

**China Life Insurance Co., Ltd.**  
**Financial Statements**  
**For The Three-month Periods Ended**  
**31 March 2016 and 2015**  
**With Independent Auditors' Review Report**

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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**Review Report of Independent Auditors**  
English Translation of a Report Originally Issued in Chinese

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

We have reviewed the accompanying balance sheets of China Life Insurance Co., Ltd. (the "Company") as of 31 March 2016 and 31 March 2015, and the related statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2016 and 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these statements based on our review.

We conducted our review in accordance with Statements of Auditing Standards No.36 "Review of Financial statements" of the Republic of China ("R.O.C."). A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission.



Ernst & Young  
Certified Public Accountants  
Taipei, Taiwan, R.O.C.  
28 April 2016

Notice to Readers:

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

## China Life Insurance Co., Ltd.

## Unaudited balance sheets

As at 31 March 2016, 31 December 2015 and 31 March 2015

(31 March 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	2016/3/31		2015/12/31		2015/3/31	
		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	VI.1	\$55,965,872	5	\$52,426,711	4	\$61,285,763	6
Receivables	VI.2	17,504,502	1	11,220,392	1	13,866,624	1
Current tax assets		2,044,157	0	1,975,975	0	1,461,310	0
Financial assets at fair value through profit or loss	VI.3	7,903,168	1	357,944	0	2,874,409	0
Available-for-sale financial assets	VI.4	415,482,971	34	439,274,726	37	453,145,612	40
Debt instrument investments for which no active market exists	VI.5	531,644,798	43	504,141,924	42	429,376,787	38
Held-to-maturity financial assets	VI.6	48,283,047	4	42,124,302	4	9,447,689	1
Investment property	VI.8	23,882,694	2	24,273,542	2	23,531,841	2
Loans	VI.7	30,552,040	2	30,933,445	3	30,530,021	3
Reinsurance assets	VI.9	390,966	0	340,209	0	350,088	0
Property and equipment	VI.10	7,426,509	1	6,988,198	1	7,029,670	1
Intangible assets		124,351	0	98,836	0	50,263	0
Deferred tax assets	VI.25	3,415,504	0	4,251,116	0	2,225,483	0
Other assets	VI.11	19,377,136	2	19,252,055	1	19,021,970	2
Separate account product assets	VI.27	64,479,354	5	64,962,278	5	69,391,076	6
Total assets		<u>\$1,228,477,069</u>	<u>100</u>	<u>\$1,202,621,653</u>	<u>100</u>	<u>\$1,123,588,606</u>	<u>100</u>

The accompanying notes are an integral part of these unaudited financial statements.

## China Life Insurance Co., Ltd.

## Unaudited balance sheets - (continued)

As at 31 March 2016, 31 December 2015 and 31 March 2015

(31 March 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2016/3/31		2015/12/31		2015/3/31	
		Amount	%	Amount	%	Amount	%
Payables	VI.12	\$7,364,353	1	\$8,055,698	1	\$9,058,615	1
Financial liabilities at fair value through profit or loss	VI.13	205,760	0	3,984,347	0	249,048	0
Insurance liabilities	VI.14	1,047,863,087	85	1,025,712,952	85	949,910,522	85
Foreign exchange valuation reserve	VI.15	6,657,177	1	7,695,824	1	5,150,701	0
Provisions	VI.16	122,855	0	277,491	0	267,134	0
Deferred tax liabilities	VI.25	7,273,740	1	8,082,606	1	6,397,151	1
Other liabilities		2,081,542	0	1,266,589	0	1,159,276	0
Separate account product liabilities	VI.27	64,479,354	5	64,962,278	5	69,391,076	6
Total liabilities		1,136,047,868	93	1,120,037,785	93	1,041,583,523	93
Capital stock	VI.18						
Common stock		33,401,467	3	33,401,467	3	30,364,970	3
Capital surplus	VI.19	2,289,273	0	2,289,273	0	4,414,821	0
Retained earnings	VI.20						
Legal capital reserve		6,083,247	0	6,083,247	1	4,780,855	0
Special capital reserve		19,795,287	2	19,795,287	1	16,777,327	2
Unappropriated retained earnings		11,577,477	1	8,885,246	1	9,463,270	1
Other equity	VI.21	19,282,450	1	12,129,348	1	16,203,840	1
Total equity		92,429,201	7	82,583,868	7	82,005,083	7
Total liabilities and equity		\$1,228,477,069	100	\$1,202,621,653	100	\$1,123,588,606	100

The accompanying notes are an integral part of these unaudited financial statements.

## China Life Insurance Co., Ltd.

## Unaudited statements of comprehensive income

For the three-month periods ended 31 March 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars, except Earnings Per Share)

Item	Notes	1 January-31 March 2016		1 January-31 March 2015	
		Amount	%	Amount	%
Operating revenue					
Direct premium income		\$37,864,116	77	\$29,067,844	69
Premium income		37,864,116	77	29,067,844	69
Deduct: Premiums ceded to reinsurers		(275,202)	(0)	(246,263)	(0)
Net changes in unearned premium reserve	VI.14	200,741	0	197,480	0
Retained premium earned	VI.22	37,789,655	77	29,019,061	69
Reinsurance commission earned		50,410	0	17,636	0
Handling fees earned		220,170	0	214,818	0
Net investment profits and losses					
Interest income		8,812,868	18	7,508,899	18
Gains (losses) on financial assets and liabilities at fair value through profit or loss		9,170,154	19	5,154,154	13
Realized gains on available-for-sale financial assets		2,477,415	5	2,600,398	6
Realized gains on debt investments for which no active market exists		511,309	1	1,273,628	3
Foreign exchange gains (losses)		(12,037,013)	(24)	(5,967,390)	(14)
Net changes in foreign exchange valuation reserve	VI.15	1,038,647	2	112,844	0
Gains on investment property		124,861	0	118,119	0
Other operating revenue		-	-	43	0
Separate account product revenue	VI.27	1,036,674	2	1,949,264	5
Subtotal		49,195,150	100	42,001,474	100
Operating costs					
Insurance claim payments		(16,575,249)	(34)	(16,667,986)	(39)
Deduct: Claims recovered from reinsurers		161,752	0	150,096	0
Retained claim payments	VI.23	(16,413,497)	(34)	(16,517,890)	(39)
Net changes in insurance liabilities	VI.14	(24,762,663)	(50)	(16,755,242)	(40)
Brokerage expenses		(1,109)	0	(1,116)	0
Commission expenses		(2,579,094)	(5)	(1,733,906)	(4)
Finance costs		(1,825)	0	(1,521)	0
Other operating costs		(47,357)	0	(35,754)	0
Separate account product expenses	VI.27	(1,036,674)	(2)	(1,949,264)	(5)
Subtotal		(44,842,219)	(91)	(36,994,693)	(88)
Operating expenses	VI.24				
Business expenses		(606,381)	(1)	(562,192)	(1)
Administrative and general expenses		(459,594)	(1)	(328,280)	(1)
Employee training expenses		(2,702)	(0)	(2,535)	(0)
Subtotal		(1,068,677)	(2)	(893,007)	(2)
Operating income (loss)		3,284,254	7	4,113,774	10
Non-operating income and expenses		19,015	0	12,116	0
Income (loss) from continuing operations before income tax		3,303,269	7	4,125,890	10
Income tax benefit (expense)	VI.25	(611,038)	(1)	(829,712)	(2)
Net income (loss) from continuing operations		2,692,231	6	3,296,178	8
Net income (loss)		2,692,231	6	3,296,178	8
Other comprehensive income, net of tax	VI.21				
Items that are or may be reclassified subsequently to profit or loss					
Unrealized valuation gains (losses) on available-for-sale financial assets		6,739,989	14	4,410,824	10
Income taxes relating to items that are or may be reclassified subsequently to profit or loss		413,113	0	(26,412)	(0)
Other comprehensive income, net of tax		7,153,102	14	4,384,412	10
Total comprehensive income		\$9,845,333	20	\$7,680,590	18
Earnings per share (In New Taiwan Dollars)	VI.26				
Basic earnings per share		\$0.81		\$0.99	
Diluted earnings per share		\$0.81		\$0.99	

The accompanying notes are an integral part of these unaudited financial statements.

