

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

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

Table of Stress Testing

Risk Factors	Changes (+/-)	For the Year Ended December 31	
		2019	2018
Equity risk (stock price index)	-10%	\$ (48,324,062)	\$ (71,190,476)
Interest rate risk (yield curve)	+100bps	(107,250,216)	(111,404,367)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(11,428,906)	(10,932,445)

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

Note 2: Effects of hedging were considered.

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

c) Sensitivity analysis

Summary of Sensitivity Analysis			
For the Year Ended December 31, 2019			
Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 6,971,123	\$ 4,572,072
	CNY (CNH)/USD appreciates 1%	1,273,520	377,983
	HKD/USD appreciates 1%	(1,447)	350,916
	EUR/USD appreciates 1%	410,075	163,587
	GBP/USD appreciates 1%	78,732	296,052
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	(111)	(846,435)
	Yield curve (CNY) parallel shifts up 1bp	-	(14,547)
	Yield curve (EUR) parallel shifts up 1bp	-	(14,281)
	Yield curve (GBP) parallel shifts up 1bp	-	(9,463)
	Yield curve (NTD) parallel shifts up 1bp	147	(74,278)
	Equity price increases 1%	(70,248)	4,933,391
For the Year Ended December 31, 2018			
Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 5,703,586	\$ 5,189,911
	CNY (CNH)/USD appreciates 1%	834,767	536,707
	HKD/USD appreciates 1%	1,978	614,256
	EUR/USD appreciates 1%	93,336	197,382
	GBP/USD appreciates 1%	30,281	245,729
Interest rate risk	Yield curve (USD) parallel shifts up 1bp	2,040	(912,051)
	Yield curve (AUD) parallel shifts up 1bp	1,501	-
	Yield curve (EUR) parallel shifts up 1bp	3,709	(8,246)
	Yield curve (NTD) parallel shifts up 1bp	491	(161,089)
	Equity price increases 1%	135,986	7,006,951

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

Note 2: Effects of hedging were considered.

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

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

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

2) Credit risk

a) Sources of credit risk

When engaged in financial transactions, the Company is exposed to credit risks, including issuer credit risk, counterparty credit risk and credit risk of underlying assets:

- i. Issuer credit risk is the risk that the Company may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations an agreed conditions due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk that the Company may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.
- iii. Credit risk of underlying assets is the risk that the Company may suffer losses due to deterioration of the credit quality, increase of credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Concentration of credit risk

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

December 31, 2019						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 261,553,382	\$ 27,832,083	\$ 185,653	\$ 86,397,047	\$ 16,115,903	\$ 392,084,068
Financial assets at FVTPL	43,409,974	31,448,394	113,252,004	46,690,879	56,395,527	291,196,778
Financial assets at FVTOCI	39,964,295	37,498,812	166,000,546	353,996,509	221,251,605	818,711,767
Financial assets for hedging	87,793	-	362,869	97,413	-	548,075
Financial assets measured at amortized cost	<u>175,262,332</u>	<u>173,472,898</u>	<u>434,046,724</u>	<u>1,167,292,440</u>	<u>663,869,507</u>	<u>2,613,943,901</u>
	<u>\$ 520,277,776</u>	<u>\$ 270,252,187</u>	<u>\$ 713,847,796</u>	<u>\$ 1,654,474,288</u>	<u>\$ 957,632,542</u>	<u>\$ 4,116,484,589</u>
Proportion	12.6%	6.6%	17.3%	40.2%	23.3%	100%

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

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

December 31, 2019					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 234,560,225	\$ 40,573,607	\$ 63,399,966	\$ 6,598,385	\$ 345,132,183
Non-accrual receivables	453,880	78,936	124,981	-	657,797
	<u>\$ 235,014,105</u>	<u>\$ 40,652,543</u>	<u>\$ 63,524,947</u>	<u>\$ 6,598,385</u>	<u>\$ 345,789,980</u>
Proportion	68%	11.8%	18.4%	1.8%	100%

December 31, 2018					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
Non-accrual receivables	878,642	36,044	54,067	-	968,753
	<u>\$ 288,319,462</u>	<u>\$ 48,528,186</u>	<u>\$ 71,445,373</u>	<u>\$ 8,193,993</u>	<u>\$ 416,487,014</u>
Proportion	69.2%	11.6%	17.2%	2.0%	100%

iii. Categories for credit risk quality

The Company classified credit risk into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- i) Low credit risk indicates that an entity or a subject has a robust ability to perform financial commitment. Even though it encounters material uncertainty or exposes to unfavorable conditions, its ability to perform financial commitment will be kept and maintained
- ii) Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
- iii) High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. The capability to perform the commitment depends on the favorability of its business environment and financial conditions.
- iv) Credit impaired indicates that an entity or a subject fails to fulfill its obligations, and the Company evaluates the potential losses and determines it as impaired.

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

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

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

The Company's definition of default on financial assets is the same as that of a credit-impaired financial asset. If one or more of the following criteria are met, a financial asset is considered defaulted and credit-impaired:

- i) Quantitative factor: When the contractual payments are overdue for more than 90 days, the financial asset is considered defaulted and credit-impaired.
- ii) Qualitative factor: An evidence indicates that the issuers or borrowers cannot pay the contractual payments, or that they have significant financial difficulties, for example:
 - The issuers or borrowers have entered into bankruptcy or are probable to enter into bankruptcy or financial reorganization.
 - The issuers or borrower fail to pay interest or principal according to the issue terms and conditions.
 - The collaterals of the borrowers are provisionally seized or enforced.
 - The borrowers claim for a change of credit conditions due to financial difficulties.
- iii) The abovementioned definitions of default on a financial asset and a credit-impaired financial asset are applicable to all financial assets held by the Company, and are aligned with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

vi. Measurement of expected credit loss

i) The methodology and assumption applied

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

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

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

ii) Forward-looking information considerations

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

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

i) Financial assets of the Company

December 31, 2019						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 806,786,368	\$ -	\$ -	\$ -	\$ -	\$ 806,786,368
Financial assets measured at amortized cost	2,586,272,855	-	-	-	(988,749)	2,585,284,106
Other financial assets	-	-	-	-	-	-
Non-investment grade						
Debt instruments at FVTOCI	11,734,687	190,712	-	-	-	11,925,399
Financial assets measured at amortized cost	25,743,796	3,124,271	-	-	(208,272)	28,659,795
December 31, 2018						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 868,624,804	\$ -	\$ -	\$ -	\$ -	\$ 868,624,804
Financial assets measured at amortized cost	2,221,201,714	-	-	-	(853,594)	2,220,348,120
Other financial assets	2,000,000	-	-	-	(594)	1,999,406
Non-investment grade						
Debt instruments at FVTOCI	22,790,603	215,072	76,621	-	-	23,082,296
Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636

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

ii) Secured loans and overdue receivables of the Company

December 31, 2019							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)	\$ 340,964,004
December 31, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 411,821,024	\$ 111,237	\$ 4,554,753	\$ -	\$ (682,254)	\$ (5,126,352)	\$ 410,678,408

viii. Reconciliation for loss allowance is summarized below:

i) Debt instrument investments at FVTOCI

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Accrued in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(3,441)	3,441	-	-	-
New financial assets originated or purchased	148,212	-	7	-	148,219
Financial assets that have been derecognized during the year	(271,945)	(86,404)	(12,462)	-	(370,811)
Changes in models/risk parameters	2,062	75,028	-	-	77,090
Foreign exchange and other movements	(6,090)	552	116	-	(5,422)
December 31, 2019	<u>\$ 337,078</u>	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,744</u>
	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9
		Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	
January 1, 2018	\$ 455,064	\$ 96,965	\$ -	\$ -	\$ 552,029
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(1,372)	1,372	-	-	-
Transfer to credit- impaired financial assets	(19)	-	19	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	197,122	-	4,313	-	201,435
Financial assets that have been derecognized during the year	(218,560)	(139,162)	-	-	(357,722)
Changes in models/risk parameters	21,707	57,581	8,007	-	87,295
Foreign exchange and other movements	14,211	420	-	-	14,631
December 31, 2018	<u>\$ 468,280</u>	<u>\$ 17,049</u>	<u>\$ 12,339</u>	<u>\$ -</u>	<u>\$ 497,668</u>

ii) Financial assets measured at amortized cost

	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Accrued in Accordance with IFRS 9
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(2,069)	2,069	-	-	-
New financial assets originated or purchased	471,829	-	-	-	471,829
Financial assets that have been derecognized during the year	(363,639)	(533,832)	(658,551)	-	(1,556,022)
Changes in models/risk parameters	55,156	(18,543)	-	-	36,613
Foreign exchange and other movements	(22,670)	(1,332)	(51,893)	-	(75,895)
December 31, 2019	<u>\$ 1,043,037</u>	<u>\$ 153,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,197,021</u>

	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Accrued in Accordance with IFRS 9
January 1, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
Transfer to credit- impaired financial assets	(696)	-	696	-	-
Transfer to 12-month expected credit losses	29,348	(29,348)	-	-	-
New financial assets originated or purchased	236,156	-	294,207	-	530,363
Financial assets that have been derecognized during the year	(110,906)	(366,214)	-	-	(477,120)
Changes in models/risk parameters	(24,051)	371,227	415,541	-	762,717
Foreign exchange and other movements	25,076	19,602	-	-	44,678
December 31, 2018	<u>\$ 904,430</u>	<u>\$ 705,622</u>	<u>\$ 710,444</u>	<u>\$ -</u>	<u>\$ 2,320,496</u>

iii) Other financial assets

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 594	\$ -	\$ -	\$ -	\$ 594
Financial assets that have been derecognized during the year	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	(307)	-	-	-	(307)
December 31, 2018	<u>\$ 594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 594</u>

iv) Secured loans and non-accrual receivable

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Accrued in Accordance with IFRS 9	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2019	\$ 90,567	\$ 201	\$ 591,486	\$ -	\$ 682,254	\$ 5,126,352	\$ 5,808,606
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(18)	894	(876)	-	-	-	-
Transfer to credit-impaired financial assets	(4,613)	(76)	4,689	-	-	-	-
Transfer to 12-month expected credit losses	1,397	(74)	(1,323)	-	-	-	-
New financial assets originated or purchased	3,918	-	11,254	-	15,172	-	15,172
Financial assets that have been derecognized during the year	(13,573)	(33)	(229,458)	-	(243,064)	-	(243,064)
Difference from impairment accrued in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(1,532,423)	(1,532,423)
Changes in models/risk parameters	7,131	(613)	771,167	-	777,685	-	777,685
December 31, 2019	<u>\$ 84,809</u>	<u>\$ 299</u>	<u>\$ 1,146,939</u>	<u>\$ -</u>	<u>\$ 1,232,047</u>	<u>\$ 3,593,929</u>	<u>\$ 4,825,976</u>

		Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Total
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2018	\$ 108,879	\$ 1,211	\$ 601,271	\$ -	\$ 711,361	\$ 5,438,078	\$ 6,149,439
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(15)	15	-	-	-	-	-
Transfer to credit-impaired financial assets	(338)	(44)	382	-	-	-	-
Transfer to 12-month expected credit losses	2,763	(1,036)	(1,727)	-	-	-	-
New financial assets originated or purchased	23,349	-	8,284	-	31,633	-	31,633
Financial assets that have been derecognized during the year	(12,626)	(124)	(69,442)	-	(82,192)	-	(82,192)
Difference from impairment accrued in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(311,726)	(311,726)
Changes in models/risk parameters	(31,445)	179	52,718	-	21,452	-	21,452
December 31, 2018	<u>\$ 90,567</u>	<u>\$ 201</u>	<u>\$ 591,486</u>	<u>\$ -</u>	<u>\$ 682,254</u>	<u>\$ 5,126,352</u>	<u>\$ 5,808,606</u>

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

ix. Exposure to credit risk and loss allowance of receivables

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

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

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

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

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

The reconciliation of loss allowance was as follows:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 2,346	\$ 2,175
(Reversal) provision for the year	<u>(805)</u>	<u>171</u>
Ending balance	<u>\$ 1,541</u>	<u>\$ 2,346</u>

3) Liquidity risk analysis

a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Company is not capable of performing matured commitment because its fails to realize assets or obtain sufficient funds. Market liquidity risk is the risk of significant changes in fair values when the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth.

b) Liquidity risk management

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

The Company uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situations. Also, for abnormal and urgent financing needs, management of the Company makes an emergency operating procedure to deal with significant liquidity risks.

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

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

	December 31, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 29,055,173	\$ 281,015	\$ 385,835	\$ 1,195,135	\$ 47,444
Bonds payables (Note 1)	561,650	1,194,411	3,169,920	8,145,000	87,030,080
Lease liabilities (Note 2)	297,218	358,116	568,511	1,375,285	18,287,241
<u>Derivative financial liabilities</u>					
SWAP	1,834,039	298,058	-	-	-
Forward	1,231,198	-	-	-	-
IRS	1,481	1,517	3,410	1,259	-
Option	18,016	-	-	-	-

	December 31, 2018				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 31,044,618	\$ 239,517	\$ 285,769	\$ 1,242,728	\$ 9,636
Bonds payables (Note)	414,540	1,194,411	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
SWAP	23,555,917	10,107,225	-	-	-
Forward	5,538,893	53,900	-	-	-
IRS	14,230	3,686	3,978	2,587	-

Note 1: For the bonds without maturity dates, the contract cash flows were determined for 10 years as remaining periods.

Note 2: For the lease liabilities, the contract cash flows were determined for 1 to 43 years as remaining periods.

f. Hedge accounting disclosures

Cash flow hedges

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

1) Hedging instruments

<u>Hedging Instrument</u>	December 31, 2019				
	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year
		Assets	Liabilities		
IRS	\$ 6,800,000	\$ 185,206	\$ -	Financial assets for hedging	\$ 34,498
IRS	1,317,138	-	30,894	Financial liabilities for hedging	(31,677)
<u>Hedging Instrument</u>	December 31, 2018				
	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year
		Assets	Liabilities		
IRS	\$ 6,800,000	\$ 216,611	\$ -	Financial assets for hedging	\$ 54,891

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

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

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

3) Hedged items

For the Year Ended December 31, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (34,498)	\$ 185,206	N/A	\$ 34,498	\$ -	\$ -	\$ (65,902)	Finance costs
Payables	31,677	(30,894)	N/A	(31,677)	-	-	-	Finance costs
Discontinued hedge - bonds investments	N/A	N/A	(275)	N/A	N/A	N/A	1	Finance costs
For the Year Ended December 31, 2018								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Year	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (54,891)	\$ 216,611	N/A	\$ 54,891	\$ -	\$ -	\$ (84,725)	Finance costs
Discontinued hedge - bonds investments	N/A	N/A	\$ -	N/A	N/A	N/A	1,087	Finance costs

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 173,288	\$ 203,646
Gross amounts recognized in other comprehensive income		
Changes in the values of the hedging instruments recognized in other comprehensive income	2,545	54,891
Amount reclassified from cash flow hedge reserve to profit or loss	(65,901)	(83,638)
Income tax	<u>6,336</u>	<u>(1,611)</u>
Ending balance	<u>\$ 116,268</u>	<u>\$ 173,288</u>

Fair value hedges

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

- 1) Hedging instruments

December 31, 2019					Changes in Fair Value Used for Calculating Hedge Ineffectiveness for Current Year
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	
		Assets	Liabilities		
CCS	\$ 9,742,013	\$ 362,869	\$ -	Financial assets for hedging	\$ 93,293

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

	Due in				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years

December 31, 2019

CCS								
Nominal principal	\$	-	\$	-	\$	-	\$	9,742,013
Interest rate		-		-		-		2.20%-2.39%
Exchange rate (EUR/USD)		-		-		-		1.1285-1.1353

- 3) Hedged items

For the Year Ended December 31, 2019								
	Book Value of Hedged Items		Cumulative Adjustment for Changes in Fair value of Hedged Items included in Book Value of Hedged Items		Line item in Statement of Financial Position that includes Hedged items	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Ineffectiveness Recognized in Profit or loss	Line item in Profit or Loss that includes Hedge Ineffectiveness
	Assets	Liabilities	Assets	Liabilities				
Oversea bonds	\$ 9,742,013	\$ -	\$ (93,293)	\$ -	Financial assets measured at amortized cost	\$ (93,293)	\$ -	\$ -

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

	For the Year Ended December 31, 2019
<u>Foreign currency basis-related period</u>	
Beginning balance	\$ -
Gross amounts recognized in other comprehensive income	
Changes in the values of the hedging instruments recognized in other comprehensive income	269,576
Income tax	<u>(53,915)</u>
Ending balance	<u>\$ 215,661</u>

- g. Offsetting of financial assets and financial liabilities

The Group engages in derivative financial instruments that do not meet the offsetting criteria of standards, but enters into master netting arrangements or other similar agreements with counterparties. Financial instruments subject to master netting arrangements or other similar agreements could be settled at net amount as agreed by both parties of the transaction, or the financial instrument should be settled at gross amount otherwise. However, if one of both parties of the transaction defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

December 31, 2019

Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Assets (a)	Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet (b)	Net Financial Assets Recognized on Balance Sheet (c)=(a)-(b)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 28,758,412	\$ -	\$ 28,758,412	\$ 2,952,747	\$ 13,341,124	\$ 12,464,541
Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amount of Offset Financial Assets Recognized on Balance Sheet (b)	Net Financial Liabilities Recognized on Balance Sheet (c)	Relevant Amount That Has Not Been Offset on Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments	Cash Collateral Paid	
Derivative financial instruments	\$ 2,956,318	\$ -	\$ 2,956,318	\$ 2,952,747	\$ -	\$ 3,571

December 31, 2018

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

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

42. RISK MANAGEMENT AND INSURANCE RISK INFORMATION

a. Risk management objectives, policies, procedures and methods

1) Objectives of risk management

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

2) Framework, organization structure and responsibilities of risk management

a) The board of directors

- i. The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and review it regularly, and allocate resources in the most effective manner.
- ii. The board of directors and senior management should consistently promote, execute risk management and keep the consistency of the operational objectives of the Company as well as operational strategies and operations management.
- iii. The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- iv. The board of directors should delegate authority to risk management department to deal with violation to risk limits by other departments.

b) Risk management committee

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

- ii. The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
 - iii. The committee should assist and monitor the risk management activities.
 - iv. The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
 - v. The committee should enhance cross-department interaction and communication.
- c) Chief risk officer
- i. The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of the Company.
 - ii. The chief risk officer should be able to access any business information which may have an impact on risk overview of the Company.
 - iii. The chief risk officer should be in charge of overall risk management of the Company.
 - iv. The chief risk officer should participate in the Company's important decision-making process and, as appropriate, provide opinions from a risk management perspective.
- d) Risk management department
- i. The department is responsible for operational affairs such as monitoring, measuring and evaluating daily risks, which should be performed independently to business units.
 - ii. The department should perform the following functions with regard to different business activities:
 - i) Propose and execute the risk management policies set by the board of directors.
 - ii) Propose the risk limits based on risk appetite.
 - iii) Summarize the risk information provided by each department, negotiate and communicate with each departments to facilitate the execution of the policies and the risk limits.
 - iv) Regularly present risk management reports.
 - v) Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
 - vi) Assist to execute stress testing.
 - vii) Execute back testing if necessary.
 - viii) Other risk management related issues.
- e) Business units
- i. Each business unit should assign a risk management coordinator to assist in execution of the risk management of each business unit.

ii. The duties of the risk management include the following:

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

f) Audit department

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

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

3) Range and nature of risk assessment or risk reporting

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

a) Market risk

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

b) Credit risk

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

c) Country risk

Country risk is the risk that the Company suffers losses from loans, financial investments and long-term investments in a specific country as a result of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. The Company adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. The Company reviews and adjusts the indicator on a regular basis.

d) Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Company is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. The Company has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, funding reporting system has been established under which the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. Cash flow analysis model is also applied to set the annual assets allocation plan to maintain appropriate liquidity of assets. Market liquidity risk is the risk of significant changes in fair values when the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth. The Company has established a liquidity threshold for investment positions. Each investment department evaluates the market trading volumes and adequacy of positions held according to the features and objectives of its investment positions.

e) Operational risk

Operational risk is the risk of losses caused by misconducts or errors of internal process, personnel, and system by external issues. Operational risk includes legal risk but excludes strategic risk and reputation risk. The Company has set the standard operating procedures based on the nature of the business and established reporting system for loss events of operation risk as well as to collect and manage information with respect to losses resulting from operational risk. To maintain the Company's operation and ability to provide customer services while minimizing the losses under a major crisis, the Company has established emergency handling mechanism and information system damage responses.

f) Insurance risk

The Company assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and the Company may bear losses due to unexpected changes when paying claims and related expenses. This risk is involved with policy design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

g) Asset and liability matching risk

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

h) Risk-based capital (RBC) ratio

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

i) Risk of information security and personal data management

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

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

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

- i. Stipulate the Company's insurance risk management standards including the definitions and range of risks, management structure, risk management indicators and other risk management measures.
- ii. Establish methods to evaluate insurance risks.
- iii. Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
- iv. Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the related departments should propose corresponding solutions to the risk management committee of the Company and that of Cathay Financial Holdings.

b) The underwriting policies to determine proper risk classification and premium levels

- i. Underwriters should comply with the rules of financial underwriting. For underwriting a new policy of an existing policyholders, the underwriter should consider previous information as well as the exceptional cases from insurance notification database and total insured amounts in insurance enterprises, to check if the number of policies, the insured amounts and the premiums are reasonable and affordable according to the policyholder's financial resources and socioeconomic status and to determine if the policyholder is capable of paying renewal premiums.
- ii. The Company has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards.
- iii. The Company has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.

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

a) Insurance risk assessment covers the following risks:

- i. Product design and pricing risk: The risk arises from improper design of products, inconsistent terms and conditions and pricing or unexpected changes.
- ii. Underwriting risk: Unexpected losses arise from solicitation activities, underwriting and approval activities, other expenditure activities, etc.
- iii. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk over the limits or a reinsurer fails to fulfill its obligations such that premiums, claims or expenses cannot be reimbursed.
- iv. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company's credit rating or solvency.
- v. Claim risk: This risk arises from mishandling claims.
- vi. Reserve-related risk: This risk occurs when the Company does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.

b) The scope of management of insurance risk

- i. Develop a risk control framework of the Company's insurance risk to empower related development to execute risk management.
- ii. Establish the Company's insurance risk management standards including the definitions and types of risks, management structure, risk management indicators and other risk management measures.
- iii. Develop related response in consideration of the Company's growth strategy and changes in the domestic and global economic and financial environments.
- iv. Determine methods to measure insurance risks.
- v. Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
- vi. Other insurance risk management issues.

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

The Company limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering the Company's risk taking ability, risk profiling and legal issues factors to determine whether to retain or cede a policy. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

7) Asset/liability management

- a) The Company established an asset/liability management committee to improve the asset/liability management structure, ensure the application of the asset/liability management policy and review the performance from strategy and practice aspect on a regular basis to reduce all types of risks the Company faces.
- b) Authorized departments review the measurement of asset/liability matching risk and report to the asset/liability management committee regularly and results are also reported to the risk management committee of the Company. Furthermore, the annual report is delivered to the risk management committee of the Cathay Financial Holdings.
- c) When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of the Company and that of Cathay Financial Holdings.

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

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

- a) Capital adequacy management
 - i. Regularly provide capital adequacy management reports and analysis to the finance department of Cathay Financial Holdings.
 - ii. Regularly provide the capital adequacy management analysis report to the risk management committee.
 - iii. Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting RBC ratio.
 - iv. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.
- b) Exception management process

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

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

- a) The Company enters into derivative transactions to reduce market risk and credit risk of the asset positions including stock index options, index futures, interest rate futures, IRS, forwards, CCS and credit default swaps for hedging the equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk from the Company's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.

- b) Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.
- c) The Company assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by the board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

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

Considering the credit risk factors, the Company has set up the measurement indicators for credit and investment positions by business groups, industries and countries. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loans or make investment in general. However, if the Company has to undertake the business under certain circumstances, the Company shall follow the internal regulations, including but not limited to “Guidelines for sovereign risk management”, “Guidelines for securities investment risk limit” and “Guidelines for credit and investment risk management on conglomerate and other juristic person institute”.

b. Information of insurance risk

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

a) The Company

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,886,583	Decrease (increase)	\$ 2,309,267
Expense	×1.05 (×0.95)	Decrease (increase)	3,493,065	Decrease (increase)	2,794,452
Surrender rate	×1.05 (×0.95)	Increase (decrease)	624,863	Increase (decrease)	499,891
Rate of return	+0.1%	Increase	5,701,927	Increase	4,561,541
Rate of return	-0.1%	Decrease	5,707,518	Decrease	4,566,014

For the Year Ended December 31, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,706,747	Decrease (increase)	\$ 2,165,397
Expense	×1.05 (×0.95)	Decrease (increase)	2,909,035	Decrease (increase)	2,327,228
Surrender rate	×1.05 (×0.95)	Increase (decrease)	455,191	Increase (decrease)	364,153
Rate of return	+0.1%	Increase	5,289,255	Increase	4,231,404
Rate of return	-0.1%	Decrease	5,294,445	Decrease	4,235,556

b) Cathay Lujiazui Life

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 156,997	Decrease (increase)	\$ 117,748
Expense	×1.05 (×0.95)	Decrease (increase)	86,067	Decrease (increase)	64,550
Surrender rate	×1.10 (×0.90)	Increase (decrease)	93,335	Increase (decrease)	70,001
Rate of return	+0.25%	Increase	765,598	Increase	574,199
Rate of return	-0.25%	Decrease	840,422	Decrease	630,317

For the Year Ended December 31, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.10 (×0.90)	Decrease (increase)	\$ 156,537	Decrease (increase)	\$ 117,402
Expense	×1.05 (×0.95)	Decrease (increase)	81,505	Decrease (increase)	61,128
Surrender rate	×1.10 (×0.90)	Increase (decrease)	103,360	Increase (decrease)	77,520
Rate of return	+0.25%	Increase	569,098	Increase	426,824
Rate of return	-0.25%	Decrease	624,721	Decrease	468,541

c) Cathay Life (Vietnam)

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 1,330	Decrease (increase)	\$ 1,064
Expense	×1.05 (×0.95)	Decrease (increase)	47,212	Decrease (increase)	37,770
Surrender rate	×1.05 (×0.95)	Increase (decrease)	8,291	Increase (decrease)	6,633
Rate of return	+0.1%	Increase	13,402	Increase	10,722
Rate of return	-0.1%	Decrease	13,415	Decrease	10,732

For the Year Ended December 31, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 742	Decrease (increase)	\$ 594
Expense	×1.05 (×0.95)	Decrease (increase)	33,710	Decrease (increase)	26,968
Surrender rate	×1.05 (×0.95)	Increase (decrease)	7,768	Increase (decrease)	6,214
Rate of return	+0.1%	Increase	9,699	Increase	7,759
Rate of return	-0.1%	Decrease	9,709	Decrease	7,767

- i. Changes in income before tax listed above referred to the effects of income before tax for the years ended December 31, 2019 and 2018. The changes in equity of the Company, Cathay Lujiazui Life and Cathay Life (Vietnam) were assumed that the income tax was calculated at rates of 20%, 25% and 20% of pre-tax income, respectively.
- ii. As an increase (decrease) of 0.1% in discount rates is applied to liability adequacy test, the result of the test is still adequate for the Company and there is no impact on income before tax and equity. However, if the discount rate keeps declining significantly, income before tax and equity may be affected.
- iii. Sensitivity Test
 - i) Mortality/morbidity sensitivity test is executed by multiplying the mortality rate, and the morbidity rate of injury insurance by changes in scenarios, resulting in the corresponding changes in income before tax.
 - ii) Expense sensitivity test is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by changes in scenarios, resulting in the corresponding changes in income before tax.
 - iii) Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
 - iv) Rate of return sensitivity test is executed by adjusting rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

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

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

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

2) Concentration of insurance risks

The Company's insurance business is mainly from the R.O.C., and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). The Company reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

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

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

3) Claim development trend

a) The Company

i. Direct business development trend

Accident Year	Development Year							Claims not yet filed	Reserve for claims not yet filed
	1	2	3	4	5	6	7		
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,097,514	18,114,195	-	-
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,219,624	18,236,928	17,304	17,339
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,103,869	19,130,394	19,148,638	44,769	44,858
2016	15,940,308	19,566,897	19,885,388	19,971,081	20,015,621	20,043,491	20,062,635	91,554	91,736
2017	17,297,974	21,370,269	21,769,245	21,857,506	21,905,899	21,936,562	21,957,077	187,832	188,208
2018	19,438,330	23,925,964	24,342,331	24,442,830	24,496,782	24,531,153	24,553,110	627,146	628,401
2019	21,412,454	26,255,736	26,712,604	26,821,429	26,880,489	26,917,744	26,940,927	5,528,473	5,539,530
Expected future payments								\$	6,510,072
Add: Assumed reserve for claims not yet filed									21,847
Reserve for claims not yet filed									6,531,919
Add: Claims filed but not yet paid									4,032,692
Loss reserve balance									<u>\$ 10,564,611</u>

ii. Retained business development trend

Accident Year	Development Year							Claims not yet filed	Reserve for claims not yet filed
	1	2	3	4	5	6	7		
2013	14,552,889	17,819,664	18,127,219	18,191,122	18,232,660	18,261,664	18,278,424	-	-
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,367,050	18,384,481	17,431	17,466
2015	15,474,235	18,809,508	19,140,593	19,222,947	19,270,603	19,297,466	19,315,887	45,284	45,375
2016	16,051,766	19,702,389	20,024,753	20,110,678	20,155,599	20,183,732	20,202,957	92,279	92,464
2017	17,425,760	21,529,927	21,929,989	22,019,087	22,067,963	22,098,984	22,119,614	189,625	190,004
2018	19,559,154	24,057,586	24,478,074	24,579,614	24,634,269	24,669,349	24,691,638	634,052	635,320
2019	21,440,110	26,292,487	26,750,811	26,860,026	26,919,366	26,956,944	26,980,319	5,540,209	5,551,290
Expected future payments								\$	6,531,919
Add: Claims filed but not yet paid									4,028,960
Retained loss reserve balance									<u>\$ 10,560,879</u>

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

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

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

b) Cathay Lujiazui Life

i. Direct business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2013	238,178	465,151	502,722	506,547	506,547	506,547	506,547	-
2014	352,155	566,112	601,603	610,880	610,880	610,880	610,880	-
2015	206,682	386,830	413,988	434,558	434,558	434,558	434,558	-
2016	245,254	420,859	473,061	525,515	525,515	525,515	525,515	-
2017	252,319	478,466	533,828	556,916	556,916	556,916	556,916	23,088
2018	311,729	365,833	398,634	415,875	415,875	415,875	415,875	50,042
2019	419,936	701,477	764,372	797,431	797,431	797,431	797,431	377,495
Expected future payments								\$ 450,625
Add: Assumed reserve for claims not yet filed								(798)
Reserve for claims not yet filed								449,827
Add: Claims filed but not yet paid								16,184
Loss reserve balance								<u>\$ 466,011</u>

ii. Retained business development trend

Accident Year	Development Year							Expected Future Payment
	1	2	3	4	5	6	7	
2013	232,822	458,617	496,167	499,972	499,972	499,972	499,972	-
2014	351,330	557,871	593,323	602,597	602,597	602,597	602,597	-
2015	185,223	364,969	392,106	395,171	395,171	395,171	395,171	-
2016	242,780	418,023	470,224	512,545	512,545	512,545	512,545	-
2017	240,710	466,857	521,048	536,655	536,655	536,655	536,655	15,607
2018	303,385	355,141	387,505	399,113	399,113	399,113	399,113	43,972
2019	416,414	701,443	765,366	788,291	788,291	788,291	788,291	371,877
Expected future payments								\$ 431,456
Less: Expected claims filed but not yet paid								(798)
Add: Claims filed but not yet paid								15,071
Retained loss reserve balance								<u>\$ 445,729</u>

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

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

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

c) Cathay Life (Vietnam)

i. Direct business development trend

Accident Year	Development Year				
	1	2	3	4	5
2015	1,143	1,254	1,254	1,257	1,257
2016	1,213	2,259	2,259	2,259	2,259
2017	8,555	11,618	11,618	11,623	11,623
2018	41,882	48,183	48,183	48,202	48,202
2019	119,665	143,218	143,218	143,276	143,276

ii. Retained business development trend

Accident Year	Development Year				
	1	2	3	4	5
2015	1,348	1,576	1,576	1,576	1,576
2016	2,088	2,509	2,509	2,509	2,509
2017	14,625	17,767	17,767	17,774	17,774
2018	84,781	97,366	97,366	97,401	97,401
2019	96,290	111,843	111,843	111,884	111,884

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

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

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

1) Credit risk

The credit risk of the insurance contracts occurs as the reinsurers fail to perform the obligations of reinsurance contracts, which may result in impairment losses on reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of credit risk concentration of reinsurers. To reduce this risk, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's Reinsurance Risk Management Plan and Evaluation Standards for Reinsurers.

The unqualified reinsurer, the Company's reinsurance counterparties for the year ended December 31, 2018, who did not meet the legal requirements was Trust International Insurance & Reinsurance Company B.S.C (e) Trust Re. Its credit rating was withdrawn by AM Best credit rating agency on December 5, 2018, and the reinsurer became unqualified since then. According to the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms and Regulations Governing the Setting Aside of Unqualified Reinsurance Reserves by Insurance Enterprises, the following matters were disclosed:

Summary of unqualified reinsurance contracts and related reinsurance expenses:

Related Insurance Type of Reinsurance Contracts	Individual Insurance - Life Insurance	Group Insurance - Life Insurance and Injury Insurance	Catastrophic Insurance - Life Insurance, Injury Insurance and health Insurance
Reinsurance expenses for the year ended December 31, 2018	\$ 583	\$ 599	\$ 416

The above unqualified reinsurance contract was terminated on December 31, 2018.

For the year ended December 31, 2019, the credit ratings of the Company's reinsurers are above a certain level, complying with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company's total assets; therefore, no significant credit risk exists.

2) Liquidity risk

The table below is the analysis of the net (undiscounted) cash flow of insurance contracts and of financial instruments with discretionary participation features. The figures shown in this table are the estimated amount of the total insurance payments and expenses of valid insurance contracts in the future, deducting total premium on the balance sheet date. The actual future payment amounts may differ due to the difference between the result and expected amount.

Unit: In Billions of New Taiwan Dollars

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	Within 1 Year	1 to 5 Years	Over 5 Years
December 31, 2019	\$ (166.5)	\$ 301.2	\$17,932.0
December 31, 2018	(109.5)	199.3	17,521.6

Note: Separate account products were not included.

3) Market risk

The Company measures insurance liabilities by the discounted rates required by the authorities. The authorities regularly review the assumption of the discount rate for policy reserves; however, the change of the assumption may not be at the same time, in the same direction of change with the market price and interest rate, and only applied to new contracts. Therefore, the impacts of those possible changes in market risk on the provision of policy reserve for the Company's valid insurance contracts are considered minor to profit or loss or equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of the Company. Furthermore, the reasonably possible change in the market risk may have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities. Based on the reasonably possible changes in current market risk, it has little impact on the adequacy of recognized insurance liabilities.