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited statements of changes in equity

For the three-month periods ended 31 March 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Summary	Notes	Retained earnings					Other equity			Total
		Common stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Unrealized valuation gains (losses) on available-for-sale financial assets	Revaluation surplus		
Balance on 1 January 2015		\$30,364,970	\$4,414,821	\$4,780,855	\$16,777,327	\$6,167,092	\$11,774,078	\$45,350	\$74,324,493	
Net income for the three-months ended 31 March 2015						3,296,178			3,296,178	
Other comprehensive income for the three-months ended 31 March 2015	VI.21						4,384,412		4,384,412	
Total comprehensive income for the three-months ended 31 March 2015		-	-	-	-	3,296,178	4,384,412	-	7,680,590	
Balance on 31 March 2015		\$30,364,970	\$4,414,821	\$4,780,855	\$16,777,327	\$9,463,270	\$16,158,490	\$45,350	\$82,005,083	
Balance on 1 January 2016		\$33,401,467	\$2,289,273	\$6,083,247	\$19,795,287	\$8,885,246	\$11,954,548	\$174,800	\$82,583,868	
Net income for the three-months ended 31 March 2016						2,692,231			2,692,231	
Other comprehensive income for the three-months ended 31 March 2016	VI.21						7,153,102		7,153,102	
Total comprehensive income for the three-months ended 31 March 2016		-	-	-	-	2,692,231	7,153,102	-	9,845,333	
Balance on 31 March 2016		\$33,401,467	\$2,289,273	\$6,083,247	\$19,795,287	\$11,577,477	\$19,107,650	\$174,800	\$92,429,201	

The accompanying notes are an integral part of these unaudited financial statements.

## China Life Insurance Co., Ltd.

## Unaudited statements of cash flows

For the three-month periods ended 31 March 2016 and 2015

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

	1 January-31 March 2016	1 January-31 March 2015
Cash flows from operating activities		
Net income (loss) before tax	\$3,303,269	\$4,125,890
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	25,317	23,312
Amortization expense	10,721	6,078
Provision (reversal of provision) for bad debt expense	4,915	3,022
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	(9,170,154)	(5,154,154)
Net losses (gains) on available-for-sale financial assets	(2,320,248)	(2,297,996)
Net losses (gains) on debt instrument investments for which no active market exists	(511,309)	(1,273,628)
Interest expenses	1,825	1,521
Interest income	(8,812,868)	(7,508,899)
Dividend income	(157,167)	(234,135)
Net changes in insurance liabilities	22,167,335	15,720,347
Net changes in foreign exchange valuation reserve	(1,038,647)	(112,844)
Net changes in provisions	(1,217)	(15)
(Gains) losses on disposal or scrapping of property and equipment	186	574
(Gains) losses on disposal of investment property	(30)	(2,521)
Unrealized foreign exchange losses (gains)	4,946,997	5,994,039
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	(2,160,581)	(1,717,261)
Decrease (increase) in notes receivable	201,256	240,835
Decrease (increase) in other receivables	(7,232,265)	210,355
Decrease (increase) in prepaid expenses and other prepayments	(110,849)	74,799
Decrease (increase) in refundable deposits	183	13
Decrease (increase) in reinsurance assets	(67,958)	(86,428)
Decrease (increase) in other assets	(1,013)	(2,352)
Increase (decrease) in notes payable	39,089	(28,917)
Increase (decrease) in life insurance proceeds payable	3,800	(3,619)
Increase (decrease) in other payables	(426,214)	(498,127)
Increase (decrease) in due to reinsurers and ceding companies	(30,737)	94,625
Increase (decrease) in commissions payable	(277,440)	(556,195)
Increase (decrease) in accounts collected in advance	589,265	12,910
Increase (decrease) in guarantee deposits received	(1,779)	(2,298)
Increase (decrease) in other liabilities	227,467	(316,123)
Increase (decrease) in provision for employee benefits	(153,419)	498
Cash generated from operations activities	(952,270)	6,713,306
Interest received	13,629,243	5,504,713
Dividends received	115,618	78,824
Interest paid	(1,825)	(1,521)
Income taxes refunded (paid)	(239,205)	(270,812)
Net cash provided by (used in) operating activities	12,551,561	12,024,510
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	(23,523,635)	(41,979,721)
Disposal of available-for-sale financial assets	54,390,278	29,302,120
Acquisition of debt instrument investments for which no active market exists	(59,874,180)	(37,099,905)
Disposal of debt instrument investment for which no active market exists	26,794,437	46,421,026
Maturity principal from debt instrument investments for which no active market exists	34,000	350,000
Acquisition of held-to-maturity financial assets	(7,100,613)	(9,447,647)
Acquisition of property and equipment	(245,328)	(80,033)
Acquisition of intangible assets	(8,776)	(2,069)
Decrease (increase) in loans	376,484	550,233
Disposal of investment property	144,933	23,737
Net cash provided by (used in) investing activities	(9,012,400)	(11,962,259)
Increase (decrease) in cash and cash equivalents	3,539,161	62,251
Cash and cash equivalents at the beginning of the period	52,426,711	61,223,512
Cash and cash equivalents at the end of the period	\$55,965,872	\$61,285,763

The accompanying notes are an integral part of these unaudited financial statements.

**English Translation of Financial Statements Originally Issued in Chinese**

**China Life Insurance Co., Ltd.**

**Notes to financial statements**

**For the three-month ended 31 March 2016 and 2015**

(31 March 2016 and 2015 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

**I. Organizations and business scope**

China Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 25 April 1963, previously known as Overseas Life Corp. The Company was renamed China Life Insurance Co., Ltd. and authorized by Ministry of Finance, R.O.C. and Ministry of Economic Affairs, R.O.C. in January 1981. The registered office address of the Company is 5F., No.122, Dunhua N. Rd., Songshan Dist., Taipei City, Taiwan (R.O.C.). The Company’s shares were listed on the Taiwan Stock Exchange. The Company mainly engages in the business of life insurance. The Company is headquartered in Taipei City, and has branches in Taoyuan City, Taichung City, Chiayi City, Tainan City, Kaohsiung City, Pingtung County, Hualien County and Penghu County.

To enhance operation synergy, the Company accomplished the acquisition of major assets and liabilities from Prudential Corporation Asia Life Taiwan on 19 June 2009. The deal was approved by Financial Supervisory Commission (“FSC”) under Order No. Financial-Supervisory -Securities-Corporate-09802552211 on 16 June 2009.