43. SEGMENT INFORMATION

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

44. CAPITAL MANAGEMENT

a. Management objectives

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

b. Management policies

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

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

1) Owned capital

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

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

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

2) Risk-based capital

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

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

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

c. Management procedures

1) Periodical calculation

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

2) Aperiodic calculation

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

d. Current status of RBC ratio

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

45. Others

a. Significant assets and liabilities denominated in foreign currencies

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

December 31, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 111,963,979	30.106000	\$ 3,370,787,537
CNY	16,076,378	4.323121	69,500,132
AUD	3,791,660	21.101295	80,008,942
Non-monetary items			
USD	8,811,685	30.106000	265,284,585
HKD	9,076,942	3.866013	35,091,580
Investments accounted for the using equity method			
CNY	410,632	4.321700	1,774,628
PHP	26,747,682	0.594200	15,893,473
IDR	6,526,743,236	0.002172	14,176,087
<u>Financial liabilities</u>			
Monetary items			
USD	395,619	30.106000	11,910,495
December 31, 2018			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 103,246,497	30.733000	\$ 3,173,074,587
AUD	2,933,900	21.677522	63,599,680
CNY	15,976,157	4.474192	71,480,393
Non-monetary items			
USD	9,679,449	30.733000	297,478,514
HKD	15,745,308	3.92398	61,784,266
Investments accounted for using the equity method			
CNY	158,735	4.476200	710,531
PHP	26,948,935	0.584200	15,743,568
IDR	6,505,480,341	0.002111	13,733,069
<u>Financial liabilities</u>			
Monetary items			
USD	1,329,950	30.733000	40,873,360

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

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

Items	December 31, 2019		
	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Cash and cash equivalents	\$ 402,051,684	\$ -	\$ 402,051,684
Receivables	82,456,625	11,289	82,467,914
Investments			
Financial assets at FVTPL	49,497,161	1,281,530,996	1,331,028,157
Financial assets at FVTOCI	6,707,439	847,633,832	854,341,271
Financial assets measured at amortized cost	39,592,170	2,576,993,000	2,616,585,170
Financial assets for hedging	21,093	526,982	548,075
Investments accounted for using the equity method	-	44,557,549	44,557,549
Investment property	-	483,871,717	483,871,717
Investment property under construction	-	4,546,717	4,546,717
Prepayments for buildings and land - investments	-	1,152,363	1,152,363
Loans	6,233,423	507,147,118	513,380,541
Total investments	<u>102,051,286</u>	<u>5,747,960,274</u>	<u>5,850,011,560</u>
Reinsurance assets	357,722	1,386,210	1,743,932
Property and equipment	-	32,271,269	32,271,269
Right-of-use assets	-	1,577,679	1,577,679
Intangible assets	-	41,346,899	41,346,899
Deferred tax assets	-	36,156,766	36,156,766
Other assets	7,154,019	23,299,350	30,453,369
Separate account insurance product assets	<u>7,187,575</u>	<u>600,354,859</u>	<u>607,542,434</u>
Total assets	<u>\$ 601,258,911</u>	<u>\$ 6,484,364,595</u>	<u>\$ 7,085,623,506</u>
Payables	\$ 29,430,865	\$ 1,533,737	\$ 30,964,602
Current tax liabilities	635,483	-	635,483
Financial liabilities at FVTPL	2,966,992	7,342	2,974,334
Financial liabilities for hedging	-	30,894	30,894
Bonds payable	-	80,000,000	80,000,000
Insurance liabilities			
Unearned premium reserve	-	17,832,203	17,832,203
Loss reserve	-	11,042,612	11,042,612
Policy reserve	-	5,592,979,067	5,592,979,067
Special reserve	-	11,084,624	11,084,624
Premium deficiency reserve	-	19,679,457	19,679,457
Other reserve	-	1,873,141	1,873,141
Total insurance liabilities	<u>-</u>	<u>5,654,491,104</u>	<u>5,654,491,104</u>

(Continued)

December 31, 2019			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Reserve for insurance contracts with the nature of financial products	\$ -	\$ 10,932,008	\$ 10,932,008
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Provisions	-	233,871	233,871
Lease liabilities	655,334	9,726,560	10,381,894
Deferred tax liabilities	-	55,730,622	55,730,622
Other liabilities	271,043	18,916,352	19,187,395
Separate account insurance product liabilities	<u>467,361</u>	<u>607,075,073</u>	<u>607,542,434</u>
Total liabilities	<u>\$ 34,427,078</u>	<u>\$ 6,456,678,440</u>	<u>\$ 6,491,105,518</u> (Concluded)

December 31, 2018			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Cash and cash equivalents	\$ 175,332,205	\$ -	\$ 175,332,205
Receivables	74,184,073	786,396	74,970,469
Current tax assets	6,238	-	6,238
Investments			
Financial assets at FVTPL	8,923,624	1,158,827,561	1,167,751,185
Financial assets at FVTOCI	9,199,964	912,768,282	921,968,246
Financial assets measured at amortized cost	33,988,272	2,224,684,769	2,258,673,041
Financial assets for hedging	-	216,611	216,611
Investments accounted for using the equity method	-	40,780,828	40,780,828
Other financial assets	-	1,999,406	1,999,406
Investment property	-	461,352,381	461,352,381
Investment property under construction	-	2,785,640	2,785,640
Prepayments for buildings and land - investments	-	722,686	722,686
Loans	<u>460,031</u>	<u>580,755,808</u>	<u>581,215,839</u>
Total investments	<u>52,571,891</u>	<u>5,384,893,972</u>	<u>5,437,465,863</u>
Reinsurance assets	482,321	1,036,589	1,518,910
Property and equipment	-	32,381,622	32,381,622
Intangible assets	-	44,044,960	44,044,960
Deferred tax assets	-	38,252,456	38,252,456
Other assets	6,804,247	33,653,398	40,457,645
Separate account insurance product assets	<u>6,996,582</u>	<u>539,967,679</u>	<u>546,964,261</u>
Total assets	<u>\$ 316,377,557</u>	<u>\$ 6,075,017,072</u>	<u>\$ 6,391,394,629</u> (Continued)

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

c. Information for discretionary investment

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

Items	December 31	
	2019	2018
Domestic stocks	\$ 110,798,703	\$ 118,377,980
Overseas stocks	51,029,574	60,215,861
Repurchase bonds	14,812,000	12,410,000
Cash in banks	35,979,663	17,914,307
Beneficiary certificates	17,180	1,830,959
Futures and options	435,322	216,603
	<u>\$ 213,072,442</u>	<u>\$ 210,965,710</u>

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

- 2) As of December 31, 2019 and 2018, the discretionary investments limits are as follows (in thousand):

	December 31	
	2019	2018
Monetary items		
NTD	\$ 64,358,163	\$ 97,872,589
USD	952,200	1,417,500
HKD	544,084	2,023,000

d. Structured entities

1) Consolidated structured entities

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

2) Unconsolidated structured entities

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

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

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

	December 31, 2019	
	Private Equity Funds	Securitization Vehicle
Financial assets at FVTPL	\$ 94,120,839	\$ 33,447,848
Financial assets at FVTOCI	-	47,465,038
Financial assets measured at amortized cost	-	191,072,559
	<u>\$ 94,120,839</u>	<u>\$ 271,985,445</u>

	December 31, 2018	
	Private Equity Funds	Securitization Vehicle
Financial assets at FVTPL	\$ 77,198,514	\$ 29,059,383
Financial assets at FVTOCI	-	53,974,279
Financial assets measured at amortized cost	-	152,673,283
	<u>\$ 77,198,514</u>	<u>\$ 235,706,945</u>

46. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions:

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

b. Information of investees

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

c. Information on investments in Mainland China

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

d. The important intercompany transactions among the Group are disclosed in Table 6 following the notes to the consolidated financial statements.

TABLE 1

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars/In Thousands Share of Ordinary Shares)

Investor Company	Name of Investee	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares	Ratio (%)	Carrying Amount			
Cathay Life Insurance Co., Ltd.	Conning Holdings Limited	UK	Holding company	\$ 15,723,539	\$ 15,723,539	2,029	100.00	\$ 14,790,769	\$ 438,274	\$ 297,431	Subsidiary (2)
	Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	Life insurance	9,090,730	9,090,730	-	100.00	10,825,893	73,873	73,873	Subsidiary (2)
	Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	Real estate investment and operation management	16,654,013	16,654,013	326,700	100.00	13,947,324	740,807	740,807	Subsidiary (1)
	Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	Real estate investment and operation management	168,222	168,222	3,300	100.00	140,147	6,776	6,776	Subsidiary (1)
	Cathay Walbrook Holding 1 Limited	Jersey Island	Real estate investment and operation management	10,189,090	10,189,090	213,750	100.00	9,038,997	161,394	161,394	Subsidiary (1)
	Cathay Walbrook Holding 2 Limited	Jersey Island	Real estate investment and operation management	536,268	536,268	11,250	100.00	472,454	7,893	7,893	Subsidiary (1)
	Rizal Commercial Banking Corporation	Philippines	Banking	15,683,953	15,683,953	452,019	23.35	15,893,473	1,784,924	416,825	Associate (2)
	PT Bank Mayapada Internasional Tbk	Indonesia	Banking	13,317,536	13,317,536	2,550,767	37.33	14,176,087	2,741,078	(3,569)	Associate (2)
	Cathay Securities Investment Consulting Co., Ltd.	Taiwan	Securities investment consulting services	70,000	70,000	7,000	100.00	333,089	157,296	157,296	Subsidiary (1)
	Symphox Information Co., Ltd	Taiwan	Wholesale of information softwares	404,432	404,432	24,511	49.12	402,615	16,770	8,238	Associate (2)
	WK Technology Fund VI Co., Ltd.	Taiwan	Venture investment	108,372	108,372	10,837	21.43	69,162	5,750	1,232	Associate (2)
	Dasheng Venture Capital Co., Ltd.	Taiwan	Venture investment	957,118	1,044,225	95,712	25.00	1,679,260	2,753	688	Associate (2)
	Dasheng IV Venture Capital Co., Ltd.	Taiwan	Venture investment	750,000	750,000	75,000	21.43	782,762	66,717	14,297	Associate (2)
	CMG International One Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	675,965	(317)	(143)	Associate (2)
	CMG International Two Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	674,106	(2,182)	(982)	Associate (2)
	CM Energy Co., Ltd.	Taiwan	Energy technical services	270,000	270,000	27,000	45.00	281,396	22,854	10,284	Associate (2)
	Neo Cathay Power Corp.	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	684,724	8,956	4,031	Associate (2)
	Cathay Sunrise Corporation	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	689,074	29,656	13,345	Associate (2)
	DingTeng Co., Ltd.	Taiwan	Sewage treatment	756,116	756,116	37,284	27.36	791,192	182,310	49,883	Associate (2)
	PSS Co., Ltd.	Taiwan	Parking space management	781,364	781,364	13,452	36.70	833,568	186,263	68,474	Associate (2)
	Greenhealth Water Resources Co., Ltd.	Taiwan	Sewage treatment	470,916	-	45,600	30.00	469,726	(3,965)	(1,190)	Associate (2)
	Cathay Venture Inc.	Taiwan	Venture Investment	1,567,574	-	114,129	25.00	1,572,093	308,017	4,436	Associate (1)
Conning Holdings Limited	Global Evolution Holding ApS	Denmark	Investment management	2,679,234	2,679,234	3,138	45.00	2,774,628	820,510	321,528	Associate (2)

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

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

TABLE 2**CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars/In Thousands Share of Ordinary Shares)**

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statements Accounts	December 31, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Conning Inc.	<u>Preference shares</u> Centerprise Services Inc.	N/A	Financial assets at FVTOCI	400	\$ 4,409	1.76	\$ 4,409	
Symphox Information Co., Ltd.	<u>Stocks</u> Appworks Fund I Co., Ltd.	N/A	Financial assets at FVTOCI	43	423	0.63	423	
	Fashionguide Co., Ltd.	N/A	Financial assets at FVTOCI	1,293	4,565	7.72	4,565	
	Buyforyou Co., Ltd.	N/A	Financial assets at FVTOCI	117	-	10.00	-	
	Ally Logistic Property Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	9,180	132,239	51.00	132,239	
	Connect Logistics Service Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,707	-	100.00	-	
	Seaward Card Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	55,337	100.00	55,337	
	Thinkpower Information Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	4,545	356,376	71.00	356,376	
	Bowl Cut Entertainment Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	500	5,989	100.00	5,989	
	YULIN New Retail Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	29,658	100.00	29,658	
Greenhealth Water Resources Co., Ltd.	Lung Chuan Water Resources Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	152,000	1,545,267	100.00	1,545,267	

TABLE 3

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Buyer	Property	Event Date	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Land located at Sanmin Section, Taoyuan City	2019.05.03	\$ 981,851	Installment payments according to contracts	Mr. Lu and other six natural person	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3,Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	323,890	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3, Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	389,855	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Sanmin Section, Taoyuan City	2019.07.10	397,327	Installment payments according to contracts	Mr. Yang	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Tongan Section, Taoyuan City	2019.07.24	186,107	Installment payments according to contracts	Mr. Wu and other four natural person	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Erchungshi Section, Yangmei Dist., Taoyuan City	2019.11.13	3,259,000	Installment payments according to contracts	Tungya Transportation and Terminal Co., Ltd.	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None

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

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

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain or Loss on Disposal	Counterparty	Relationship	Purposes of Disposal	Pricing Reference	Other Terms
The Company	Land located at No. 114, 3 rd Subsection, Renai Section Taipei City Land and buildings located at Xining S. Rd.	2019.11.15	1974.05.23	\$ 108,177	\$ 108,177	(Note 3)	(Note 3)	Taipei City Government	Non-related party	(Note 3)	(Note 3)	None
		2019.12.05	2015.07.01	121,500	130,000	Installment payments according to contracts	\$ 8,500	Mr. Hong	Non-related party	Real estate disposal in accordance with the Insurance Act.	Evaluation report of appraisers	None

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

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

Note 3: The Company donated the land to the Taipei City Government for building capacity transfer.

TABLE 5

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Investee Company	Principle business activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	(a)	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 612,551	50.0	\$ 306,275 (Note 2,b,2)	\$ 5,357,121	\$ -
Cathay Insurance Company Limited (China)	Property insurance	12,196,844	(a)	2,943,663	-	-	2,943,663	(10,084)	24.5	(2,470) (Note 2,b,3)	1,774,629	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	7,223,435	(a)	7,223,435	-	-	7,223,435	274,320	100.0	205,253 (Note 2,b,2)	7,419,170	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$353,171,270

Note 1: The 3 methods of investment are as follows:

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

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

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

Note 3: Information on investments in mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized the Company to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized the Company to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company’s subsidiary, Cathay Life Insurance Ltd. (China) acquired a business license of an enterprise as legal person on December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. The Company remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. The Company injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized the Company to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of December 31, 2019, the Company’s remittances to the subsidiary amounted to a total of approximately CNY900,000 thousand and US\$78,210 thousand.

(Continued)

On October 17, 2007, MOEAIC authorized the Company to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on October 8, 2007. On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized the Company to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai acquired a business license of an enterprise as legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized the Company to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized the Company to remit CNY245,000 thousand on December 6, 2018. As of December 31, 2019, the Company's remittances to this general insurance company amounted to approximately CNY445,000 thousand and US\$28,140 thousand.

On November 1, 2011 and April 11, 2012, MOEAIC authorized the Company to remit CNY300,000 (US\$47,000) thousand and CNY500,000 (US\$80,000) thousand, respectively. A total of US\$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. acquired a business license of an enterprise as legal person on August 15, 2012. On April 1, 2013, MOEAIC authorized the Company to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of December 31, 2019, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. amounted to approximately CNY1,500,000 thousand.

(Concluded)

CATHAY LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% of Total operating revenue or Assets (Note 3)
0	Cathay Life Insurance Co., Ltd.	Cathay Walbrook Holding 1 Limited	a	Other loans	\$ 12,963,581	Equivalent to general conditions of transactions	0.19%
		Cathay Walbrook Holding 1 Limited	a	Other receivables	15,883	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 1 Limited	a	Interest income	486,524	Equivalent to general conditions of transactions	0.05%
		Cathay Walbrook Holding 2 Limited	a	Other loans	682,294	Equivalent to general conditions of transactions	0.01%
		Cathay Walbrook Holding 2 Limited	a	Other receivables	836	Equivalent to general conditions of transactions	-
		Cathay Walbrook Holding 2 Limited	a	Interest income	25,607	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Processing fee expense	844,655	Equivalent to general conditions of transactions	0.09%
		Conning Holdings Limited	a	Other payables	317,571	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Prepaid expense	1,455	Equivalent to general conditions of transactions	-
		Conning Holdings Limited	a	Administrative expense	5,759	Equivalent to general conditions of transactions	-
1	Lin Yuan (Shanghai) Real Estate	Cathay Lujiazui Life Insurance Co., Ltd.	c	Guarantee deposits received	9,982	Equivalent to general conditions of transactions	-
		Cathay Lujiazui Life Insurance Co., Ltd.	c	Rental income	41,363	Equivalent to general conditions of transactions	-

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

Note 2: Categories of relationships:

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

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

For balance sheet accounts: Transaction amount ÷ Total consolidated assets

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

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

V. 2019 individual financial statements

Cathay Life Insurance Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Cathay Life Insurance Co., Ltd. (the "Company"), which comprise the balance sheet as of December 31, 2019, the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2019, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and its financial performance and its cash flows for the year ended December 31, 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements for the year ended December 31, 2019 are as follows:

Valuation of Policy Reserve and Liability Adequacy Test

The management of Cathay Life Insurance Co., Ltd. adopted the actuarial model and its related multiple significant assumptions for the estimation of the policy reserve and liability adequacy test. Significant assumptions in the measurement of the policy reserve include the mortality rate, discount rate, lapse rate, morbidity rate, etc. These assumptions are made based on legislation and regulations, taking into consideration its actual experience as well as industry-specific experience. The liability adequacy test on insurance contracts is performed in accordance with the requirements issued by the Actuarial Institute of Chinese Taipei, and the discount rates for future years used in the test are based on its best estimate scenario as well as the rate of the portfolio return under current information. Since any changes in the actuarial model and significant assumptions may lead to a material impact on the estimation results of the policy reserve and the liability adequacy test, the valuation of policy reserves and liability adequacy test was identified as a key audit matter. For the related accounting policies, accounting estimates, estimation uncertainty and relevant disclosure information, refer to Notes 4, 5 and 24 to the accompanying financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We understood the internal controls related to management's valuation of policy reserves and liability adequacy test as well as evaluated the operating effectiveness of these internal controls.
2. We obtained the actuarial report issued by the contracted actuary which was used as the basis for the management's valuation of policy reserves and liability adequacy test, and evaluated the contracted actuary's professional competence and capability.
3. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the valuation of the policy reserve. The actuarial specialist:
 - a. Randomly sampled the insurance products to examine whether the calculations of the policy reserve were made in accordance with the requirements.
 - b. Evaluated the actuarial model and significant assumptions used in its valuation of policy reserve based on the sampled insurance policies and verified the recognized amount of the policy reserve.
 - c. Performed profiling tests on long-term insurance policies as of December 31, 2019 to identify any abnormalities on the recognized amounts of policy reserve on each individual insurance policy.
 - d. Assessed the reasonableness of the amount of provision for the policy reserve by considering the amount of policy reserve as of the end of the prior year and the business development for the year ended December 31, 2019.

4. The following procedures were performed by our actuarial specialist, and the results were compared to the results of the actuarial report published by the contracted actuary in order to assess the reasonableness of the actuarial model and its significant assumptions used by the management in the liability adequacy test. The actuarial specialist:
 - a. Tested on a sample basis the correctness of classification of the newly issued insurance products for the year ended December 31, 2019.
 - b. Sampled the significant assumptions provided by the management for our audits in order to examine whether the assumptions were consistent with the requirements and the important built-in assumptions in the information system.
 - c. Tested and assessed the actuarial model and its significant assumptions used by the management in its liability adequacy test on a sample basis and performed recalculations on the individual insurance policies.
 - d. Assessed the reasonableness of the calculation results of the liability adequacy test as a whole based on a comparative analysis of the previous year's results and taking into consideration the business development for the year ended December 31, 2019.

Assessment of the Fair values of Investment Properties

The investment properties of Cathay Life Insurance Co., Ltd. are measured at their fair values. To support the management in making reasonable estimates, the Company used the fair values assessed by external independent appraisers. As the appraisal method and parameters used in the assessment of fair values involve significant judgments and estimates, we determined the assessment of the fair values of investment properties as a key audit matter. For the accounting policies, accounting estimates, assumption uncertainty and relevant disclosure information on the assessment of fair values of investment properties, refer to Notes 4, 5 and 14 to the accompanying financial statements.

The main audit procedures we performed in response to the key audit matter described above are as follows:

1. We evaluated the professional competence, capability and objectivity of the external independent appraisers, and verified the qualification of the appraisers.
2. We appointed an internal valuation specialist to evaluate the reasonableness of the appraisal reports adopted by its management, including the appraisal methods, main parameters and discount rate of the appraisal reports.

Other Matter

The financial statements of the Company as of and for the year ended December 31, 2018 were audited by other auditors, who expressed an unmodified opinion with an emphasis of matter section on those statements on March 21, 2019.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 auditing standards generally accepted in 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 financial statements.

As part of an audit in accordance with the auditing standards generally accepted in 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements for the year ended December 31, 2019 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 audit resulting in this independent auditors' report are Cheng-Hung Kuo and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 11, 2020

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

CATHAY LIFE INSURANCE CO., LTD.

BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 35)	\$ 392,341,567	6	\$ 164,504,001	3
RECEIVABLES (Notes 4, 5, 7 and 35)	78,031,177	1	70,860,435	1
INVESTMENTS				
Financial assets at fair value through profit or loss (Notes 4, 5, 8 and 40)	1,280,235,253	18	1,128,633,727	18
Financial assets at fair value through other comprehensive income (Notes 4, 5, 9 and 40)	854,336,862	12	921,964,604	15
Financial assets measured at amortized cost (Notes 4, 5, 12 and 40)	2,613,943,901	37	2,258,061,756	35
Financial assets for hedging (Notes 4, 5 and 10)	548,075	-	216,611	-
Investments accounted for using the equity method (Notes 4 and 11)	103,774,796	2	97,135,294	1
Other financial assets (Notes 4, 5 and 13)	-	-	1,999,406	-
Investment property (Notes 3, 4, 5, 14 and 35)	445,624,222	6	423,590,460	7
Investment property under construction (Notes 4, 14 and 35)	4,546,717	-	2,785,640	-
Prepayments for buildings and land - investments (Notes 4 and 14)	1,152,363	-	722,686	-
Loans (Notes 4, 5, 15 and 35)	<u>526,098,622</u>	<u>8</u>	<u>594,129,442</u>	<u>9</u>
Total investments	<u>5,830,260,811</u>	<u>83</u>	<u>5,429,239,626</u>	<u>85</u>
REINSURANCE ASSETS (Notes 4, 16 and 24)	1,677,797	-	1,480,860	-
PROPERTY AND EQUIPMENT (Notes 4 and 17)	29,653,823	-	29,848,752	-
RIGHT-OF-USE ASSETS (Notes 3, 4 and 18)	465,801	-	-	-
INTANGIBLE ASSETS (Notes 4 and 19)	31,478,209	-	33,545,574	-
DEFERRED TAX ASSETS (Notes 4 and 34)	36,056,344	1	38,165,870	1
OTHER ASSETS (Notes 3, 20, 35 and 38)	27,469,277	-	36,918,943	1
SEPARATE ACCOUNT INSURANCE PRODUCT ASSETS (Notes 4 and 36)	<u>607,424,732</u>	<u>9</u>	<u>546,852,734</u>	<u>9</u>
TOTAL	<u>\$ 7,034,859,538</u>	<u>100</u>	<u>\$ 6,351,416,795</u>	<u>100</u>
LIABILITIES AND EQUITY				
PAYABLES (Notes 21 and 35)	\$ 25,554,039	1	\$ 27,799,042	-
CURRENT TAX LIABILITIES	261,305	-	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	2,974,334	-	27,499,106	-
BONDS PAYABLE (Notes 22 and 35)	80,000,000	1	70,000,000	1
INSURANCE LIABILITIES (Notes 4, 5 and 24)				
Unearned premium reserve	17,504,877	-	16,458,535	-
Loss reserve	10,564,611	-	8,531,570	-
Policy reserve	5,567,592,302	79	5,207,460,951	82
Special reserve	11,084,624	-	11,084,254	-
Premium deficiency reserve	19,679,457	1	22,548,304	1
Other reserve	<u>1,873,141</u>	<u>-</u>	<u>1,894,570</u>	<u>-</u>
Total insurance liabilities	<u>5,628,299,012</u>	<u>80</u>	<u>5,267,978,184</u>	<u>83</u>
RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS (Notes 4 and 25)	1,001,991	-	930,654	-
RESERVE FOR FOREIGN EXCHANGE VALUATION (Notes 4 and 26)	18,000,877	-	17,075,289	-
PROVISIONS (Notes 4 and 28)	56,245	-	56,245	-
LEASE LIABILITIES (Notes 3, 4, 18 and 35)	9,198,368	-	-	-
DEFERRED TAX LIABILITIES (Note 4 and 34)	54,951,648	1	28,476,919	1
OTHER LIABILITIES (Notes 29 and 35)	18,518,204	-	8,155,913	-
SEPARATE ACCOUNT INSURANCE PRODUCT LIABILITIES (Notes 4 and 36)	<u>607,424,732</u>	<u>9</u>	<u>546,852,734</u>	<u>9</u>
Total liabilities	<u>6,446,240,755</u>	<u>92</u>	<u>5,994,824,086</u>	<u>94</u>
EQUITY (Notes 4 and 31)				
Share capital				
Ordinary shares	<u>58,515,274</u>	<u>1</u>	<u>57,265,274</u>	<u>1</u>
Capital surplus	<u>60,607,456</u>	<u>1</u>	<u>51,535,925</u>	<u>1</u>
Retained earnings				
Legal reserve	43,338,466	1	40,466,946	1
Special reserve	289,432,530	4	277,886,402	4
Unappropriated earnings	<u>31,652,661</u>	<u>-</u>	<u>12,683,614</u>	<u>-</u>
Total retained earnings	<u>364,423,657</u>	<u>5</u>	<u>331,036,962</u>	<u>5</u>
Other equity	<u>105,072,396</u>	<u>1</u>	<u>(83,245,452)</u>	<u>(1)</u>
Total equity	<u>588,618,783</u>	<u>8</u>	<u>356,592,709</u>	<u>6</u>
TOTAL	<u>\$ 7,034,859,538</u>	<u>100</u>	<u>\$ 6,351,416,795</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 11, 2020)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE				
Retained earned premium (Notes 4, 27 and 35)				
Written premium	\$ 597,287,343	66	\$ 549,609,767	69
Reinsurance premium	125,595	-	123,890	-
Premium income	597,412,938	66	549,733,657	69
Less: Reinsurance expense	(2,051,751)	-	(1,749,175)	-
Net changes in unearned premium reserve (Notes 4 and 24)	(775,814)	-	(481,162)	-
Total retained earned premium	594,585,373	66	547,503,320	69
Reinsurance commission income	356,060	-	762,190	-
Fee income (Notes 35 and 36)	8,450,463	1	9,147,558	1
Net investment incomes (losses)				
Interest income (Notes 4, 33 and 35)	161,401,719	18	148,117,337	19
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4 and 8)	196,818,564	22	(129,498,736)	(16)
Realized gain on financial assets at fair value through other comprehensive income (Notes 4 and 9)	27,765,727	3	12,010,835	1
Gain on derecognition of financial assets measured at amortized cost (Notes 4 and 12)	9,926,012	1	4,726,406	1
Share of profit of associates accounted for using the equity method (Notes 4 and 11)	2,540,377	-	87,905	-
Foreign exchange (loss) gain	(53,159,724)	(6)	55,765,898	7
Net changes in reserve for foreign exchange valuation (Notes 4 and 26)	(925,588)	-	(5,486,151)	(1)
Gain on investment property (Notes 4 and 35)	11,223,017	1	10,718,377	1
Reversal of expected credit loss (expected credit loss) on investments (Notes 4 and 33)	1,691,395	-	(519,606)	-
Other net investment income	510,578	-	344,099	-
(Loss) gain on reclassification using overlay approach (Notes 4 and 8)	(118,230,201)	(13)	117,691,412	15
Separate account insurance product income (Notes 4 and 36)	63,631,439	7	28,095,871	3
Total operating revenue	906,585,211	100	799,466,715	100
OPERATING COSTS				
Retained claims payments (Notes 4 and 27)				
Insurance claims payments	348,505,287	38	356,849,363	45
Less: Claims and payments recovered from reinsurers	(1,079,421)	-	(894,281)	-
Total retained claims payments	347,425,866	38	355,955,082	45

(Continued)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Net changes in other insurance liabilities (Notes 4, 5 and 24)				
Net changes in loss reserve	\$ 2,042,861	-	\$ 1,278,090	-
Net changes in policy reserve	385,474,511	42	330,548,004	41
Net changes in special reserve	370	-	436	-
Net changes in premium deficiency reserve	(2,744,650)	-	(3,811,357)	-
Net changes in other reserve	(21,429)	-	(22,000)	-
Total net changes in other insurance liabilities	384,751,663	42	327,993,173	41
Net changes in reserve for insurance contracts with the nature of financial products (Notes 4 and 25)	302,968	-	625,700	-
Underwriting expenses (Note 33)	23,243,255	3	17,696,518	2
Commission expenses (Note 33)	18,171,436	2	13,730,864	2
Other operating costs (Note 35)	6,305,313	1	5,280,620	1
Finance costs (Notes 22 and 35)	2,671,933	-	2,331,362	-
Separate account insurance product expenses (Notes 4 and 36)	63,631,439	7	28,095,871	3
Total operating costs	846,503,873	93	751,709,190	94
OPERATING EXPENSES (Notes 33 and 35)				
General expenses	10,577,128	1	10,008,284	1
Administrative expenses	11,497,642	2	11,317,745	1
Employee training expenses	65,647	-	81,211	-
Non-investment expected credit loss (Notes 4 and 33)	877	-	65,457	-
Total operating expenses	22,141,294	3	21,472,697	2
OPERATING INCOME	37,940,044	4	26,284,828	4
NON-OPERATING INCOME AND EXPENSES (Notes 33 and 35)	1,663,036	-	1,310,502	-
PROFIT BEFORE INCOME TAX	39,603,080	4	27,595,330	4
INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 34)	(1,757,127)	-	2,593,990	-
NET INCOME	37,845,953	4	30,189,320	4

(Continued)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 4 and 31)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 431,430	-	\$ 403,459	-
Gain (loss) on equity instruments at fair value through other comprehensive income	6,093,722	-	(2,493,898)	-
Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method for items that will not be reclassified subsequently to profit or loss	(164,736)	-	(37,030)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 34)	(603,520)	-	270,829	-
Items that may be reclassified subsequently to profit or loss:				
Gain (loss) on debt instruments at fair value through other comprehensive income	85,755,154	10	(76,864,945)	(10)
Gain (loss) on hedging instruments	237,897	-	(28,747)	-
Share of other comprehensive income (loss) of subsidiaries and associates accounted for using the equity method for items that may be reclassified subsequently to profit or loss	1,458,550	-	(747,732)	-
Other comprehensive income (loss) reclassified using overlay approach	118,230,201	13	(117,691,412)	(15)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 34)	<u>(27,580,108)</u>	<u>(3)</u>	<u>23,382,027</u>	<u>3</u>
Total other comprehensive income (loss) for the period, net of income tax	<u>183,858,590</u>	<u>20</u>	<u>(173,807,449)</u>	<u>(22)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 221,704,543</u>	<u>24</u>	<u>\$(143,618,129)</u>	<u>(18)</u>
EARNINGS PER SHARE (Note 32)				
Basic earnings per share	<u>\$ 6.60</u>		<u>\$ 5.47</u>	

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

(With Deloitte & Touche audit report dated March 11, 2020)

(Concluded)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

						Other Equity							Total Equity
	Share Capital Ordinary Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on the Translation of Financial Statements of Foreign Operations	Unrealized Gain or (Loss) on Debt Instruments at Fair Value through Other Comprehensive Income	Unrealized Gain or (Loss) on Available-for-sale Financial Assets	Gain or (Loss) on Hedging Instruments	Remeasurement of Defined Benefit Plans	Property Revaluation Surplus	Other Comprehensive Income or (Loss) on Reclassification Using Overlay Approach	
BALANCE AT JANUARY 1, 2018	\$ 53,065,274	\$ 13,767,663	\$ 33,208,919	\$ 259,379,137	\$ 34,072,057	\$ (9,958,336)	\$ -	\$ 51,550,393	\$ 203,646	\$ 110,471	\$ 188,821	\$ -	\$ 435,588,045
Effect of retrospective application and restatement	-	-	-	-	(2,914,533)	-	31,488,614	(51,550,393)	-	-	-	55,611,592	32,635,280
BALANCE AT JANUARY 1, 2018 AS RESTATED	53,065,274	13,767,663	33,208,919	259,379,137	31,157,524	(9,958,336)	31,488,614	-	203,646	110,471	188,821	55,611,592	468,223,325
Appropriation of 2017 earnings													
Legal reserve	-	-	7,258,027	-	(7,258,027)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	20,494,964	(20,494,964)	-	-	-	-	-	-	-	-
Cash dividends on ordinary shares	-	-	-	-	(9,980,749)	-	-	-	-	-	-	-	(9,980,749)
Reversal of special reserve	-	-	-	(3,661,684)	3,661,684	-	-	-	-	-	-	-	-
Provision of special reserve for catastrophic events and fluctuation of risks	-	-	-	1,673,985	(1,673,985)	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	(31,738)	-	-	-	-	-	-	-	-	-	-	(31,738)
Net profit for the year ended December 31, 2018	-	-	-	-	30,189,320	-	-	-	-	-	-	-	30,189,320
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(173,807,449)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	30,189,320	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(143,618,129)
Issuance of ordinary shares for cash	4,200,000	37,800,000	-	-	-	-	-	-	-	-	-	-	42,000,000
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(12,917,189)	-	12,917,189	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2018	57,265,274	51,535,925	40,466,946	277,886,402	12,683,614	(10,796,480)	(20,547,627)	-	173,288	287,100	187,503	(52,549,236)	356,592,709
Appropriation of 2018 earnings													
Legal reserve	-	-	2,871,520	-	(2,871,520)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	9,820,004	(9,820,004)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(7,910)	7,910	-	-	-	-	-	-	-	-
Provision of special reserve for catastrophic events and fluctuation of risks	-	-	-	1,734,034	(1,734,034)	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates accounted for using the equity method	-	138,932	-	-	-	-	-	-	-	-	-	-	138,932
Recognition of share-based payments granted by the parent company	-	182,599	-	-	-	-	-	-	-	-	-	-	182,599
Net profit for the year ended December 31, 2019	-	-	-	-	37,845,953	-	-	-	-	-	-	-	37,845,953
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(390,550)	73,620,105	-	158,641	160,594	-	110,309,800	183,858,590
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	37,845,953	(390,550)	73,620,105	-	158,641	160,594	-	110,309,800	221,704,543
Issuance of ordinary shares for cash	1,250,000	8,750,000	-	-	-	-	-	-	-	-	-	-	10,000,000
Disposals of equity instruments at fair value through other comprehensive income	-	-	-	-	(4,459,258)	-	4,459,258	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2019	<u>\$ 58,515,274</u>	<u>\$ 60,607,456</u>	<u>\$ 43,338,466</u>	<u>\$ 289,432,530</u>	<u>\$ 31,652,661</u>	<u>\$ (11,187,030)</u>	<u>\$ 57,531,736</u>	<u>\$ -</u>	<u>\$ 331,929</u>	<u>\$ 447,694</u>	<u>\$ 187,503</u>	<u>\$ 57,760,564</u>	<u>\$ 588,618,783</u>

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

(With Deloitte & Touche audit report dated March 11, 2020)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 39,603,080	\$ 27,595,330
Adjustments for:		
Depreciation expenses	887,976	589,398
Amortization expenses	2,197,777	2,184,192
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(173,871,972)	152,128,900
Gain on financial assets and liabilities at fair value through other comprehensive income	(26,039,641)	(10,413,839)
Gain on derecognition of financial assets measured at amortized cost	(9,926,012)	(4,726,406)
Finance costs	2,736,705	2,524,868
Interest income	(161,401,719)	(148,117,337)
Dividend income	(24,672,678)	(24,227,160)
Net changes in insurance liabilities	359,999,292	356,063,433
Net changes in reserve for insurance contracts with the nature of financial products	71,337	458,081
Net changes in reserve for foreign exchange valuation	925,588	5,486,151
(Reversal of) expected credit loss on investments	(1,691,395)	519,606
Non-investments expected credit loss	877	65,457
Compensation costs of share-based payments	182,599	-
Share of profit of subsidiaries and associates accounted for using equity method	(2,540,377)	(87,905)
Loss (gain) on reclassification using overlay approach	118,230,201	(117,691,412)
Gain on disposal and retirement of property and equipment	(12,777)	(10,196)
Loss (gain) on disposal of investment property	7,320	(14,163)
Loss on disposal of investment accounted for using equity method	32,107	10,773
Gain on changes in fair value of investment property	(792,957)	(631,907)
Net changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	115,795,152	(3,596,469)
Decrease in financial assets at fair value through other comprehensive income	185,666,085	35,673,658
Increase in financial assets measured at amortized cost	(344,884,532)	(400,836,174)
Decrease in other financial assets	2,000,000	1,500,000
Decrease in notes receivable	16,673	209,652
(Increase) decrease in financial assets for hedging	(93,567)	1,087
Increase in premium receivable	(1,406,505)	(3,934,761)
(Increase) decrease in other receivables	(3,294,529)	22,626,949
Increase in prepaid expenses and other prepayments	(738,119)	(1,108,372)
Decrease (increase) in guarantee deposits paid	6,809,258	(10,926,152)
Decrease (increase) in reinsurance assets	124,599	(754,742)
Decrease (increase) in other assets	713,670	(233,714)
Decrease in financial liabilities at fair value through profit or loss	(116,399,015)	(116,025,131)
(Decrease) increase in notes payable	(16)	1
(Decrease) increase in other payables	(3,985,855)	12,149,603
		(Continued)

CATHAY LIFE INSURANCE CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Increase (decrease) in due to reinsurers and ceding companies	\$ 167,408	\$ (25,888)
Increase (decrease) in commissions payable	1,644,008	(437,310)
Increase (decrease) in advance receipts	49,312	(650)
Increase (decrease) in guarantee deposits received	10,418,427	(5,505,938)
Decrease in deferred fee income	(11,575)	(9,775)
Decrease in other liabilities	<u>(93,873)</u>	<u>(3,700,227)</u>
Cash used in operations	(23,577,663)	(233,228,489)
Interest received	160,101,547	144,405,554
Dividends received	25,058,040	24,993,208
Interest paid	(2,807,253)	(2,524,868)
Income tax paid	<u>(2,276,264)</u>	<u>(6,419,562)</u>
Net cash generated from (used in) operating activities	<u>156,498,407</u>	<u>(72,774,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using the equity method	(2,038,492)	(9,529,292)
Proceeds from disposal of investments accounted for using the equity method	87,107	119,873
Proceeds from return of capital from capital reduction of investments	-	120,368
Acquisition of property and equipment	(392,722)	(914,265)
Proceeds from disposal of property and equipment	34,799	19,304
Acquisition of intangible assets	(130,412)	(76,463)
Decrease in loans	68,462,056	23,569,197
Acquisition of investment property	(14,507,120)	(4,681,144)
Proceeds from disposal of investment property	<u>65,562</u>	<u>516,032</u>
Net cash generated from investing activities	<u>51,580,778</u>	<u>9,143,610</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds payable	10,000,000	-
Repayments of preference shares liabilities	-	(5,000,000)
Repayments of the principle portion of lease liabilities	(241,619)	-
Dividends paid	-	(9,980,749)
Proceeds from issuance of ordinary shares	<u>10,000,000</u>	<u>42,000,000</u>
Net cash generated from financing activities	<u>19,758,381</u>	<u>27,019,251</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>227,837,566</u>	<u>(36,611,296)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>164,504,001</u>	<u>201,115,297</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 392,341,567</u>	<u>\$ 164,504,001</u>

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

(With Deloitte & Touche audit report dated March 11, 2020)

(Concluded)

CATHAY LIFE INSURANCE CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 11, 2020.

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

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies:

- IFRS 16 “Leases”

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

Definition of a lease

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

The Company as lessee

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

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

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

The Company also applies the following practical expedients:

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

The difference between the (i) lease liabilities recognized on January 1, 2019, and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 20,227,117
Less: Recognition exemption for leases of low-value assets	<u>(18,449)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 20,208,668</u>
Discounted lease liabilities recognized on January 1, 2019	<u>\$ 9,306,990</u>

The Company as lessor

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

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

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 638,437	\$ 638,437
Investment properties	423,590,460	9,014,035	432,604,495
Other assets	<u>36,918,943</u>	<u>(345,482)</u>	<u>36,573,461</u>
Total effect on assets	<u>\$ 460,509,403</u>	<u>\$ 9,306,990</u>	<u>\$ 469,816,393</u>
Lease liabilities	<u>\$ -</u>	<u>\$ 9,306,990</u>	<u>\$ 9,306,990</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 9,306,990</u>	<u>\$ 9,306,990</u>

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

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

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

- IFRS 17 “Insurance Contracts”

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

Level of aggregation

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

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

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

Recognition

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

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

Subsequent measurement

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

Onerous contracts

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

Premium Allocation Approach (“PAA”)

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

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

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

Investment contracts with discretionary participation features

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

Modification and derecognition

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

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

Transition

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises.

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates and the related equity items, as appropriate in these financial statements.

c. Foreign currencies

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

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

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

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

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

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

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is accounted for in equity transactions and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

d. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (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 Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

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

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Company directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

e. Investments in associates

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. The Company 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 Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of the equity of associates.

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

When the 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 Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Company'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 Company'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 Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company 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 Company discontinues the use of the equity method from the date on which their investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company 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 Company continues to apply the equity method and does not remeasure the retained interest.