The Company established an offshore insurance unit (OIU) on 14 September 2015 following resolution of the board of directors and receiving approval from FSC.

**II. Date and procedures of authorization of financial statements for issue**

The financial statements of the Company for the three-month period ended 31 March 2016 and 2015 were authorized to issue in accordance with a resolution of the Company’s board of directors on 28 April 2016.

**III. Newly issued or revised standards and interpretations**

1. Standards or interpretations issued by IASB but not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue are listed below:

Contents of Standards or interpretations	Adoption Date (Note1)
(1) IAS 36 “ <i>Impairment of Assets</i> ” (Amendment)	1 January 2014
(2) IFRIC 21 “ <i>Levies</i> ”	1 January 2014

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Contents of Standards or interpretations	Adoption Date (Note1)
(3) IAS 39 <i>“Novation of Derivatives and Continuation of Hedge Accounting”</i>	1 January 2014
(4) IAS 19 <i>“Employee Benefits” (Defined benefit plans: employee contributions)</i>	1 July 2014
(5) <i>Improvements to International Financial Reporting Standards (2010-2012 cycle):</i>	
IFRS 2 <i>“Share-based Payment”</i>	Note2
IFRS 3 <i>“Business Combinations”</i>	Note3
IFRS 8 <i>“Operating Segments”</i>	1 July 2014
IFRS 13 <i>“Fair Value Measurement”</i>	Note4
IAS 16 <i>“Property, Plant and Equipment”</i>	1 July 2014
IAS 24 <i>“Related Party Disclosures”</i>	1 July 2014
IAS 38 <i>“Intangible Assets”</i>	1 July 2014
(6) <i>Improvements to International Financial Reporting Standards (2011-2013 cycle):</i>	
IFRS 1 <i>“First-time Adoption of International Financial Reporting Standards”</i>	1 July 2014
IFRS 3 <i>“Business Combinations”</i>	1 July 2014
IFRS 13 <i>“Fair Value Measurement”</i>	1 July 2014
IAS 40 <i>“Investment Property”</i>	1 July 2014
(7) IFRS 14 <i>“Regulatory Deferral Accounts”</i>	1 January 2016
(8) IFRS 11 <i>“Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)</i>	1 January 2016
(9) IAS 16 <i>“Property, Plant and Equipment”</i> and IAS 38 <i>“Intangible Assets”</i> — <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	1 January 2016
(10) IFRS 15 <i>“Revenue from Contracts with Customers”</i>	1 January 2018
(11) IAS 16 <i>“Property, Plant and Equipment”</i> and IAS 41 <i>“Agriculture”</i> — <i>Agriculture: Bearer Plants</i>	1 January 2016
(12) IFRS 9 <i>“Financial Instruments”</i>	1 January 2018
(13) IAS 27 <i>“Separate Financial Statements”</i> — <i>Equity Method in Separate Financial Statements</i>	1 January 2016
(14) IFRS 10 <i>“Consolidated Financial Statements”</i> and IAS 28 <i>“Investments in Associates and Joint Ventures”</i> — <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures</i>	Note5
(15) <i>Improvements to International Financial Reporting Standards (2012-2014 cycle):</i>	
IFRS 5 <i>“Non-current Assets Held for Sale and Discontinued Operations”</i>	1 January 2016

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Contents of Standards or interpretations	Adoption Date (Note1)
IFRS 7 “ <i>Financial Instruments: Disclosures</i> ”	1 January 2016
IAS 19 “ <i>Employee Benefits</i> ”	1 January 2016
IAS 34 “ <i>Interim Financial Reporting</i> ”	1 January 2016
(16) IAS 1 “ <i>Presentation of Financial Statements</i> ” (Amendment)	1 January 2016
(17) IFRS 10 “ <i>Consolidated Financial Statements</i> ”, IFRS 12 “ <i>Disclosure of Interests in Other Entities</i> ”, and IAS 28 “ <i>Investments in Associates and Joint Ventures</i> ” — <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
(18) IFRS 16 “ <i>Leases</i> ”	1 January 2019
(19) IAS 12 “ <i>Income Taxes</i> ” — <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	1 January 2017
(20) Disclosure Initiative — Amendment to IAS 7 “ <i>Statement of Cash Flows</i> ”	1 January 2017
(21) IFRS 15 “ <i>Revenue from Contracts with Customers</i> ” – Clarifications to IFRS	1 January 2018

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Note1: Except otherwise noted, the newly issued standards and interpretations above are effective for annual periods subsequent to the date of issue.

Note2: Apply to share-based payments whose vesting dates take place after 1 July 2014.

Note3: Apply to business combinations whose acquisition dates take place after 1 July 2014.

Note4: Effective immediately following amendment.

Note5: The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

The abovementioned standards and interpretations issued by IASB but not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed below, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

IAS 36 “*Impairment of Assets*” (Amendment)

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain).

IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met.

IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Improvements to International Financial Reporting Standards (2010-2012 cycle)

IFRS 13 “Fair Value Measurement”

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 *Financial Instruments* and paragraph AG79 of IAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from IFRS 13 *Fair Value Measurement*, the IASB did not intend to change the measurement requirements.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

IAS 16 “*Property, Plant and Equipment*”

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

IAS 38 “*Intangible Assets*”

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

Improvements to International Financial Reporting Standards (2011-2013 cycle)

IFRS 13 “*Fair Value Measurement*”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*.

IAS 40 “*Investment Property*”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 *Business Combinations* and investment property as defined in IAS 40 *Investment Property*, separate application of both standards independently of each other is required.

IFRS 9 “*Financial Instruments*”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

*Improvements to International Financial Reporting Standards (2012-2014 cycle)*

*IFRS 7 "Financial Instruments: Disclosures"*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*.

*IAS 19 "Employee Benefits"*

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

*IAS 34 "Interim Financial Reporting"*

The amendment clarifies what is meant by "elsewhere in the interim financial report" under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

Disclosure Initiative — Amendment to IAS 1 “*Presentation of Financial Statements*”

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss.

IFRS 16 “*Leases*”

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

IAS 12 “*Income Taxes*” — *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendment clarifies how to account for deferred tax assets for unrealized losses.

Disclosure Initiative — Amendment to IAS 7 “*Statement of Cash Flows*”

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

#### IFRS 15 “Revenue from Contracts with Customers” – Clarifications to IFRS 15

The amendment clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time.

#### IV. Summary of significant accounting policies

##### 1. Statement of compliance

The financial statements of the Company for the three-month period ended 31 March 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises (“the Regulations”) and IAS 34 Interim Financial Reporting as recognized by the FSC.

##### 2. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial instruments and investment property that have been measured at fair value. The financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

##### 3. Foreign currency transactions

The Company’s financial statements are presented in functional currency, NT\$. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated using the closing rate of exchange at the reporting date. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value is measured. Non-monetary items measured at historical cost in foreign currencies are translated using the exchange rates at the date of initial transactions.

Apart from the items mentioned below, the exchange differences due to settlement or translation are recognized in profit or loss for the period.