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

f. Property and equipment

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

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

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

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

g. Investment properties

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

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

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

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

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

h. Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

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

i. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

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

3) Derecognition of intangible assets

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss. Fair value is determined in the manner described in Note 40.

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

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

ii. Financial assets at amortized cost

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

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

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

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

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

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.

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

iii. Investments in debt instruments at FVTOCI

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

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

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

iv. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets

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

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

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

The Company uses the total carrying amount of financial assets measured at amortized cost (including receivables and loans), investments in debt instruments at FVTOCI, and commitment off financial statements to measure the amount of exposure at default (EAD).

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

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

- i. The sum of 0.5% of the First category loan assets excluding life insurance policy loans, premium loans and loans to government agencies, 2% of the Second category loan assets, 10% of the Third category loan assets, as well as 50% and 100% of the Fourth and Fifth category loan assets.
- ii. 1% of the sum of all five categories of loan assets excluding life insurance policy loans, premium loans and loans to government agencies.

iii. Total unsecured portion of non-performing loans and non-accrual loans.

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

c) Derecognition of financial assets

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

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

d) Offsetting of financial instruments

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

2) Equity instruments

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

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

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading. Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described in Note 40.

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

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

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

I. Hedge accounting

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

1) Fair value hedges

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

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

2) Cash flow hedges

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

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

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

3) Hedges of net investments in foreign operations

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

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

m. Separate account insurance products

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

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

n. Insurance liabilities

Funds reserved for insurance contracts and financial instruments with or without discretionary participation feature are determined in accordance with the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises and validated by the certified actuarial professionals approved by the FSC. The provision of reserve for short-term group insurance is based upon the greater of premium received or calculated according to Jin Guan Bao Tsai No. 10704504821. Provision of reserve for the other insurance liabilities is as follows:

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

1) Unearned premium reserve

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

2) Loss reserve

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

3) Policy reserve

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

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

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

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

4) Special reserve

When selling participating life insurance policies, according to the Rule Governing application of revenue and expenses related to participating/nonparticipating policy reported to the authority, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from special reserve - participating policies dividends reserve. The excess dividend should be accounted as special reserve - provisions for risk of dividends.

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

5) Premium deficiency reserve

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

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

6) Other reserve

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

7) Liability adequacy reserve

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

o. Liability adequacy test

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

p. Reserve for insurance contract with the nature of financial products

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

q. Reserve for Foreign exchange valuation

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

r. Recognition of insurance premium income and expenses

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

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

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

s. Classification of insurance products

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

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

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

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

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

- c) Profits and losses of the Company, funds, or other entities.

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

- t. Reinsurance

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

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

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

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

- u. Provisions

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

- v. Leases

2019

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

- 1) The Company as lessor

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

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

2) The Company as lessee

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

Right-of-use assets are initially measured at cost, and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets, except for those that meet the definition of investment properties. With respect to the recognition and measurement of right-of-use assets that meet the definition of investment properties, refer to Note 4 g. for the accounting policies for investment properties.

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

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

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

2018

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

1) The Company as lessor

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

2) The Company as lessee

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

w. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company'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.

x. Taxation

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

1) Current tax

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

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets

The provisions for impairment of receivables, loans and investments in debt instruments are based on assumptions about probability of default and expected credit loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise. For details of the key assumptions and inputs used, refer to Note 40.

b. Fair value measurements and valuation processes

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Notes 14 and 40.

c. Valuation of policy reserve and liability adequacy test

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

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

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 257,499	\$ 232,369
Cash in banks	172,575,911	102,560,111
Time deposits	162,683,536	44,773,215
Cash equivalents	<u>56,824,621</u>	<u>16,938,306</u>
	<u>\$ 392,341,567</u>	<u>\$ 164,504,001</u>

7. RECEIVABLES

	December 31	
	2019	2018
Notes receivable	\$ 275,228	\$ 291,946
Premium receivables	14,733,827	13,326,440
Other receivables	63,024,875	57,283,767
Overdue receivables	<u>11,919</u>	<u>56,349</u>
	78,045,849	70,958,502
Less: Loss allowance	<u>(14,672)</u>	<u>(98,067)</u>
	<u>\$ 78,031,177</u>	<u>\$ 70,860,435</u>

The movements in the loss allowance are as follows:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 98,067	\$ 39,465
(Reversal) provision for the current year	(37,261)	103,595
Amounts written off	<u>(46,134)</u>	<u>(44,993)</u>
Ending balance	<u>\$ 14,672</u>	<u>\$ 98,067</u>

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
<u>Financial assets mandatorily classified as at FVTPL</u>		
Non-derivative financial assets		
Domestic stocks	\$ 258,526,486	\$ 373,957,880
Beneficiary certificates	549,007,120	269,967,853
Corporate bonds	-	1,021,572
Government bonds	399,968	-
Financial debentures	14,475,317	17,079,909
Overseas stocks	219,014,890	288,980,667
Real estate investment trust	16,161,514	14,213,506
Overseas bonds	190,378,295	158,034,581
Structured time deposits	4,011,973	-
Derivative financial assets (not under hedge accounting)		
Currency swap contracts ("SWAP")	18,728,825	3,816,318
Foreign exchange forward contracts ("Forward")	9,332,640	1,551,231
Cross currency swap contracts ("CCS")	148,872	-
Options	<u>49,353</u>	<u>10,210</u>
	<u>\$ 1,280,235,253</u>	<u>\$ 1,128,633,727</u>

(Continued)

	December 31	
	2019	2018
<u>Financial liabilities held for trading</u>		
Derivative financial liabilities (not under hedge accounting)		
SWAP	\$ 1,810,120	\$ 22,636,490
Forward	1,138,856	4,838,945
Interest rate swap contracts (“IRS”)	7,342	23,671
Options	<u>18,016</u>	<u>-</u>
	<u>\$ 2,974,334</u>	<u>\$ 27,499,106</u>
		(Concluded)

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

	December 31	
	2019	2018
<u>Financial assets mandatorily classified as at FVTPL</u>		
Domestic stocks	\$ 256,601,805	\$ 371,075,775
Beneficiary certificates	514,962,891	254,937,731
Financial debentures	14,475,317	17,079,909
Overseas stocks	218,358,053	283,754,151
Real estate investment trust	16,161,514	14,213,506
Overseas bonds	190,378,295	158,034,581
Structured time deposits	<u>4,011,973</u>	<u>-</u>
	<u>\$ 1,214,949,848</u>	<u>\$ 1,099,095,653</u>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the years ended December 31, 2019 and 2018 are as follows:

	For the Year Ended December 31	
	2019	2018
Gains (loss) due to applying IFRS 9 to profit or loss	\$ 199,781,623	\$ (33,382,433)
Gains if applying IAS 39 to profit or loss	<u>(81,551,422)</u>	<u>(84,308,979)</u>
Loss (gains) reclassified due to application of overlay approach	<u>\$ 118,230,201</u>	<u>\$ (117,691,412)</u>

Due to application of overlay approach, the amount of gain or loss on financial assets and liabilities at FVTPL for the years ended December 31, 2019 and 2018 had decreased from gain of \$196,818,564 thousand to gain of \$78,588,363 thousand and decreased from loss of \$129,498,736 thousand to loss of \$11,807,324 thousand, respectively.

- b. As of December 31, 2019 and 2018, structured notes accounted for financial instruments at FVTPL amounted to \$105,784,237 thousand and \$74,755,376 thousand, respectively.
- c. The financial assets at FVTPL were net pledged.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Equity instrument investments at FVTOCI		
Domestic stocks	\$ 26,813,635	\$ 25,235,503
Overseas stocks	<u>8,811,460</u>	<u>5,022,001</u>
	<u>35,625,095</u>	<u>30,257,504</u>
Debt instrument investments at FVTOCI		
Government bonds	41,077,782	93,149,452
Overseas bonds	778,747,472	800,838,518
Less: Litigation deposits	(45,748)	(1,720)
Less: Deposits to Central Bank	(1,067,739)	(2,111,016)
Less: Derivative instrument collaterals	<u>-</u>	<u>(168,134)</u>
	<u>818,711,767</u>	<u>891,707,100</u>
	<u>\$ 854,336,862</u>	<u>\$ 921,964,604</u>

- a. These investments in equity instruments are not held for trading, and thus were designated as financial assets at FVTOCI.
- b. Dividend income recognized relating to investments in equity instruments at FVTOCI still held by the Company on the balance sheet date for the years ended December 31, 2019 and 2018 were \$1,726,086 thousand and \$1,596,995 thousand, respectively. Those related to investments derecognized for the years ended December 31, 2019 and 2018 were \$735,772 thousand and \$489,914 thousand, respectively.
- c. In consideration of investment strategies, the Company sold equity instrument investments at FVTOCI at fair values of \$24,819,436 thousand and \$38,447,898 thousand at the time of sale, and transferred unrealized loss of \$4,459,258 thousand and \$12,917,189 thousand from other equity to retained earnings for the years ended December 31, 2019 and 2018, respectively.
- d. Refer to Note 38 for the financial assets at FVTOCI that were pledged.
- e. Refer to Note 40 for information relating to the credit risk management and impairment of investments in debt instruments at FVTOCI.

10. FINANCIAL ASSETS FOR HEDGING

	December 31	
	2019	2018
IRS	\$ 185,206	\$ 216,611
CCS	<u>362,869</u>	<u>-</u>
	<u>\$ 548,075</u>	<u>\$ 216,611</u>

The financial assets for hedging were not pledged.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	\$ 62,324,964	\$ 59,344,419
Investments in associates	<u>41,449,832</u>	<u>37,790,875</u>
	<u>\$ 103,774,796</u>	<u>\$ 97,135,294</u>

Refer to Table 1 and Table 5 for the nature of business activities, main operating locations and countries of incorporation of the subsidiaries and associates.

a. Investments in subsidiaries

	December 31	
	2019	2018
Cathay Securities Investment Consulting Co., Ltd.	\$ 333,089	\$ 278,780
Cathay Lujiazui Life Insurance Co., Ltd.	5,357,121	4,891,349
Cathay Life Insurance (Vietnam) Co., Ltd.	10,825,893	9,565,250
Lin Yuan (Shanghai) Real Estate Co., Ltd.	7,419,170	7,479,225
Cathay Woolgate Exchange Holding 1 Limited	13,947,324	12,985,270
Cathay Woolgate Exchange Holding 2 Limited	140,147	131,138
Cathay Walbrook Holding 1 Limited	9,038,997	8,729,421
Cathay Walbrook Holding 2 Limited	472,454	456,808
Conning Holdings Limited	<u>14,790,769</u>	<u>14,827,178</u>
	<u>\$ 62,324,964</u>	<u>\$ 59,344,419</u>

b. Investments in associates

Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2019	2018
The Company' share of:		
Net income	\$ 583,379	\$ 839,914
Other comprehensive income (loss)	<u>167,305</u>	<u>(420,927)</u>
Total comprehensive income (loss) for the period	<u>\$ 750,684</u>	<u>\$ 418,987</u>

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

The investments in associates were not pledged.

12. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	December 31	
	2019	2018
Financial debentures	\$ 50,049,481	\$ 53,765,350
Corporate bonds	25,294,942	27,893,879
Government bonds	39,073,691	38,187,773
Overseas bonds	2,508,736,300	2,154,677,348
Asset-backed securities	1,189,350	1,143,199
Less: Litigation deposits	(1,343,931)	(1,345,625)
Less: Deposits to Central Bank	(7,858,911)	(7,864,253)
Less: Derivative instruments collateral	-	(6,075,419)
Less: Loss allowance (Note)	(1,197,021)	(2,320,496)
	<u>\$ 2,613,943,901</u>	<u>\$ 2,258,061,756</u>

Note: Loss allowance for guarantee deposits paid in bonds is not included. As of December 31, 2019 and 2018, the amounts were \$891 thousand and \$910 thousand, respectively.

- a. For the years ended December 31, 2019 and 2018, the Company disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were \$3,032,793 thousand and \$1,027,382 thousand, respectively; bonds disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of \$11,598,209 thousand and \$5,906,106 thousand, respectively; bonds disposal due to other situations such as repayments at maturities resulted in gain on disposal of \$1,360,596 thousand and loss on disposal of \$152,318 thousand, respectively.
- b. Refer to Note 38 for information relating to investments in financial assets at amortized cost pledged as security.
- c. Refer to Note 40 for information relating to the credit risk management and impairment of investments in debt instruments at amortized cost.

13. OTHER FINANCIAL ASSETS

	December 31	
	2019	2018
Structured time deposits	\$ -	\$ 2,000,000
Less: Loss allowance	-	(594)
	<u>\$ -</u>	<u>\$ 1,999,406</u>

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

	Investment Property			Investment Property Under Construction	Prepayments for Buildings and Land - Investments
	Land	Buildings	Total		
January 1, 2018	\$ 332,907,643	\$ 85,148,297	\$ 418,055,940	\$ 3,541,501	\$ 690,203
Additions	38,074	6,926	45,000	3,927,795	708,349
Disposals	(62,869)	(439,000)	(501,869)	-	-
Reclassification	348,277	5,011,205	5,359,482	(4,683,656)	(675,866)
Gain on changes in fair value of investment property	<u>525,375</u>	<u>106,532</u>	<u>631,907</u>	-	-
December 31, 2018	<u>\$ 333,756,500</u>	<u>\$ 89,833,960</u>	<u>\$ 423,590,460</u>	<u>\$ 2,785,640</u>	<u>\$ 722,686</u>
January 1, 2019	\$ 333,756,500	\$ 89,833,960	\$ 423,590,460	\$ 2,785,640	\$ 722,686
Adjustment on initial application of IFRS 16	9,014,035	-	9,014,035	-	-
Additions	-	-	-	3,959,386	10,547,734
Disposals	(40,153)	(32,729)	(72,882)	-	-
Reclassification	9,969,169	2,330,483	12,299,652	(2,198,309)	(10,118,057)
Gain (loss) on changes in fair value of investment property	<u>1,973,780</u>	<u>(1,180,823)</u>	<u>792,957</u>	-	-
December 31, 2019	<u>\$ 354,673,331</u>	<u>\$ 90,950,891</u>	<u>\$ 445,624,222</u>	<u>\$ 4,546,717</u>	<u>\$ 1,152,363</u>

	For the Year Ended December 31	
	2019	2018
Rental income from investment property	\$ 10,437,380	\$ 10,072,307
Direct operating expenses of investment property that generate rental income	(643,743)	(640,543)
Direct operating expenses of investment property that do not generate rental income	<u>(124,125)</u>	<u>(129,207)</u>
	<u>\$ 9,669,512</u>	<u>\$ 9,302,557</u>

- Certain properties are held to earn rental or to achieve capital appreciation, and the others are held for owner occupation. If each component of a property could be sold separately, it is classified as investment property or property and equipment individually. If each component of a property couldn't be sold separately, it would be classified as investment properties only when owner occupation is lower than 5% of the property.
- The investment properties are held mainly for lease business. All the lease agreements of the Company's lease business are operating leases and the primary terms of lease agreements are the same with general lease agreement. Rents from investment property are received annually, semi-annually, quarterly, monthly or in lump sum. Investment properties held by the Company were not pledged.
- The ownership of the Company's investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other debts; the ownership of its trust property is not subject to restrictions. Besides, the Company is not involved in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of Regulations Governing Foreign Investments by Insurance Companies.

- d. Valuation has been performed by the following appraisers of joint appraisers offices meeting the qualification requirements for real estate appraisers in the R.O.C., with valuation dates at December 31, 2019 and 2018:

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

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

The main inputs used are as follows:

	December 31	
	2019	2018
Direct capitalization rates (net)	0.62%-4.24%	0.62%-4.25%
Discount rates	3.14%-4.23%	3.14%-4.23%

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

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

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

Reconciliation for fair value measurements in Level 3 movements:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 417,964,462	\$ 411,376,245
Adjustment on initial application of IFRS 16	9,014,035	-
Amount recognized in profit or loss		
Gain from investment property	792,957	631,907
Acquisitions	-	45,000
Disposals	(41,615)	(501,792)
Transfers from investment property under construction	2,182,971	4,683,656
Transfers from prepayments for buildings and land	716,272	675,827
Transfers from investment property measured at cost	2,874,260	1,053,619
Other reclassification	(2,104)	-
Ending balance	<u>\$ 433,501,238</u>	<u>\$ 417,964,462</u>

The above amounts did not include those measured at cost.

15. LOANS

	December 31	
	2019	2018
Life insurance policy loans (a)	\$ 159,476,317	\$ 158,540,879
Premium loans (b)	12,012,426	11,491,146
Secured loans (c)	345,132,183	415,518,261
Non-accrual receivables	657,797	968,753
	<u>13,645,875</u>	<u>13,419,009</u>
	530,924,598	599,938,048
Less: Loss allowance	<u>(4,825,976)</u>	<u>(5,808,606)</u>
	<u>\$ 526,098,622</u>	<u>\$ 594,129,442</u>

- a. Life insurance policy loans were secured by policies issued by the Company.
- b. Policyholders may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due and interest of the premium loan (as well as the principal and interest of the life insurance policy loan, if applicable) from the policyholders' policy value reserve after the second installment becomes overdue in order to maintain the effective insurance policy. Policyholders may also inform the insurer in writing to terminate the premium loan option prior to the next due date of premium payment.

- c. Secured loans are secured by government bonds, stocks, corporate bonds and real estate. The Company applied IFRS 9 and assessed impairment in accordance with the Regulations Governing the Procedures for Insurance Enterprises to Evaluate Assets and Deal with Non-performing/Non-accrual Loans. Refer to Note 40 for related information of loss allowance for the years ended December 31, 2019 and 2018.

16. REINSURANCE ASSETS

	December 31	
	2019	2018
Claims and payments recoverable from reinsurers	\$ -	\$ 803
Due from reinsurers and ceding companies	357,722	481,518
Reinsurance reserve assets		
Ceded unearned premium reserve	894,878	624,337
Ceded loss reserve	3,732	8,793
Ceded policy reserve	<u>421,465</u>	<u>365,409</u>
	<u>\$ 1,677,797</u>	<u>\$ 1,480,860</u>

a. CNY co-reinsurance business

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

1) Purpose, rationalization and expected benefit

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

2) Reinsurance expense, claims recovered from reinsures and commission

	For the Year Ended December 31	
	2019	2018
Reinsurance expense	\$ 73,343	\$ 75,604
Claims recovered from reinsurers	11,736	10,706
Reinsurance commission	8,229	7,692

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

Net income from reinsurance of \$2,677 thousand had occurred for the year ended December 31, 2019 from CNY co-reinsurance business. The amount is calculated as follows:

Reinsurance commission of \$8,229 thousand + Claims recovered from reinsurers of \$11,736 thousand + Net changes in reinsurance reserve assets of \$71,880 thousand - Foreign exchange losses of \$15,825 thousand - reinsurance expense of \$73,343 thousand.

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

5) Accounting treatment for ceded CNY co-reinsurance business

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

6) Other notes designated by authorities: None.

17. PROPERTY AND EQUIPMENT

	Land	Buildings and Construction	Computer Equipment	Leased Assets	Transportation Equipment	Other Equipment	Construction in Progress and Prepayment for Real Estate Equipment	Total
Cost								
Balance at January 1, 2018	\$ 19,940,687	\$ 20,255,921	\$ 2,120,048	\$ 275,652	\$ 7,832	\$ 3,761,505	\$ 154,477	\$ 46,516,122
Additions	84	-	62,594	-	3	84,350	767,318	914,349
Disposals	(6,126)	(4,896)	(57,337)	-	(5)	(26,212)	-	(94,576)
Reclassification	432,542	93,257	-	-	-	-	(525,759)	40
Balance at December 31, 2018	<u>\$ 20,367,187</u>	<u>\$ 20,344,282</u>	<u>\$ 2,125,305</u>	<u>\$ 275,652</u>	<u>\$ 7,830</u>	<u>\$ 3,819,643</u>	<u>\$ 396,036</u>	<u>\$ 47,335,935</u>
Depreciation and impairment								
Balance at January 1, 2018	\$ 103,134	\$ 11,481,963	\$ 1,829,893	\$ 275,652	\$ 6,882	\$ 3,285,645	\$ -	\$ 16,983,169
Depreciation expenses	-	359,846	114,946	-	946	113,660	-	589,398
Disposals	-	(3,168)	(57,334)	-	(5)	(24,877)	-	(85,384)
Balance at December 31, 2018	<u>\$ 103,134</u>	<u>\$ 11,838,641</u>	<u>\$ 1,887,505</u>	<u>\$ 275,652</u>	<u>\$ 7,823</u>	<u>\$ 3,374,428</u>	<u>\$ -</u>	<u>\$ 17,487,183</u>
Carrying amounts at December 31, 2018	<u>\$ 20,264,053</u>	<u>\$ 8,505,641</u>	<u>\$ 237,800</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 445,215</u>	<u>\$ 396,036</u>	<u>\$ 29,848,752</u>
Cost								
Balance at January 1, 2019	\$ 20,367,187	\$ 20,344,282	\$ 2,125,305	\$ 275,652	\$ 7,830	\$ 3,819,643	\$ 396,036	\$ 47,335,935
Additions	-	-	80,917	-	-	92,467	219,338	392,722
Disposals	(12,249)	(18,562)	(13,114)	-	(340)	(59,027)	-	(103,292)
Reclassification	-	450,854	-	(275,652)	-	-	(434,140)	(258,938)
Balance at December 31, 2019	<u>\$ 20,354,938</u>	<u>\$ 20,776,574</u>	<u>\$ 2,193,108</u>	<u>\$ -</u>	<u>\$ 7,490</u>	<u>\$ 3,853,083</u>	<u>\$ 181,234</u>	<u>\$ 47,366,427</u>
Depreciation and impairment								
Balance at January 1, 2019	\$ 103,134	\$ 11,838,641	\$ 1,887,505	\$ 275,652	\$ 7,823	\$ 3,374,428	\$ -	\$ 17,487,183
Depreciation expenses	-	351,711	114,445	-	2	116,185	-	582,343
Disposals	-	(11,139)	(13,113)	-	(340)	(56,678)	-	(81,270)
Reclassification	-	-	-	(275,652)	-	-	-	(275,652)
Balance at December 31, 2019	<u>\$ 103,134</u>	<u>\$ 12,179,213</u>	<u>\$ 1,988,837</u>	<u>\$ -</u>	<u>\$ 7,485</u>	<u>\$ 3,433,935</u>	<u>\$ -</u>	<u>\$ 17,712,604</u>
Carrying amounts at December 31, 2019	<u>\$ 20,251,804</u>	<u>\$ 8,597,361</u>	<u>\$ 204,271</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 419,148</u>	<u>\$ 181,234</u>	<u>\$ 29,653,823</u>

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful lives of the following assets:

Buildings and construction	1-70 years
Computer equipment	3-5 years
Leased assets	3 years
Transportation equipment	3-5 years
Other equipment	2-22 years

18. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Buildings	\$ 443,732
Transportation equipment	<u>22,069</u>
	<u>\$ 465,801</u>
The right-of-use assets presented as investment properties	<u>\$ 8,781,429</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 131,825</u>
Depreciation expense for right-of-use assets	
Buildings	\$ 295,013
Transportation equipment	<u>10,620</u>
	<u>\$ 305,633</u>

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	<u>\$ 9,198,368</u>
Range of discount rates for lease liabilities was as follows:	
	December 31, 2019
Buildings	2.05%-3.04%
Transportation equipment	3.59%-3.66%
Investment property - right of superficies	2.82%-3.71%

19. INTANGIBLE ASSETS

	<u>Computer Software</u>	<u>Franchises</u>	<u>Goodwill</u>	<u>Total</u>
<u>Cost</u>				
Balance at January 1, 2018	\$ 1,788,127	\$ 37,659,600	\$ 2,918,390	\$ 42,366,117
Additions - acquired separately	76,463	-	-	76,463
Disposals	<u>(25)</u>	<u>-</u>	<u>-</u>	<u>(25)</u>
Balance at December 31, 2018	<u>\$ 1,864,565</u>	<u>\$ 37,659,600</u>	<u>\$ 2,918,390</u>	<u>\$ 42,442,555</u>
<u>Amortization and impairment</u>				
Balance at January 1, 2018	\$ 1,514,356	\$ 5,198,458	\$ -	\$ 6,712,814
Amortizations	104,809	2,079,383	-	2,184,192
Disposals	<u>(25)</u>	<u>-</u>	<u>-</u>	<u>(25)</u>
Balance at December 31, 2018	<u>\$ 1,619,140</u>	<u>\$ 7,277,841</u>	<u>\$ -</u>	<u>\$ 8,896,981</u>
Carrying amounts at December 31, 2018	<u>\$ 245,425</u>	<u>\$ 30,381,759</u>	<u>\$ 2,918,390</u>	<u>\$ 33,545,574</u>
<u>Cost</u>				
Balance at January 1, 2019	\$ 1,864,565	\$ 37,659,600	\$ 2,918,390	\$ 42,442,555
Additions - acquired separately	<u>130,412</u>	<u>-</u>	<u>-</u>	<u>130,412</u>
Balance at December 31, 2019	<u>\$ 1,994,977</u>	<u>\$ 37,659,600</u>	<u>\$ 2,918,390</u>	<u>\$ 42,572,967</u>
<u>Amortization and impairment</u>				
Balance at January 1, 2019	\$ 1,619,140	\$ 7,277,841	\$ -	\$ 8,896,981
Amortizations	<u>118,394</u>	<u>2,079,383</u>	<u>-</u>	<u>2,197,777</u>
Balance at December 31, 2019	<u>\$ 1,737,534</u>	<u>\$ 9,357,224</u>	<u>\$ -</u>	<u>\$ 11,094,758</u>
Carrying amounts at December 31, 2019	<u>\$ 257,443</u>	<u>\$ 28,302,376</u>	<u>\$ 2,918,390</u>	<u>\$ 31,478,209</u>

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

Computer software	3 years
Franchises	6.5 or 20 years

- b. As of December 31, 2019 and 2018, the carrying amounts of goodwill were \$2,918,390 thousand. The goodwill arose from the acquisition of which the Company assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. except for their reserved assets and liabilities on July 1, 2015,
- c. An annual impairment test for goodwill is performed regularly. The Company estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for the purpose of impairment test. The recoverable amount is calculated by applying a proper discount rate. Since the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment is incurred for goodwill.

20. OTHER ASSETS

	December 31	
	2019	2018
Insurance Industry Stability Fund (a)	\$ 11,019,381	\$ 10,000,070
Less: Reserve for Insurance Industry Stability Fund (a)	(11,019,381)	(10,000,070)
Guarantee deposits paid (b)	20,464,703	28,924,424
Deferred acquisition costs (c)	3,629	10,401
Prepayments	3,629	348,315
Net defined benefit assets (Note 30)	6,422,413	5,685,091
Others	<u>574,903</u>	<u>1,950,712</u>
	<u>\$ 27,469,277</u>	<u>\$ 36,918,943</u>

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

- b. Guarantee deposits paid are comprised of:

	December 31	
	2019	2018
Insurance operation guarantee deposit	\$ 8,925,889	\$ 9,974,602
Deposit for futures and options trading	8,374,909	5,262,750
Deposit for derivatives trading	1,117,064	11,594,697
Other guarantee deposits	<u>2,046,841</u>	<u>2,092,375</u>
	<u>\$ 20,464,703</u>	<u>\$ 28,924,424</u>

The Company provided cash, time deposits and government bonds as guarantees. Refer to Note 38 for related information.

- c. Deferred acquisition costs

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 10,401	\$ 16,659
Additions	-	2,331
Amortization	<u>(6,772)</u>	<u>(8,589)</u>
Ending balance	<u>\$ 3,629</u>	<u>\$ 10,401</u>

21. PAYABLES

	December 31	
	2019	2018
Notes payable	\$ 568	\$ 584
Commissions payable	3,720,471	2,076,463
Reinsurance indemnity payable	577,121	409,713
Other payables	<u>21,255,879</u>	<u>25,312,282</u>
	<u>\$ 25,554,039</u>	<u>\$ 27,799,042</u>

22. BONDS PAYABLE

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

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

- 1) Issue amount: \$35,000,000 thousand.
- 2) Principal amount and issue price: The face value is \$1,000,000 thousand each, and is issued at par.
- 3) Years to maturity: Perpetual.
- 4) Coupon rate: From the issue date to the tenth year, the coupon rate is 3.6%; from the day following the tenth year maturity and on every tenth year maturity from then on, if the bonds are not redeemed, the coupon rate will be adjusted to a fixed annual rate of Taiwan 10-y government bond plus the issue spread.
- 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date. The Company may stop making interest payments and such interest payments will not be cumulated or deferred under the following circumstances: The Company has no earnings or the earnings are insufficient to make interest payments; the Company would fail to meet the required risk-based capital ratio or other minimum requirements from the authorities if making those interest payments; the Company has other essential considerations.
- 6) Right of early redemption: The Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest. The Company may redeem the bond once a year.

- 7) Forms of bonds: Physical certificate.
 - 8) Interest expense: Interest expense amounting to \$1,260,000 thousand and \$1,260,000 thousand for the years ended December 31, 2019 and 2018, respectively. The expense was recorded as finance costs.
- b. Pursuant to Order No. Securities-TPEX-Bond-10600099421 of the Taipei Exchange, the Company issued first perpetual cumulative subordinated corporate bonds on May 12, 2017 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$35,000,000 thousand.
 - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - 3) Years to maturity: Perpetual.
 - 4) Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year maturity.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.
- 7) Forms of bonds: Book-entry securities.
- 8) Interest expense: Interest expense amounting to \$1,152,970 thousand and \$1,155,000 thousand for the years ended December 31, 2019 and 2018, respectively. The expense was recorded as finance costs.
- c. Pursuant to Order No. Securities-TPEX-Bond-10800055731 of the Taipei Exchange, the Company issued first perpetual non-cumulative subordinated corporate bonds on June 26, 2019 through public offering. Key terms and conditions are as follows:
- 1) Issue amount: \$10,000,000 thousand.
 - 2) Principal amount and issue price: The face value is \$1,000 thousand each, and is issued at par.
 - 3) Years to maturity: Perpetual.
 - 4) Coupon rate: Fixed rate of 3%.
 - 5) Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.
 - 6) Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company may, with the approval of the authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.

- 7) Forms of bonds: Book-entry securities.
- 8) Interest expense: Interest expense amounting to \$154,920 thousand for the year ended December 31, 2019. The expense was recorded as finance costs.

23. PREFERENCE SHARES LIABILITY

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

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

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

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

24. INSURANCE LIABILITIES

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

a. Unearned premium reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 81,756	\$ -	\$ 81,756	\$ 73,117	\$ -	\$ 73,117
Individual injury insurance	6,854,370	-	6,854,370	6,484,348	-	6,484,348
Individual health insurance	9,362,205	-	9,362,205	8,797,520	-	8,797,520
Group insurance	1,092,315	-	1,092,315	991,397	-	991,397
Investment-linked insurance	114,231	-	114,231	112,153	-	112,153
	<u>17,504,877</u>	<u>-</u>	<u>17,504,877</u>	<u>16,458,535</u>	<u>-</u>	<u>16,458,535</u>
Less ceded unearned premium reserve:						
Individual life insurance	713,629	-	713,629	509,092	-	509,092
Individual injury insurance	17,678	-	17,678	9,703	-	9,703
Individual health insurance	<u>163,571</u>	<u>-</u>	<u>163,571</u>	<u>105,542</u>	<u>-</u>	<u>105,542</u>
	<u>894,878</u>	<u>-</u>	<u>894,878</u>	<u>624,337</u>	<u>-</u>	<u>624,337</u>
	<u>\$ 16,609,999</u>	<u>\$ -</u>	<u>\$ 16,609,999</u>	<u>\$ 15,834,198</u>	<u>\$ -</u>	<u>\$ 15,834,198</u>

The changes in unearned premium reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 16,458,535	\$ -	\$ 16,458,535	\$ 15,653,614	\$ -	\$ 15,653,614
Provision	17,504,890	-	17,504,890	16,458,545	-	16,458,545
Recovery	(16,458,535)	-	(16,458,535)	(15,653,614)	-	(15,653,614)
Foreign exchange	(13)	-	(13)	(10)	-	(10)
Ending balance	<u>17,504,877</u>	<u>-</u>	<u>17,504,877</u>	<u>16,458,535</u>	<u>-</u>	<u>16,458,535</u>
Less ceded unearned premium reserve:						
Beginning balance	624,337	-	624,337	300,568	-	300,568
Increase	<u>270,541</u>	<u>-</u>	<u>270,541</u>	<u>323,769</u>	<u>-</u>	<u>323,769</u>
Ending balance	<u>894,878</u>	<u>-</u>	<u>894,878</u>	<u>624,337</u>	<u>-</u>	<u>624,337</u>
Net ending balance	<u>\$ 16,609,999</u>	<u>\$ -</u>	<u>\$ 16,609,999</u>	<u>\$ 15,834,198</u>	<u>\$ -</u>	<u>\$ 15,834,198</u>

b. Loss reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance						
Filed but not paid	\$ 2,437,380	\$ 31,200	\$ 2,468,580	\$ 1,479,672	\$ 9,145	\$ 1,488,817
Not yet filed	31,859	-	31,859	72,309	-	72,309
Individual injury insurance						
Filed but not paid	40,400	-	40,400	27,337	-	27,337
Not yet filed	1,855,652	-	1,855,652	1,780,799	-	1,780,799
Individual health insurance						
Filed but not paid	1,282,698	-	1,282,698	851,238	-	851,238
Not yet filed	3,051,864	-	3,051,864	2,777,967	-	2,777,967
Group insurance						
Filed but not paid	60,760	-	60,760	38,689	-	38,689
Not yet filed	1,592,067	-	1,592,067	1,275,114	-	1,275,114
Investment-linked insurance						
Filed but not paid	180,254	-	180,254	218,680	-	218,680
Not yet filed	477	-	477	620	-	620
	<u>10,533,411</u>	<u>31,200</u>	<u>10,564,611</u>	<u>8,522,425</u>	<u>9,145</u>	<u>8,531,570</u>
Less ceded loss reserve						
Individual life insurance	3,074	-	3,074	8,479	-	8,479
Individual health insurance	658	-	658	314	-	314
	<u>3,732</u>	<u>-</u>	<u>3,732</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>
	<u>\$ 10,529,679</u>	<u>\$ 31,200</u>	<u>\$ 10,560,879</u>	<u>\$ 8,513,632</u>	<u>\$ 9,145</u>	<u>\$ 8,522,777</u>

The changes of loss reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 8,522,425	\$ 9,145	\$ 8,531,570	\$ 7,238,115	\$ 2,678	\$ 7,240,793
Provision	10,538,170	31,200	10,569,370	8,516,576	9,145	8,525,721
Recovery	(8,522,425)	(9,145)	(8,531,570)	(7,238,115)	(2,678)	(7,240,793)
Foreign exchange	(4,759)	-	(4,759)	5,849	-	5,849
Ending balance	<u>10,533,411</u>	<u>31,200</u>	<u>10,564,611</u>	<u>8,522,425</u>	<u>9,145</u>	<u>8,531,570</u>
Less ceded loss reserve						
Beginning balance	8,793	-	8,793	1,955	-	1,955
Increase	-	-	-	6,838	-	6,838
Decrease	(5,061)	-	(5,061)	-	-	-
Ending balance	<u>3,732</u>	<u>-</u>	<u>3,732</u>	<u>8,793</u>	<u>-</u>	<u>8,793</u>
Net ending balance	<u>\$ 10,529,679</u>	<u>\$ 31,200</u>	<u>\$ 10,560,879</u>	<u>\$ 8,513,632</u>	<u>\$ 9,145</u>	<u>\$ 8,522,777</u>

c. Policy reserve

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance (Note 1)	\$ 4,812,427,110	\$ 3,747	\$ 4,812,430,857	\$ 4,519,398,687	\$ 8,236	\$ 4,519,406,923
Injury insurance	7,268,700	-	7,268,700	7,446,584	-	7,446,584
Health insurance	725,104,907	-	725,104,907	652,473,787	-	652,473,787
Annuity insurance	1,388,012	20,476,035	21,864,047	1,395,567	25,839,454	27,235,021
Investment-linked insurance	<u>450,698</u>	<u>-</u>	<u>450,698</u>	<u>438,045</u>	<u>-</u>	<u>438,045</u>
Total (Note 2)	5,546,639,427	20,479,782	5,567,119,209	5,181,152,670	25,847,690	5,207,000,360
Less ceded policy reserve						
Life insurance	<u>421,465</u>	<u>-</u>	<u>421,465</u>	<u>365,409</u>	<u>-</u>	<u>365,409</u>
	<u>\$ 5,546,217,962</u>	<u>\$ 20,479,782</u>	<u>\$ 5,566,697,744</u>	<u>\$ 5,180,787,261</u>	<u>\$ 25,847,690</u>	<u>\$ 5,206,634,951</u>

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

Note 2: Total policy reserve after including policy-reserve payables for the insured amounted to \$5,567,592,302 thousand and \$5,207,460,951 thousand as of December 31, 2019 and 2018, respectively.