- (1) The foreign currency items which are applicable to IAS 39 *Financial Instruments: Recognition and Measurements* should be dealt with the accounting policy of financial instruments.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

- (2) Exchange differences of monetary items arising from the translation of the net investment in foreign operations are recognized in other comprehensive income. When the investment is disposed of or sold, exchange differences are reclassified from other comprehensive income into profit or loss.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. If a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

#### 4. Product categories

Insurance contract means the insurer accepts the transfer of significant insurance risk from insurance policyholder, and agrees to compensate the policyholder for any damages when a particular uncertain event (insured event) occurs in the future. The definition of a significant insurance risk means any insured event occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments is the contract that transfers the significant financial risk. The definition of the financial risk refers to one or more specific interest rates, product prices, exchange rates, price index, rate index, credit ratings and indicators, and other variables related to risks of possible changes in the future. If the above variables are non-financial variables, then the variables exist in both sides under the contract.

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

Insurance contracts and insurance contracts with feature of financial instruments can be further broken down into separate categories depending on whether the contracts have discretionary participation feature or not. To have discretionary participation feature means a guaranteed payment from the contract plus contractual rights to receive additional payments.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

These contractual rights have the following characteristics:

- (1) Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
- (2) In accordance with the contract, the amount and date of additional payments are at the Company's discretion.
- (3) In accordance with the contract, additional payments are handed out based on one of the following matters:
  - a. Performance of a specific combination of contracts or specific type of contract
  - b. The investment return of a specific asset portfolio the Company holds
  - c. Profit and loss from the Company, funds, or other entities

When embedded derivative products' economic characteristics and risks are no longer closely related to the economic characteristics and risks of the primary contracts, it should be listed separately from the primary contracts and use fair value method to determine its fair value. Also the profit or loss determined by the fair value method should be recognized in the current period. However, if the embedded derivative product meets the definition of an insurance contract or the whole contract is measured by the fair value method and the profit or loss is recognized in the current period, the Company will not need to separately list the embedded derivative product and the insurance contract.

5. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company classifies time deposits as cash equivalents when they have maturities of less than 12 months and can be readily convertible to known amounts of cash and be subject to an insignificant risk of changes in value.

6. Financial assets and liabilities

(1) Initial recognition and subsequent measurement

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of financial instrument.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Pursuant to IAS 39 *Financial Instruments: Recognition and Measurement*, financial assets are categorized as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity financial assets”, and “loans and receivables”. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, and “financial liabilities measured at amortized cost”.

Financial assets designated as at fair value are recognized and derecognized using trade date accounting, and financial assets designated as at amortized cost are recognized and derecognized using settlement date accounting on a regular way purchase or sale basis.

Subsequent measurement of each category of financial assets and liabilities is listed below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

Apart from derivatives and financial instruments designated as at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling them in the near term, and the following requirements are met:

- j** Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity.
- k** Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Any gain or loss already recognized in profit or

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

loss shall not be reversed. Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in equity, except for impairment losses and gains or losses arising from the translation of monetary financial assets. When the financial assets are derecognized, the cumulative gains or losses previously recorded in equity are recognized in profit or loss. The interest income calculated by effective interest method of available-for-sale financial assets and dividends on available-for-sale equity instruments are recognized in profit or loss.

Available-for-sale financial assets meeting the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Upon reclassification, the fair value on the date of reclassification becomes its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in equity shall be amortized to current profit or loss over the remaining life of the asset.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses on changes in fair value are recognized in profit or loss when the investments are derecognized or impaired. The amortized cost is computed as the cost amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial instruments, transactions costs, fees and premiums/discounts are taken into consideration when calculating the effective interest rate.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition classified as at fair value through profit or loss, designates as available-for-sale, and those for which the holder may not recover substantially all of its initial investment because of credit deterioration.

Loans and receivables are separately presented on the balance sheet as receivables, debt instrument investments for which no active market exists or loans. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Financial liabilities

Financial liabilities at fair value subsequently measured at fair value with changes recognized in profit or loss which includes all interest payments the financial liabilities disburse.

Such liabilities measured at cost on the end of the reporting period are reported as financial liabilities measured at cost on the balance sheet if there are no fixed or determinable payments quoted in an active market.

(2) Derecognition of financial assets and liabilities

Financial assets

The Company derecognizes all or part of the financial assets when the contractual rights to the cash flows from the assets expire or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset or when it loses its controls to the assets.

When the Company transfers all or part of the financial assets and abandons its controls to the assets, it is regarded as sale within the scope of charging in exchange.

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**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Financial liabilities

The Company derecognizes all or part of the financial liabilities when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instrument investments with substantially different terms or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the liability extinguished and the liability recognized is recognized in profit or loss.

(3) Offsetting financial instruments

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

(4) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired when, and only when, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset. The carrying amount of the financial asset impaired, other than receivables and loans impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

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**Notes to financial statements (Continued)**

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Other loss events may include:

- j** significant financial difficulty of the issuer or obligor ; or
- k** a breach of contract, such as a default or delinquency in interest or principal payments; or
- l** it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- m** the disappearance of an active market for that financial asset because of financial difficulties of the issuer.

Impairment methods of financial assets the Company adopts in accordance with different measurements as below:

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

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**Notes to financial statements (Continued)**

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In addition, in accordance with the regulation of “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises”, the Company is required to record the minimum amounts based upon each of the following category for allowance of uncollectible accounts:

1. Total amount of 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets that should be paid attention, 10% of the ending balance for the third category of loan assets that are expected to recover, 50% of the ending balance for the fourth category of loan assets that are difficult to recover and 100% of the ending balance for the fifth category of loan assets that are not expected to recover are aggregated .
2. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
3. Total unsecured portion of loans overdue and receivable on demand.
4. If total amount of minimum allowance of uncollectible accounts measured from the categories above are less than the amount in accordance with GAAP, it should refer to the amount in accordance with GAAP as minimum allowance of uncollectible accounts.

To strengthen the ability to bear the loss of specific loan assets, the authority may, if necessary, require the Company to raise loan loss provision for specific loan assets in specified criteria and deadlines.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instrument investments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### (5) Derivative financial instruments and hedging transactions

The Company engages in derivative financial instrument transactions, such as forward foreign exchange contracts, interest rate swaps, cross currency swaps, options and futures, to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are initially recognized at fair value on the day a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### 7. Loans

Loans include automatic premium loans, policy loans and secured loans. Among them, automatic premium loans are premiums paid on behalf of the insured in accordance with the insurance contract, policy loans are secured by policies issued by the Company, and secured loans are secured by stocks, chattel, real estate and other loans and overdue receivables approved by the authority.

Loan principal or interest arrears more than three months after the settlement period, or less than three months but has executed recourse to the primary and secondary debtor or disposed the collateral, listing under overdue loans.

Collateral received from the overdue loans by actively dunning is recorded at the fair value listed in the related account depending on the nature of the collateral, and measured in the applicable method of that account.

#### 8. Fair value measurement

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 fair value

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- (1) in the principal market for the asset or liability, or
- (2) in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible for the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

9. Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item, restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets separately with specific useful lives and depreciation. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, Plant and Equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and construction	15~60 years
Computer equipment	3~15 years
Communication and transportation equipment	5~10 years
Other equipment	3~5 years
Leased assets	Depend on the age or the durable life of lease, whichever is shorter

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively as a change in accounting estimate, if appropriate.

10. Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

The Company's investment properties are measured at fair value, and gains or losses are recognized in profit or loss in accordance with the requirements of IAS 40 *Investment Property*, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and paragraph 53 of IAS 40 *Investment Property*.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

11. Leases

The Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental incomes incurred from the operating leases are recognized over the lease term under straight-line method. Contingent rents are recognized as revenue in the period in which they are earned.

12. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired through merger, is its fair value as at the acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

Other intangible assets are computer software and are amortized on a straight-line basis over the estimated useful life (3 to 5 years).

13. Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The cash generating unit or group which belongs to goodwill should periodically make an impairment test whether it has a sign of impairment. If the impairment test result suggests recognizing an impairment loss, then first deducting goodwill and the remaining deficiencies should be amortized to other assets depending on the relative proportions of the carrying amount of the asset. Impairment losses relating to goodwill cannot be reversed in the future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

#### 14. Investment-linked insurance products

The Company sells investment-linked insurance products, of which the applicant pays the premium according to the agreed amount less the expenses incurred by the insurer. In addition, the investment distribution is approved by the applicant and then transferred to specific accounts as requested by the applicant. The value of these specific accounts is determined based on their fair value on the applicable date and the net worth is computed in accordance with the relevant regulations and the IFRSs.

In accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, assets and liabilities representing the rights and obligations of the applicants, whether arising from an insurance contract or insurance policy with features of financial instruments, are recognized separately as “separate account product assets” and “separate account product liabilities”. The revenues and expenses of separate account insurance products in accordance with IFRS 4 *Insurance Contracts*, separately recognized as “separate account product revenues” and “separate account product expenses.”

#### 15. Post-employment benefits

The Company set up a pension plan and an independently administered pension fund committee according to Labor Standards Act. The Company deposits retirement reserve according to a certain percentage of wages to the specific account of Bank of Taiwan every month. As the retirement reserves are deposited under the committee’s name in the specific bank account, the reserves are not associated with the Company. Therefore, retirement reserve is not included in the Company’s financial statements.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

After the Labor Pension Act became effective, employees can choose to be subject to the pension mechanism under Labor Standards Act or Labor Pension Act. The seniority prior to the enforcement of Labor Pension Act shall be maintained and the Company deposits 6% of the monthly allocated wage based on the monthly wage allocation classification schedule to employees' personal pension accounts in Bureau of Labor Insurance if employees choose to be subject to the pension mechanism under Labor Pension Act.

For the defined contribution plan, the Company recognizes expenses in the period in which the contribution becomes due. For the defined benefit plan, expenses are recognized based on actuarial assumptions at the end of reporting period. Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), is recognized as other comprehensive income with a corresponding debit or credit to retained earnings when it occurs. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, and recognized as an expense at the earlier of the following dates:

- (1) the date of the plan amendment or curtailment occurs, and
- (2) the date that the Company recognizes related restructuring costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

#### 16. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, which probably leads to an outflow of resources embodying economic benefits that is required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

17. Insurance liabilities and reserve for insurance contracts with feature of financial instruments

The Company's reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." Furthermore, they have been validated by the certified actuarial professionals approved by Financial Supervisory Commission. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

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

(1) Unearned premium reserve

For the insurance policy whose term is within one year and has not met the due date or for the injury insurance policy whose term is over one year, the amount of reserve required is based upon the unexpired risk calculation.

(2) Reserve for claims

It is a reserve mainly for the reported but not paid claims and unreported claims. The reported but not paid claims reserve is assessed based on relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based on the past experiences and expenses occurred and in accordance with the actuarial principles.

(3) Reserve for life insurance liabilities

Based on the life table and projected interest rates in the manual provided by the authority for each type of insurance, the dollar amount of life insurance reserve is calculated and deposited according to the calculation method listing on Article 12 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and the manual published by each authority of insurance products.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Starting from policy year of 2003, for valid insurance contract whose dividend calculation is stipulated by the regulations established by the authorities, the downward adjustments of dividend due to the offset between mortality saving (loss) and loss (gain) from difference of interest rates should be recognized and recorded as the increase of reserve for long-term valid contract.

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities. The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with rules issued by the FSC on 21 March 2014. The results of the measurements indicate that the fair value of the insurance liabilities doesn't exceed book value, therefore insurance liabilities does not have to be increased.

(4) Special reserve

- j** For the retained businesses with policy period within 1 year, the special reserve is classified into 2 categories, "Special Capital Reserve—Special Reserve for Major Incidents" and "Special Capital Reserve—Special Reserve for Fluctuation of Risks." The dollar amount of reserve required is addressed as follows:

A. Special capital reserve—Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of NT\$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

**B. Special capital reserve—Special reserve for fluctuation of risks**

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15% of this difference should be reserved in special reserve for fluctuation of risks. When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is greater than the anticipated dollar amount need to be paid, the exceeded amount can be used to write down the special reserve for fluctuation of risks. If the special reserve for fluctuation of risks for specified type of insurance is not enough to be written down, special reserve for fluctuation of risks for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30% of self-retention earned premium within one year, the exceeded amount will be recovered.

For special reserves for major incidents and special reserve for fluctuation of risks addressed previously, the balance of the annual reserve net of tax, the post-tax amount of appropriated and written-down or recovery would be recorded in the special capital reserve under equity.

- k** The Company sells participating life insurance policy. According to the “Rule Governing application of revenue and expenses related to participating / non-participating policy”, 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 this account. The excess dividend should be accounted as special reserve for dividend risks.
- l** The net impact from first adoption of fair value in subsequent measurement has been appropriated into dividend reserve for participating policy which relates to investment property. That reserve can only be used to recover the shortage of valid contract according to the fair value of the liability reserve assessment approved by the authority and replenish the liabilities under the stage two of IFRS 4 “*Insurance Contracts*” for the sustainable of financial structure. By the time the related assets dispose, the reserve which comes from the changes of fair value due to the cumulative net value-added benefits can be processed according to the related distribution provision of participating policy.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(5) Premium deficiency reserve

For the contracts over one year of life, health, or annuities insurance commencing on 1 January 2001, the following rules apply: When the gross premium is less than the valuation net premium, a deficiency reserve is required to be set aside with the value of an annuity, the amount of which shall equal the difference between such premiums and the term of which in years shall equal the number of future annual payments due on such insurance at the date of the valuation.

In addition, for the insurance policy which period is within one year and has not met the due date or accidental insurance policy over one year, the following rules apply: If the probable indemnities and expenses are greater than the aggregate of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve is set aside based on the difference thereof.

(6) Liability adequacy reserve

This is the reserve that is set aside based on the adequacy test of liability required by IFRS 4 *Insurance Contracts*.

Liability adequacy test is based on integrated insurance contract and related regulations. This test compares net of reserve for insurance contract, deferred acquisition cost and related intangible assets with anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as liability adequacy reserve.

(7) Reserves for insurance contracts with feature of financial instruments

Financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

18. Foreign exchange valuation reserve

Foreign exchange valuation reserve was appropriated or written-down from the foreign investment assets (do not include foreign currency non-investment-linked life insurance

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

product assets) in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Directions for Foreign Exchange Valuation Reserve by Life Insurance Enterprises”. The beginning balance of foreign exchange valuation reserve is NT\$1,745,679 thousand which has to recognize special reserve within three years since 2012 according to the provision. The recognized amount should not be less than one third of the beginning balance net of tax for the first year. The cumulative recognized amount of the first two years should not be less than two thirds of the beginning balance net of tax. In addition, the saving of hedging costs is transferred to special reserve each year. If the annual earning is not enough for transfer, then replenish in the later year. The related special reserve may be used to increase the share capital or offset deficit at least once in the following three years. According to “Directions for Foreign Exchange Valuation Reserve by Life Insurance Enterprises” Article 9, if the Insurance company has annual net tax earning, then it should appropriate 10% of that earning to special reserve after shareholders' meeting.

#### 19. Insurance premium income and expenses

For the Company's insurance contract and financial instruments with discretionary participation features, the initial and renewal premium are only recognized as revenue after collection and underwriting procedures, and subsequent session of collection are completed, respectively. In terms of the acquisition cost such as commission expenses and brokerage expenses, the related expenses will be recognized in that period after commencement of the insurance contract.

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as “reserves for insurance contracts with feature of financial instruments.” The related acquisition costs will be written-down in that period after commencement of the insurance contract under “reserves for insurance contracts with feature of financial instruments.”

#### 20. Reinsurance

The Company limits exposure to some events that may cause a certain amount of loss and engages in reinsurance in accordance with business needs and the insurance laws and regulations. For reinsurance ceded, the Company may not refuse to fulfill its obligations to the insured because the reinsurer fails to fulfill their responsibility.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Premiums ceded to reinsurers and reinsurance commission income generated from ceded reinsurance business and due to reinsurers and ceding companies are recognized in the same period with income or expense of the related insurance contract. As the net right of holding reinsurance contract includes reinsurance reserve assets, claims recoverable from reinsurers and due from reinsurers and ceding companies, they are recognized according to the method of signed reinsurance contract and related insurance contract liabilities. The assets, liabilities, income and expense of reinsurance contract cannot offset with the income and expense of related insurance liabilities and insurance contract.

The Company holds the right over re-insurer for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. When objective evidences demonstrate that such rights after initial recognition may lead to the Company not recovering all contractual terms of the amount due; and the above events can be recovered from reinsurers at the impacted amount, then the Company can retrieve an amount that is less than the carrying value of the aforementioned rights, and recognize impairment losses.

For the classification of reinsurance contracts, the Company assesses whether the transfer of significant insurance risk to the re-insurer has occurred. If the transfer of significant insurance risk is not apparent, then the contract is recognized and evaluated with deposit accounting.

For reinsurance contracts that have their significant insurance risk transferred, if the Company can separate the individual elements and measure their savings, then the reinsurance contracts need to be recognized separately as the insurance's element and the saving's element. That is, the Company receives (or pays) the contract's value minus the insurance element, recognizing it as either financial liabilities (or assets), and not as incomes (or expenses). The financial liabilities (or assets) are recognized with the fair value method and uses the present value of future cash flow as the basis for the fair value method.

#### 21. Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax which included in profit or loss for the period.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

#### Current income tax

Current income tax asset (liability) for the current and prior period is measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax and the tax relating to items recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity rather than the profit and loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

#### Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the balance sheets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflect the tax consequences generated from expected recovery of assets or settlement of liabilities at the end of reporting date. Deferred tax is not recognized in the profit and loss if the related item is not recognized in the profit and loss. Rather, it is recognized in other comprehensive income or directly in equity according to their transaction. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Income tax expenses for the interim period are accrued and disclosed at the tax rates that are expected to apply in expected total earnings for the year, which means estimated averaged effective tax rates for the year are used in the before-tax income for the interim period.

#### 22. Unconsolidated structured entities

Securitization vehicles such as real estate investment trust and beneficiary certificates of financial asset securitization, asset-backed financings and some investment funds such as private funds are unconsolidated structured entities, and the related information should be disclosed in accordance with IFRS 12 *Disclosure of Interests in Other Entities*.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

V. Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

1. Judgment

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(1) Categories of financial assets

The Company classification of financial assets is based on the nature and purpose of the assets at the initial recognition. The management has to use its judgment to categorize financial assets. Different categories applied will affect measurements of the financial assets, which could have a significant impact on the Company's financial position and performance.

(2) Categories of insurance contracts

The Company identifies the composition of the issued insurance product contracts, decides whether it can be measured individually and determines whether the contract should be separately recognized. In addition, the Company examines whether the insurance contract has a significant insurance risk through review of the effective period of additional payment ratio, to decide the category of insurance products. If the additional payment ratio reach the pre-set significant standard at any policy period, such contract should be considered having a significant insurance risk. If a single contract provides payment of multiple different insurance events, additional payment will be calculated by the greatest difference between the payment of each insurance event if occurs and the payment of each insurance event if not occurs.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

(3) Operating lease commitment—the Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on evaluation of the terms for the arrangements, that it retains all the significant risks and rewards of ownership for these properties and takes the contracts as operating leases.

(4) Judgment for interests in structured entities

The Company determines whether to disclose related information about unconsolidated structured entities in accordance with IFRS 12 *Disclosure of Interests in Other Entities* depending on purpose and design of each entity, including consideration of risks from design of unconsolidated structured entities, risks designed to pass to the parties of unconsolidated structured entities and the Company's exposure to some or all risks.

2. Estimates and assumptions

The assumptions about the future and primary sources of uncertainty estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(1) Fair value of financial instruments

Where the fair value of the financial instruments recognized in the balance sheet cannot be derived from an active market or a quoted price, it is determined using a valuation technique. In applying valuation techniques, the Company adopts pricing models in accordance with its procedure for valuation, and uses observable market data as possible. The changes in assumptions of these models will affect the fair value of reported financial instruments. Please refer to Note VIII.

(2) Fair value of investment property

The fair value of investment property is derived from valuation techniques, including the income approach (such as discounted cash flow model) and market method, etc., and assumptions used in applying valuation techniques will have influence on the fair value of investment property.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

(3) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(4) Pension benefits

The costs of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include determination of the discount rate, increase in future salaries, mortality rates and increase in future pension payment.

(5) Insurance contract liabilities (including investment contract liabilities with discretionary participation feature of financial instruments)

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, and expenses and surrender rates. The Company bases its assumptions on the standards published by the Actuarial Institute of the Republic of China, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics and experiences from target markets.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The best estimates of future investment income from the assets are based on current market returns, as well as expectation about future economic development. Assumptions on future expense are based on current expense level, adjusted for expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

#### (6) Income taxes

Uncertainty of income taxes exists on interpretation of complex tax regulations and the amount and timing of future taxable income. The differences between the actual results and the assumptions, or future changes to such assumptions could necessitate future adjustments to tax income and expense already recorded. The Company establishes provision, based on reasonable estimates, for possible consequence of audits by the tax authorities at the each county where it operates. The amount of provision is based on various factors, such as experience of previous tax audits and different interpretation of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognized for all carry-forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

## VI. Description of significant accounting items

### 1. Cash and cash equivalents

Item	2016.3.31	2015.12.31	2015.3.31
Cash on hand	\$969	\$1,777	\$1,497
Revolving funds	4,540	4,555	4,545
Cash in banks	14,663,809	11,124,260	20,268,509
Time deposits	23,745,900	18,718,877	26,897,709
Cash equivalents — bond with resale agreement	17,550,654	22,577,242	14,113,503
Total	<u>\$55,965,872</u>	<u>\$52,426,711</u>	<u>\$61,285,763</u>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2. Receivables