The changes of policy reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 5,181,152,670	\$ 25,847,690	\$ 5,207,000,360	\$ 4,816,868,641	\$ 32,918,998	\$ 4,849,787,639
Provision	670,669,816	1,043,751	671,713,567	627,938,526	374,465	628,312,991
Recovery	(279,755,554)	(6,411,621)	(286,167,175)	(290,271,517)	(7,420,310)	(297,691,827)
Foreign exchange	(25,427,505)	(38)	(25,427,543)	26,617,020	(25,463)	26,591,557
Ending balance	<u>5,546,639,427</u>	<u>20,479,782</u>	<u>5,567,119,209</u>	<u>5,181,152,670</u>	<u>25,847,690</u>	<u>5,207,000,360</u>
Less ceded policy reserve						
Beginning balance	365,409	-	365,409	301,806	-	301,806
Increase	71,881	-	71,881	73,160	-	73,160
Foreign exchange	(15,825)	-	(15,825)	(9,557)	-	(9,557)
Ending balance	<u>421,465</u>	<u>-</u>	<u>421,465</u>	<u>365,409</u>	<u>-</u>	<u>365,409</u>
Net ending balance	<u>\$ 5,546,217,962</u>	<u>\$ 20,479,782</u>	<u>\$ 5,566,697,744</u>	<u>\$ 5,180,787,261</u>	<u>\$ 25,847,690</u>	<u>\$ 5,206,634,951</u>

d. Special reserve

	December 31							
	2019				2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Participating policies dividends reserve	\$ (56,900)	\$ -	\$ -	\$ (56,900)	\$ (62,254)	\$ -	\$ -	\$ (62,254)
Dividend risk reserve	58,200	-	-	58,200	63,184	-	-	63,184
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324	-	-	11,083,324	11,083,324
	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>

The changes of special reserve are summarized below:

	For the Year Ended December 31							
	2019				2018			
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Other	Total
Beginning balance	\$ 930	\$ -	\$ 11,083,324	\$ 11,084,254	\$ 889	\$ -	\$ 11,083,324	\$ 11,084,213
Effects of retrospective application and restatement of IFRS 9	-	-	-	-	(395)	-	-	(395)
Beginning balance, as adjusted	930	-	11,083,324	11,084,254	494	-	11,083,324	11,083,818
Provision for participating policies dividends reserve	17,100	-	-	17,100	5,488	-	-	5,488
Recovery of participating policies dividends reserve	(11,746)	-	-	(11,746)	(7,990)	-	-	(7,990)
Provision (recovery) for dividend risk reserve	(4,984)	-	-	(4,984)	2,938	-	-	2,938
Ending balance	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,624</u>	<u>\$ 930</u>	<u>\$ -</u>	<u>\$ 11,083,324</u>	<u>\$ 11,084,254</u>

e. Premium deficiency reserve

December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 18,282,478	\$ -	\$ 18,282,478	\$ 20,966,673	\$ -	\$ 20,966,673
Individual injury insurance	1,078	-	1,078	1,229	-	1,229
Individual health insurance	1,347,284	-	1,347,284	1,508,079	-	1,508,079
Group insurance	<u>48,617</u>	<u>-</u>	<u>48,617</u>	<u>72,323</u>	<u>-</u>	<u>72,323</u>
	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>

The changes of premium deficiency reserve are summarized below:

For the Year Ended December 31						
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 22,548,304	\$ -	\$ 22,548,304	\$ 26,232,317	\$ -	\$ 26,232,317
Provision	148,615	-	148,615	172,966	-	172,966
Recovery	(2,893,265)	-	(2,893,265)	(3,984,323)	-	(3,984,323)
Foreign exchange	<u>(124,197)</u>	<u>-</u>	<u>(124,197)</u>	<u>127,344</u>	<u>-</u>	<u>127,344</u>
Ending balance	<u>\$ 19,679,457</u>	<u>\$ -</u>	<u>\$ 19,679,457</u>	<u>\$ 22,548,304</u>	<u>\$ -</u>	<u>\$ 22,548,304</u>

f. Other reserve

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Other	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

The changes of other reserve are summarized below:

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Beginning balance	\$ 1,894,570	\$ -	\$ 1,894,570	\$ 1,916,570	\$ -	\$ 1,916,570
Recovery	<u>(21,429)</u>	<u>-</u>	<u>(21,429)</u>	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>
Ending balance	<u>\$ 1,873,141</u>	<u>\$ -</u>	<u>\$ 1,873,141</u>	<u>\$ 1,894,570</u>	<u>\$ -</u>	<u>\$ 1,894,570</u>

g. Liability adequacy reserve

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature	
	December 31	
	2019	2018
Unearned premium reserve	\$ 17,504,877	\$ 16,458,535
Policy reserve	5,567,592,302	5,207,000,360
Premium deficiency reserve	19,679,457	22,548,304
Other reserve	<u>1,873,141</u>	<u>1,894,570</u>
Book value of insurance liabilities	<u>\$ 5,606,649,777</u>	<u>\$ 5,247,901,769</u>
Estimated present value of cash flows	<u>\$ 4,515,206,417</u>	<u>\$ 4,230,271,471</u>
Balance of liability adequacy reserve	<u>\$ -</u>	<u>\$ -</u>

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

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

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

Liability adequacy testing methodology is listed as follows:

	December 31	
	2019	2018
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Significant assumptions:		
i. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
ii. Discount rate	Under assets allocation plan on September 30, 2019, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2018, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on September 30, 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.

25. RESERVE FOR INSURANCE CONTRACTS WITH THE NATURE OF FINANCIAL PRODUCTS

The Company issued financial instruments without discretionary participation feature and recognized reserve for insurance contracts with the nature of financial products. As of December 31, 2019 and 2018, reserve for insurance contracts with the nature of financial products is summarized and reconciled as follows:

	December 31	
	2019	2018
Life insurance	\$ 75,004	\$ 87,604
Investment-linked insurance	<u>926,987</u>	<u>843,050</u>
	<u>\$ 1,001,991</u>	<u>\$ 930,654</u>
For the Year Ended December 31		
	2019	2018
Beginning balance	\$ 930,654	\$ 472,573
Claims and payments	(227,022)	(172,324)
Net provision of statutory reserve	302,968	625,700
Foreign exchange	<u>(4,609)</u>	<u>4,705</u>
Ending balance	<u>\$ 1,001,991</u>	<u>\$ 930,654</u>

26. RESERVE FOR FOREIGN EXCHANGE VALUATION

a. The hedge strategy and risk exposure

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

b. Reconciliation for reserve for foreign exchange valuation

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 17,075,289	\$ 11,589,138
Provision		
Compulsory reserve	8,765,999	5,712,886
Additional reserve	<u>12,174,679</u>	<u>6,990,539</u>
	20,940,678	12,703,425
Reversal	<u>(20,015,090)</u>	<u>(7,217,274)</u>
Ending balance	<u>\$ 18,000,877</u>	<u>\$ 17,075,289</u>

c. Effects due to reserve for foreign exchange valuation

Items	For the Year Ended December 31, 2019		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income	\$ 38,586,423	\$ 37,845,953	\$ (740,470)
Earnings per share	6.73	6.60	(0.13)
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Equity	599,416,587	588,618,783	(10,797,804)

Items	For the Year Ended December 31, 2018		
	Inapplicable Amount (1)	Applicable Amount (2)	Effects (2) - (1)
Net income	\$ 34,578,241	\$ 30,189,320	\$ (4,388,921)
Earnings per share	6.26	5.47	(0.79)
Reserve for foreign exchange valuation	-	17,075,289	17,075,289
Equity	366,650,043	356,592,709	(10,057,334)

27. RETAINED EARNED PREMIUM AND RETAINED CLAIM PAYMENTS

a. Retained earned premium

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Written premium	\$ 596,188,657	\$ 1,098,686	\$ 597,287,343	\$ 549,215,594	\$ 394,173	\$ 549,609,767
Reinsurance premium	125,595	-	125,595	123,890	-	123,890
Premium income	596,314,252	1,098,686	597,412,938	549,339,484	394,173	549,733,657
Less: Reinsurance expenses	(2,051,751)	-	(2,051,751)	(1,749,175)	-	(1,749,175)
Net changes in unearned premium reserve	(775,814)	-	(775,814)	(481,162)	-	(481,162)
Retained earned premium	<u>\$ 593,486,687</u>	<u>\$ 1,098,686</u>	<u>\$ 594,585,373</u>	<u>\$ 547,109,147</u>	<u>\$ 394,173</u>	<u>\$ 547,503,320</u>

b. Retained claim payments

	For the Year Ended December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Direct Insurance claim payments	\$ 341,523,358	\$ 6,941,553	\$ 348,464,911	\$ 349,196,087	\$ 7,492,342	\$ 356,688,429
Reinsurance claim payments	40,376	-	40,376	160,934	-	160,934
Insurance claim payments	341,563,734	6,941,553	348,505,287	349,357,021	7,492,342	356,849,363
Less: Claims recovered from reinsurers	(1,079,421)	-	(1,079,421)	(894,281)	-	(894,281)
Retained claim payments	<u>\$ 340,484,313</u>	<u>\$ 6,941,553</u>	<u>\$ 347,425,866</u>	<u>\$ 348,462,740</u>	<u>\$ 7,492,342</u>	<u>\$ 355,955,082</u>

28. PROVISIONS

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 56,245	\$ 56,245
Increase for current variation in the year	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 56,245</u>	<u>\$ 56,245</u>

29. OTHER LIABILITIES

	December 31	
	2019	2018
Advance receipts	\$ 144,675	\$ 95,363
Deferred fee income	7,210	18,785
Guarantee deposits received	13,230,265	2,811,838
Others	<u>5,136,054</u>	<u>5,229,927</u>
	<u>\$ 18,518,204</u>	<u>\$ 8,155,913</u>

Deferred fee income

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 18,785	\$ 28,560
Amortization	(11,390)	(8,858)
Foreign exchange	<u>(185)</u>	<u>(917)</u>
Ending balance	<u>\$ 7,210</u>	<u>\$ 18,785</u>

30. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company adopted a pension plan under the Labor Pension Act (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.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% 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 balance sheets in respect of the Company’s defined benefit plans are as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 13,641,235	\$ 13,419,411
Fair value of plan assets	<u>(20,063,648)</u>	<u>(19,104,502)</u>
Net defined benefit assets	<u>\$ (6,422,413)</u>	<u>\$ (5,685,091)</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, 2018	<u>\$ 12,709,374</u>	<u>\$ (17,270,435)</u>	<u>\$ (4,561,061)</u>
Service cost			
Current service cost	261,086	-	261,086
Net interest expense (income)	<u>123,506</u>	<u>(172,746)</u>	<u>(49,240)</u>
Recognized in profit or loss	<u>384,592</u>	<u>(172,746)</u>	<u>211,846</u>
Return on plan assets (excluding amounts included in net interest)	-	(1,559,031)	(1,559,031)
Actuarial loss			
Changes in financial assumptions	824,972	-	824,972
Experience adjustments	<u>330,600</u>	<u>-</u>	<u>330,600</u>
Recognized in other comprehensive income	<u>1,155,572</u>	<u>(1,559,031)</u>	<u>(403,459)</u>
Contributions from the employer	-	(932,417)	(932,417)
Benefits paid	<u>(830,127)</u>	<u>830,127</u>	<u>-</u>
Balance at December 31, 2018	<u>13,419,411</u>	<u>(19,104,502)</u>	<u>(5,685,091)</u>
Service cost			
Current service cost	280,804	-	280,804
Net interest expense (income)	<u>116,083</u>	<u>(169,296)</u>	<u>(53,213)</u>
Recognized in profit or loss	<u>396,887</u>	<u>(169,296)</u>	<u>227,591</u>
Return on plan assets (excluding amounts included in net interest)	-	(1,137,289)	(1,137,289)
Actuarial loss			
Changes in financial assumptions	356,936	-	356,936
Experience adjustments	<u>348,923</u>	<u>-</u>	<u>348,923</u>
Recognized in other comprehensive income	<u>705,859</u>	<u>(1,137,289)</u>	<u>(431,430)</u>
Contributions from the employer	-	(533,483)	(533,483)
Benefits paid	<u>(880,922)</u>	<u>880,922</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 13,641,235</u>	<u>\$ (20,063,648)</u>	<u>\$ (6,422,413)</u>

Through the defined benefit plan under the labor standards law, the Group is exposed to the following risks:

- 1) Investment risk: The discount rate for determining the present value of defined benefit obligation is based on the government bond yield. If the actual return on investment of the retirement fund assets is lower than the yield, the insufficiency of defined benefit liabilities will increase. The retirement fund assets which are managed by the Bureau of Labor Funds, Ministry of Labor are deposited in the labor retirement fund accounts, whose investment and operation are uniformly managed by the government. Therefore, the Company has remote control over investment of the retirement fund assets.
- 2) Interest rate: A decrease in government bond yield will increase the present value of the defined benefit obligation. The interest rate risk is the main source of risk in the retirement benefit plan.
- 3) Longevity risk: In the calculation of the present value of defined benefit obligation, the estimated mortality rate during employee service period is based on 100% of the fifth life table (2011TSO) of the life insurance industry. If the actual mortality rate is lower than the assumption, the present value of defined benefit obligation will increase.
- 4) Salary adjustment risk: In the calculation of the present value of defined benefit obligation, the salary of an employee at the time of retirement is based on the assumed annual salary increase rate. If the actual adjustment to the employee's salary is higher than the assumed rate in the future, the defined benefit obligation will increase.

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:

	December 31	
	2019	2018
Discount rate	0.69%	0.90%
Expected rate of salary increase	1.50%	1.50%

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

	December 31	
	2019	2018
Discount rate		
0.5% increase	<u>\$ (586,573)</u>	<u>\$ (603,874)</u>
0.5% decrease	<u>\$ 627,497</u>	<u>\$ 657,551</u>
Expected rate of salary increase		
0.5% increase	<u>\$ 613,856</u>	<u>\$ 630,712</u>
0.5% decrease	<u>\$ (572,932)</u>	<u>\$ (590,454)</u>

The 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.

	December 31	
	2019	2018
Expected contributions to the plans for the next year	<u>\$ 572,248</u>	<u>\$ 406,071</u>
Average duration of the defined benefit obligation	8.8 years	9.3 years

31. EQUITY

a. Share capital

	December 31	
	2019	2018
Number of shares authorized (in thousands)	<u>10,000,000</u>	<u>10,000,000</u>
Shares authorized	<u>\$ 100,000,000</u>	<u>\$ 100,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,851,527</u>	<u>5,726,527</u>
Shares issued	<u>\$ 58,515,274</u>	<u>\$ 57,265,274</u>

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

On April 25, 2018, the Company's board of directors (on behalf of the shareholders) resolved to issue 420,000 thousand ordinary shares with a par value of \$10, for a consideration of \$100 per share which increased the share capital issued and fully paid to \$57,265,274 thousand. On May 15, 2018, the above transaction was approved by the FSC, and the subscription base date was determined by the board of directors to be June 28, 2018.

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

b. Capital surplus

	December 31	
	2019	2018
Additional paid-in capital	\$ 59,550,000	\$ 50,800,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Changes in amount of associates accounted for using the equity method	845,715	706,783
Share-based payments granted by the parent company to the Company's employees	<u>182,599</u>	<u>-</u>
	<u>\$ 60,607,456</u>	<u>\$ 51,535,925</u>

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

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

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in No. 37 of the Company's Article of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, and the payment of preferred dividends also takes precedence in accordance with the dividends policy of the preferred share, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 33 d.

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

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash. According to Jin Guan Bao Tsai No. 10202501991, if a life insurance enterprise intends to appropriate legal reserve under Article 145-1 of the Insurance Act and to distribute, in accordance with Article 241 of the Company Act, its legal reserve and capital surplus by cash to its shareholders in proportion to the number of shares being held by each of them, it should be approved by the FSC before shareholders' meeting.

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

- 1) Financial assets not measured at fair value.
- 2) Financial assets measured at FVTOCI.

3) Financial assets measured at FVTPL using overlay approach.

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

The changes in the accumulated balance of gains or losses on disposals of debt instruments are as follows:

	For the Year Ended December 31, 2019
Accumulated balance at the end of the previous year	\$ -
Realized capital gains of \$33,729,437 thousand, net of income tax of \$6,745,887 thousand	26,983,550
Net amortization for the current year	<u>(1,492,321)</u>
Accumulated balance at the end of the year	<u>\$ 25,491,229</u>

As of December 31, 2019, the Company set aside special reserve of \$0 thousand in accordance with the laws and regulations; in 2020, the board of directors will resolve to set aside the special reserve according to the changes of \$25,491,229 thousand in the current year. The accumulated balance of special reserve will be at \$25,491,229 thousand subsequently.

The amortization table for the balance at the end of the previous year and the additions in the current year is as follows:

Year	Net Amortization of the Accumulated Balance of disposal Gains or Losses at the End of the Previous Year (1)	Disposal Gains or Losses After Tax in the Current Year (2)	Net Amortization of the Accumulated Balance of disposal Gains or Losses at the End of the Current Year (1)+(2)
2019	\$ -	\$ 1,492,321	\$ 1,492,321
2020	-	1,406,919	1,406,919
2021	-	1,394,980	1,394,980
2022	-	1,391,707	1,391,707
2023	-	1,367,982	1,367,982
2024	-	1,343,733	1,343,733
2025	-	1,309,968	1,309,968
2026	-	1,255,087	1,255,087
2027	-	1,247,427	1,247,427
2028	-	1,194,481	1,194,481
2029 to 2038	-	8,771,104	8,771,104
2039 to 2048	-	4,532,058	4,532,058
2049 to 2117	<u>-</u>	<u>275,783</u>	<u>275,783</u>
Total (Note)	<u>\$ -</u>	<u>\$ 26,983,550</u>	<u>\$ 25,491,229</u>

Note: Column (1)+(2) does not include the amortization in the year of 2019 of the accumulated

balance of disposal gains or losses.

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

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

	Appropriation of Earnings For the Year Ended December 31	
	2018	2017
Legal reserve	\$ 2,871,520	\$ 7,258,027
Special reserve	12,730,041	22,713,045

The appropriations of earnings for 2019 resolved by the Company's board of directors on March 11, 2020 were as follows:

	Appropriation of Earnings For the Year Ended December 31, 2019
Legal reserve	\$ 6,677,339
Special reserve	57,890,965

In addition, the board of directors resolved to offset the deficits by legal reserve of \$31,181,609 thousand.

The appropriation of earnings and offsetting the deficits by legal reserve are subject to resolution of the board of directors meeting (on behalf of the shareholders) to be held on April 29, 2020.

d. Special reserves

	December 31	
	2019	2018
Special reserve for catastrophic incidents and fluctuation of risks (1)	\$ 14,552,237	\$ 14,165,457
Special reserve for the foreign exchange valuation reserve (2)	11,731,067	9,948,187
Special reserve appropriated at the first-time adoption of IFRSs (3)	47,327,860	47,327,860
Special reserve for investment properties at fair value model in subsequent measurement (4)	147,568,965	147,359,748
Others (5)	<u>68,252,401</u>	<u>59,085,150</u>
	<u>\$ 289,432,530</u>	<u>\$ 277,886,402</u>

1) Special reserve for catastrophic events and fluctuation of risks

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

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

a) Special reserve for catastrophic events

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

b) Special reserve for fluctuation of risks

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

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

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

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

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

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

	December 31, 2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Features	Total
Life insurance	\$ 110,364	\$ -	\$ 110,364
Injury insurance	4,762,465	-	4,762,465
Health insurance	5,240,790	-	5,240,790
Group insurance	<u>4,051,838</u>	<u>-</u>	<u>4,051,838</u>
	<u>\$ 14,165,457</u>	<u>\$ -</u>	<u>\$ 14,165,457</u>

2) Special reserve for foreign exchange valuation reserve

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

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

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

At the first-time adoption of IFRSs, the Company chose to use fair values as the deemed costs of investment properties and in accordance with Article 32 of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, and the increments on property revaluation should be offset by other negative effects at the first-time adoption of IFRSs. The remaining increments on property revaluation should be recovered as special reserve under liabilities and the portion of increments on property revaluation used for offsetting other negative effects is recognized as retained earnings. In accordance with Bao (Tsai) No. 10202508140, the abovementioned adjustments of retained earnings amounting to \$2,994,565 thousand should be set aside as special reserve under equity following Jin Guan Bao Tsai No. 10102508861.

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

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

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

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

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

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

e. Other equity

1) Exchange differences on translating financial statements of foreign operations

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ (10,796,480)	\$ (9,958,336)
Share of associates accounted for using the equity method	(310,571)	(978,023)
Tax effects	(79,979)	139,879
Other comprehensive income (loss) recognized for the year	(390,550)	(838,144)
Ending balance	\$ (11,187,030)	\$ (10,796,480)

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

	For the Year Ended December 31	
	2019	2018
Beginning balance per IFRS 9	\$ (20,547,627)	\$ 31,488,614
Recognized for the year	117,888,517	(68,945,004)
Share of associate accounted for using the equity method	94,744	140,294
Reclassification adjustment		
Disposal of investments in debt instruments	(26,039,641)	(10,413,839)
Tax effects	(18,323,515)	14,265,119
Other comprehensive income (loss) recognized for the year	<u>73,620,105</u>	<u>(64,953,430)</u>
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	<u>4,459,258</u>	<u>12,917,189</u>
Ending balance	<u>\$ 57,531,736</u>	<u>\$ (20,547,627)</u>

3) Gain (loss) on hedging instruments

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 173,288	\$ 203,646
Recognized for the year	303,798	54,891
Share of associate accounted for using the equity method	(31,677)	-
Reclassification adjustment		
Hedged item that affects profit or loss	(65,901)	(83,638)
Tax effects	(47,579)	(1,611)
Other comprehensive income (loss) recognized for the year	<u>158,641</u>	<u>(30,358)</u>
Ending balance	<u>\$ 331,929</u>	<u>\$ 173,288</u>

4) Remeasurement of defined benefit plans

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 287,100	\$ 110,471
Recognized for the year (Note 30)	431,430	403,459
Share of associate accounted for using the equity method	(231,106)	(177,324)
Tax effects	(39,730)	(49,506)
Other comprehensive income (loss) recognized for the year	<u>160,594</u>	<u>176,629</u>
Ending balance	<u>\$ 447,694</u>	<u>\$ 287,100</u>

5) Property revaluation surplus

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 187,503	\$ 188,821
Tax effects	-	(1,318)
Ending balance	<u>\$ 187,503</u>	<u>\$ 187,503</u>

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

	For the Year Ended December 31	
	2019	2018
Beginning balance per IFRS 9	\$ (52,549,236)	\$ 55,611,592
Recognized for the year	155,277,181	(67,067,625)
Share of associate for using the equity method	1,772,424	230,290
Reclassification adjustment		
Disposal of investments in financial instruments	(37,046,980)	(50,623,787)
Tax effects	(9,692,825)	9,300,294
Other comprehensive income (loss) recognized for the year	<u>110,309,800</u>	<u>(108,160,828)</u>
Ending balance	<u>\$ 57,760,564</u>	<u>\$ (52,549,236)</u>

32. EARNINGS PER SHARE

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	<u>\$ 6.60</u>	<u>\$ 5.47</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	<u>\$ 37,845,953</u>	<u>\$ 30,189,320</u>

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

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share	<u>5,736,116</u>	<u>5,521,705</u>

If reserve for foreign exchange valuation was not applied, basic earnings per share would be \$6.73 and \$6.26 for the years ended December 31, 2019 and 2018, respectively.

33. NET PROFIT FOR THE YEAR

a. Interest income

	For the Year Ended December 31	
	2019	2018
Financial assets at FVTOCI	\$ 35,171,001	\$ 38,579,811
Financial assets measured at amortized cost	106,155,101	89,096,076
Loans	17,021,795	18,021,377
Others	<u>3,053,822</u>	<u>2,420,073</u>
	<u>\$ 161,401,719</u>	<u>\$ 148,117,337</u>

b. Expected credit impairment losses and gains on reversal

	For the Year Ended December 31	
	2019	2018
Operating revenues - expected credit impairment losses and gains on reversal from investments		
Debt instrument investments at FVTOCI	\$ 149,826	\$ 54,361
Financial assets measured at amortized cost	1,071,601	(861,549)
Receivables	38,138	(38,138)
Other financial assets	594	307
Loans	<u>431,236</u>	<u>325,413</u>
	1,691,395	(519,606)
Operating expenses - expected credit impairment losses from non-investments		
Receivables	<u>(877)</u>	<u>(65,457)</u>
	<u>\$ 1,690,518</u>	<u>\$ (585,063)</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits		
Salaries	\$ 38,024,878	\$ 28,481,697
Labor and health insurance expenses	2,620,582	2,331,561
Post-employment benefits		
Defined contribution plans	1,209,212	1,054,031
Defined benefit plans (Note 30)	227,591	211,846
Remuneration of directors	65,480	67,128
Other employee benefits	<u>911,123</u>	<u>905,625</u>
	<u>\$ 43,058,866</u>	<u>\$ 33,051,888</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 37,949,471	\$ 28,160,329
Operating expenses	<u>5,109,395</u>	<u>4,891,559</u>
	<u>\$ 43,058,866</u>	<u>\$ 33,051,888</u>

As of December 31, 2019 and 2018, the average numbers of the Company's employees were 32,409 and 31,404, respectively, including 7 non-executive directors.

For the years ended December 31, 2019 and 2018, the average employee benefits expense of the Company was \$1,327 thousand and \$1,050 thousand, respectively, and the average salaries of the Company were \$1,174 thousand and \$907 thousand, respectively, with the average adjustment in employee salaries at 29%.

d. Employees' compensation and remuneration of directors and supervisors

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

In compliance with the Company's Articles of Incorporation, the Company accrued employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, respectively, as follows:

	For the Year Ended December 31	
	2019	2018
Employees' compensation	\$ 3,961	\$ 2,760
Remuneration of directors and supervisors	5,700	5,700

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

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

	For the Year Ended December 31	
	2018	2017
Employees' compensation	\$ 2,760	\$ 3,382
Remuneration of directors and supervisors	5,700	5,700

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

e. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property and equipment	\$ 582,343	\$ 589,398
Right-of-use assets	305,633	-
Intangible assets	<u>2,197,777</u>	<u>2,184,192</u>
	<u>\$ 3,085,753</u>	<u>\$ 2,773,590</u>

(Continued)

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating expenses	<u>\$ 887,976</u>	<u>\$ 589,398</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 2,197,777</u>	<u>\$ 2,184,192</u> (Concluded)

f. Non-operating income and expenses

	For the Year Ended December 31	
	2019	2018
Gain on disposal of property and equipment	\$ 12,777	\$ 10,196
Dividend on preferred share liabilities	-	(50,704)
Other	<u>1,650,259</u>	<u>1,351,010</u>
	<u>\$ 1,663,036</u>	<u>\$ 1,310,502</u>

34. INCOME TAXES

a. Income tax recognized in profit or loss

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

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ (455,344)	\$ (1,536,195)
Adjustments for prior years	(114,652)	(31,244)
Deferred tax		
In respect of the current year	6,408	1,023,620
Adjustments to deferred tax attributable to changes in tax rates and laws	-	3,420,102
Other		
Additional income tax under the Alternative Minimum Tax Act	(1,961,280)	-
Tax effect under integrated income tax systems	<u>767,741</u>	<u>(282,293)</u>
Income tax (expense) benefit recognized in profit or loss	<u>\$ (1,757,127)</u>	<u>\$ 2,593,990</u>

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

	For the Year Ended December 31	
	2019	2018
Profit before tax	<u>\$ 39,603,080</u>	<u>\$ 27,595,330</u>
Income tax expense calculated at the statutory rate	\$ 7,920,616	\$ 5,519,066
Tax-exempt income	(9,025,810)	(9,208,613)
Nondeductible expenses in determining taxable income	5,912	82,209
Cash dividends	966,770	3,452,344
Withholding tax on foreign investments	3,040	1,532,721
Land value increment tax	582,375	(935,441)
Corporate income tax in China	545	624
Investment income (loss)	(4,512)	69,665
Additional income tax under the Alternative Minimum Tax Act	1,961,280	-
Tax effect under integrated income tax system	(767,741)	282,293
Effect of tax rate changes	-	(3,420,102)
Adjustments for prior years' tax	<u>114,652</u>	<u>31,244</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 1,757,127</u>	<u>\$ (2,593,990)</u>

Foreign withholding taxes of \$3,803 thousand and \$1,533,554 thousand were recognized in tax expense for the years ended December 31, 2019 and 2018, respectively, since the Company evaluated that foreign withholding taxes were not tax-deductible. The Income Tax Act in the R.O.C. was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings had been reduced from 10% to 5%.

b. Income tax recognized directly in equity

	For the Year Ended December 31	
	2019	2018
Current tax		
Derecognition of equity instruments at FVTOCI	\$ 374,914	\$ 738,866
Deferred tax		
Effect of tax rate changes	-	(26,633)
Derecognition of equity instruments at FVTOCI	(374,914)	(738,866)
Capital surplus	<u>(32,121)</u>	<u>(3)</u>
Total income tax benefit recognized directly in equity	<u>\$ (32,121)</u>	<u>\$ (26,636)</u>

c. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
In respect of the current year:		
Effect of tax rate changes	\$ -	\$ (2,053,402)
(Gains) losses on hedging instruments	(47,579)	5,749
Fair value changes of equity instruments at FVTOCI	(564,359)	125,592
(Gains) losses on debt instruments at FVTOCI	(17,757,927)	15,331,397
Remeasurement of defined benefit plans	(86,286)	(80,692)
Shares of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for using the equity method	(34,652)	140,887
Other comprehensive (loss) income reclassified using overlay approach	<u>(9,692,825)</u>	<u>10,183,325</u>
Total income tax recognized in other comprehensive (loss) income	<u>\$ (28,183,628)</u>	<u>\$ 23,652,856</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2019

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Closing Balance
Temporary differences					
Property and equipment	\$ 298,660	\$ (10,574)	\$ -	\$ -	\$ 288,086
Investment property	(25,386,151)	(956,290)	-	-	(26,342,441)
Financial assets at FVTPL	(1,314,436)	(4,470,250)	-	-	(5,784,686)
Financial assets at FVTPL applying overlay approach	4,408,705	-	(11,217,934)	-	(6,809,229)
Equity instruments at FVTOCI	318,834	-	(544,783)	(353,566)	(579,515)
Debt instruments at FVTOCI	6,176,944	(29,709)	(17,757,927)	-	(11,610,692)
Financial assets for hedging	(43,323)	(18,064)	(47,579)	-	(108,966)
Financial assets measured at amortized cost	(167,189)	73,291	-	-	(93,898)
Financial liabilities at FVTPL	5,480,945	(4,908,086)	-	-	572,859
Rent leveling	(132,226)	3,581	-	-	(128,645)
Defined benefit assets	(1,137,018)	(61,178)	(86,286)	-	(1,284,482)
Investments accounted for using the equity method	(296,576)	(58,361)	(34,652)	(32,121)	(421,710)
Lease liabilities	-	1,839,673	-	-	1,839,673
Right-of-use assets	-	(1,787,384)	-	-	(1,787,384)
Goodwill and franchises	35,339	10,097	-	-	45,436
Unrealized foreign exchange losses (gains)	14,663,933	10,616,395	1,505,533	(21,348)	26,764,513
Allowance for doubtful account	297,447	(65,731)	-	-	231,716
Others	457,155	(238,312)	-	-	218,843
Unused tax losses	<u>6,027,908</u>	<u>67,310</u>	<u>-</u>	<u>-</u>	<u>6,095,218</u>
Net deferred tax assets (liabilities)	<u>\$ 9,688,951</u>	<u>\$ 6,408</u>	<u>\$ (28,183,628)</u>	<u>\$ (407,035)</u>	<u>\$ (18,895,304)</u>
Deferred tax assets	<u>\$ 38,165,870</u>				<u>\$ 36,056,344</u>
Deferred tax liabilities	<u>\$ 28,476,919</u>				<u>\$ 54,951,648</u>

For the year ended December 31, 2018

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Closing Balance
Temporary differences					
Property and equipment	\$ 260,441	\$ 38,219	\$ -	\$ -	\$ 298,660
Investment property	(25,160,574)	(224,258)	(1,319)	-	(25,386,151)
Financial assets at FVTPL	(2,606,358)	1,291,922	-	-	(1,314,436)
Financial assets at FVTPL applying overlay approach	(7,047,497)	-	11,456,202	-	4,408,705
Equity instrument investments at FVTOCI	743,398	-	291,001	(715,565)	318,834
Debt instruments at FVTOCI	(7,773,323)	6,802	13,943,465	-	6,176,944
Financial assets for hedging	(41,712)	-	(1,611)	-	(43,323)
Financial assets measured at amortized cost	(152,347)	(14,842)	-	-	(167,189)
Financial liabilities at FVTPL	171,747	5,309,198	-	-	5,480,945
Rent leveling	(110,841)	(21,385)	-	-	(132,226)
Defined benefit assets	(775,380)	(277,243)	(84,395)	-	(1,137,018)
Investments accounted for using the equity method	(310,076)	(155,211)	195,347	(26,636)	(296,576)
Goodwill and franchises	21,456	13,883	-	-	35,339
Unrealized foreign exchange losses (gains)	24,774,906	(7,941,838)	(2,145,834)	(23,301)	14,663,933
Allowance for doubtful account	265,840	31,607	-	-	297,447
Others	248,706	208,449	-	-	457,155
Unused tax losses	<u>2,833,008</u>	<u>3,194,900</u>	<u>-</u>	<u>-</u>	<u>6,027,908</u>
Net deferred tax assets (liabilities)	<u>\$ (14,658,606)</u>	<u>\$ 1,460,203</u>	<u>\$ 23,652,856</u>	<u>\$ (765,502)</u>	<u>\$ 9,688,951</u>
Deferred tax assets	<u>\$ 29,319,502</u>				<u>\$ 38,165,870</u>
Deferred tax liabilities	<u>\$ 43,978,108</u>				<u>\$ 28,476,919</u>

- e. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheet.

	December 31	
	2019	2018
Loss carryforwards		
Expiry in 2023	<u>\$ 1,908,009</u>	<u>\$ 1,908,009</u>
Investment credits		
Promotion of private participation in infrastructure projects	\$ 124,952	\$ -
Biotech and new pharmaceuticals industry	7,975	-
Research and development expenses	<u>1,156</u>	<u>-</u>
	<u>\$ 134,083</u>	<u>\$ -</u>

The unrecognized investment credit will expire in 2020 to 2022.

- f. Information about unused investment credits, unused loss carryforwards and tax-exemptions

As of December 31, 2019, investment tax credits comprised:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Act for Promotion of Private Participation in Infrastructure Projects	Promote private participation in infrastructure projects	\$ 124,952	2022
Act for the Development of Biotech and New Pharmaceuticals Industry	Biotech and new pharmaceuticals industry	20	2020
		7,910	2021
		45	2022
Regulations Governing the Application of Investment Credits of Research and Development Expenses for a Company or Limited Partnership	Research and development expenses	<u>1,156</u>	2020
		<u>\$ 134,083</u>	

Loss carryforwards as of December 31, 2019 comprised:

Unused Amount	Expiry Year
\$ 1,908,009	2023
17,725,372	2024
<u>12,750,715</u>	2028
<u>\$ 32,384,096</u>	

- g. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$1,930,898 thousand and \$730,310 thousand, respectively.

- h. Income tax assessments

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

35. TRANSACTIONS WITH RELATED PARTIES

a. Related party name and category

Related Party Name	Related Party Category
Cathay Financial Holdings	The Company's parent company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary
Cathay Walbrook Holding 1 Limited	Subsidiary
Cathay Walbrook Holding 2 Limited	Subsidiary
Conning Holdings Limited	Subsidiary
Octagon Credit Investors, LLC	Subsidiary
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary
Cathay Insurance Company Limited (China)	Associate
Rizal Commercial Banking Corporation	Associate
PT Bank Mayapada Internasional Tbk	Associate
Symphox Information Co., Ltd.	Associate
PSS Co., Ltd.	Associate
Greenhealth Water Resources Co., Ltd.	Associate
Global Evolution Holding ApS	Subsidiary's associate
Ally Logistic Property Co., Ltd.	Subsidiary of associate
Seaward Card Co., Ltd.	Subsidiary of associate
ThinkPower Information Co., Ltd.	Subsidiary of associate
Cathay United Bank Co., Ltd.	Fellow subsidiary
Cathay Century Insurance Co., Ltd.	Fellow subsidiary
Cathay Securities Corporation	Fellow subsidiary
Cathay Venture Inc.	Fellow subsidiary
Cathay Securities Investment Trust Co., Ltd.	Fellow subsidiary
Cathay Futures Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Private Equity Co., Ltd.	Subsidiary of fellow subsidiaries
Cathay Securities (Hong Kong) Limited	Subsidiary of fellow subsidiaries
Cathay Charity Foundation	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Cathay Hospitality Consulting Co., Ltd.	Other related party
Other (including directors, supervisors, key management personnel and their spouses and relatives within the second-degree of kinship)	Other related party

b. Significant transactions with related parties:

1) Property transactions

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

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

Name	For the Year Ended December 31			
	2019		2018	
	Items	Amount	Items	Amount
Subsidiary of associate				
Ally Logistic Property Co., Ltd.	Yangmei Logistics Park, etc.	\$ 830,027	Wuri E-commerce Building, etc.	\$ 869,331
Other related party				
Lin Yuan Property Management Co., Ltd.	Cathay Life Head Office Building, etc.	13,602	Cathay Land Mark, etc.	17,910
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	2,204,548	THSR Taoyuan Commercial Park, etc.	1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	306,419	Minsheng Jingguo Building, etc.	586,426
		<u>2,524,569</u>		<u>1,955,468</u>
		<u>\$ 3,354,596</u>		<u>\$ 2,824,799</u>

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Company and Ally Logistic Property Co., Ltd. were \$1,130,238 thousand and \$3,383,783 thousand, respectively.

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Company and San Ching Engineering Co., Ltd. were \$4,196,448 thousand and \$1,838,045 thousand, respectively.

As of December 31, 2019 and 2018, the total amounts of contracted projects for real estate between the Company and Cathay Real Estate Development Co., Ltd. were \$0 thousand and \$1,742,250 thousand, respectively.

- b) Real-estate rental income

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 100,535	\$ 58,613
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	9,245	8,944
Associate and its subsidiary		
Symphox Information Co., Ltd.	49,833	41,126
Ally Logistic Property Co., Ltd.	588,833	499,776
	<u>638,666</u>	<u>540,902</u>
Fellow subsidiaries and its subsidiary		
Cathay United Bank Co., Ltd.	651,615	681,206
Cathay Century Insurance Co., Ltd.	107,625	108,092
Cathay Securities Investment Trust Co., Ltd.	48,933	48,087
Cathay Securities Corporation	42,776	39,358
Cathay Venture Inc.	4,931	4,742
Cathay Futures Co., Ltd.	7,029	6,271
	<u>862,909</u>	<u>887,756</u>
		(Continued)

Name	For the Year Ended December 31	
	2019	2018
Other related party		
Cathay Medical Care Corp.	\$ 186,848	\$ 186,308
Cathay Real Estate Development Co., Ltd.	18,097	18,466
Cathay Healthcare Management Co., Ltd.	68,812	56,574
Cathay Hospitality Management Co., Ltd.	193,976	218,778
San Ching Engineering Co., Ltd.	5,658	5,610
Cathay Hospitality Consulting Co., Ltd.	98,896	-
Lin Yuan Property Management Co., Ltd.	5,648	-
	<u>577,935</u>	<u>485,736</u>
	<u>\$ 2,189,290</u>	<u>\$ 1,981,951</u>
		(Concluded)

Name	Guarantee Deposits Received December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 30,071	\$ 12,588
Associate and its subsidiary		
Symphox Information Co., Ltd.	13,070	10,363
Ally Logistic Property Co., Ltd.	123,085	57,040
	<u>136,155</u>	<u>67,403</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	188,158	189,738
Cathay Century Insurance Co., Ltd.	26,580	25,167
Cathay Securities Investment Trust Co., Ltd.	10,991	10,991
Cathay Securities Corporation	10,858	9,393
	<u>236,587</u>	<u>235,289</u>
Other related party		
Cathay Medical Care Corp.	11,393	11,260
Cathay Real Estate Development Co., Ltd.	3,959	3,803
Cathay Healthcare Management Co., Ltd.	16,505	15,628
Cathay Hospitality Management Co., Ltd.	184,944	206,166
	<u>216,801</u>	<u>236,857</u>
	<u>\$ 619,614</u>	<u>\$ 552,137</u>

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

c) Lease arrangements

Name	Acquisition of Right-of-use Assets December 31	
	2019	2018
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	\$ 18,400	\$ -

		Lease Liabilities	
		December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 30,983	\$ -
		Rental Expense	
		For the Year Ended December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 8,913	\$ 52,745
Other related party			
Cathay Real Estate Development Co., Ltd.		-	7,413
		\$ 8,913	\$ 60,158
		Guarantee Deposits Paid	
		December 31	
Name		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.		\$ 12,019	\$ 12,019
d) Acquisition of equipment			
<u>Computer equipment and software</u>			
		For the Year Ended December 31	
Name		2019	2018
Subsidiary of associate			
ThinkPower Information Co., Ltd		\$ 11,349	\$ -
e) Disposal of building decoration equipment			
		For the Year Ended December 31	
Name		2019	2018
Other related party			
Cathay Hospitality Management Co., Ltd.		\$ -	\$ 452,540
Gain on disposal of building decoration equipment to Cathay Hospitality Management Co., Ltd.			
was \$13,540 thousand.			