Item	2016.3.31	2015.12.31	2015.3.31
Notes receivable - Net	\$216,663	\$417,919	\$239,205
Other receivables - Net			
Interest receivable	8,294,083	9,082,009	7,781,611
Rent receivable	-	-	3,250
Financial instruments settlement receivable	7,638,264	190,935	3,555,595
Separate accounts receivable	1,016,320	1,020,819	1,860,295
Other receivables	339,172	508,710	423,112
Less: Allowance for bad debts -Other receivables	-	-	(1)
Overdue receivables	750	756	4,750
Less: Allowance for bad debts - Overdue receivables	(750)	(756)	(1,193)
Subtotal	17,287,839	10,802,473	13,627,419
Total	\$17,504,502	\$11,220,392	\$13,866,624

3. Financial assets at fair value through profit or loss

Item	2016.3.31	2015.12.31	2015.3.31
Held for sale:			
Derivative financial assets			
Forward foreign exchange contracts	\$7,571,367	\$22,615	\$1,351,270
Non-derivative financial assets			
Domestic listed stocks	-	-	872,034
Designated financial assets at fair value through profit or loss:			
Convertible bonds	331,801	335,329	651,105
Total	\$7,903,168	\$357,944	\$2,874,409

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

4. Available-for-sale financial assets

Item	2016.3.31	2015.12.31	2015.3.31
Domestic listed stocks	\$71,817,939	\$72,807,607	\$88,646,966
Domestic beneficiary certificates	745,509	-	3,131,156
Domestic real estate investment trust	1,559,401	1,555,087	1,642,230
Domestic government bonds	183,537,589	190,765,178	190,347,562
Domestic corporate bonds	3,295,187	3,282,833	6,005,484
Domestic financial debentures	1,034,762	1,232,730	4,359,182
Domestic unlisted stocks	2,659,599	2,648,151	2,479,256
Overseas listed stocks	15,054,559	16,384,512	11,694,587
Overseas beneficiary certificates	8,195,231	8,467,305	7,320,831
Overseas government bonds	1,969,670	3,131,596	3,165,164
Overseas corporate bonds	39,871,118	37,379,636	22,541,731
Overseas financial debentures	64,511,335	75,608,268	86,278,831
Overseas preferred stocks	4,430,979	7,901,252	7,778,168
Overseas unlisted stocks	18,390,826	19,684,307	19,260,533
Less: Refundable deposits	(1,590,733)	(1,573,736)	(1,506,069)
Total	<u>\$415,482,971</u>	<u>\$439,274,726</u>	<u>\$453,145,612</u>

5. Debt instrument investments for which no active market exists

Item	2016.3.31	2015.12.31	2015.3.31
Domestic government bonds	\$9,498,390	\$10,109,830	\$10,162,765
Domestic corporate bonds	38,561,688	41,109,413	48,611,691
Domestic financial debentures	31,304,192	31,304,987	30,707,377
Overseas government bonds	12,179,618	12,792,773	8,047,728
Overseas corporate bonds	73,819,902	74,655,112	54,686,625
Overseas financial debentures	340,283,034	312,972,980	259,467,183
Overseas real estate mortgage bonds	29,749,267	24,951,715	19,730,377
Overseas structured notes	-	-	1,256,040
Less: Refundable deposits	(3,751,293)	(3,754,886)	(3,292,999)
Total	<u>\$531,644,798</u>	<u>\$504,141,924</u>	<u>\$429,376,787</u>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

6. Held-to-maturity financial assets

Item	2016.3.31	2015.12.31	2015.3.31
Domestic government bonds	\$2,472,656	\$2,472,447	\$-
Overseas government bonds	2,725,071	2,458,633	-
Overseas corporate bonds	29,273,904	24,418,565	9,447,689
Overseas financial debentures	13,811,416	12,774,657	-
<b>Total</b>	<b>\$48,283,047</b>	<b>\$42,124,302</b>	<b>\$9,447,689</b>

7. Loans

Item	2016.3.31	2015.12.31	2015.3.31
Policy loans	\$22,852,583	\$23,118,699	\$22,359,399
Automatic premium loans	4,997,517	4,929,303	4,543,820
Secured loans – net	2,736,933	2,914,591	3,564,062
Secured loans – non-related parties	2,750,795	2,929,378	3,582,124
Less: Allowance for bad debts	(13,862)	(14,787)	(18,062)
Overdue receivables – net	(34,993)	(29,148)	62,740
Overdue receivables	-	-	105,924
Less: Allowance for bad debts	(34,993)	(29,148)	(43,184)
<b>Total</b>	<b>\$30,552,040</b>	<b>\$30,933,445</b>	<b>\$30,530,021</b>

The movements in the provision for impairment of secured loans and overdue receivables are as follows:

	For the three-month period ended 31 March	
	2016	2015
Beginning balance	\$43,935	\$58,020
Charge (reversal) for the current period	4,920	3,226
<b>Ending balance</b>	<b>\$48,855</b>	<b>\$61,246</b>

The above impairment is assessed collectively.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

8. Investment property

The reconciliations from the beginning book value balances to the ending book value balances for investment property measured at fair value model in subsequent period are as follows:

	For the three-month period ended 31 March 2016			
	Land	Buildings	Prepayments for buildings	Total
Costs:				
Beginning balance	\$15,764,935	\$5,868,698	\$-	\$21,633,633
Transfers from (to) property and equipment	(186,721)	(59,224)	-	(245,945)
Ending balance	\$15,578,214	\$5,809,474	\$-	\$21,387,688

	For the three-month period ended 31 March 2015			
	Land	Buildings	Prepayments for buildings	Total
Costs:				
Beginning balance	\$14,908,068	\$5,894,607	\$-	\$20,802,675
Disposals	(8,144)	(13,073)	-	(21,217)
Ending balance	\$14,899,924	\$5,881,534	\$-	\$20,781,458

Development of the vacant land and prepayments for buildings without construction license is measured at cost because its fair value cannot be reliably determined. The reconciliations from the beginning book value balances to the ending book value balances are as follows:

	For the three-month period ended 31 March 2016			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$4,135,804	\$-	\$-	\$4,135,804
Disposals	(481,629)	-	-	(481,629)
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment :				
Beginning balance	\$1,495,895	\$-	\$-	\$1,495,895
Disposals	(336,726)	-	-	(336,726)
Ending balance	\$1,159,169	\$-	\$-	\$1,159,169

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the three-month period ended 31 March 2015			
	Land	Buildings	Prepayment for buildings	Total
Costs :				
Beginning balance	\$4,135,804	\$-	\$-	\$4,135,804
Ending balance	\$4,135,804	\$-	\$-	\$4,135,804
Accumulated impairment :				
Beginning balance	\$1,385,421	\$-	\$-	\$1,385,421
Ending balance	\$1,385,421	\$-	\$-	\$1,385,421
Net carrying amount :				
2016.3.31	\$18,073,220	\$5,809,474	\$-	\$23,882,694
2015.12.31	\$18,404,844	\$5,868,698	\$-	\$24,273,542
2015.3.31	\$17,650,307	\$5,881,534	\$-	\$23,531,841

A major part of the Company's buildings includes main plants, air conditioning, electrical and elevator equipment.