2) Shares transactions

a) Issuance of shares for cash by the Company

Name	Items	For the Year Ended December 31	
		2019	2018
Parent company			
Cathay Financial Holdings	Ordinary shares	<u>\$ 10,000,000</u>	<u>\$ 42,000,000</u>

b) Acquisition of shares issued by the related parties

Name	Items	For the Year Ended December 31	
		2019	2018
Subsidiary			
Conning Holdings Limited	Ordinary shares	\$ -	\$ 1,216,480
Cathay Life Insurance (Vietnam) Co., Ltd.	Ordinary shares	<u>-</u>	<u>3,679,740</u>
		<u>-</u>	<u>4,896,220</u>
Associate			
Rizal Commercial Banking Corporation	Ordinary shares	-	1,992,264
PT Bank Mayapada Internasional Tbk	Ordinary shares	-	1,628,071
Greenhealth Water Resources Co., Ltd.	Ordinary shares	470,916	-
PSS Co., Ltd.	Ordinary shares	<u>-</u>	<u>407,671</u>
		<u>470,916</u>	<u>4,028,006</u>
Fellow subsidiary			
Cathay Venture Inc.	Ordinary shares	<u>1,567,574</u>	<u>-</u>
		<u>\$ 2,038,490</u>	<u>\$ 8,924,226</u>

3) Cash in banks

Name	Items	December 31	
		2019	2018
Fellow subsidiaries			
Cathay United Bank Co., Ltd.	Time deposit	\$ -	\$ 2,003,000
	Demand deposit	23,677,155	28,472,752
	Check deposit	240,154	268,337
	Security deposit	<u>6</u>	<u>6</u>
		<u>\$ 23,917,315</u>	<u>\$ 30,744,095</u>

For the years ended December 31, 2019 and 2018, interest income from Cathay United Bank Co., Ltd. were \$39,874 thousand and \$50,892 thousand, respectively.

As of December 31, 2019 and 2018, time deposit pledged which were included in the above deposits were \$0 thousand and \$3,000 thousand, respectively.

4) Loans

Name	For the Year Ended December 31, 2019		
	Maximum	Rate	Ending Balance
Subsidiaries			
Cathay Walbrook Holding 1 Limited	\$ 13,372,187	3.72%-3.84%	\$ 12,963,581
Cathay Walbrook Holding 2 Limited	703,799	3.72%-3.84%	<u>682,294</u>
			13,645,875
Other related party			
Others	1,042,084	1.03%-3.44%	<u>971,199</u>
			<u>\$ 14,617,074</u>

Name	For the Year Ended December 31, 2018		
	Maximum	Rate	Ending Balance
Subsidiaries			
Cathay Walbrook Holding 1 Limited	\$ 13,553,180	3.45%-3.84%	\$ 12,748,059
Cathay Walbrook Holding 2 Limited	713,325	3.45%-3.84%	<u>670,950</u>
			13,419,009
Other related party			
Others	1,085,539	1.03%-3.74%	<u>973,182</u>
			<u>\$ 14,392,191</u>

For the years ended December 31, 2019 and 2018, interest income from Cathay Walbrook Holding 1 Limited were \$486,524 thousand and \$472,536 thousand, respectively.

For the years ended December 31, 2019 and 2018, interest income from Cathay Walbrook Holding 2 Limited were \$25,607 thousand and \$24,870 thousand, respectively.

For the years ended December 31, 2019 and 2018 interest income from other related parties were \$14,904 thousand and \$14,152 thousand, respectively.

5) Balance of bonds purchased from related parties

Name	December 31	
	2019	2018
Subsidiary		
Octagon Credit Investors, LLC	<u>\$ 5,334,030</u>	<u>\$ 5,500,934</u>

6) Balance of beneficiary certificates purchased from related parties

Name	Items	Guarantee Deposits Paid	
		December 31	
		2019	2018
Subsidiary			
Octagon Credit Investors, LLC	Market value	\$ 670,292	\$ 498,831
	Cost	\$ 679,795	\$ 491,318
Subsidiary's associate			
Global Evolution Holding ApS	Market value	\$ 2,874,903	\$ 2,138,492
	Cost	\$ 2,642,230	\$ 2,142,144
Subsidiary's associate			
Cathay Securities Investment Trust Co., Ltd.	Market value	\$ 61,234,575	\$ -
	Cost	\$ 59,796,572	\$ -
Subsidiary of fellow subsidiaries			
Cathay Private Equity Co., Ltd.	Market value	\$ 490,168	\$ -
	Cost	\$ 494,150	\$ -

7) Discretionary account management balance

Name	December 31	
	2019	2018
Subsidiary		
Conning Holdings Limited	\$ 1,131,901,998	\$ 498,354,764
Subsidiary's associate		
Global Evolution Holding ApS	22,215,022	6,494,247
Fellow subsidiaries		
Cathay Securities Investment Trust Co., Ltd.	213,072,442	210,965,710
	<u>\$ 1,367,189,462</u>	<u>\$ 715,814,721</u>

8) Other receivables

Name	December 31	
	2019	2018
Parent company		
Cathay Financial Holdings (Note)	\$ 10,147,500	\$ 8,998,563
Subsidiary		
Cathay Walbrook Holding 1 Limited	15,883	16,093
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	67,834	60,668
Cathay Securities Investment Trust Co., Ltd.	21,929	14,662
	89,763	75,330
	<u>\$ 10,253,146</u>	<u>\$ 9,089,986</u>

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

9) Prepayments for investments

Name	December 31	
	2019	2018
Associate		
Cathay Insurance Company Limited (China)	\$ -	\$ 1,100,344

10) Guarantee deposits paid (deposits for future transactions)

Name	December 31	
	2019	2018
Fellow subsidiaries		
Cathay Futures Co., Ltd.	\$ 3,078,757	\$ 1,511,584

For the years ended December 31, 2019 and 2018, interest income of the above deposits for future transactions were \$2,472 thousand and \$1,471 thousand, respectively.

11) Guarantee deposits received

Name	December 31	
	2019	2018
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	\$ 151,275	\$ 139,386
Other related party		
Lin Yuan Property Management Co., Ltd.	5,000	5,000
San Ching Engineering Co., Ltd.	453,225	440,700
Cathay Hospitality Management Co., Ltd.	51,000	256,883
Cathay Hospitality Consulting Co., Ltd.	108,145	107,074
	<u>617,370</u>	<u>809,657</u>
	\$ 768,645	\$ 949,043

12) Other payables

Name	December 31	
	2019	2018
Parent company		
Cathay Financial Holdings (Note)	\$ 65,589	\$ 65,589
Subsidiary		
Conning Holdings Limited	<u>317,571</u>	<u>149,374</u>
Associate		
Symphox Information Co., Ltd.	<u>4,871</u>	<u>9,718</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	43,208	89,605
Cathay Century Insurance Co., Ltd.	1,539	7,372
Cathay Securities Investment Trust Co., Ltd.	<u>13,146</u>	<u>13,166</u>
	<u>57,893</u>	<u>110,143</u>
	\$ 445,924	\$ 334,824

Note: The payables were accrued interests of bonds payable.

13) Bonds payable

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

14) Premium income

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	<u>\$ 5,090</u>	<u>\$ 3,162</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	67,136	51,299
Cathay Century Insurance Co., Ltd.	20,185	19,867
Cathay Securities Investment Trust Co., Ltd.	4,007	3,747
Cathay Securities Corporation	<u>8,648</u>	<u>7,901</u>
	<u>99,976</u>	<u>82,814</u>
Other related party		
Cathay Real Estate Development Co., Ltd.	3,491	2,060
Cathay Medical Care Corp.	45,671	44,017
Lin Yuan Property Management Co., Ltd.	3,142	3,184
San Ching Engineering Co., Ltd.	2,889	3,365
Other	<u>369,504</u>	<u>259,323</u>
	<u>424,697</u>	<u>311,949</u>
	<u>\$ 529,763</u>	<u>\$ 397,925</u>

15) Fee income

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Securities Investment Trust Co., Ltd.	<u>\$ 65,352</u>	<u>\$ 68,106</u>

16) Insurance expenses

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	<u>\$ 105,568</u>	<u>\$ 107,023</u>

17) Indemnity income

Name	For the Year Ended December 31	
	2019	2018
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	<u>\$ 12,721</u>	<u>\$ 17,158</u>

18) Other operating costs

Name	For the Year Ended December 31	
	2019	2018
Subsidiary		
Conning Holdings Limited	\$ 844,655	\$ 606,177
Subsidiary's associate		
Global Evolution Holding ApS	5,219	-
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	1,163,173	1,024,363
Cathay Securities Investment Trust Co., Ltd.	182,830	402,183
	<u>1,346,003</u>	<u>1,426,546</u>
	<u>\$ 2,195,877</u>	<u>\$ 2,032,723</u>

19) Finance costs

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 1,260,000	\$ 1,260,000

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

20) Operating expenses

Name	For the Year Ended December 31	
	2019	2018
Subsidiary		
Conning Holdings Limited	\$ 5,759	\$ 1,827
Associate and its subsidiary		
Symphox Information Co., Ltd.	238,252	248,531
ThinkPower Information Co., Ltd.	8,315	-
Seaward Card Co., Ltd.	75,246	85,498
	<u>321,813</u>	<u>334,029</u>
Fellow subsidiaries		
Cathay United Bank Co., Ltd.	6,178,311	6,067,566
Cathay Venture Inc.	11,765	5,928
Cathay Futures Co., Ltd.	6,849	1,757
Cathay Securities (Hong Kong) Limited	6,236	6,049
	<u>6,203,161</u>	<u>6,081,300</u>
Other related party		
Lin Yuan Property Management Co., Ltd.	767,009	793,716
Cathay Real Estate Development Co., Ltd.	3,857	4,718
Cathay Healthcare Management Co., Ltd.	41,181	33,175
Cathay Medical Care Corp.	5,071	14,847
Cathay Charity Foundation	5,300	5,300
San Ching Engineering Co., Ltd.	3,950	3,672
	<u>826,368</u>	<u>855,428</u>
	<u>\$ 7,357,101</u>	<u>\$ 7,272,584</u>

21) Non-operating income

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ 8,557	\$ 4,415
Associate		
Symphox Information Co., Ltd.	3,358	2,926
Fellow subsidiaries		
Cathay Century Insurance Co., Ltd.	677,314	629,342
Cathay United Bank Co., Ltd.	168,589	188,212
Cathay Securities Investment Trust Co., Ltd.	22,707	23,668
Cathay Securities Corporation	41,281	18,824
	<u>909,891</u>	<u>860,046</u>
Other related party		
Cathay Healthcare Management Co., Ltd.	5,554	4,938
Cathay Medical Care Corp.	3,719	3,702
	<u>9,273</u>	<u>8,640</u>
	<u>\$ 931,079</u>	<u>\$ 876,027</u>

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

22) Non-operating expense

Name	For the Year Ended December 31	
	2019	2018
Parent company		
Cathay Financial Holdings	\$ -	\$ 50,704

The non-operating expenses were interest expenses of preferred share liabilities issued by the Company.

23) Other

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

Name	December 31	
	2019	2018
SWAP	<u>US\$ 2,615,000</u>	<u>US\$ 3,752,000</u>

c. Key management personnel compensation

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 167,074	\$ 171,146
Post-employment benefits	<u>2,413</u>	<u>1,779</u>
	<u>\$ 169,487</u>	<u>\$ 172,925</u>

The key management includes chairman, directors, president, senior executive vice president and senior

vice general managers.

36. SEPARATE ACCOUNT INSURANCE PRODUCTS

The related accounts were summarized as follows:

	December 31	
	2019	2018
<u>Separate account insurance product assets</u>		
Cash in bank	\$ 518,576	\$ 888,274
Financial assets at FVTPL	600,237,158	539,874,109
Other receivables	<u>6,668,998</u>	<u>6,090,351</u>
	<u>\$ 607,424,732</u>	<u>\$ 546,852,734</u>
<u>Separate account insurance product liabilities</u>		
Other payables	\$ 467,361	\$ 743,442
Reserve for separate account - insurance contracts	244,601,804	220,038,873
Reserve for separate account - investment contracts	<u>362,355,567</u>	<u>326,070,419</u>
	<u>\$ 607,424,732</u>	<u>\$ 546,852,734</u>
For the Year Ended December 31		
	2019	2018
<u>Separate account insurance product income</u>		
Premium income	\$ 34,766,303	\$ 43,335,095
Interest income	1,593	2,500
Gains (losses) from financial assets at FVTPL	33,575,852	(19,148,899)
Foreign exchange gains (losses)	<u>(4,712,309)</u>	<u>3,907,175</u>
	<u>\$ 63,631,439</u>	<u>\$ 28,095,871</u>
<u>Separate account insurance product expenses</u>		
Claims and payments	\$ 9,064,671	\$ 19,184,402
Cash surrender value	26,020,768	29,582,214
Dividends	5	4
(Recovery) reserve of separate account reserve	24,989,146	(24,332,150)
Administrative expenses	3,696,556	3,781,782
Non-operating income and expenses	<u>(139,707)</u>	<u>(120,381)</u>
	<u>\$ 63,631,439</u>	<u>\$ 28,095,871</u>

For the years ended December 31, 2019 and 2018, the rebates earned from counterparties due to the business of separate account insurance products were \$913,947 thousand and \$1,039,335 thousand, respectively, which were recorded under fee income.

37. 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.

38. PLEDGED ASSETS

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

	December 31	
	2019	2018
Guarantee deposits paid - government bonds	\$ 10,315,438	\$ 11,321,833
Guarantee deposits paid - time deposits	458,667	495,000
Guarantee deposits paid - others	<u>39,996</u>	<u>80,461</u>
	<u>\$ 10,814,101</u>	<u>\$ 11,897,294</u>

39. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. The Company has its own formal control and response policies to manage legal claims. Once the losses can be reasonably estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial figures resulting from the claims.
- b. As of December 31, 2019, the remaining capital commitments for the contracted private equity fund of the Company were NT\$1,701,800 thousand, US\$2,825,760 thousand, EUR405,339 thousand and GBP1,558 thousand.

40. FINANCIAL INSTRUMENTS

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

- 1) The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to their short maturities.
- 2) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

- 3) Fair value of equity instruments without an active market (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and P/B ratio of similar entities).
- 4) Fair value of debt instruments without an active market is determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by Taipei Exchange, average prices for fixed rate commercial paper published by Reuters and credit risk information).
- 5) The fair values of derivatives which are not options and without an active market is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivatives is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- 6) The Company evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Company will not default, the Company determine their credit value adjustment by multiplying three factors, specifically probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates their debit value adjustment by multiplying three factors, specifically probability of default, loss given default, and exposure at default, of the Company. The Company decides the estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Company sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

b. Financial instruments not measured at fair value

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

December 31, 2019

	<u>Carrying Amounts</u>	<u>Fair Values</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 2,623,145,852	\$ 92,827,691	\$ 2,724,567,377	\$ -	\$ 2,817,395,068

December 31, 2018

	Carrying Amounts	Fair Values			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets measured at amortized cost (Note)	\$ 2,273,346,143	\$ 74,464,748	\$ 2,103,973,314	\$ -	\$ 2,178,438,062
Other financial assets	1,999,406	-	2,009,973	-	2,009,973

Note: Guarantee deposits paid in bonds are included.

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

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

1) Fair value hierarchy

Items	December 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>								
Assets								
Financial assets at FVTPL								
Stocks	\$ 477,541,376	\$ 430,216,271	\$ 42,710,567	\$ 4,614,538	\$ 662,938,547	\$ 585,769,226	\$ 72,200,110	\$ 4,969,211
Bonds	205,253,580	-	205,253,580	-	176,136,062	1,021,572	175,114,490	-
Other	569,180,607	460,308,200	14,751,568	94,120,839	284,181,359	187,897,743	19,281,683	77,001,933
Financial assets at FVTOCI								
Stocks	35,625,095	30,305,530	-	5,319,565	30,257,504	26,030,760	154,309	4,072,435
Bonds (Note)	819,825,254	42,244,016	777,581,238	-	893,987,970	29,684,763	864,303,207	-
<u>Derivative instruments</u>								
Assets								
Financial assets at FVTPL	28,259,690	49,353	28,210,337	-	5,377,759	10,210	5,367,549	-
Financial assets for hedging	548,075	-	548,075	-	216,611	-	216,611	-
Liabilities								
Financial liabilities at FVTPL	2,974,334	18,016	2,956,318	-	27,499,106	-	27,499,106	-

Note: Guarantee deposits paid in bonds are included.

Transfers between Level 1 and Level 2:

For the year ended December 31, 2019, there were no transfers between Level 1 and Level 2 for assets or liabilities measured at fair value on a recurring basis. For the year ended December 31, 2018, the Company transferred stocks mandatorily classified as FVTPL of \$2,450,314 thousand from Level 2 to Level 1 due to the availability of market prices.

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

	For the Year Ended December 31, 2019	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
Beginning balance	\$ 81,971,144	\$ 4,072,435
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	4,289,678	-
Gains on reclassification using overlay approach	23,374	-
Recognized in other comprehensive income		
Other comprehensive loss reclassified using overlay approach	(23,374)	-
Gains on equity instruments at fair value of FVTOCI	-	1,036,183
Purchases	27,448,006	258,400
Disposals	(14,950,302)	(47,453)
Transfers out of Level 3	<u>(23,149)</u>	<u>-</u>
Ending balance	<u>\$ 98,735,377</u>	<u>\$ 5,319,565</u>

	For the Year Ended December 31, 2018	
	Financial Assets at FVTPL	Financial Assets at FVTOCI
Beginning balance	\$ 58,520,832	\$ 4,628,059
Recognized in profit or loss		
Gains on financial assets and liabilities at FVTPL	11,942,138	-
Loss on reclassification using overlay approach	(7,748,963)	-
Recognized in other comprehensive income		
Other comprehensive income reclassified using overlay approach	7,748,963	-
Losses on equity instruments at fair value of FVTOCI	-	(463,425)
Purchases	25,108,722	119,700
Disposals	(11,208,590)	(185,788)
Transfers out of Level 3	<u>(2,391,958)</u>	<u>(26,111)</u>
Ending balance	<u>\$ 81,971,144</u>	<u>\$ 4,072,435</u>

Regarding the above amounts recognized in profit or loss for the years ended December 31, 2019 and 2018, unrealized losses of \$1,005,019 thousand and unrealized gains of \$842,480 thousand were related to financial assets held at the end of the year, respectively.

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

The significant unobservable inputs applied for recurring Level 3 fair value measurement were as follows:

December 31, 2019				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Market approach	Discount for lack of liquidity	11%-30%	The higher the discount for lack of m liquidity, the lower the fair value estimates
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	23%-39%	The higher the discount for lack of liquidity and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48)%-265%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	0%-140%	The higher the dividend payout ratio, the higher the fair value estimates
December 31, 2018				
Items	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Relationship Between Inputs and Fair Value
Financial assets at FVTPL and financial assets at FVTOCI	Equity approach	Discount for lack of liquidity	0%-3%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Market approach	Discount for lack of liquidity	11%-30%	The higher the discount for lack of liquidity, the lower the fair value estimates
	Income approach	Discount for lack of liquidity, discount for minority interest, etc.	22%-37%	The higher the discount for lack of liquidity and control, the lower the fair value estimates
		Growth rate of net profit after tax	(48)%-(36)%	The higher the growth rate of adjusted net profit after tax, the higher the fair value estimates
		Dividend payout ratio	70%-140%	The higher the dividend payout ratio, the higher the fair value estimates

4) Valuation process for Level 3 fair value measurement

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

d. Categories of financial instruments

Items	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 1,280,235,253	\$ 1,128,633,727
Financial assets at FVTOCI	854,336,862	921,964,604
Measured at amortized cost		
Cash and cash equivalents (Note)	392,084,068	164,271,632
Receivables	67,883,655	61,861,861
Financial assets measured at amortized cost	2,613,943,901	2,258,061,756
Other financial assets	-	1,999,406
Loans	526,098,622	594,129,442
Guarantee deposits paid	20,464,703	28,924,424
Financial assets for hedging	548,075	216,611
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	2,974,334	27,499,106
Financial liabilities at amortized cost		
Payables	25,554,039	27,799,042
Bonds payable	80,000,000	70,000,000
Lease liabilities	9,198,368	-
Guarantee deposits received	13,230,265	2,811,838

Note: Cash on hand was excluded.

e. Financial risk management objectives and policies

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

1) Sources of market risk

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

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

a) Value at Risk

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

b) Stress testing

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

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

i. Simple sensitivity test

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

ii. Scenario analysis

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

i) Historical scenario

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

ii) Hypothetical scenario

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

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

Table of Stress Testing

Risk Factors	Changes (+/-)	For the Year Ended December 31	
		2019	2018
Equity risk (stock price index)	-10%	\$ (48,324,062)	\$ (71,190,476)
Interest rate risk (yield curve)	+100bps	(107,250,216)	(111,404,367)
Foreign currency risk (foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(11,428,906)	(10,932,445)

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

Note 2: Effects of hedging were considered.

c) Sensitivity analysis

Summary of Sensitivity Analysis

For the Year Ended December 31, 2019			
Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 6,971,123	\$ 4,572,072
	CNY (CNH)/USD appreciates 1%	1,273,520	377,983
	HKD/USD appreciates 1%	(1,447)	350,916
	EUR/USD appreciates 1%	410,075	163,587
	GBP/USD appreciates 1%	78,732	296,052
Interest rate risk	Yield curve (USD) parallel shifts up 1 bp	(111)	(846,435)
	Yield curve (CNY) parallel shifts up 1 bp	-	(14,547)
	Yield curve (EUR) parallel shifts up 1 bp	-	(14,281)
	Yield curve (GBP) parallel shifts up 1 bp	-	(9,463)
	Yield curve (NTD) parallel shifts up 1 bp	147	(74,278)
	Equity price increases 1%	(70,248)	4,933,391
For the Year Ended December 31, 2018			
Risk Factors	Variables (+/-)	Changes in Profit or Loss	Changes in Equity
Foreign currency risk	USD/NTD appreciates 1%	\$ 5,703,586	\$ 5,189,911
	CNY (CNH)/USD appreciates 1%	834,767	536,707
	HKD/USD appreciates 1%	1,978	614,256
	EUR/USD appreciates 1%	93,336	197,382
	GBP/USD appreciates 1%	30,281	245,729
Interest rate risk	Yield curve (USD) parallel shifts up 1 bp	2,040	(912,051)
	Yield curve (AUD) parallel shifts up 1 bp	1,501	-
	Yield curve (EUR) parallel shifts up 1 bp	3,709	(8,246)
	Yield curve (NTD) parallel shifts up 1 bp	491	(161,089)
	Equity price increases 1%	135,986	7,006,951

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

Note 2: Effects of hedging were considered.

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

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

2) Credit risk

a) Sources of credit risk

When engaged in financial transactions, the Company is exposed to credit risks, including issuer credit risk, counterparty credit risk and credit risk of underlying assets:

- i. Issuer credit risk is the risk that the Company may suffer financial losses on debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to perform repayment obligations an agreed conditions due to default, bankruptcy or liquidation.
- ii. Counterparty credit risk is the risk that the Company may suffer financial losses because the counterparty does not perform its obligation to settle or pay at the appointed date.
- iii. Credit risk of underlying assets is the risk that the Company may suffer losses due to deterioration of the credit quality, increase of credit spread, downgrade or breach of any contract terms of underlying assets linked to financial instruments.

b) Concentration of credit risk

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

December 31, 2019						
Financial Assets	Taiwan	Asia	Europe	North America	Emerging Markets and Others	Total
Cash and cash equivalents	\$ 261,553,382	\$ 27,832,083	\$ 185,653	\$ 86,397,047	\$ 16,115,903	\$ 392,084,068
Financial assets at FVTPL	43,409,974	31,448,394	113,252,004	46,690,879	56,395,527	291,196,778
Financial assets at FVTOCI	39,964,295	37,498,812	166,000,546	353,996,509	221,251,605	818,711,767
Financial assets for hedging	87,793	-	362,869	97,413	-	548,075
Financial assets measured at amortized cost	<u>175,262,332</u>	<u>173,472,898</u>	<u>434,046,724</u>	<u>1,167,292,440</u>	<u>663,869,507</u>	<u>2,613,943,901</u>
	<u>\$ 520,277,776</u>	<u>\$ 270,252,187</u>	<u>\$ 713,847,796</u>	<u>\$ 1,654,474,288</u>	<u>\$ 957,632,542</u>	<u>\$ 4,116,484,589</u>
Proportion	12.6%	6.6%	17.3%	40.2%	23.3%	100%

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

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

December 31, 2019					
Location of collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 234,560,225	\$ 40,573,607	\$ 63,399,966	\$ 6,598,385	\$ 345,132,183
Non-accrual receivables	453,880	78,936	124,981	-	657,797
	<u>\$ 235,014,105</u>	<u>\$ 40,652,543</u>	<u>\$ 63,524,947</u>	<u>\$ 6,598,385</u>	<u>\$ 345,789,980</u>
Proportion	68%	11.8%	18.4%	1.8%	100%

December 31, 2018					
Location of Collaterals	Northern and Eastern Areas	Central Area	Southern Area	Overseas	Total
Secured loans	\$ 287,440,820	\$ 48,492,142	\$ 71,391,306	\$ 8,193,993	\$ 415,518,261
Non-accrual receivables	878,642	36,044	54,067	-	968,753
	<u>\$ 288,319,462</u>	<u>\$ 48,528,186</u>	<u>\$ 71,445,373</u>	<u>\$ 8,193,993</u>	<u>\$ 416,487,014</u>
Proportion	69.2%	11.6%	17.2%	2.0%	100%

iii. Categories for credit risk quality

The Company classified credit risk into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

- i) Low credit risk indicates that an entity or a subject has a robust ability to perform financial commitment. Even though it encounters material uncertainty or exposes to unfavorable conditions, its ability to perform financial commitment will be kept and maintained
- ii) Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.
- iii) High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. The capability to perform the commitment depends on the favorability of its business environment and financial conditions.
- iv) Credit impaired indicates that an entity or a subject fails to fulfill its obligations, and the Company evaluates the potential losses and determines it as impaired.

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

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

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

The Company's definition of default on financial assets is the same as that of a credit-impaired financial asset. If one or more of the following criteria are met, a financial asset is considered defaulted and credit-impaired:

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

vi. Measurement of expected credit loss

i) The methodology and assumption applied

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

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

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

ii) Forward-looking information considerations

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

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

i) Financial assets of the Company

December 31, 2019						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 806,786,368	\$ -	\$ -	\$ -	\$ -	\$ 806,786,368
Financial assets measured at amortized cost	2,586,272,855	-	-	-	(988,749)	2,585,284,106
Other financial assets	-	-	-	-	-	-
Non-investment grade						
Debt instruments at FVTOCI	11,734,687	190,712	-	-	-	11,925,399
Financial assets measured at amortized cost	25,743,796	3,124,271	-	-	(208,272)	28,659,795

December 31, 2018						
	Stage 1	Stage 2	Stage 3		Loss Allowance	Gross Carrying Amount
	12-month Expected Credit Losses		Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Assets		
Investment grade						
Debt instruments at FVTOCI	\$ 868,624,804	\$ -	\$ -	\$ -	\$ -	\$ 868,624,804
Financial assets measured at amortized cost	2,221,201,714	-	-	-	(853,594)	2,220,348,120
Other financial assets	2,000,000	-	-	-	(594)	1,999,406
Non-investment grade						
Debt instruments at FVTOCI	22,790,603	215,072	76,621	-	-	23,082,296
Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636

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

ii) Secured loans and overdue receivables of the Company

December 31, 2019							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month		Purchased or Originated				
	Expected Credit Losses			Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 337,652,839	\$ 141,286	\$ 7,995,855	\$ -	\$ (1,232,047)	\$ (3,593,929)	\$ 340,964,004
December 31, 2018							
	Stage 1	Stage 2	Stage 3		Loss Allowance	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Gross Carrying Amount
	12-month		Purchased or Originated				
	Expected Credit Losses			Credit-impaired Financial Assets			
Secured loans and non-accrual receivable	\$ 411,821,024	\$ 111,237	\$ 4,554,753	\$ -	\$ (682,254)	\$ (5,126,352)	\$ 410,678,408

viii. Reconciliation for loss allowance is summarized below:

i) Debt instrument investments at FVTOCI

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 468,280	\$ 17,049	\$ 12,339	\$ -	\$ 497,668
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(3,441)	3,441	-	-	-
New financial assets originated or purchased	148,212	-	7	-	148,219
Financial assets that have been derecognized during the year	(271,945)	(86,404)	(12,462)	-	(370,811)
Changes in models/risk parameters	2,062	75,028	-	-	77,090
Foreign exchange and other movements	(6,090)	552	116	-	(5,422)
December 31, 2019	<u>\$ 337,078</u>	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,744</u>
	Lifetime Expected Credit Losses				Total of Impairment Charged in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 455,064	\$ 96,965	\$ -	\$ -	\$ 552,029
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(1,372)	1,372	-	-	-
Transfer to credit-impaired financial assets	(19)	-	19	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	197,122	-	4,313	-	201,435
Financial assets that have been derecognized during the year	(218,560)	(139,162)	-	-	(357,722)
Changes in models/risk parameters	21,707	57,581	8,007	-	87,295
Foreign exchange and other movements	14,211	420	-	-	14,631
December 31, 2018	<u>\$ 468,280</u>	<u>\$ 17,049</u>	<u>\$ 12,339</u>	<u>\$ -</u>	<u>\$ 497,668</u>

ii) Financial assets measured at amortized cost

	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Accrued in Accordance with IFRS 9
January 1, 2019	\$ 904,430	\$ 705,622	\$ 710,444	\$ -	\$ 2,320,496
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(2,069)	2,069	-	-	-
New financial assets originated or purchased	471,829	-	-	-	471,829
Financial assets that have been derecognized during the year	(363,639)	(533,832)	(658,551)	-	(1,556,022)
Changes in models/risk parameters	55,156	(18,543)	-	-	36,613
Foreign exchange and other movements	(22,670)	(1,332)	(51,893)	-	(75,895)
December 31, 2019	<u>\$ 1,043,037</u>	<u>\$ 153,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,197,021</u>

	Lifetime Expected Credit Losses				
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit- impaired Financial Asset	Purchased or Originated Credit- impaired Financial Assets	Total of Impairment Accrued in Accordance with IFRS 9
January 1, 2018	\$ 754,100	\$ 705,758	\$ -	\$ -	\$ 1,459,858
Changes due to financial instruments recognized as at January 1					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
Transfer to credit- impaired financial assets	(696)	-	696	-	-
Transfer to 12-month expected credit losses	29,348	(29,348)	-	-	-
New financial assets originated or purchased	236,156	-	294,207	-	530,363
Financial assets that have been derecognized during the year	(110,906)	(366,214)	-	-	(477,120)
Changes in models/risk parameters	(24,051)	371,227	415,541	-	762,717
Foreign exchange and other movements	25,076	19,602	-	-	44,678
December 31, 2018	<u>\$ 904,430</u>	<u>\$ 705,622</u>	<u>\$ 710,444</u>	<u>\$ -</u>	<u>\$ 2,320,496</u>

iii) Other financial assets

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2019	\$ 594	\$ -	\$ -	\$ -	\$ 594
Financial assets that have been derecognized during the year	(667)	-	-	-	(667)
Foreign exchange and other movements	73	-	-	-	73
December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Lifetime Expected Credit Losses				Total of Impairment Accrued in Accordance with IFRS 9
	12-month Expected Credit Losses	Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Asset	Purchased or Originated Credit-impaired Financial Assets	
January 1, 2018	\$ 901	\$ -	\$ -	\$ -	\$ 901
Foreign exchange and other movements	(307)	-	-	-	(307)
December 31, 2018	<u>\$ 594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 594</u>

iv) Secured loans and non-accrual receivable

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Accrued in Accordance with IFRS 9	Difference from Impairment Accrued in Accordance with Guidelines for Handling Assessment of Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2019	\$ 90,567	\$ 201	\$ 591,486	\$ -	\$ 682,254	\$ 5,126,352	\$ 5,808,606
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(18)	894	(876)	-	-	-	-
Transfer to credit-impaired financial assets	(4,613)	(76)	4,689	-	-	-	-
Transfer to 12-month expected credit losses	1,397	(74)	(1,323)	-	-	-	-
New financial assets originated or purchased	3,918	-	11,254	-	15,172	-	15,172
Financial assets that have been derecognized during the year	(13,573)	(33)	(229,458)	-	(243,064)	-	(243,064)
Difference from impairment accrued in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(1,532,423)	(1,532,423)
Changes in models/risk parameters	7,131	(613)	771,167	-	777,685	-	777,685
December 31, 2019	<u>\$ 84,809</u>	<u>\$ 299</u>	<u>\$ 1,146,939</u>	<u>\$ -</u>	<u>\$ 1,232,047</u>	<u>\$ 3,593,929</u>	<u>\$ 4,825,976</u>

	12-month Expected Credit Losses	Lifetime Expected Credit Losses			Total of Impairment Charged in Accordance with IFRS 9	Difference from Impairment Charged in Accordance with Guidelines for Handling Assessment of Assets	Total
		Collectively Assessed	Not Purchased or Originated Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets			
January 1, 2018	\$ 108,879	\$ 1,211	\$ 601,271	\$ -	\$ 711,361	\$ 5,438,078	\$ 6,149,439
Changes due to financial instruments recognized as at January 1							
Transfer to lifetime expected credit losses	(15)	15	-	-	-	-	-
Transfer to credit- impaired financial assets	(338)	(44)	382	-	-	-	-
Transfer to 12-month expected credit losses	2,763	(1,036)	(1,727)	-	-	-	-
New financial assets originated or purchased	23,349	-	8,284	-	31,633	-	31,633
Financial assets that have been derecognized during the year	(12,626)	(124)	(69,442)	-	(82,192)	-	(82,192)
Difference from impairment accrued in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(311,726)	(311,726)
Changes in models/risk parameters	(31,445)	179	52,718	-	21,452	-	21,452
December 31, 2018	<u>\$ 90,567</u>	<u>\$ 201</u>	<u>\$ 591,486</u>	<u>\$ -</u>	<u>\$ 682,254</u>	<u>\$ 5,126,352</u>	<u>\$ 5,808,606</u>

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

ix. Exposure to credit risk and loss allowance of receivables

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

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

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

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

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

The reconciliation of loss allowance was as follows:

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 2,346	\$ 2,175
(Reversal) provision for the year	<u>(805)</u>	<u>171</u>
Ending balance	<u>\$ 1,541</u>	<u>\$ 2,346</u>

3) Liquidity risk analysis

a) Sources of liquidity risk

Liquidity risks of financial instruments are comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Company is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. Market liquidity risk is the risk of significant changes in fair values when the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth.

b) Liquidity risk management

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

The Company uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situations. Also, for abnormal and urgent financing needs, management of the Company makes an emergency operating procedure to deal with significant liquidity risks.

The analysis of cash outflows to the Company 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 balance sheets.

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

	December 31, 2019				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 25,488,450	\$ 65,589	\$ -	\$ -	\$ -
Bonds payables (Note 1)	561,650	1,194,411	3,169,920	8,145,000	87,030,080
Lease liabilities (Note 2)	161,576	230,196	402,714	1,073,974	17,812,048
<u>Derivative financial liabilities</u>					
SWAP	1,834,039	298,058	-	-	-
Forward	1,231,198	-	-	-	-
IRS	1,481	1,517	3,410	1,259	-
Option	18,016	-	-	-	-

	December 31, 2018				
	Less than 6 Months	Due in 6-12 Months	Due in 1-2 Years	Due in 2-5 Years	Over 5 Years
<u>Non-derivative financial liabilities</u>					
Payables	\$ 27,733,453	\$ 65,589	\$ -	\$ -	\$ -
Bonds payables (Note)	414,540	1,194,411	2,415,000	7,245,000	78,400,000
<u>Derivative financial liabilities</u>					
SWAP	23,555,917	10,107,225	-	-	-
Forward	5,538,893	53,900	-	-	-
IRS	14,230	3,686	3,978	2,587	-

Note 1: For the bonds without maturity dates, the contract cash flows were determined for 10 years as remaining periods.

Note 2: For the lease liabilities, the contract cash flows were determined for 1 to 43 years as remaining periods.

f. Hedge accounting disclosures

Cash flow hedges

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

1) Hedging instruments

<u>Hedging Instrument</u>	December 31, 2019				
	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period
		Assets	Liabilities		
IRS	\$ 6,800,000	\$ 185,206	\$ -	Financial assets for hedging	\$ 34,498
<u>Hedging Instrument</u>	December 31, 2018				
	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period
		Assets	Liabilities		
IRS	\$ 6,800,000	\$ 216,611	\$ -	Financial assets for hedging	\$ 54,891

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

	Due in				
	1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 Years
<u>December 31, 2019</u>					
IRS					
Nominal principal	\$ -	\$ -	\$ 2,800,000	\$ 4,000,000	\$ -
Average fixed rate	-	-	1.6%	1.7%	-

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

3) Hedged items

For the Year Ended December 31, 2019								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (34,498)	\$185,206	N/A	\$ 34,498	\$ -	\$ -	\$ (65,902)	Finance costs
Discontinued hedge - bonds investments	N/A	N/A	(275)	N/A	N/A	N/A	1	Finance costs
For the Year Ended December 31, 2018								
	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Cash Flow Hedge Reserve	Balance of Cash Flow Hedge Reserve Generated from the Hedging Relationships Where Hedge Accounting Is No Longer Applicable	Changes in the Value of the Hedging Instrument Recognized in Other Comprehensive Income	Hedge Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness	Amount Reclassified from the Cash Flow Hedge Reserve to Profit or Loss	Line Items Affected in Profit or Loss Because of the Reclassification
Floating-rate bonds	\$ (54,891)	\$216,611	N/A	\$ 54,891	\$ -	\$ -	\$ (84,725)	Finance costs
Discontinued hedge - bonds investments	N/A	N/A	\$ -	N/A	N/A	N/A	1,087	Finance costs

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

	For the Year Ended December 31	
	2019	2018
Beginning balance	\$ 173,288	\$ 203,646
Gross amounts recognized in other comprehensive income		
Changes in the values of the hedging instruments recognized in other comprehensive income	34,222	54,891
Amount reclassified from cash flow hedge reserve to profit or loss	(65,901)	(83,638)
Income tax	6,336	(1,611)
Ending balance	\$ 147,945	\$ 173,288

Fair value hedges

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

1) Hedging instruments

	December 31, 2019				Changes in Fair Value Used for Calculating Hedge Ineffectiveness for Current Period
Hedging Instrument	Nominal Amount of the Hedging Instrument	Carrying Amounts of the Hedging Instrument		Line Items in Balance Sheet Where the Hedging Instrument Is Included	
		Assets	Liabilities		
CCS	\$ 9,742,013	\$ 362,869	\$ -	Financial assets for hedging	\$ 93,293

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

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

3) Hedged items

For the Year Ended December 31, 2019								
	Book Value of Hedged Items		Cumulative Adjustment for Changes in Fair value of Hedged Items included in Book Value of Hedged Items		Line Item in Statement of Financial Position that Includes Hedged Items	Changes in Fair Value Used for Calculating Hedge Ineffectiveness for the Period	Ineffectiveness Recognized in Profit or Loss	Line Item in Profit or Loss that Includes Hedge Ineffectiveness
	Assets	Liabilities	Assets	Liabilities				
Oversea bonds	\$ 9,742,013	\$ -	\$ (93,293)	\$ -	Financial assets measured at amortized cost	\$ (93,293)	\$ -	\$ -

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

	For the Year Ended December 31, 2019
<u>Foreign currency basis-related period</u>	
Beginning balance	\$ -
Gross amounts recognized in other comprehensive income	
Changes in the values of the hedging instruments recognized in other comprehensive income	269,576
Income tax	<u>(53,915)</u>
Ending balance	<u>\$ 215,661</u>

g. Offsetting of financial assets and financial liabilities

The Company engages in derivative financial instruments that do not meet the offsetting criteria of standards, but enters into master netting arrangements or other similar agreements with counterparties. Financial instruments subject to master netting arrangements or other similar agreements could be settled at net amount as agreed by both parties of the transaction, or the financial instrument should be settled at gross amount otherwise. However, if one of both parties of the transaction defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

December 31, 2019

Financial Assets Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Assets	Gross Amount of Offset Financial Liabilities Recognized on Balance Sheet	Net Financial Assets Recognized on Balance Sheet	Relevant Amount That Has Not Been Offset on Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivative financial instruments	\$ 28,758,412	\$ -	\$ 28,758,412	\$ 2,952,747	\$ 13,341,124	\$ 12,464,541
Financial Liabilities Bound by Offsetting or Master Netting Arrangements or Similar Agreement						
Item	Gross Amounts of Recognized Financial Liabilities	Gross Amount of Offset Financial Assets Recognized on Balance Sheet	Net Financial Liabilities Recognized on Balance Sheet	Relevant Amount That Has Not Been Offset on Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Paid	
Derivative financial instruments	\$ 2,956,318	\$ -	\$ 2,956,318	\$ 2,952,747	\$ -	\$ 3,571

December 31, 2018

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

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

41. RISK MANAGEMENT AND INSURANCE RISK INFORMATION

a. Risk management objectives, policies, procedures and methods

1) Objectives of risk management

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

2) Framework, organization structure and responsibilities of risk management

a) The board of directors

- i. The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and review it regularly and allocate resources in the most effective manner.
- ii. The board of directors and senior management should consistently promote and execute risk management and keep the consistency of the operational objectives of the Company as well as operational strategies and operations management.
- iii. The board of directors should be aware of the risks arising from operations, ensure the effectiveness of risk management and bear the ultimate responsibility for overall risk management.
- iv. The board of directors should delegate authority to risk management department to deal with violation to risk limits by other departments.

b) Risk management committee

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

- ii. The committee should execute the risk management policies set by the board of directors and review the development, build-up and performance of overall management mechanisms regularly.
 - iii. The committee should assist and monitor the risk management activities.
 - iv. The committee should arrange the risk category, risk limit allocation and risk taking according to the changes in environment.
 - v. The committee should enhance cross-department interaction and communication.
- c) Chief risk officer
- i. The chief risk officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of the Company.
 - ii. The chief risk officer should be able to access any and all business information which may have an impact on risk overview of the Company.
 - iii. The chief risk officer should be in charge of overall risk management of the Company.
 - iv. The chief risk officer should participate in the Company's important decision-making process and, as appropriate, provide opinions from a risk management perspective.
- d) Risk management department
- i. The department is responsible for operational affairs such as monitoring, measuring and evaluating daily risks, which should be performed independent to business.
 - ii. The department should perform the following functions with regard to different business activities:
 - i) Propose and execute the risk management policies set by the board of directors.
 - ii) Propose the risk limits based on risk appetite.
 - iii) Summarize the risk information provided by each department, negotiate and communicate with each departments to facilitate the execution of the policies and the risk limits.
 - iv) Regularly present risk management reports.
 - v) Regularly review the risk limits of each business unit and deal with the violation of the business units authorized by the board of directors.
 - vi) Assist to execute stress testing.
 - vii) Execute back testing if necessary.
 - viii) Other risk management related issues.

e) Business units

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

f) Audit department

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

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

3) The range and nature of risk reporting or evaluation system

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

a) Market risk

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

b) Credit risk

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

c) Country risk

Country risk is the risk that the Company suffers losses from loans, financial investments and long-term investments in a specific country as a result of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. The Company adopts measurement indicators for country risk, which are calculated by total investments in a certain country or specific area divided by total foreign investments or adjusted net assets. The Company reviews and adjusts the indicator on a regular basis.

d) Liquidity risk

Liquidity risk is comprised of funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the Company is not capable of performing matured commitment because it fails to realize assets or obtain sufficient funds. The Company has established measurement indicators of funding liquidity risk and reviews the indicators regularly. In addition, funding reporting system has been established under which the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, cash flow analysis model has been applied and monitored regularly, and improvements should be made once unusual events occur. Cash flow analysis model is also applied to set the annual assets allocation plan to maintain appropriate liquidity of assets. Market liquidity risk is the risk of significant changes in fair values when the Company sells or offsets its positions during a market disorder or a lack of sufficient market depth. The Company has established a liquidity threshold for investment positions. Each investment department evaluates the market trading volumes and adequacy of positions held according to the features and objectives of its investment positions.

e) Operational risk

Operational risk is the risk of losses caused by misconducts or errors of internal process, personnel, and system by external issues. Operational risk includes legal risk but excludes strategic risk and reputation risk. The Company has set the standard operating procedures based on the nature of the business and established reporting system for loss events of operation risk as well as to collect and manage information with respect to losses resulting from operational risk. To maintain the Company's operation and ability to provide customer services while minimizing the losses under a major crisis, the Company has established emergency handling mechanism and information system damage responses.

f) Insurance risk

The Company assumes certain risks which is transferred from policyholders after the collection of premiums from policyholders, and the Company may bear losses due to unexpected changes when paying claims and related expenses. This risk is involved with policy design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

g) Asset and liability matching risk

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

h) Risk-based capital (RBC) ratio

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

i) Risk of information security and personal data management

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

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

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

- i. Stipulate the Company's insurance risk management standards including the definitions and range of risks, management structure, risk management indicators and other risk management measures.
- ii. Establish methods to evaluate insurance risks.
- iii. Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
- iv. Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the related departments should propose corresponding solutions to the risk management committee of the Company and that of Cathay Financial Holdings.

b) The underwriting policies to determine proper risk classification and premium levels

- i. Underwriters should comply with the rules of financial underwriting. For underwriting a new policy of an existing policyholders, the underwriter should consider previous information as well as the exceptional cases from insurance notification database and total insured amounts in insurance enterprises, to check if the number of policies, the insured amounts and the premiums are reasonable and affordable according to the policyholder's financial resources and socioeconomic status and to determine if the policyholder is capable of paying renewal premiums.
- ii. The Company has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards.
- iii. The Company has set up a special panel for large policies to enhance risk management over large policies and avoid adverse selection and moral hazard.

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

a) Insurance risk assessment covers the following risks:

- i. Product design and pricing risk: The risk arises from improper design of products, inconsistent terms and conditions and pricing or unexpected changes.
- ii. Underwriting risk: Unexpected losses arise from solicitation activities, underwriting and approval activities, other expenditure activities, etc.
- iii. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk over the limits or a reinsurer fails to fulfill its obligations such that premiums, claims or expenses cannot be reimbursed.
- iv. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company's credit rating or solvency.
- v. Claim risk: This risk arises from mishandling claims.
- vi. Reserve-related risk: This risk occurs when the Company does not have sufficient reserves to fulfill its obligations owing to underestimation of its liabilities.

b) The scope of management of insurance risk

- i. Develop a risk control framework of the Company's insurance risk to empower related development to execute risk management.
- ii. Establish the Company's insurance risk management standards including the definitions and types of risks, management structure, risk management indicators and other risk management measures.
- iii. Develop related response in consideration of the Company's growth strategy and changes in the domestic and global economic and financial environments.
- iv. Determine methods to measure insurance risks.
- v. Regularly provide the insurance risk management report as a reference for monitoring insurance risk and a developing insurance risk management strategies.
- vi. Other insurance risk management issues.

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

The Company limits or transfers insurance risk exposure and avoids inappropriate concentration risk mainly through the reinsurance management plan which is developed considering the Company's risk taking ability, risk profiling and legal issues factors to determine whether to retain or cede a policy. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

7) Asset/liability management

- a) The Company established an asset/liability management committee to improve the asset/liability management structure, ensure the application of the asset/liability management policy and review the performance from strategy and practice aspect on a regular basis to reduce all types of risks the Company faces.
- b) Authorized departments review the measurement of asset/liability matching risk and report to the asset/liability management committee regularly and results are also reported to the risk management committee of the Company. Furthermore, the annual report is delivered to the risk management committee of the Cathay Financial Holdings.
- c) When an exceptional situation occurs, the related departments should propose reactions to the asset/liability management committee, the risk management committee of the Company and that of Cathay Financial Holdings.

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

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

- a) Capital adequacy management
 - i. Regularly provide capital adequacy management reports and analysis to the finance department of Cathay Financial Holdings.
 - ii. Regularly provide the capital adequacy management analysis report to the risk management committee.
 - iii. Conduct simulation analysis to figure out the use of funding, the changes of the financial environment or the amendments to applicable laws and regulations affecting RBC ratio.
 - iv. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.
- b) Exception management process

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

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

- a) The Company enters into derivative transactions to reduce market risk and credit risk of the asset positions including stock index options, index futures, interest rate futures, IRS, forwards, CCS and credit default swaps for hedging the equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk from the Company's investments; however, the derivatives not qualified for hedge accounting are classified as financial assets at FVTPL.

- b) Hedging instruments against risks and implementation are developed preliminarily in consideration of the risk taking abilities. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.
- c) The Company assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by the board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

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

Considering the credit risk factors, the Company has set up the measurement indicators for credit and investment positions by business groups, industries and countries. When the limits of credit and investments are reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loans or make investment in general. However, if the Company has to undertake the business under certain circumstances, the Company shall follow the internal regulations, including but not limited to “Guidelines for sovereign risk management”, “Guidelines for securities investment risk limit” and “Guidelines for credit and investment risk management on conglomerate and other juristic person institute”.

b. Information of insurance risk

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

For the Year Ended December 31, 2019					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,886,583	Decrease (increase)	\$ 2,309,267
Expense	×1.05 (×0.95)	Decrease (increase)	3,493,065	Decrease (increase)	2,794,452
Surrender rate	×1.05 (×0.95)	Increase (decrease)	624,863	Increase (decrease)	499,891
Rate of return	+0.1%	Increase	5,701,927	Increase	4,561,541
Rate of return	-0.1%	Decrease	5,707,518	Decrease	4,566,014

For the Year Ended December 31, 2018					
	Scenarios	Changes in Income Before Tax		Changes in Equity	
Life table/morbidity	×1.05 (×0.95)	Decrease (increase)	\$ 2,706,747	Decrease (increase)	\$ 2,165,397
Expense	×1.05 (×0.95)	Decrease (increase)	2,909,035	Decrease (increase)	2,327,228
Surrender rate	×1.05 (×0.95)	Increase (decrease)	455,191	Increase (decrease)	364,153
Rate of return	+0.1%	Increase	5,289,255	Increase	4,231,404
Rate of return	-0.1%	Decrease	5,294,445	Decrease	4,235,556

- a) Changes in income before tax listed above referred to the effects of income before tax for the years ended December 31, 2019 and 2018. The changes in equity were assumed that the income tax was calculated at rates of 20%.
- b) As an increase (decrease) of 0.1% in discount rates is applied to liability adequacy test, the result of the test is still adequate for the Company and there is no impact on income before tax and equity. However, if the discount rate keeps declining significantly, income before tax and equity may be affected.
- c) Sensitivity test
 - i. Mortality/morbidity sensitivity test is executed by multiplying the mortality rate, and the morbidity rate of injury insurance by changes in scenarios, resulting in the corresponding changes in income before tax.

- ii. Expense sensitivity test is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by changes in scenarios, resulting in the corresponding changes in income before tax.
- iii. Surrender rate sensitivity test is executed by multiplying surrender rate by changes in scenarios, resulting in the corresponding changes in income before tax.
- iv. Rate of return sensitivity test is executed by adjusting rate of return (Note 2) to increase (decrease) by changes in scenarios, resulting in the corresponding changes in income before tax.

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

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

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

2) Concentration of insurance risks

The Company's insurance business is mainly from the R.O.C., and all the insurance policies have similar risk exposure; for example, the risk exposure to the unexpected changes in trend (mortality, morbidity, and surrender rate) or the risk exposure to multiple insurance contracts caused by a single incident (for example, simultaneous risk exposure to life insurance, health insurance, and casualty insurance caused by an earthquake). The Company reduces risk exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

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

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

3) Claim development trend

a) Direct business development trend

Accident Year	Development Year							Claims Not Yet Filed	Reserve for Claims Not Yet Filed
	1	2	3	4	5	6	7		
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,097,514	18,114,195	-	-
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,219,624	18,236,928	17,304	17,339
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,103,869	19,130,394	19,148,638	44,769	44,858
2016	15,940,308	19,566,897	19,885,388	19,971,081	20,015,621	20,043,491	20,062,635	91,554	91,736
2017	17,297,974	21,370,269	21,769,245	21,857,506	21,905,899	21,936,562	21,957,077	187,832	188,208
2018	19,438,330	23,925,964	24,342,331	24,442,830	24,496,782	24,531,153	24,553,110	627,146	628,401
2019	21,412,454	26,255,736	26,712,604	26,821,429	26,880,489	26,917,744	26,940,927	5,528,473	5,539,530
Expected future payments									\$ 6,510,072
Add: Assumed reserve for claims not yet filed									21,847
Reserve for claims not yet filed									6,531,919
Add: Claims filed but not yet paid									4,032,692
Loss reserve balance									<u>\$ 10,564,611</u>

b) Retained business development trend

Accident Year	Development Year							Claims Not Yet Filed	Reserve for Claims Not Yet Filed
	1	2	3	4	5	6	7		
2013	14,552,889	17,819,664	18,127,219	18,191,122	18,232,660	18,261,664	18,278,424	-	-
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,367,050	18,384,481	17,431	17,466
2015	15,474,235	18,809,508	19,140,593	19,222,947	19,270,603	19,297,466	19,315,887	45,284	45,375
2016	16,051,766	19,702,389	20,024,753	20,110,678	20,155,599	20,183,732	20,202,957	92,279	92,464
2017	17,425,760	21,529,927	21,929,989	22,019,087	22,067,963	22,098,984	22,119,614	189,625	190,004
2018	19,559,154	24,057,586	24,478,074	24,579,614	24,634,269	24,669,349	24,691,638	634,052	635,320
2019	21,440,110	26,292,487	26,750,811	26,860,026	26,919,366	26,956,944	26,980,319	5,540,209	5,551,290
Expected future payments									\$ 6,531,919
Add: Claims filed but not yet paid									4,028,960
Retained loss reserve balance									<u>\$ 10,560,879</u>

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

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

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

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

1) Credit risk

The credit risk of the insurance contracts occurs as the reinsurers fail to perform the obligations of reinsurance contracts, which may result in impairment losses on reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of credit risk concentration of reinsurers. To reduce this risk, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's Reinsurance Risk Management Plan and Evaluation Standards for Reinsurers.

The unqualified reinsurer, the Company's reinsurance counterparties for the year ended December 31, 2018, who did not meet the legal requirements was Trust International Insurance & Reinsurance Company B.S.C (e) Trust Re. Its credit rating was withdrawn by AM Best credit rating agency on December 5, 2018, and the reinsurer became unqualified since then. According to the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms and Regulations Governing the Setting Aside of unqualified Reinsurance Reserves by Insurance Enterprises, the following matters were disclosed:

Summary of unqualified reinsurance contracts and related reinsurance expenses:

Related Insurance Type of Reinsurance Contracts	Individual Insurance - Individual Life Insurance	Group Insurance - Life Insurance and Injury Insurance	Catastrophic Insurance - Life Insurance, Injury Insurance and Health Insurance
Reinsurance expenses for the year ended December 31, 2018	\$ 583	\$ 599	\$ 416

The above unqualified reinsurance contract was terminated on December 31, 2018.

For the year ended December 31, 2019, the credit ratings of the Company's reinsurers are above a certain level, complying with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company's total assets; therefore, no significant credit risk exists.

2) Liquidity risk

The table below is the analysis of the net (undiscounted) cash flow of insurance contracts and of financial instruments with discretionary participation features. The figures shown in this table are the estimated amount of the total insurance payments and expenses of valid insurance contracts in the future deducting total premium on the balance sheet date. The actual future payment amounts may differ due to the difference between the actual result and expected amount.

Unit: In Billions of New Taiwan Dollars

	Insurance Contracts and Financial Instruments with Discretionary Participation Features		
	Within 1 Year	1 to 5 Years	Over 5 Years
December 31, 2019	\$ (166.5)	\$ 301.2	\$ 17,932.0
December 31, 2018	(109.5)	199.3	17,521.6

Note: Separate account products were not included.

3) Market risk

The Company measures insurance liabilities by the discounted rates required by the authorities. The authorities regularly review the assumption of the discount rate for policy reserves; however, the change of the assumption may not be at the same time, in the same direction of change with the market price and interest rate, and only applied to new contracts. Therefore, the impacts of those possible changes in market risk on the provision of policy reserve for the Company's valid insurance contracts are considered minor to profit or loss or equity. When the authorities change the discount rate assumption in a reasonably possible manner with remote possibility as current assessment, it will have an impact in a range on profit or loss or equity depending upon the level of the change and the overall product portfolio of the Company. Furthermore, the reasonably possible change in the market risk may have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities. Based on the reasonably possible changes in current market risk, it has little impact on the adequacy of recognized insurance liabilities.

42. CAPITAL MANAGEMENT

a. Management objectives

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

b. Management policies

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

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

1) Owned capital

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

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

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

2) Risk-based capital

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

- a) Asset risk
- b) Insurance risk

c) Interest rate risk

d) Other risk

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

c. Management procedures

1) Periodical calculation

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

2) Aperiodic calculation

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

d. Current status of RBC ratio

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

43. OTHERS

a. Significant assets and liabilities denominated in foreign currencies

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

December 31, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 111,963,979	30.106000	\$ 3,370,787,537
CNY	16,076,378	4.323121	69,500,132
AUD	3,791,660	21.101295	80,008,942
Non-monetary items			
USD	8,811,685	30.106000	265,284,585
HKD	9,076,942	3.866013	35,091,580
(Continued)			

December 31, 2019			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Investments accounted for the using equity method			
CNY	\$ 3,366,944	4.321700	\$ 14,550,919
USD	491,290	30.106000	14,790,769
PHP	26,747,682	0.594200	15,893,473
IDR	6,526,743,236	0.002172	14,176,087
VND	8,334,020,467	0.001299	10,825,893
GBP	596,591	39.556300	23,598,922
<u>Financial liabilities</u>			
Monetary items			
USD	395,619	30.106000	11,910,495 (Concluded)
December 31, 2018			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 103,246,497	30.733000	\$ 3,173,074,587
AUD	2,933,900	21.677522	63,599,680
CNY	15,976,157	4.474192	71,480,393
Non-monetary items			
USD	9,679,449	30.733000	297,478,514
HKD	15,745,308	3.92398	61,784,266
Investments accounted for using the equity method			
CNY	2,922,368	4.476200	13,081,105
USD	482,451	30.733000	14,827,178
PHP	26,948,935	0.584200	15,743,568
IDR	6,505,480,341	0.002111	13,733,069
VND	7,219,056,604	0.001325	9,565,250
GBP	573,374	38.897200	22,302,637
<u>Financial liabilities</u>			
Monetary items			
USD	1,329,950	30.733000	40,873,360

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

Items	December 31, 2019		
	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Cash and cash equivalents	\$ 392,341,567	\$ -	\$ 392,341,567
Receivables	78,019,887	11,290	78,031,177
Investments			
Financial assets at FVTPL	36,371,906	1,243,863,347	1,280,235,253
Financial assets at FVTOCI	6,707,439	847,629,423	854,336,862
Financial assets measured at amortized cost	39,592,170	2,574,351,731	2,613,943,901
Financial assets for hedging	21,093	526,982	548,075
Investments accounted for using the equity method	-	103,774,796	103,774,796
Investment property	-	445,624,222	445,624,222
Investment property under construction	-	4,546,717	4,546,717
Prepayments for buildings and land - investments	-	1,152,363	1,152,363
Loans	5,305,629	520,792,993	526,098,622
Total investments	87,998,237	5,742,262,574	5,830,260,811
Reinsurance assets	357,722	1,320,075	1,677,797
Property and equipment	-	29,653,823	29,653,823
Right-of-use assets	-	465,801	465,801
Intangible assets	-	31,478,209	31,478,209
Deferred tax assets	-	36,056,344	36,056,344
Other assets	6,870,709	20,598,568	27,469,277
Separate account insurance product assets	7,187,575	600,237,157	607,424,732
Total assets	\$ 572,775,697	\$ 6,462,083,841	\$ 7,034,859,538
Payables	\$ 25,554,039	\$ -	\$ 25,554,039
Current tax liabilities	261,305	-	261,305
Financial liabilities at FVTPL	2,966,992	7,342	2,974,334
Bonds payable	-	80,000,000	80,000,000
Insurance liabilities			
Unearned premium reserve	-	17,504,877	17,504,877
Loss reserve	-	10,564,611	10,564,611
Policy reserve	-	5,567,592,302	5,567,592,302
Special reserve	-	11,084,624	11,084,624
Premium deficiency reserve	-	19,679,457	19,679,457
Other reserve	-	1,873,141	1,873,141
Total insurance liabilities	-	5,628,299,012	5,628,299,012
Reserve for insurance contracts with the nature of financial products	-	1,001,991	1,001,991
Reserve for foreign exchange valuation	-	18,000,877	18,000,877
Provisions	-	56,245	56,245
Lease liabilities	391,772	8,806,596	9,198,368
Deferred tax liabilities	-	54,951,648	54,951,648

(Continued)

December 31, 2019			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Other liabilities	\$ -	\$ 18,518,204	\$ 18,518,204
Separate account insurance product liabilities	<u>467,361</u>	<u>606,957,371</u>	<u>607,424,732</u>
Total liabilities	<u>\$ 29,641,469</u>	<u>\$ 6,416,599,286</u>	<u>\$ 6,446,240,755</u> (Concluded)
December 31, 2018			
Items	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Cash and cash equivalents	\$ 164,504,001	\$ -	\$ 164,504,001
Receivables	70,817,338	43,097	70,860,435
Investments			
Financial assets at FVTPL	8,689,108	1,119,944,619	1,128,633,727
Financial assets at FVTOCI	9,199,964	912,764,640	921,964,604
Financial assets measured at amortized cost	33,988,272	2,224,073,484	2,258,061,756
Financial assets for hedging	-	216,611	216,611
Investments accounted for using the equity method	-	97,135,294	97,135,294
Other financial assets	-	1,999,406	1,999,406
Investment property	-	423,590,460	423,590,460
Investment property under construction	-	2,785,640	2,785,640
Prepayments for buildings and land - investments	-	722,686	722,686
Loans	-	594,129,442	594,129,442
Total investments	<u>51,877,344</u>	<u>5,377,362,282</u>	<u>5,429,239,626</u>
Reinsurance assets	482,321	998,539	1,480,860
Property and equipment	-	29,848,752	29,848,752
Intangible assets	-	33,545,574	33,545,574
Deferred tax assets	-	38,165,870	38,165,870
Other assets	6,514,407	30,404,536	36,918,943
Separate account insurance product assets	<u>6,978,625</u>	<u>539,874,109</u>	<u>546,852,734</u>
Total assets	<u>\$ 301,174,036</u>	<u>\$ 6,050,242,759</u>	<u>\$ 6,351,416,795</u>
Payables	\$ 27,799,042	\$ -	\$ 27,799,042
Current tax liabilities	27,490,471	8,635	27,499,106
Financial liabilities at FVTPL	-	70,000,000	70,000,000
Bonds payable			

(Continued)

Items	December 31, 2018		
	Recovery/ Settlement within 12 Months	Recovery/ Settlement over 12 Months	Total
Insurance liabilities			
Unearned premium reserve	\$ -	\$ 16,458,535	\$ 16,458,535
Loss reserve	-	8,531,570	8,531,570
Policy reserve	-	5,207,460,951	5,207,460,951
Special reserve	-	11,084,254	11,084,254
Premium deficiency reserve	-	22,548,304	22,548,304
Other reserve	-	1,894,570	1,894,570
Total insurance liabilities	-	5,267,978,184	5,267,978,184
Reserve for insurance contracts with the nature of financial products	-	930,654	930,654
Reserve for foreign exchange valuation	-	17,075,289	17,075,289
Provisions	-	56,245	56,245
Deferred tax liabilities	-	28,476,919	28,476,919
Other liabilities	-	8,155,913	8,155,913
Separate account insurance product liabilities	743,442	546,109,292	546,852,734
Total liabilities	\$ 56,032,955	\$ 5,938,791,131	\$ 5,994,824,086 (Concluded)

c. Information for discretionary investment

- 1) As of December 31, 2019 and 2018, the Company contracts with securities investment trust companies for discretionary investment service and the related investments are as follows:

Items	December 31	
	2019	2018
Domestic stocks	\$ 110,798,703	\$ 118,377,980
Overseas stocks	51,029,574	60,215,861
Reverse repurchase bonds	14,812,000	12,410,000
Cash in banks	35,979,663	17,914,307
Beneficiary certificates	17,180	1,830,959
Futures and options	435,322	216,603
	<u>\$ 213,072,442</u>	<u>\$ 210,965,710</u>

The carrying amounts of the financial assets operated discretionarily by securities investment trust enterprises are equal to their fair values.

- 2) As of December 31, 2019 and 2018, the discretionary investments limits are as follows:

	December 31	
	2019	2018
Domestic stocks		
NTD	\$ 64,358,163	\$ 97,872,589
USD	952,200	1,417,500
HKD	544,084	2,023,000

d. Structured entities

1) Structured entities controlled by the Company

The structured entities controlled by the Company are the real estate investment and management organizations. As of December 31, 2019 and 2018, the Company provided loans amounting to GBP345,000 thousand as financial support to the entities for operation and investment needs.

2) Structured entities - not controlled by the Company

- a) The Company holds interests in structured entities not controlled by the Company and the Company does not provide financial support or other support to these structured entities. The maximum exposure to these structured entities is the carrying amount of the related assets held by the Company. The information of these uncontrolled structured entities is disclosed as follows:

<u>Types of Structured Entity</u>	<u>Nature and Purpose</u>	<u>Interests Owned</u>
Private equity fund	Investment in private equity funds issued by external third parties to receive returns	Investment in units or limited partnership interests issued by the funds
Securitization vehicle	Investment in securitization vehicle to receive returns	Investment in asset-backed securities issued by the entities

- b) As of December 31, 2019 and 2018, the carrying amounts of the Company's assets related to its interests in uncontrolled structured entities are disclosed as follows:

	<u>December 31, 2019</u>	
	<u>Private Equity Funds</u>	<u>Securitization Vehicle</u>
Financial assets at FVTPL	\$ 94,120,839	\$ 33,010,751
Financial assets at FVTOCI	-	47,465,038
Financial assets measured at amortized cost	<u>-</u>	<u>191,072,559</u>
	<u>\$ 94,120,839</u>	<u>\$ 271,548,348</u>
	<u>December 31, 2018</u>	
	<u>Private Equity Funds</u>	<u>Securitization Vehicle</u>
Financial assets at FVTPL	\$ 77,198,514	\$ 28,847,287
Financial assets at FVTOCI	-	53,974,279
Financial assets measured at amortized cost	<u>-</u>	<u>152,673,283</u>
	<u>\$ 77,198,514</u>	<u>\$ 235,494,849</u>

44. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions:

No.	Description	Explanation
1	Acquisition of individual real estate at price over \$100 million or 20% of the paid-in capital.	Table 3
2	Disposal of individual real estate at price over \$100 million or 20% of the paid-in capital.	Table 4
3	Engage in core business transactions with related parties amounting over \$100 million or 20% of the paid-in capital.	Note 35
4	Receivables from related parties amounting over \$100 million or 20% of the paid-in capital.	Note 35
5	Trading in derivative instruments.	Notes 8, 10 and 40

b. Information of investees

No.	Description	Explanation
1	Information on investee, including name, location and etc.	Table 1
2	Financing provided to others.	N/A
3	Endorsements/guarantees provided.	N/A
4	Marketable securities held.	Table 2
5	Marketable securities acquired or disposed of at accumulated amounts over \$100 million or 20% of the paid-in capital.	N/A
6	Acquisition of individual real estate at price over \$100 million or 20% of the paid-in capital.	N/A
7	Disposal of individual real estate at price over \$100 million or 20% of the paid-in capital.	N/A
8	Engage in core business transactions with related parties and transaction amounting over \$100 million or 20% of the paid-in capital.	Note 35
9	Receivables from related parties amounting over \$100 million or 20% of the paid-in capital.	N/A
10	Trading in derivative instruments.	N/A

c. Information on investments in Mainland China

No.	Description	Explanation
1	Name, principle business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in mainland China. If the investee belongs to the insurance industry, the location, status of capital funds and related income, provision methodology and balances of insurance policy reserves, percentage of insurance income and percentage of insurance benefits and claims should also be revealed.	Table 5
2	Significant transaction, with investee in mainland China, directly or indirectly through a third region including transaction prices, payment conditions, and unrealized gains or losses.	N/A
3	Note, endorsements and collaterals provided directly or indirectly through a third region by investee in mainland China.	N/A
4	Capital financing directly or indirectly through a third region by investee in mainland China.	N/A
5	Other significant transactions which may affect the decisions of users of the financial statements.	N/A

TABLE 1

CATHAY LIFE INSURANCE CO., LTD.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars/In Thousands Share of Ordinary Shares)

Investor Company	Name of Investee	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares	Ratio (%)	Carrying Amount			
The Company	Conning Holdings Limited	UK	Holding company	\$ 15,723,539	\$ 15,723,539	2,029	100.00	\$ 14,790,769	\$ 438,274	\$ 297,431	Subsidiary (2)
	Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	Life insurance	9,090,730	9,090,730	-	100.00	10,825,893	73,873	73,873	Subsidiary (2)
	Cathay Woolgate Exchange Holding 1 Limited	Jersey Island	Real estate investment and operation management	16,654,013	16,654,013	326,700	100.00	13,947,324	740,807	740,807	Subsidiary (1)
	Cathay Woolgate Exchange Holding 2 Limited	Jersey Island	Real estate investment and operation management	168,222	168,222	3,300	100.00	140,147	6,776	6,776	Subsidiary (1)
	Cathay Walbrook Holding 1 Limited	Jersey Island	Real estate investment and operation management	10,189,090	10,189,090	213,750	100.00	9,038,997	161,394	161,394	Subsidiary (1)
	Cathay Walbrook Holding 2 Limited	Jersey Island	Real estate investment and operation management	536,268	536,268	11,250	100.00	472,454	7,893	7,893	Subsidiary (1)
	Rizal Commercial Banking Corporation	Philippines	Banking	15,683,953	15,683,953	452,019	23.35	15,893,473	1,784,924	416,825	Associate (2)
	PT Bank Mayapada Internasional Tbk	Indonesia	Banking	13,317,536	13,317,536	2,550,767	37.33	14,176,087	2,741,078	(3,569)	Associate (2)
	Cathay Securities Investment Consulting Co., Ltd.	Taiwan	Securities investment consulting services	70,000	70,000	7,000	100.00	333,089	157,296	157,296	Subsidiary (1)
	Symphox Information Co., Ltd	Taiwan	Wholesale of information softwares	404,432	404,432	24,511	49.12	402,615	16,770	8,238	Associate (2)
	WK Technology Fund VI Co., Ltd.	Taiwan	Venture investment	108,372	108,372	10,837	21.43	69,162	5,750	1,232	Associate (2)
	Dasheng Venture Capital Co., Ltd.	Taiwan	Venture investment	957,118	1,044,225	95,712	25.00	1,679,260	2,753	688	Associate (2)
	Dasheng IV Venture Capital Co., Ltd.	Taiwan	Venture investment	750,000	750,000	75,000	21.43	782,762	66,717	14,297	Associate (2)
	CMG International One Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	675,965	(317)	(143)	Associate (2)
	CMG International Two Co., Ltd.	Taiwan	Lease and development of residence and buildings	675,000	675,000	67,500	45.00	674,106	(2,182)	(982)	Associate (2)
	CM Energy Co., Ltd.	Taiwan	Energy technical services	270,000	270,000	27,000	45.00	281,396	22,854	10,284	Associate (2)
	Neo Cathay Power Corp.	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	684,724	8,956	4,031	Associate (2)
	Cathay Sunrise Corporation	Taiwan	Energy technical services	675,000	675,000	67,500	45.00	689,074	29,656	13,345	Associate (2)
	Ding Teng Co., Ltd.	Taiwan	Sewage treatment	756,116	756,116	37,284	27.36	791,192	182,310	49,883	Associate (2)
	PSS Co., Ltd.	Taiwan	Parking space management	781,364	781,364	13,452	36.70	833,568	186,263	68,474	Associate (2)
	Greenhealth Water Resources Co., Ltd.	Taiwan	Sewage treatment	470,916	-	45,600	30.00	469,726	(3,965)	(1,190)	Associate (2)
	Cathay Venture Inc.	Taiwan	Venture Investment	1,567,574	-	114,129	25.00	1,572,093	308,017	4,436	Associate (1)

Note 1: Share of profit or loss is recognized on the basis of the financial statements reviewed by an independent auditor.

Note 2: Share of profit or loss is recognized on the basis of the financial statements unreviewed by an independent auditor.

TABLE 2

CATHAY LIFE INSURANCE CO., LTD.

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars/In Thousands Share of Ordinary Shares)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statements Accounts	December 31, 2019				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Conning Inc.	<u>Preference shares</u> Centerprise Services	N/A	Financial assets at FVTOCI	400	\$ 4,409	1.76	\$ 4,409	
Symphox Information Co., Ltd.	<u>Stocks</u> Appworks Fund I Co., Ltd.	N/A	Financial assets at FVTOCI	43	423	0.63	423	
	Fashionguide Co., Ltd.	N/A	Financial assets at FVTOCI	1,293	4,565	7.72	4,565	
	Buyforyou Co., Ltd.	N/A	Financial assets at FVTOCI	117	-	10.00	-	
	Ally Logistic Property Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	9,180	132,239	51.00	132,239	
	Connect Logistics Service Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,707	-	100.00	-	
	Seaward Card Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	55,337	100.00	55,337	
	Thinkpower Information Corporation	Parent and subsidiary	Investments accounted for using the equity method	4,545	356,376	71.00	356,376	
	Bowl Cut Entertainment Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	500	5,989	100.00	5,989	
	YULIN New Retail Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	3,000	29,658	100.00	29,658	
Greenhealth Water Resources Co., Ltd.	Lung Chuan Water Resources Co., Ltd.	Parent and subsidiary	Investments accounted for using the equity method	152,000	1,545,267	100.00	1,545,267	

TABLE 3

CATHAY LIFE INSURANCE CO., LTD.

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Buyer	Property	Event Date	Transaction Amount (Note 1)	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Company	Land located at Sanmin Section, Taoyuan City	2019.05.03	\$ 981,851	Installment payments according to contracts	Mr. Lu and other six natural person	Non-related party	-	-	-	\$ -	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3,Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	323,890	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land and buildings located at Sec.3,Minsheng E. Rd., Zhongshan Dist., Taipei City	2019.05.31	389,855	Lump sum	Taipei City	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Sanmin Section, Taoyuan City	2019.07.10	397,327	Installment payments according to contracts	Mr. Yang	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Tongan Section, Taoyuan City	2019.07.24	186,107	Installment payments according to contracts	Mr. Wu and other four natural person	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None
	Land located at Erchungshi Section, Yangmei Dist., Taoyuan City	2019.11.13	3,259,000	Installment payments according to contracts	Tungya Transportation and Terminal Co., Ltd.	Non-related party	-	-	-	-	Valuation report of appraisers	Real estate investment in accordance with the Insurance Act.	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Note 2: The term “event date” refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors’ resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

TABLE 4**CATHAY LIFE INSURANCE CO., LTD.****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Seller	Property	Event Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Collection	Gain or Loss on Disposal	Counterparty	Relationship	Purposes of Disposal	Pricing Reference	Other Terms
The Company	Land located at No. 114, 3 rd Subsection, Renai Section Taipei City	2019.11.15	1974.05.23	\$ 108,177	\$ 108,177	(Note 3)	(Note 3)	Taipei City Government	Non-related party	(Note 3)	(Note 3)	None
	Land and buildings located at Xining S. Rd.	2019.12.05	2015.07.01	121,500	130,000	Installment payments according to contracts	\$ 8,500	Mr. Hong	Non-related party	Real estate disposal in accordance with the Insurance Act.	Evaluation report of appraisers	None

Note 1: The transaction amount is the total contract price, not including the land registration fee, transcript expense, scrivener expense and stamp duty.

Note 2: The term “event date” refers to the date of contract signing, date of collection, date of consignment trade, date of transfer, dates of boards of directors’ resolutions or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier.

Note 3: The Company donated the land to the Taipei City Government for building capacity transfer.

TABLE 5

CATHAY LIFE INSURANCE CO., LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Investee Company	Principle business activities	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outflow	Inflow						
Cathay Lujiazui Life Insurance Co., Ltd.	Life insurance	\$ 13,497,155	(a)	\$ 6,748,578	\$ -	\$ -	\$ 6,748,578	\$ 612,551	50.0	\$ 306,275 (Note 2,b,2)	\$ 5,357,121	\$ -
Cathay Insurance Company Limited (China)	Property insurance	12,196,844	(a)	2,943,663	-	-	2,943,663	(10,084)	24.5	(2,470) (Note 2,b,3)	1,774,629	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	7,223,435	(a)	7,223,435	-	-	7,223,435	274,320	100.0	205,253 (Note 2,b,2)	7,419,170	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$16,915,676 (Including the amounts of CNY2,845,000 thousand and US\$106,352 thousand)	\$353,171,270

Note 1: The 3 methods of investment are as follows:

- a. Direct investment in China.
- b. Reinvestment in China through the third-region companies.
- c. Others.

Note 2: The column of investment profit or loss for the period:

- a. If it is in preparation, there are no investment gains and losses, it should be noted.
- b. The recognition basis for investment gain (loss) are as follows:
 - 1) Financial statement is audited by an international. CPA firms with the cooperation of the ROC CPA firm.
 - 2) Financial statement is audited by the parent company's CPA firm in Taiwan.
 - 3) Other.

Note 3: Information on investments in mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (“MOEAIC”) authorized the Company to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand approved by MOEAIC on December 20, 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousand as the registered capital again on May 16, 2008. MOEAIC authorized the Company to remit US\$3,400 thousand as the registered capital again on April 2, 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY200,000 thousand to avoid currency risk on September 14, 2013. The total registered capital was US\$110,730 thousand. On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company’s subsidiary, Cathay Life Insurance Ltd. (China) acquired a business license of an enterprise as legal person on December 29, 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on August 12, 2014. The Company remitted US\$48,330 thousand to the subsidiary as of December 31, 2009. The Company injected additional US\$29,880 thousand on September 29, 2010 and CNY200,000 thousand on May 8, 2014. On August 23, 2017, MOEAIC authorized the Company to remit CNY700,000 thousand and the amount was remitted on September 20, 2017. As of December 31, 2019, the Company’s remittances to the subsidiary amounted to a total of approximately CNY900,000 thousand and US\$78,210 thousand.

(Continued)

On October 17, 2007, MOEAIC authorized the Company to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on October 8, 2007. On March 6, 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On August 15, 2008, MOEAIC further authorized the Company to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai acquired a business license of an enterprise as legal person on August 26, 2008. On May 28, 2013, MOEAIC authorized the Company to remit CNY200,000 thousand to increase the share capital. Also, MOEAIC authorized the Company to remit CNY245,000 thousand on December 6, 2018. As of December 31, 2019, the Company's remittances to this general insurance company amounted to approximately CNY445,000 thousand and US\$28,140 thousand.

On November 1, 2011 and April 11, 2012, MOEAIC authorized the Company to remit CNY300,000 (US\$47,000) thousand and CNY500,000 (US\$80,000) thousand, respectively. A total of US\$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. acquired a business license of an enterprise as legal person on August 15, 2012. On April 1, 2013, MOEAIC authorized the Company to remit CNY700,000 (US\$111,000) thousand to increase the share capital. As of December 31, 2019, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. amounted to approximately CNY1,500,000 thousand.

(Concluded)

VI. If the company or an affiliated enterprise has encountered any financial difficulties in the most recent fiscal year, the impact on the company's financial condition shall be set forth: None.

Seven. Review and analysis of financial status and financial performance and risk management

I. Financial Status

Unit: NT\$ thousand

Item \ Year	2019	2018	Difference	
			Amount	%
Cash and cash equivalents	\$392,341,567	\$164,504,001	227,837,566	138.50%
Receivable	78,031,177	70,860,435	7,170,742	10.12%
Financial assets and loans	5,830,260,811	5,429,239,626	401,021,185	7.39%
Reinsurance assets	1,677,797	1,480,860	196,937	13.30%
Property and equipment	29,653,823	29,848,752	(194,929)	(0.65%)
Intangible assets	31,478,209	33,545,574	(2,067,365)	(6.16%)
Other assets (Note 1)	671,416,154	621,937,547	49,478,607	7.96%
Total assets	7,034,859,538	6,351,416,795	683,442,743	10.76%
Payables	25,554,039	27,799,042	(2,245,003)	(8.08%)
Financial Liabilities	82,974,334	97,499,106	(14,524,772)	(14.90%)
Insurance liabilities, Reserve for Insurance Contracts With The Nature Of Financial Products and Reserve for Foreign Exchange Valuation	5,647,301,880	5,285,984,127	361,317,753	6.84%
Provisions	56,245	56,245	-	-
Other liabilities (Note 2)	690,354,257	583,485,566	106,868,691	18.32%
Total liabilities	6,446,240,755	5,994,824,086	451,416,669	7.53%
Capital stock	58,515,274	57,265,274	1,250,000	2.18%
Capital surplus	60,607,456	51,535,925	9,071,531	17.60%
Retained earnings	364,423,657	331,036,962	33,386,695	10.09%
Other equity	105,072,396	(83,245,452)	188,317,848	(226.22%)
Total equity	588,618,783	356,592,709	232,026,074	65.07%
Note 1: Other assets include guarantee deposits paid, deferred tax assets, right-of-use assets, and separate account product assets.				
Note 2: Other liabilities include guarantee deposits received, deferred tax liabilities, lease liabilities, and separate account product liabilities.				
Analysis of increase (decrease) in proportion:				
1. Mainly due to the increase in interests and dividends in 2019.				
2. Mainly due to the increase in unrealized income of financial assets in 2019.				

II. Financial Performance

Unit: NT\$ thousand

Item \ Year	2019	2018	Change in amount	Change in proportion (%)	
Operating income	\$906,585,211	\$799,466,715	107,118,496	13.40%	1
Operating cost	846,503,873	751,709,190	94,794,683	12.61%	2
Operating expenses	22,141,294	21,472,697	668,597	3.11%	
Operating benefit	37,940,044	26,284,828	11,655,216	44.34%	3
Non-operating income and expenses	1,663,036	1,310,502	352,534	26.90%	4
Income from continuing operations before income tax	39,603,080	27,595,330	12,007,750	43.51%	5
Income tax benefit (expense)	(1,757,127)	2,593,990	(4,351,117)	(167.74%)	6
Net income from continuing operations	37,845,953	30,189,320	7,656,633	25.36%	7
Analysis of increase (decrease) in proportion:					
1. Mainly due to the increase in net investment income in 2019.					
2. Mainly due to wider net changes in other insurance liabilities in 2019.					
3. Mainly due to the increase in operating income in 2019.					
4. Mainly due to the decrease in non-operating expenses in 2019.					
5. Mainly due to the increase in operating income in 2019.					
6. Mainly due to the increase in income tax expense in 2019.					
7. Mainly due to the increase in operating income in 2019.					

III. Cash flows

(I) Liquidity Analysis

Item \ Year	2019	2018	Increase (decrease) in proportion (%)	
Cash flow ratio (%)	536.43	(131.62)	(507.56%)	1
Net cash flow adequacy rate (%)	(82.15)	(82.03)	0.15%	
Cash reinvestment ratio (%)	2.46	(1.45)	(269.66%)	2
Analysis of increase (decrease) in proportion:				
1. Mainly due to higher net cash flow from operating activities in 2019 compared to that in 2018.				
2. Mainly due to higher net cash flow from operating activities in 2019 compared to that in 2018.				

(II) Cash Liquidity Analysis for the Next Year

The balance of cash and cash equivalents at the end of 2019 was NT\$392.342 billion, with sufficient cash liquidity expected in 2020.

IV. Major capital expenditures in the most recent year: None.

V. The Investment Strategy in the most recent year. Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year:

Despite the US-China trade war, global economies steadily grew and the financial market performed better than expected in 2019. The Company's long-term investment business also grew steadily. Meanwhile, given that the government has promoted the "Five Plus Two" innovative industries plan, the Company will continue to focus on related industries, including solar energy and water resources. The Company will adhere to its steady and conservative investment policies in the coming year to meet the Company's long-term business development and sustainability goals.

VI. Risk analysis and evaluation

(I) The impact of changes in interest rates, exchange rates, and inflation on the Company's profit/loss and future countermeasures:

1. Interest rate: Looking at 2019, the US-China trade tension has led to economic slowdown in major economies, with IMF global economic growth forecast at 3.0%. The monetary policy of major central banks in the world has become more accommodative, of which THE Federal Reserve cut its interest rate by 75 basis points as an insurance cut, the European Central Bank furthered its negative interest rate policy, whereas the central bank of Taiwan maintained its discount rate at 1.375%. Looking forward to 2020, there are still a number of uncertainties, such as the United States presidential election, US-China trade tension, Brexit, and geopolitical risks, which are expected to cause high volatility risk in the global economy, and affect monetary policy decisions of central banks. The Company will continue to keep track of global economic trends and the financial market, and evaluate the potential impact of interest rate on the company's various assets, in order to timely adjust the investment portfolios and formulate the appropriate investment strategies.
2. Exchange rate: In 2019, due to continued policy easing around the world, central banks of major countries cut interest rates. The Federal Reserve cut interest rates 3 times and maintained steady economic expansion. However, market became more cautious considering weak economic growth in Europe, the economic slowdown in Germany, and the Brexit issue. The US dollar remained relatively strong, while

other non-US currencies generally depreciated. However, Taiwan's economy benefited from order-transfer effect, FDI inflows in Taiwan stocks, and homecoming trend among Taiwanese entrepreneurs, which made NT dollars relatively resistant to depreciation, with total appreciation of 2% throughout the year. Since mid-2016, the link between the NTD trend and international funds has become more obvious, and it is expected that NTD exchange rate will become more market-oriented in the future given a "new normal" of high volatility. Looking forward to 2020, despite the Fed cuts interest rate and reduce the hedging costs, the costs is still at high level and the hedging environment of the life insurance industry remains difficult. The Company will still appropriately adjust its hedging strategies in accordance with the FX trend to reduce the impact of exchange rate fluctuations and stabilize the company's profits/losses.

3. Inflation: In 2019, food price was the highest compared to other commodities affected by weather. However, international raw material prices and WPI continued to fall, alleviating the cost pressure of suppliers. Taiwan's annual CPI rose slightly by 0.56%, which is still low compared to other countries in Asia. Taiwan's central bank estimates that the CPI will grow 0.77% in 2020, which is still a moderate trend and will not have a significant impact on the company's profit and loss.

(II) The main causes for profits or losses for engaging in high-risk, high-leverage investments, loaning funds to others, endorsement/ guarantees and derivatives trading policies, and the future countermeasures:

1. The use of company funds are in compliance with relevant laws and regulations, with the principle of seeking maximum returns under a conservative and stable method, and has not engaged in high-risk and high-leverage investments.
2. The company has not provided endorsements or guarantees for others.
3. The transaction of derivatives are handled in accordance with the "Regulations Governing Derivatives Transactions Conducted by Insurance Companies" for the purpose of hedging and increasing investment efficiency. The transactions for hedging purpose is to reduce market risk and credit risk of assets, and the transactions for enhancing the investment efficiency is for investment efficiency enhancement with risks under control. The company has investment limits and stop-loss requirements for transactions with the purpose of investment efficiency enhancement, and conducts daily assessments on profit/loss and risk conditions.

(III) Future R & D plans and the budgets on R & D:

Please refer to the contents in Chapter One: I. (IV).

(IV) Financial impacts and response measures in the event of changes in local and foreign regulations:

Corresponding to the event of changes in local regulations in 2019, the Company's relevant response measures are as follows:

1. Issuance of debt capital shall not provide interest rate step-up conditions or other incentives for early redemption

When insurance company raises debt capital, Insurance Bureau requires that there are no interest rate step-up conditions or other incentives to redeem early. It aims to strengthen the quality of capital of insurance companies. In the future, the Company will comply with relevant laws and regulations for issuance of debt capital, and consider equity financing to maintain a solid capital base.

2. The introduction of the net worth ratio as a capital adequacy measurement

In order to better assess the risk-taking capabilities of insurance companies during periods of rapid short-term fluctuations in the financial market, Insurance Bureau has introduced the net worth ratio as a supervisory indicator. If the net worth ratio of an insurance company is less than 3% in both of the most recent two periods, Insurance Bureau can order it to put forward a plan for capital increase, restrict it to launch new insurance products, and restrict its scope of fund utilization. This regulatory change has only a minor influence on the Company, as the Company's current net worth ratio and capital adequacy ratio are significantly higher than supervisory standards.

3. Adjustment of risk factor of insurers' investment in NT dollar-denominated international bond ETFs

Since life insurance companies in Taiwan invest large amounts in NT dollar-denominated international bond ETFs, Taiwan Insurance Institute amended its Risk-Based Capital (RBC) requirement for bond ETFs in 2019. Different capital charges apply to emerging markets ETFs and developed markets ETFs. The new rules also include an additional currency risk capital charge to reflect the risk exposure to foreign exchange volatility. However, the impact of this regulatory change to the Company is limited.

- (V) Major impact on the Company financial position caused by changes in technology and industry and remedial action:

In order to enhance the management of information security, Cathay Life has established an Information Security Department in April 2018 to promote information security. The committee will convene periodically to review the progress of critical information security projects and oversee the implementation of the Group's overall information security execution. Multiple information security assessments will be conducted annually to improve and strengthen the protection of information systems. For the purpose of risk mitigation pertaining to hacking and confidential customer information leakage, Cathay Life will hold periodic information security awareness training and security incident drills to raise the awareness of employees. In addition, an independent third party was

appointed to assess the overall implementation of information security of each subsidiary in 2019 with the outcome as appropriate. Cathay Life has no material information security incidents in 2019.

- (VI) Major impact on the company brought by company image change of and remedial actions: The Group and its subsidiaries have long been taking root on humanistic care, actively investing in environmental and sustainable engineering to put together comprehensive and diversified events, including public interest, child care, academic, sports, culture, art, and environmental protection. We believe in fulfilling our responsibilities as a “corporate citizen” and providing growing stamina and sharing prosperity for the society as an important mission in addition to that of core business growth. The company actively monitors the company’s brand image in the market by monitoring the media and investigating brand reputation. The company also created internal crisis management reporting and management guidelines for the purpose of actively clarifying and responding to incidents that may harm the image of the corporation at the earliest time possible.
- (VII) Potential effects and risks associated with mergers and acquisitions and remedial action: None.
- (VIII) Potential effects and risks associated with expansion in plant capacity and remedial action: None.
- (IX) Potential effects and risks associated with the concentration of purchases or sales: None.
- (X) Impact and risks brought by significant shareholdings transfer by the Directors, Supervisors, or shareholders with more than 10% ownership, and the remedial actions: None.
- (XI) Impacts, risks and response measures associated with a change to the management of the financial holding company: None.
- (XII) Litigations or non-contentious matters:
 - 1. For the pursuit of its investment objective in the period of 2003 to 2007, Cathay Life subscribed to shares from Fairfield Sentry Limited, and redeemed the shares as agreed for USD 24,496,798.58. Bernard L. Madoff Investment Securities LLC (Madoff’s asset management company), and investee of Fairfield Sentry Limited, was allegedly involved in a Ponzi Scheme, and is in liquidation procedures at BVI (Madoff’s asset management company is also in liquidation procedures). The liquidator of Fairfield Sentry Limited and the official receiver of Madoff’s asset management company filed a lawsuit against Cathay Life at the United States Bankruptcy Court of New York State in March 2011 and December 2011, respectively. They claimed that Cathay Life must return the proceeds from the

redemption of shares to the liquidation panel. The Company has already retained lawyers to defend the charge. Both the Company and the attorneys hold that this case will not cause significant impact on the financial position of Cathay Life. (In addition, the lawsuit against Cathay Life and the liquidator of Bernard L. Madoff Investment Securities LLC on the second transferee to be remanded to the U.S. Bankruptcy Court has already been overruled by the United States Court of Appeals for the Second Circuit. The United States Court of Appeals for the Second Circuit has approved a postponement on remanding the case to the U.S. Bankruptcy Court, pending for the decision of the U.S. Supreme Court on approving the appeal and reviewing the case.)

2. In October of 2003, Global Life Insurance Co., Ltd (hereinafter, “Global Life”) purchased from Taipei District Court by way of auction, the following real estates: (1) the second, third, fourth, fifth, and sixth floor of No.50, Sec.1, Zhongxiao West Road, Zhongzheng District, Taipei City, and (2) fifty parking spaces located on the fourth and fifth floor underground in the same building (collectively, the “Real Estate”). The bid was submitted in the name of Chou, Tsai-Fa (the “Defendant”), special assistant of Global Life’s then chairman. Subsequent transfer and registration as owner of the Real Estate were all completed in the name of the Defendant. The Defendant subsequently embezzled the Real Estate, which led to Global Life’s claiming for the return of the Real Estate and relating rents. On April 30, 2013, Taipei District Court has rendered its judgment in favor of Global Life, to the effect that Global Life is entitled to NTD 1,461,616,737, the proceeds from auctioning the Real Estate. The judgment is overruled by the Taiwan High Court on June 30, 2015. The Supreme Court has thereafter, on April 21, 2016, overruled the June 30, 2013 Taiwan High Court judgement, and remanded the case to the Taiwan High Court. On June 27 2018, Taiwan High Court has rendered remand first instance judgement. Cathay Life is entitled to not only NTD 1,461,616,737, the auction price of Real Estate, but also a claim of NTD 37,007,940. However, the Supreme Court thereafter, on June 21, 2019, overruled the Taiwan High Court judgment, and remanded the case to the Taiwan High Court. The case is currently attached to the Taiwan High Court. On July 1, 2015, the lawsuit of general assumption Global Life’s assets and liabilities is now action pending, and Cathay Life has already retained lawyers to defend the charge. Both Cathay Life and the attorneys hold that this case will not cause significant impact on the financial position of Cathay Life.

(XIII) Other material risks and corresponding measures: None.

VII. Other Major Events: None.

Eight. Special Disclosure

I. Information on Affiliates

Cathay Life Insurance Co., Ltd.
Affiliate report
2019

Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

Telephone:(02)2755-1399

Content

Item	Page
Cover	474
Content	475
Declaration	476
Opinions of Certified Public Accountant	477
Summary of the relationship between the affiliated company and the controlling company	478~479
Purchase and sales	480
Property transactions	481
Financing	482
Lease of assets	483
Endorsements	484

Declaration

It is hereby declared that the Affiliation Report for 2019 (from January 1, 2019 to December 31, 2019) was prepared pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and there are no significant inconsistencies between the information given above and the supplementary information disclosed in the financial statements for the above period.

Hereby certify

Company name: Cathay Life Insurance Co., Ltd.

Chairman: Tiao-Kuei Huang

Dated: March 11, 2020

Affiliation Report

To: Cathay Life Insurance Co., Ltd.

We have audited the 2019 financial statements of Cathay Life Insurance Co., Ltd. in accordance with “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards, and issued our unqualified opinion on March 11, 2020. The purpose of this audit was to express opinions on the fairness of the financial statement preparation. The attached 2019 affiliation report of Cathay Life Insurance Co., Ltd. was prepared separately based on “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises,” for which we have obtained the customer’s statement, verified relevant financial information, and undertaken necessary procedures to complete our audit.

In our opinion, the 2019 affiliation report of Cathay Life Insurance Co., Ltd. has been prepared in accordance with “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises”; the financial information presented in this report was consistent with the financial statements, and no material amendment was required.

Deloitte & Touche

Certified Public Accountant Cheng-Hung Kuo

Certified Public Accountant Li-Chi Chen

Dated: March 11, 2020

Summary of the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of controlling company	Reasons for control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
Cathay Financial Holding Co., Ltd.	Holds 100% of the Company's shareholding with voting rights	5,851,527,395	100%	0	Chairman Vice Chairman Director Director Director Director Director Director Independent Director Independent Director Managing Supervisor Supervisor Supervisor President	Tiao-Kuei Huang Ming-Ho Hsiung Tzung-Han Tsai Chung-Yan Tsai John Chung-Chang Chu Shan-Chi Liu Chao-Ting Lin Yi-Tsung Wang Li-Ling Wang Tang-Chieh Wu Chih-ling Tsai Tso-Hsing Hsu Chih-Ming Lin Shan-Chi Liu

Note: When the controlling company of the subordinate company is the subordinate company of another company, the preparer of this information should also fill in the information of that company. The same rule applies when that company is again the subordinate company of another company. The same rule applies hereafter.

Summary of the relationship between the affiliated company and the controlling company

Unit: shares; %

Name of controlling company	Reasons for control	Share ownership and pledges of the controlling company			Appointment of members of the controlling company as the directors, supervisors, or managers	
		Number of shares held	Ratio of shareholding	Number of shares pledged	Title	Name
Cathay United Bank Co., Ltd.	Also a subsidiary of Cathay Financial Holding Co., Ltd.	—	—	—	—	—
Cathay Century Insurance Co., Ltd.	"	—	—	—	—	—
Cathay Securities Corporation	"	—	—	—	—	—
Cathay Venture Inc.	"	—	—	—	—	—
Cathay Securities Investment Trust Co., Ltd.	"	—	—	—	—	—

Note: When the controlling company of the subordinate company is the subordinate company of another company, the preparer of this information should also fill in the information of that company. The same rule applies when that company is again the subordinate company of another company. The same rule applies hereafter.

Purchase and sales

Unit: NT\$ thousand; %

Transactions with the controlling company				Terms of transactions with the controlling company		Arms length terms of transaction		Reason for the difference	Accounts and notes receivable (payable)		NPL			Remarks
Purchase (sales)	Amount	Percentage of total purchase (sales)	Gross profit from sales	Price (NT\$)	Duration of credit	Price (NT\$)	Duration of credit		Balance	Percentage of total accounts and notes receivable (payable)	Amount	Method of processing	Amount of allowance for bad debt	
None														

Note 1: If the company has advanced receipts (payments), the company should describe the reason, articles of the contract, the amounts, and the differences between these transactions and arms length transactions in the remarks section.

Note 2: If none of the stated titles are applicable, the preparers may adjust the titles by themselves. If preparers cannot find titles in the table due to the nature of the industry, preparers do not need to fill in the information.

Property transactions

Unit: NT\$ thousand

Transaction type (acquisition or disposal)	Name of property	Transaction date or the date when the event occurred	Transaction amount	Delivery or payment terms	Payment and receipt of consideration	Disposal gains (Note 1)	The reasons why transaction counterparties are controlling companies	Previous data transfer (Note 2)				The methods for determining the transactions (Note 3)	The basis for determining the prices	The purpose of acquisition or disposal and the condition of use	Other stipulations
								Holder	Relationship with the company	Transfer date	Amount				
None															

Note 1: The preparer does not need to fill in the information on the acquisition of property.

Note 2: (1) The preparer should provide the information on the original acquisition by the controlling company in the acquisition of property. The preparer should provide the information on the original disposal by the subordinate company in the disposal of property.

(2) Preparers should explain the relationship between the property owner and the subordinate company or controlling company in the “Relationship with the company” section.

(3) If the counterparty in the previous transfer transaction was a related party, the preparer should add the information on the previous transfer from that related party in the same space.

Note 3: The preparer should explain the decision making level of the transaction.

Financing

Unit: NT\$ thousand; %

Transaction type (borrowing or lending)	Highest balance	Balance at the end of the period	Interest rate range	Total interest in this period	Duration of financing	Reason of financing	Acquiring (providing) collaterals		The methods for determining the transactions (Note 1)	Provision of the allowance for bad debt (Note 2)
							Name	Amount		
None										

Note 1: The preparer should explain the decision making level of the transaction.

Note 2: There is no need to provide the information on borrowing funds.

Lease of assets

Unit: NT\$ thousand

Transaction type (rent or lease)	Property		Lease duration	Nature of the lease (Note 1)	Basis of determining the rent	Method of collection (payment)	Comparison with regular rent levels	Total rent in this period	Payment and receipt in this period	Other stipulations (Note 2)
	Name	Location								
Rented (Cathay Financial Holding Co., Ltd.)	Office	16F., No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.), etc.	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	\$ 100,535	Regular	None
Rented (Cathay United Bank Co., Ltd.)	Office	All cities and counties in Taiwan	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	651,615	Regular	None
Rented (Cathay Century Insurance Co., Ltd.)	Office	All cities and counties in Taiwan	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	107,625	Regular	None
Rented (Cathay Securities Corporation)	Office	20F., No. 333, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.), etc.	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	42,776	Regular	None
Rented (Cathay Venture Inc.)	Office	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.), etc.	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	4,931	Regular	None
Rented (Cathay Securities Investment Trust Co., Ltd.)	Office	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.), etc.	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	48,933	Regular	None
Leased (Cathay United Bank Co., Ltd.)	Office	All cities and counties in Taiwan	2019.1.1~2019.12.31	Operating lease	Negotiation	Monthly payment	Equivalent with regular rent levels	8,913	Regular	Note 3

Note 1: The preparer should explain whether the nature of this transaction is capital lease or operating lease.

Note 2: If there are other encumbrances on the ownership, such as superfices, pledges, and servitude of real property, the preparer should disclose such conditions.

Note 3: The Company became subject to IFRS 16 - "Leases" since 2019, accordingly, the lease of newly rented office building in 2019 is recognized as right-of-use asset of NT\$18,400 thousand, and the rental payment will reverse lease liabilities in each period, resulting in a balance of lease liabilities of NT\$30,983 thousand as of December 31, 2019.

Endorsements

Unit: NT\$ thousand; %

Highest balance	Balance at the end of the period		Reason for the endorsement	Providing collateral as guarantee			Conditions or dates for releasing the guarantee or recovering the collateral	The amount of contingent loss already recognized in financial statements	Violations of operation regulations codified by the company
	Amount	Percentage of net assets in the financial statement		Name	Quantity	Value			
None									

Cathay Life Insurance Co., Ltd.

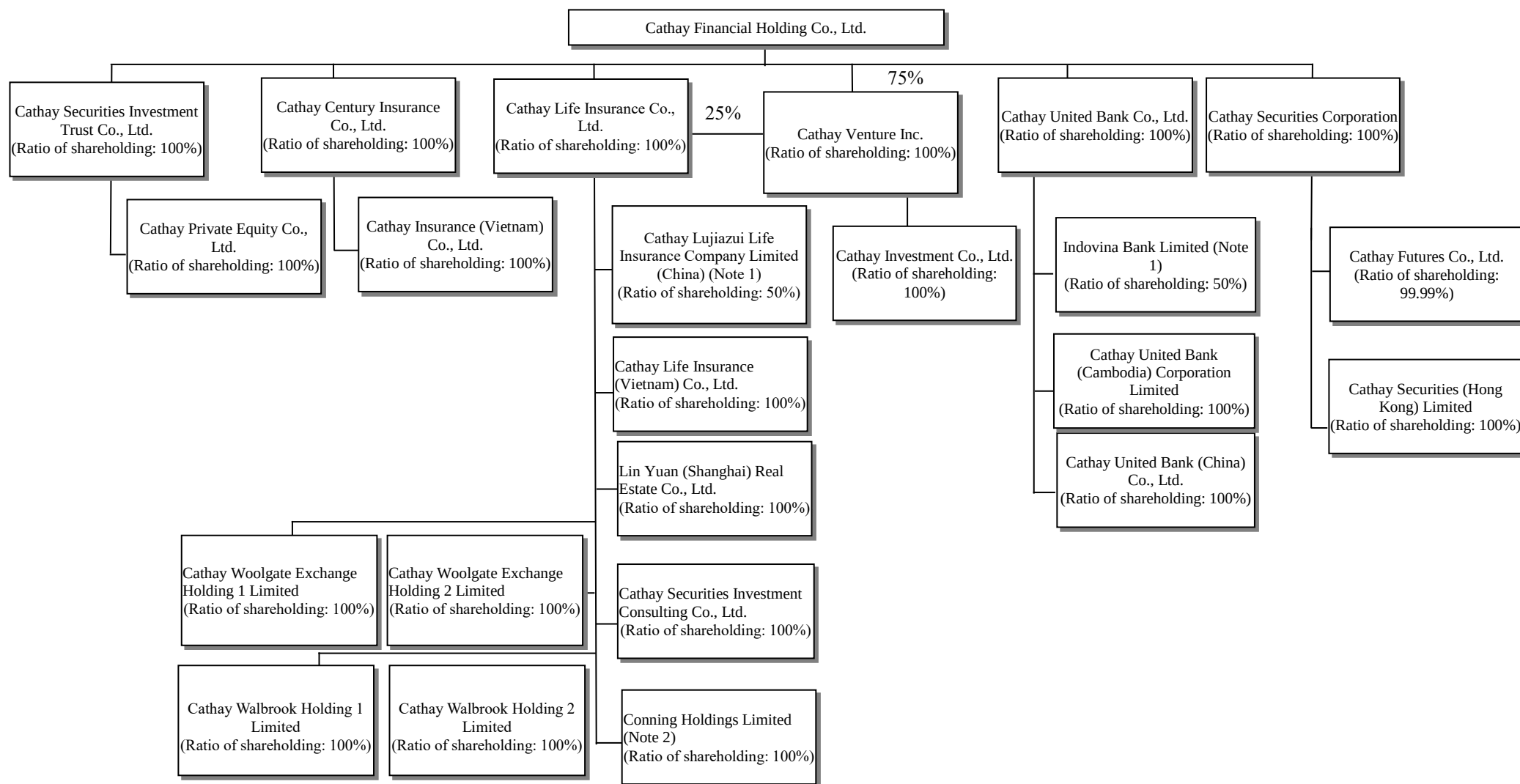
Consolidated business reports
2019

Address: No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei
City 106, Taiwan (R.O.C.)
Telephone:(02)2755-1399

Content

Item	Page
Cover	485
Content	486
Organizational Structure of Affiliates	487~488
Information on Affiliates	489~491
Information on common shareholders assumed to be in a controlling and subordinate relationship	492
Information on directors, supervisors, and presidents of affiliated corporations	493~504
An overview of operations of the affiliates	505~506
Operating overview of affiliated corporations	507

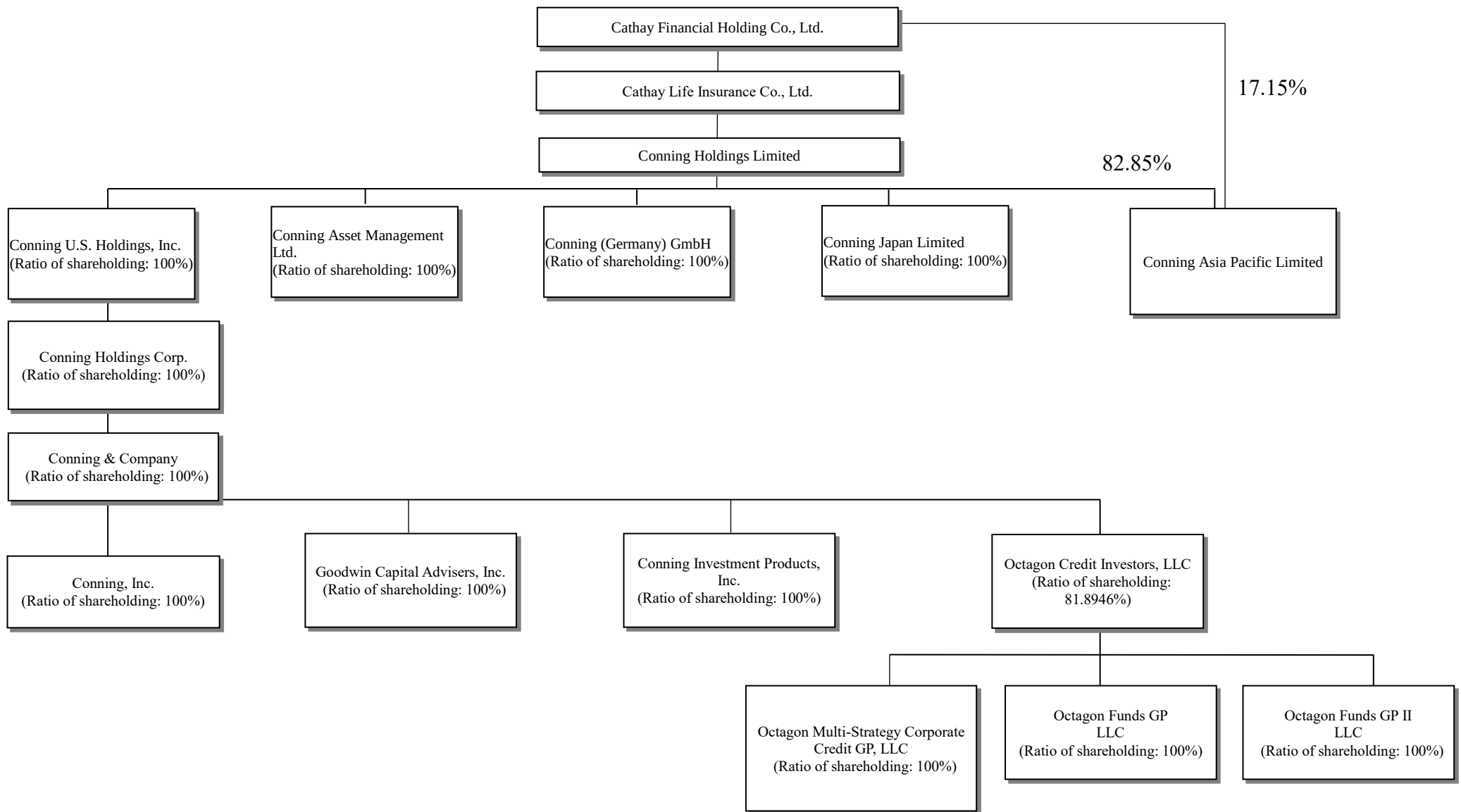
Organizational Structure of Affiliates



Note 1: A subsidiary other than those referred to in Article 4 of the Financial Holding Company Act.

Note 2: Expressed with the merger entity as follows.

Organizational Structure of Affiliates (Continued)



Information on Affiliates

Unit: NT\$ thousand

Affiliate name	Date of Establishment	Address	Total Paid-in Capital	Principal business activities or productions
Cathay Life Insurance Co., Ltd.	1962.10.23	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	\$ 58,515,274	Life insurance business
Cathay United Bank Co., Ltd.	1975.1.4	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	101,658,353	Banking business
Cathay Century Insurance Co., Ltd.	1993.7.19	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	3,057,052	Financial insurance Business
Cathay Securities Corporation	2004.5.12	19F. and 20F., No. 333, and 6F., 10F., 18F.-22F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	6,000,000	Securities Business
Cathay Venture Inc.	2003.4.10	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	4,565,146	Venture capital business
Cathay Securities Investment Trust Co., Ltd.	2000.2.11	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	1,500,000	Securities Investment Trust
Cathay Lujiazui Life Insurance Company Limited	2004.12.29	19F., Segment B, Oriental Financial Plaza, No. 1168, Pudong New Area, Shanghai	13,497,155	Life insurance business
Cathay Securities Investment Consulting Co., Ltd.	2002.11.25	6F., No. 108, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	70,000	Securities investment consulting
Lin Yuan (Shanghai) Real Estate Co., Ltd.	2012.8.15	Room 306, 3F-2 Dining Room, Huadu Building, No. 828-838, Zhangyang Road, Pilot Free Trade Zone, Shanghai	7,223,435	Self-owned office rental business
Cathay Life Insurance (Vietnam) Co., Ltd.	2007.11.21	46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	9,090,730	Life insurance business
Cathay Woolgate Exchange Holding 1 Limited	2014.7.30	IFC 5, St. Helier, Jersey, JE1 1ST	16,654,013	Real Estate Investment Management
Cathay Woolgate Exchange Holding 2 Limited	2014.7.30	IFC 5, St. Helier, Jersey, JE1 1ST	168,222	Real Estate Investment Management
Cathay Walbrook Holding 1 Limited	2015.3.31	IFC 5, St. Helier, Jersey, JE1 1ST	10,189,090	Real Estate Investment Management
Cathay Walbrook Holding 2 Limited	2015.3.31	IFC 5, St. Helier, Jersey, JE1 1ST	536,268	Real Estate Investment Management
Conning Holdings Limited	2015.6.10	24 Monument Street, London, EC3R 8AJ, United Kingdom	15,723,539	Holding Company
Conning U.S. Holdings, Inc.	2015.6.10	One Financial Plaza, Hartford, CT, 06103, USA	-	Holding Company

Information on Affiliates (Continued)

Unit: NT\$ thousand

Affiliate name	Date of Establishment	Address	Total Paid-in Capital	Principal business activities or productions
Conning Asset Management Ltd.	1998.10.16	24 Monument Street, London, EC3R 8AJ, United Kingdom	\$ 191,303	Asset Management Business
Conning (Germany) GmbH	2012.1.10	Augustinerstr. 10, 50667, Cologne, Germany	938	Risk Management Software Business
Conning Japan Limited	2015.9.3	10F KN-Ginza Building, 1-15-6, Ginza, Chuo-Ku, Tokyo, Japan	-	Asset Management Business
Conning Asia Pacific Limited	2011.7.6	19/F LHT Tower, 31 Queen's Road Central, Hong Kong	577,686	Asset Management Business
Conning Holdings Corp.	2009.6.5	One Financial Plaza, Hartford, CT, 06103, USA	-	Holding Company
Conning & Company	1986.7.10	One Financial Plaza, Hartford, CT, 06103, USA	4,485	Holding Company
Conning, Inc.	1982.9.13	One Financial Plaza, Hartford, CT, 06103, USA	329	Asset Management Business
Goodwin Capital Advisers, Inc.	1930.3.14	One Financial Plaza, Hartford, CT, 06103, USA	172	Asset Management Business
Conning Investment Products, Inc.	2002.2.13	One Financial Plaza, Hartford, CT, 06103, USA	-	Securities Business
Octagon Credit Investors, LLC	1998.12.29	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Asset Management Business
Octagon Multi-Strategy Corporate Credit GP, LLC	2014.6.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Octagon Funds GP LLC	2014.11.13	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Octagon Funds GP II LLC	2016.1.21	250 Park Avenue, 15th Floor, New York, NY 10167, U.S.A.	-	Fund Management Business
Indovina Bank Limited	1992.10.29	97A Nguyen Van Troi Street Ward 12, Phu Nhuan Dist., HCMC, Vietnam	6,094,911	Banking
Cathay United Bank (Cambodia) Corporation Limited	1993.7.5	No.68, Samdech Pan Street (St.214), Sangkat Boeung Raing, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia	3,020,769	Banking

Information on Affiliates (Continued)

Unit: NT\$ thousand

Affiliate name	Date of Establishment	Address	Total Paid-in Capital	Principal business activities or productions
Cathay United Bank (China) Co., Ltd.	2018.9.3	8F , Foxconn Building, No. 1366 , Lujiazui Ring Road, Pudong New District, Shanghai	\$ 14,377,562	Banking
Cathay Insurance (Vietnam) Co., Ltd.	2010.11.2	6th floor, 46-48-50 Pham Hong Thai Street, District 1, Ho Chi Minh City, Vietnam	845,585	Financial insurance Business
Cathay Futures Co., Ltd.	1993.12.29	19F., No. 333 and 10F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	667,000	Futures business
Cathay Securities (Hong Kong) Limited	2007.3.22	Room 1001, 10/F., China Building, No. 29 Queen's Road Central, Hong Kong	1,108,244	Securities Business
Cathay Investment Co., Ltd.	2019.11.5	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	35,000	Venture capital business
Cathay Private Equity Co., Ltd.	2017.11.15	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	50,000	Private equity service

Information on common shareholders assumed to be in a controlling and subordinate relationship

Unit: NT\$ thousand; Shares; %

Reason that affiliation is presumed	Title or name (Note 1)	Number of shares held (Note 2)		Date of Establishment	Address	Total Paid-in Capital	Main business
		Number of shares	Ratio of shareholding				
Cathay United Bank Co., Ltd. and Cathay Life Insurance Co., Ltd. are both in compliance with Paragraph 2, Article 369-3 of the Company Act	Cathay Financial Holding Co., Ltd.	10,165,835,208	100%	1975.1.4	No.7, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	\$ 101,658,353	Banking business
Cathay Century Insurance Co., Ltd. and Cathay Life Insurance Co., Ltd. are both in compliance with Paragraph 2, Article 369-3 of the Company Act	Cathay Financial Holding Co., Ltd.	305,705,194	100%	1993.7.19	No.296, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	3,057,052	Financial insurance Business
Cathay Securities Corporation and Cathay Life Insurance Co., Ltd. are both in compliance with Paragraph 2, Article 369-3 of the Company Act	Cathay Financial Holding Co., Ltd.	600,000,000	100%	2004.5.12	19F. and 20F., No. 333, and 6F., 10F., 18F.-21F., No. 335, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	6,000,000	Securities Business
Cathay Venture Inc. and Cathay Life Insurance Co., Ltd. are both in compliance with Paragraph 2, Article 369-3 of the Company Act	Cathay Financial Holding Co., Ltd. and Cathay Life Insurance Co., Ltd.	456,514,663	100%	2003.4.10	7F., No.68, Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)	4,565,146	Venture capital business
Cathay Securities Investment Trust Co., Ltd. and Cathay Life Insurance Co., Ltd. are both in compliance with Paragraph 2, Article 369-3 of the Company Act	Cathay Financial Holding Co., Ltd.	150,000,000	100%	2000.2.11	6F., No. 39, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)	1,500,000	Securities Investment Trust

Note 1: The juristic persons' names shall be filled in where the shareholders in common are juristic persons; the natural persons' names shall be filled in where the shareholders in common are natural persons. For natural persons, only the reason that affiliation is presumed, and the natural persons' names and shareholding status shall be filled in.

Note 2: The shareholders' shareholding information on the controlling company shall be filled in.

Information on directors, supervisors, and presidents of affiliated corporations

Unit: shares; %

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Life Insurance Co., Ltd.	Chairman	Tiao-Kuei Huang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Vice Chairman	Ming-Ho Hsiung (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Tzung-Han Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Chung-Yan Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	John Chung-Chang Chu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Shan-Chi Liu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Chao-Ting Lin (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Director	Yi-Tsung Wang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Independent Director	Li-Ling Wang (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Independent Director	Tang-Chieh Wu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Managing Supervisor	Chih-Iing Tsai (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Supervisor	Tso-Hsing Hsu (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	Supervisor	Chih-Ming Lin (Representative of Cathay Financial Holdings)	5,851,527,395	100%
	President	Shan-Chi Liu	-	-

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay United Bank Co., Ltd.	Chairman	Ming-Jian Kuo (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Vice Chairman	Tzung-Han Tsai (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Managing Director / Independent Director	Tang-Chieh Wu (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Managing Director	Wei-Cheng Li (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Managing Director	Chung-Yi Teng (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Chang-Keng Li (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Han-Kuo Chen (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Chi-Wei Jhong (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Grace Chen (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Tsung-Hsien Tsai (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Wei-Hua Chou (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Director	Jian-Hsing Wu (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Independent Director	Edward Yung-Do Way (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Independent Director	Feng-Chiang Miao (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Managing Supervisor	Yao-Chun Lai (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	Supervisor	Liang-Lin Chien (Representative of Cathay Financial Holdings)	10,165,835,208	100%
	President	Wei-Cheng Li	-	-

Affiliate name	Title	Name and Representative		Number of shares held	
				Number of shares	Ratio of shareholding
Cathay Century Insurance Co., Ltd.	Chairman	Cheng-Chiu Tsai	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Vice Chairman	Jung-Hsien Hsu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Kuo-Tsai Tsai	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsu-Yao Lu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Chih-Yi Yu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Tsung-Hsien Tsai	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Director	Wan-Hsiang Chen	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Tang-Chieh Wu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Independent Director	Feng-Chiang Miao	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Managing Supervisor	Chin-Hsing Liu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	Supervisor	Tso-Hsing Hsu	(Representative of Cathay Financial Holdings)	305,705,194	100%
	President	Wan-Hsiang Chen		-	-
Cathay Securities Corporation	Chairman	Shun-Yu Chuang	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Director	Chang-Keng Li	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Director	Chin-Hsing Liu	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Director	Kuan-Cheng Chou	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Director	Hsiu-Ling Hsu	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Independent Director	Edward Yung-Do Way	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Independent Director	Wei-Kang Pan	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Supervisor	Wan-Chu Ma	(Representative of Cathay Financial Holdings)	600,000,000	100%
	Supervisor	Po-Sheng Fu	(Representative of Cathay Financial Holdings)	600,000,000	100%
	President	Kuan-Cheng Chou		-	-

Affiliate name	Title	Name and Representative		Number of shares held	
				Number of shares	Ratio of shareholding
Cathay Venture Inc.	Chairman	Jen-Ho Chang	(Representative of Cathay Financial Holdings)	456,514,663	100%
	Director	Shu-Fen Cheng	(Representative of Cathay Financial Holdings)	456,514,663	100%
	Director	Grace Chen	(Representative of Cathay Financial Holdings)	456,514,663	100%
	Director	Chung-Yi Teng	(Representative of Cathay Financial Holdings)	456,514,663	100%
	Director	Chuan-Yen Hu	(Representative of Cathay Financial Holdings)	456,514,663	100%
	Supervisor	Shun-Yu Chuang		-	-
	President	Chuan-Yen Hu		-	-
Cathay Securities Investment Trust Co., Ltd.	Chairman	Shyi Chang	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yung-Chuan Chang	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Kou-Chung Huang	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Yi-Tsung Wang	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Hui-Chun Wu	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Woody Bradford	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Director	Bo Kratz	(Representative of Cathay Financial Holdings)	150,000,000	100%
	Supervisor	Jui-Hung Hung	(Representative of Cathay Financial Holdings)	150,000,000	100%
	President	Yung-Chuan Chang		-	-
Cathay Lujiazui Life Insurance Company Limited	Chairman	Tso-Chiang Li	(Representative of Shanghai Lujiazui Finance & Trade Development Co., Ltd.)	-	50%
	Director	Hsi Hu	(Representative of Shanghai Lujiazui Finance & Trade Development Co., Ltd.)	-	50%
	Director	Yen Wang	(Representative of Shanghai Lujiazui Finance & Trade Development Co., Ltd.)	-	50%
	Director	Chin-Shu Lin	(Representative of Cathay Life)	-	50%
	Director	Chun-Hung Wu	(Representative of Cathay Life)	-	50%
	Director	Ming-Hung Liao	(Representative of Cathay Life)	-	50%
	President	Ming-Hung Liao		-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Securities Investment Consulting Co., Ltd.	Chairman	Chih-Te Sun (Representative of Cathay Life)	7,000,000	100%
	Director	Bo Kratz (Representative of Cathay Life)	7,000,000	100%
	Director	Su-Chu Li (Representative of Cathay Life)	7,000,000	100%
	Director	Chun-Hung Wu (Representative of Cathay Life)	7,000,000	100%
	Supervisor	Wei-Chi Li (Representative of Cathay Life)	7,000,000	100%
	President	Jo-Lan Huang	-	-
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Chairman	Wen-Kai Kuo (Representative of Cathay Life)	-	100%
	Director	Wei-Chi Li (Representative of Cathay Life)	-	100%
	Director	Min-Hung Shih (Representative of Cathay Life)	-	100%
	Supervisor	Hsu-Feng Cheng (Representative of Cathay Life)	-	100%
	President	-	-	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Chairman	Chin-Shu Lin (Representative of Cathay Life)	-	100%
	Director	Chun-Hung Wu (Representative of Cathay Life)	-	100%
	Director	Hsun-Yu Li (Representative of Cathay Life)	-	100%
	Supervisor	Fu-Min Wang (Representative of Cathay Life)	-	100%
	President	Hsun-Yu Li	-	-
Cathay Woolgate Exchange Holding 1 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life)	326,700,000	100%
	Director	Ting-Lun Li (Representative of Cathay Life)	326,700,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life)	326,700,000	100%
	President	-	-	-
Cathay Woolgate Exchange Holding 2 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life)	3,300,000	100%
	Director	Yi-Hui Chien (Representative of Cathay Life)	3,300,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life)	3,300,000	100%
	President	-	-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Cathay Walbrook Holding 1 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life)	213,750,000	100%
	Director	Hsu-Feng Cheng (Representative of Cathay Life)	213,750,000	100%
	Director	Ting-Lun Li (Representative of Cathay Life)	213,750,000	100%
	President	-	-	-
Cathay Walbrook Holding 2 Limited	Executive Director	Wen-Kai Kuo (Representative of Cathay Life)	11,250,000	100%
	Director	Hsu-Feng Cheng (Representative of Cathay Life)	11,250,000	100%
	Director	Min-Hung Shih (Representative of Cathay Life)	11,250,000	100%
	President	-	-	-
Conning Holdings Limited	Chairman	Woody Bradford (Representative of Cathay Life)	2,029,287	100%
	Director	Chih-Te Sun (Representative of Cathay Life)	2,029,287	100%
	Director	Tzung-Han Tsai (Representative of Cathay Life)	2,029,287	100%
	Independent Director	John Boneparth (Representative of Cathay Life)	2,029,287	100%
	Independent Director	Meryl D. Hartzband (Representative of Cathay Life)	2,029,287	100%
	Independent Director	Ronald P. Joelson (Representative of Cathay Life)	2,029,287	100%
	Independent Director	David P. Marks (Representative of Cathay Life)	2,029,287	100%
	Independent Director	Jason Rotman (Representative of Cathay Life)	2,029,287	100%
	President	-	-	-
Conning U.S. Holdings, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	218	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	218	100%
	President	-	-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Conning Asset Management Ltd.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Russell Busst (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Simon Hawkins (Representative of Conning Holdings Limited)	3,734,000	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	Michael Carpenter (Representative of Conning Holdings Limited)	3,734,000	100%
	Non-Executive Director	David P. Marks (Representative of Conning Holdings Limited)	3,734,000	100%
	President	-	-	-
Conning (Germany) GmbH	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	25,100	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	25,100	100%
	President	-	-	-
Conning Japan Limited	Director	Bo Rolf Anders Kratz (Representative of Conning Holdings Limited)	1	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	1	100%
	President	-	-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Conning Asia Pacific Limited	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Limited)	272,950,417	100%
	Director	Jung W. Lee (Representative of Conning Holdings Limited)	272,950,417	100%
	Director	Bo Rolf Anders Kratz (Representative of Conning Holdings Limited)	272,950,417	100%
	Director	Siew Mee Yeo (Representative of Conning Holdings Limited)	272,950,417	100%
	President	-	-	-
Conning Holdings Corp.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning U.S. Holdings, Inc.)	1,000	100%
	Director	Jung W. Lee (Representative of Conning U.S. Holdings, Inc.)	1,000	100%
	President	-	-	-
Conning & Company	Chairman	Linwood (Woody) E. Bradford (Representative of Conning Holdings Corp.)	1,000	100%
	Director	Jung W. Lee (Representative of Conning Holdings Corp.)	1,000	100%
	Director	Michael E. Haylon (Representative of Conning Holdings Corp.)	1,000	100%
	President	-	-	-
Conning, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	100	100%
	Director	Jung W. Lee (Representative of Conning & Company)	100	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	100	100%
	President	-	-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Goodwin Capital Advisers, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	628,000	100%
	Director	Jung W. Lee (Representative of Conning & Company)	628,000	100%
	Director	Richard Sega (Representative of Conning & Company)	628,000	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	628,000	100%
	President	-	-	-
Conning Investment Products, Inc.	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	1,000	100%
	Director	Jung W. Lee (Representative of Conning & Company)	1,000	100%
	Director	Michael E. Haylon (Representative of Conning & Company)	1,000	100%
	President	-	-	-
Octagon Credit Investors, LLC	Chairman	Linwood (Woody) E. Bradford (Representative of Conning & Company)	-	81.8946%
	Director	Jung W. Lee (Representative of Conning & Company)	-	81.8946%
	Director	Richard Sega (Representative of Conning & Company)	-	81.8946%
	Director	Andrew D. Gordon (Representative of Conning & Company)	-	81.8946%
	Director	Michael Nechamkin (Representative of Conning & Company)	-	81.8946%
	President	-	-	-

Affiliate name	Title	Name and Representative	Number of shares held	
			Number of shares	Ratio of shareholding
Octagon Multi-Strategy Corporate Credit GP, LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP LLC	N/A	Octagon Credit Investors, LLC	-	100%
Octagon Funds GP II LLC	N/A	Octagon Credit Investors, LLC	-	100%
Indovina Bank Limited	Chairman	Le Duy Hai (Representative of Vietinbank)	-	50%
	Vice Chairman	Ming-Hsien Li (Representative of Cathay United Bank)	-	50%
	Director	Chun-Hao Liu (Representative of Cathay United Bank)	-	50%
	Director	Yi-Fang Chan (Representative of Cathay United Bank)	-	50%
	Director	Tran Thi Hong Anh (Representative of Vietinbank) (Note)	-	50%
	Director	Nguyen Thu Hang (Representative of Vietinbank)	-	50%
	President	Chun-Hao Liu	-	-
Cathay United Bank (Cambodia) Corporation Limited	Chairman	Chung-Yi Teng (Representative of Cathay United Bank)	100,000,000	100%
	Director	Chih-Te Sun (Representative of Cathay United Bank)	100,000,000	100%
	Director	Yi-Fang Chan (Representative of Cathay United Bank)	100,000,000	100%
	Director	Hua-Pen Miao (Representative of Cathay United Bank)	100,000,000	100%
	Director	Hsiu-Chu Chuang (Representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Wu-Shui Cheng (Representative of Cathay United Bank)	100,000,000	100%
	Independent Director	Chang-Chuan Hsia (Representative of Cathay United Bank)	100,000,000	100%
	President	Hsiu-Chu Chuang	-	-

Note: To go in effect once approved by the local authority.

Information on directors, supervisors, and presidents of affiliated corporations (Continued)

Unit: shares; %

Affiliate name	Title	Name and Representative		Number of shares held	
				Number of shares	Ratio of shareholding
Cathay United Bank (China) Co., Ltd.	Chairman	Ming-Jian Kuo	(Representative of Cathay United Bank)	-	100%
	Director	Wei-Cheng Li	(Representative of Cathay United Bank)	-	100%
	Director	Chung-Yi Teng	(Representative of Cathay United Bank)	-	100%
	Director	Chi-Yuan Chien	(Representative of Cathay United Bank)	-	100%
	Director	Francis Peng	(Representative of Cathay United Bank)	-	100%
	Independent Director	Wu-Shui Cheng	(Representative of Cathay United Bank)	-	100%
	Independent Director	Ching-Cheng Hua	(Representative of Cathay United Bank)	-	100%
	Supervisor	Wei-Hua Chou	(Representative of Cathay United Bank)	-	100%
	President	Francis Peng		-	-
Cathay Insurance (Vietnam) Co., Ltd.	Chairman	Yi-Min Hu	(Representative of Cathay Century Insurance)	-	100%
	Director	Yu-Tang Lin	(Representative of Cathay Century Insurance)	-	100%
	Director	Ping-Yao Lin	(Representative of Cathay Century Insurance)	-	100%
	President	Yu-Tang Lin		-	-
Cathay Futures Co., Ltd.	Chairman	Chun-Sheng Chen	(Representative of Cathay Securities)	66,693,748	99.99%
	Director	Ju-Ping Chiu	(Representative of Cathay Securities)	66,693,748	99.99%
	Director	Tao-Ping Wang	(Representative of Cathay Securities)	66,693,748	99.99%
	Director	Chao-Kuei Kuo	(Representative of Cathay Securities)	66,693,748	99.99%
	Supervisor	Yu-Mei Lee		-	-
	President	Chuang-Hao Lo		-	-

Affiliate name	Title	Name and Representative		Number of shares held	
				Number of shares	Ratio of shareholding
Cathay Securities (Hong Kong) Limited	Director/President	Shun-Yu Yang	(Representative of Cathay Securities)	-	100%
	Director	Wan-Chin Chen	(Representative of Cathay Securities)	-	100%
	Director	Hsing-Chien Chao	(Representative of Cathay Securities)	-	100%
	President	-		-	-
Cathay Investment Co., Ltd.	Chairman	Jen-Ho Chang	(Representative of Cathay Venture)	3,500,000	100%
	Director	Kuan-Cheng Chou	(Representative of Cathay Venture)	3,500,000	100%
	Director	Po-Sheng Fu	(Representative of Cathay Venture)	3,500,000	100%
	Director	Kuang-Tzu Wang	(Representative of Cathay Venture)	3,500,000	100%
	Director	Cheng-Huan Tuan	(Representative of Cathay Venture)	3,500,000	100%
	Supervisor	Chang-Hui Hung	(Representative of Cathay Venture)	3,500,000	100%
	President	Kuang-Tzu Wang		-	-
Cathay Private Equity Co., Ltd.	Chairman	Shyi Chang	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Yu-Hsi Yueh	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Yung-Chuan Chang	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Kou-Chung Huang	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	Director	Hui-Chun Wu	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	Supervisor	Yung-Hui Chang	(Representative of Cathay Securities Investment Trust)	5,000,000	100%
	President	Shyi Chang		-	-

An overview of operations of the affiliates

Unit: NT\$ thousand

Affiliate name	Location	Paid-in Capital	Total assets	Total liabilities	Net value	Operating income	Operating benefit (loss)/ net income (loss)	Current income (loss) before tax	Income tax (expense) benefit	Current income (loss) after tax	Earnings Per Share (NTD)
Cathay Life Insurance Co., Ltd.	Taiwan	58,515,274	7,034,859,538	6,446,240,755	588,618,783	906,585,211	37,940,044	39,603,080	(1,757,127)	37,845,953	6.60
Cathay United Bank Co., Ltd.	Taiwan	101,658,353	2,882,896,886	2,655,411,282	227,485,604	Note 1	60,114,022	25,302,653	(3,480,000)	21,822,653	2.25
Cathay Century Insurance Co., Ltd.	Taiwan	3,057,052	42,538,880	29,882,423	12,656,457	20,465,597	2,490,515	2,494,996	(388,710)	2,106,286	6.89
Cathay Securities Corporation	Taiwan	6,000,000	26,776,450	18,159,800	8,616,650	3,511,143	777,726	805,085	(105,015)	700,070	1.17
Cathay Venture Inc.	Taiwan	4,565,146	5,672,194	60,739	5,611,455	339,664	292,605	292,508	15,509	308,017	0.77
Cathay Securities Investment Trust Co., Ltd.	Taiwan	1,500,000	3,486,816	788,962	2,697,854	2,672,983	881,360	879,562	(178,151)	701,411	4.68
Cathay Lujiazui Life Insurance Company Limited	China	13,497,155	44,774,497	34,060,254	10,714,243	13,940,061	576,983	620,488	(7,937)	612,551	-
Cathay Securities Investment Consulting Co., Ltd.	Taiwan	70,000	466,455	133,366	333,089	514,196	195,549	196,620	(39,324)	157,296	22.47
Lin Yuan (Shanghai) Real Estate Co., Ltd.	China	7,223,435	8,283,198	548,110	7,735,088	381,097	337,254	337,254	(62,934)	274,320	-
Cathay Life Insurance (Vietnam) Co., Ltd.	Vietnam	9,090,730	15,380,389	4,554,496	10,825,893	2,295,247	70,519	73,873	-	73,873	-
Cathay Woolgate Exchange Holding 1 Limited	Jersey, C.I.	16,654,013	14,052,756	105,432	13,947,324	891,925	891,192	891,192	(150,385)	740,807	-
Cathay Woolgate Exchange Holding 2 Limited	Jersey, C.I.	168,222	141,145	998	140,147	8,989	8,256	8,256	(1,480)	6,776	-
Cathay Walbrook Holding 1 Limited	Jersey, C.I.	10,189,090	22,171,930	13,132,933	9,038,997	718,077	230,818	230,818	(69,424)	161,394	-
Cathay Walbrook Holding 2 Limited	Jersey, C.I.	536,268	1,163,367	690,913	472,454	37,759	11,396	11,396	(3,503)	7,893	-
Conning Holdings Limited(Note 2)	U.K.	15,723,539	21,236,162	5,903,309	15,332,853	7,305,508	610,738	610,738	(172,464)	438,274	-
Conning U.S. Holdings, Inc.	USA	-	17,452,040	6,596,848	10,855,192	6,614,557	638,964	638,964	(77,053)	561,911	-
Conning Asset Management Ltd.	U.K.	191,303	382,447	169,821	212,626	277,200	24,206	24,206	(3,924)	20,282	-
Conning (Germany) GmbH	Germany	938	49,769	27,722	22,047	11,809	3,583	3,583	(1,118)	2,465	-
Conning Japan Limited	Japan	-	12	-	12	-	-	-	-	-	-
Conning Asia Pacific Limited	Hong Kong	577,686	395,074	157,140	237,934	447,122	43,200	43,200	-	43,200	-
Conning Holdings Corp.	USA	-	11,895,874	3,760,471	8,135,403	6,614,557	768,500	768,500	(145,937)	622,563	-
Conning & Company	USA	4,485	11,120,160	3,781,146	7,339,014	6,606,658	764,783	764,783	(137,703)	627,080	-
Conning, Inc.	USA	329	2,743,600	1,838,806	904,794	3,331,257	(66,841)	(66,841)	(4,947)	(71,788)	-

Affiliate name	Location	Paid-in Capital	Total assets	Total liabilities	Net value	Operating income	Operating benefit (loss)/ net income (loss)	Current income (loss) before tax	Income tax (expense) benefit	Current income (loss) after tax	Earnings Per Share (NTD)
Goodwin Capital Advisers, Inc.	USA	172	85,167	11,808	73,359	63,744	27,112	27,112	(5,977)	21,135	-
Conning Investment Products, Inc.	USA	-	27,815	1,875	25,940	17,752	2,231	2,231	(662)	1,569	-
Octagon Credit Investors, LLC	USA	-	3,152,956	1,166,050	1,986,906	3,193,905	1,051,498	1,051,498	(80,557)	970,941	-
Octagon Multi-Strategy Corporate Credit GP, LLC	USA	-	-	-	-	-	-	-	-	-	-
Octagon Funds GP LLC	USA	-	-	-	-	-	-	-	-	-	-
Indovina Bank Limited	Vietnam	6,094,911	70,976,818	62,157,667	8,819,151	Note 1	2,382,802	1,710,011	(382,490)	1,327,521	-
Cathay United Bank (Cambodia) Corporation Limited	Cambodia	3,020,769	11,680,182	8,494,294	3,185,888	Note 1	626,214	241,863	(61,811)	180,052	1.80
Cathay United Bank (China) Co., Ltd.	China	14,377,562	55,149,672	39,306,621	15,843,051	Note 1	1,070,018	280,068	(56,671)	223,397	-
Cathay Insurance (Vietnam) Co., Ltd.	Vietnam	845,585	1,085,038	469,609	615,429	260,339	13,223	14,094	(3)	14,091	-
Cathay Futures Co., Ltd.	Taiwan	667,000	9,679,028	8,244,101	1,434,927	284,517	(36,191)	65,807	(9,776)	56,031	0.84
Cathay Securities (Hong Kong) Limited	Hong Kong	1,108,244	2,675,903	2,035,971	639,932	101,419	(52,996)	(46,497)	-	(46,497)	-
Cathay Investment Co., Ltd.	Taiwan	35,000	35,988	1,030	34,958	-	-	(52)	10	(42)	(0.01)
Cathay Private Equity Co., Ltd.	Taiwan	50,000	41,225	3,669	37,556	3,086	(12,617)	(13,187)	2,520	(10,667)	(2.13)

Note 1: Due to adopting the Regulations Governing the Preparation of Financial Reports by Public Banks, the financial statements of such companies do not include items such as operating revenue and operating income. Therefore, the company only discloses total income.

Note 2: Conning Holdings Limited is presented in consolidated entity.

Operating overview of affiliated corporations

I. Businesses activities covered by affiliated companies

- (I) Cathay Life Insurance Co., Ltd.: Personal insurance representative.
- (II) Cathay United Bank Co., Ltd.: Banking business.
- (III) Cathay Century Insurance Co., Ltd.: Financial insurance Business.
- (IV) Cathay Securities Corporation: Securities Business.
- (V) Cathay Venture Inc.: Venture capital business.
- (VI) Cathay Securities Investment Trust Co., Ltd.: Securities investment trust business.
- (VII) Cathay Lujiazui Life Insurance Company Limited: Personal insurance representative.
- (VIII) Cathay Securities Investment Consulting Co., Ltd.: Securities investment consultant business.
- (IX) Lin Yuan (Shanghai) Real Estate Co., Ltd.: Leasing of proprietary office space.
- (X) Cathay Life Insurance (Vietnam) Co., Ltd.: Personal insurance representative.
- (XI) Cathay Woolgate Exchange Holding 1 Limited: Management of real estate investment.
- (XII) Cathay Woolgate Exchange Holding 2 Limited: Management of real estate investment.
- (XIII) Cathay Walbrook Holding 1 Limited: Management of real estate investment.
- (XIV) Cathay Walbrook Holding 2 Limited: Management of real estate investment.
- (XV) Conning Holdings Limited: Holdings company.
- (XVI) Conning U.S. Holdings, Inc.: Holdings company.
- (XVII) Conning Asset Management Ltd.: Asset management business.
- (XVIII) Conning (Germany) GmbH: Risk Management Software Business.
- (XIX) Conning Japan Limited: Asset management business.
- (XX) Conning Asia Pacific Limited: Asset management business.

- (XXI) Conning Holdings Corp.: Holdings company.
- (XXII) Conning & Company: Holdings company.
- (XXIII) Conning, Inc.: Asset management business.
- (XXIV) Goodwin Capital Advisers, Inc.: Asset management business.
- (XXV) Conning Investment Products, Inc.: Securities business.
- (XXVI) Octagon Credit Investors, LLC: Asset management business.
- (XXVII) Octagon Multi-Strategy Corporate Credit GP, LLC: Fund management business.
- (XXVIII) (Octagon Funds GP LLC: Fund management business.
- (XXIX) Octagon Funds GP II LLC: Fund management business.
- (XXX) Indovina Bank Limited: Banking.
- (XXXI) Cathay United Bank (Cambodia) Corporation Limited: Banking.
- (XXXII) Cathay United Bank (China) Co., Ltd.: Banking.
- (XXXIII) Cathay Insurance (Vietnam) Co., Ltd.: Property and casualty insurance.
- (XXXIV) Cathay Futures Co., Ltd.: Futures.
- (XXXV) Cathay Securities (Hong Kong) Limited: Securities Business.
- (XXXVI) Cathay Investment Co., Ltd.: Venture capital business.
- (XXXVII) Cathay Private Equity Co., Ltd.: Private equity business.

II. Cooperation among all affiliated companies:

(I) Joint business promotion

To improve competitiveness and operational synergy, the Company consolidated diverse financial institutions, including the bank, the insurance Company, and the securities firm, to create an operation platform with comprehensive product lines. With 631 business locations throughout Taiwan and nearly 30,000 well-trained sales staff, the Company develops comprehensive financial management and provides one-stop shopping service for customers.

(II) Interoperability of information

To provide comprehensive financial products and services to customers, our Company has stipulated “Regulations Governing Management of Joint Marketing Among Subsidiaries of Cathay Financial Holdings,” “Joint Marketing Agreement Among Subsidiaries of Cathay Financial Holdings,” “Business and Customer Information Confidentiality Agreement Among Subsidiaries of Cathay Financial Holdings,” “Joint Statement of Confidentiality Measures Among Subsidiaries of Cathay Financial Holdings,” “Regulations Governing Surveillance on Marketing of Subsidiaries by Marketing and Planning Department of Cathay Financial Holdings,” and “Regulations Governing Data Storage Management of Cathay Financial Holdings” pursuant to “Financial Holding Company Act,” “Personal Information Protection Act,” “Regulations Governing Management of Joint Marketing Among Subsidiaries of a Financial Holding Company,” “Rules on Self-regulation for Financial Holding Companies and Their Subsidiaries,” and other applicable letters and orders by FSC. Our Company also provides existing mechanism for customers, striving for using customer information from one another and providing comprehensive financial products and services in an environment that is as lawful, secure, and confidential as possible.

(III) Shared business facilities or locations

To implement “one-stop shopping” financial services and continue to expand joint marketing business within the scope provided by laws and orders:

1. Cathay United Bank has 165 branches involved in the joint marketing of securities. Following deregulation a few years back, Cathay United Bank began providing insurance agency services on April 29, 2016, and has since been coordinating its 165 branches nationwide for the sale of life insurance and non-life insurance products.
2. Similarly, Cathay Life began joint marketing of banking and non-life insurance services through its 75 service centers.
3. Meanwhile, Cathay Securities has set up joint marketing offices at 32 branches of Cathay Life including Zhong Xiao Branch. By sharing business premise and

equipment among subsidiaries, the group has made it convenient for customers to open up securities accounts.

(IV) Amortization and amount of revenue, cost, expense, and income

Our Company uses the direct attribution method to allocate the revenue, costs, expenses, and income to each relative transaction Company for the joint selling and promotion among various subsidiaries based on the nature of operation.

II. Any private placement of securities in the recent years up to the publication of this annual report:

Item	1 st private placement in 2016 (Note 1) Issue date: December 13, 2016					1 st private placement in 2018 (Note 1) Issue date: June 28, 2018					1 st private placement in 2019 (Note 1) Issue date: December 4, 2019				
Type of private placement security	“2016 tier 1 non-cumulative subordinated debts without maturity dates-qualified”					Common stock					Common stock				
Date and amount passed by the resolution of the shareholders meeting	September 9, 2016: The private placement of NT\$35 billion of “2016 tier 1 non-cumulative subordinated debts without maturity dates-qualified” by resolution of the extraordinary board of directors.					April 25, 2018: The private placement of NT\$420 million of common shares by resolution of the board of directors on behalf of the shareholders meeting.					August 15, 2019: The private placement of NT\$125 million of common shares by resolution of the board of directors on behalf of the shareholders meeting.				
The basis and reasonableness for determining the prices	The markup of coupon rate is based on the 10-year Government Bond Yield. The issue spread is as follows: (1) Nanshan Life's 1st coupon rate of cumulative subordinated debts without maturity dates in 2016 is set at 3.5%, which is calculated based on the 10-year Government Bond Yield of 0.8% with issue spread estimated at 2.7%. (2) Corresponding to factors such as company size, credit rating, bond issuance, debt accumulation, and private placement. The coupon rate of cumulative subordinated debts without maturity dates is to be set at 3.6%.					1. The basis of reference price According to Article 2 of the “Directions for Public Companies Conducting Private Placements of Securities,” the reference price is net value per share on the price determination date as reported in the financial reports for the most recent fiscal period, and the actual issue price shall be no less than 80% of the reference price. 2. Pricing method Since the Company's common shares are not publicly traded on stock exchange, the pricing method for evaluating the issue price of common stock issued by private placement shall be based on net value per share of Cathay Life to Cathay Financial Holdings Co., Ltd. (hereinafter referred to as CFH) before the price determination date, as well as CFH's average closing price for thirty business days before the price determination date. Based on the aforementioned pricing method, the net value per share of Cathay Life to CFH as reported in the audited financial reports in the most recent fiscal period (the first quarter of 2018) was 1.84 (80.52: 43.72) with reference to the average closing price of NT\$53.64 for common shares of CFH in the last 30 business days (April 19 - May 31, 2018) with a theoretical price of NT\$98.70 (53.64 x 1.84=98.70), which is no less than 80% of the aforementioned reference price. Hence, the issue price of NT\$100 per share is believed to be reasonable.					1. The basis of reference price According to Article 2 of the “Directions for Public Companies Conducting Private Placements of Securities,” the reference price is net value per share on the price determination date as reported in the financial reports for the most recent fiscal period, and the actual issue price shall be no less than 80% of the reference price. 2. Pricing method Since the Company's common shares are not publicly traded on stock exchange, the pricing method for evaluating the issue price of common stock issued by private placement shall be based on net value per share of Cathay Life to Cathay Financial Holdings Co., Ltd. (hereinafter referred to as CFH), as well as the Company's net value. Based on the aforementioned pricing method, the net value per share of Cathay Life to CFH as reported in the audited financial reports in the most recent fiscal period (the second quarter of 2019 as listed in the table below) was NT\$91.58 and NT\$47.49. CFH's net worth of NT\$0.87 (41.10 / 47.49) per share is calculated based on CFH's simple arithmetic average closing price of common shares for in the most recent one, three or five business days, and the average closing price of NT\$41.10 for CFH common shares in the last 30 business days (August 30 - October 16, 2019), whichever is greater, which bring about Cathay Life's theoretical price of NT\$79.67 (0.87 x 91.58 = 79.67), which is no less than 80% of the aforementioned reference price (91.58 x 80% = NT\$73.26). Hence, the issue price of NT\$80 per share is believed to be reasonable.				
Selection of the designated subscriber	Cathay Financial Holding Co., Ltd. is a company established in accordance with the Financial Holding Company Act and owns 100% of the Company's shares. In accordance with Articles 53 and 56 of the Financial Holding Company Act, if the insurance subsidiary is required to increase its capital, it has the duty and obligation to raise funds for the Company.					Cathay Financial Holding Co., Ltd. is a company established in accordance with the Financial Holding Company Act and owns 100% of the Company's shares. In accordance with Articles 53 and 56 of the Financial Holding Company Act, if the insurance subsidiary is required to increase its capital, it has the duty and obligation to raise funds for the Company.					Cathay Financial Holding Co., Ltd. is a company established in accordance with the Financial Holding Company Act and owns 100% of the Company's shares. In accordance with Articles 53 and 56 of the Financial Holding Company Act, if the insurance subsidiary is required to increase its capital, it has the duty and obligation to raise funds for the Company.				
Reason for private placement	In order to effectively keep track of the schedule of public offering, quickly obtain relatively stable and low-cost funds within ten years in order to increase the eligible equity capital and improve the capital adequacy ratio.					In order to effectively keep track of the schedule for public offering, quickly obtain relatively stable and low-cost funds in order to increase the eligible equity capital and improve the capital adequacy ratio.					Since the Company is a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. In order to stabilize the ownership, public offering is not adopted in consideration of the convenience and issuance cost of fund-raising.				
Date on which payment has been completed	December 13, 2016					June 28, 2018					December 4, 2019				
Subscriber information	Target of private placement	Qualifications	Subscription amount	Relationship with the company	Participation in the operations of the company	Target of private placement	Qualifications	Subscription amount	Relationship with the company	Participation in the operations of the company	Target of private placement	Qualifications	Subscription amount	Relationship with the company	Participation in the operations of the company
	Cathay Financial Holding Co., Ltd.	Subparagraph 3, Paragraph 1, Article 43-6 of the Securities and Exchange Act	35,000,000,000	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares	Cathay Financial Holding Co., Ltd.	Subparagraph 3, Paragraph 1, Article 43-6 of the Securities and Exchange Act	420,000,000	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares	Cathay Financial Holding Co., Ltd.	Subparagraph 3, Paragraph 1, Article 43-6 of the Securities and Exchange Act	125,000,000	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares	Cathay Financial Holding Co., Ltd. owns 100% of the Company's shares
Actual subscription (or conversion) price	Interest rate: 3.6%					NT\$100					NT\$80				
Difference between the actual subscription (or conversion) price and the reference price	0					0					0				
The effect of the private placement on shareholders' equity (such as the increase of accumulated deficits)	None					None					None				
The status of use of the capital raised through the private placement of securities and the implementation progress of the plan	100% capital are for increasing eligible equity capital and improving capital adequacy ratio					100% capital are for increasing eligible equity capital and improving capital adequacy ratio					100% capital are for increasing eligible equity capital and improving capital adequacy ratio				
The realization of the benefits of the plan	Increase in capital adequacy ratio					Increase in capital adequacy ratio					Increase in capital adequacy ratio				

III. The shares in the Company held or disposed of by subsidiaries in the recent years up to the publication of this annual report: None.

IV. Other important supplementary information: None.

Nine. Events occurred in the previous year or up to the publication of this annual report, which significantly affect shareholders' equity or price of shares pursuant to Subparagraph 2, Paragraph 2, Article 36 of the Securities and Exchange Act: None.

The Company's Four Business Philosophies

- I. Down-to-earth business operation and continuous improvement.
- II. Attach importance on business ethics and professional conscience.
- III. Attach importance to the rights and interests of the insured and implement corporate social responsibility.
- IV. Improve employee welfare and take into account of shareholders' interests.

Cathay Life Insurance Co., Ltd.

Chairman: Tiao-Kuei Huang