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal. Valuation reports are issued every six months and evaluated the effectiveness of the fair value at the balance sheet date quarterly to determine whether to issue new valuation reports. The valuation dates of the valuation reports for the reporting period are 31 December 2015, and review reports for the three-month period ended 31 March 2016 and 2015 are also acquired. Please refer to original financial reports for detail information of the appraisers and agencies.

The decision of fair value is supported by observable evidence in the market. The appraisal approaches mainly used are the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued mainly by comparison approach and income approach because of the market liquidity and comparable sales and rental cases in neighboring areas. Income approach does not use discounted cash flow analysis, so no inputs of the discount rate.

The inputs mainly used are as follows:

	2016.3.31	2015.12.31	2015.3.31
	Mainly	Mainly	Mainly
Income capitalization rate	1.30%~4.46%	1.30%~4.46%	1.30%~4.51%

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Company recognized its investment property at fair value subsequent to initial recognition and fair value is categorized in Level 3 of fair value hierarchy. The fair value of investment property will decrease as the main input, income capitalization rate of direct capitalization method, increases. On the contrary, the fair value of investment property will increase if the main input decreases.

The investment properties are held mainly for lease business. All the lease agreements are operating leases. The primary terms of lease agreements are the same as general lease agreements. Rents from property investment are received annually, semi-annually, quarterly, monthly or in lump sum.

Rents from investment properties were NT\$124,830 thousand and NT\$115,598 thousand for the three-month period ended 31 March 2016 and 2015. Related direct operating expenses were NT\$18,708 thousand and NT\$16,413 thousand. The direct operating expenses of investment properties generating no rents were NT\$572 thousand and NT\$904 thousand.

As at 31 March 2016, 31 December 2015, and 31 March 2015, no investment properties were pledged as collateral.

9. Reinsurance assets

Item	2016.3.31	2015.12.31	2015.3.31
Claims recoverable from reinsurers	\$243,223	\$214,261	\$227,241
Due from reinsurers and ceding companies	68,647	29,652	42,344
Reinsurance reserve assets			
Ceded unearned premium reserve	45,452	44,928	45,680
Ceded reserve for claims	33,644	51,368	34,823
Subtotal	79,096	96,296	80,503
Total	\$390,966	\$340,209	\$350,088

The above reinsurance assets are not impaired.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

**10. Property and equipment**

For the three-month period ended 31 March 2016

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2016	\$5,590,835	\$1,689,723	\$352,633	\$17,952	\$322,940	\$21,096	\$637,686	\$8,632,865
Additions	-	-	114,355	6	10,879	-	120,088	245,328
Disposals	-	-	(4,668)	-	(100)	-	-	(4,768)
Transfers from (to)								
investment property	186,721	66,070	-	-	-	-	-	252,791
Transfers	-	-	-	-	-	-	(27,459)	(27,459)
31 March 2016	<u>\$5,777,556</u>	<u>\$1,755,793</u>	<u>\$462,320</u>	<u>\$17,958</u>	<u>\$333,719</u>	<u>\$21,096</u>	<u>\$730,315</u>	<u>\$9,098,757</u>
Accumulated								
Depreciation:								
1 January 2016	\$-	\$384,117	\$234,975	\$12,064	\$245,888	\$20,890	\$-	\$897,934
Depreciation	-	9,986	10,892	407	3,973	59	-	25,317
Disposals	-	-	(4,482)	-	(100)	-	-	(4,582)
Transfers from (to)								
investment property	-	6,846	-	-	-	-	-	6,846
31 March 2016	<u>\$-</u>	<u>\$400,949</u>	<u>\$241,385</u>	<u>\$12,471</u>	<u>\$249,761</u>	<u>\$20,949</u>	<u>\$-</u>	<u>\$925,515</u>
Accumulated impairment:								
1 January 2016	\$741,557	\$5,176	\$-	\$-	\$-	\$-	\$-	\$746,733
31 March 2016	<u>\$741,557</u>	<u>\$5,176</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$746,733</u>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

For the three-month period ended 31 March 2015

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2015	\$5,807,871	\$1,754,400	\$317,518	\$14,819	\$267,454	\$20,987	\$357,831	\$8,540,880
Additions	-	-	6,261	1,041	8,170	-	64,561	80,033
Disposals	-	-	(13,491)	(248)	(194)	-	-	(13,933)
Transfers	-	-	221	1,437	-	-	(2,124)	(466)
31 March 2015	<u>\$5,807,871</u>	<u>\$1,754,400</u>	<u>\$310,509</u>	<u>\$17,049</u>	<u>\$275,430</u>	<u>\$20,987</u>	<u>\$420,268</u>	<u>\$8,606,514</u>
Accumulated								
Depreciation:								
1 January 2015	\$-	\$344,227	\$214,133	\$10,986	\$230,244	\$20,499	\$-	\$820,089
Depreciation	-	10,154	8,342	420	4,255	141	-	23,312
Disposals	-	-	(12,918)	(248)	(194)	-	-	(13,360)
31 March 2015	<u>\$-</u>	<u>\$354,381</u>	<u>\$209,557</u>	<u>\$11,158</u>	<u>\$234,305</u>	<u>\$20,640</u>	<u>\$-</u>	<u>\$830,041</u>
Accumulated impairment:								
1 January 2015	\$741,560	\$5,243	\$-	\$-	\$-	\$-	\$-	\$746,803
31 March 2015	<u>\$741,560</u>	<u>\$5,243</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$746,803</u>
Net book value:								
2016.3.31	<u>\$5,035,999</u>	<u>\$1,349,668</u>	<u>\$220,935</u>	<u>\$5,487</u>	<u>\$83,958</u>	<u>\$147</u>	<u>\$730,315</u>	<u>\$7,426,509</u>
2015.12.31	<u>\$4,849,278</u>	<u>\$1,300,430</u>	<u>\$117,658</u>	<u>\$5,888</u>	<u>\$77,052</u>	<u>\$206</u>	<u>\$637,686</u>	<u>\$6,988,198</u>
2015.3.31	<u>\$5,066,311</u>	<u>\$1,394,776</u>	<u>\$100,952</u>	<u>\$5,891</u>	<u>\$41,125</u>	<u>\$347</u>	<u>\$420,268</u>	<u>\$7,029,670</u>

Property and equipment held by the Company are not pledged.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

11. Other assets

Item	2016.3.31	2015.12.31	2015.3.31
Prepayments			
Prepayment — surface rights	\$13,736,785	\$13,787,436	\$13,939,389
Other prepayments	265,584	104,085	248,899
Subtotal	<u>14,002,369</u>	<u>13,891,521</u>	<u>14,188,288</u>
Refundable deposits			
Insurance industry deposits	5,323,029	5,309,535	4,777,969
Lawsuit deposits	18,997	19,087	21,099
Other deposits	19,114	19,298	21,275
Subtotal	<u>5,361,140</u>	<u>5,347,920</u>	<u>4,820,343</u>
Other assets — others	<u>13,627</u>	<u>12,614</u>	<u>13,339</u>
Total	<u>\$19,377,136</u>	<u>\$19,252,055</u>	<u>\$19,021,970</u>

Prepayment—the surface rights are land use rights for 13 government properties, including Taipei Academy and ZHONG-LUN Housing that were acquired on 28 November 2013. The execution date of the contract was 20 January 2014 for a term of 70 years. The expiration date is 19 January 2084.

12. Payables

Item	2016.3.31	2015.12.31	2015.3.31
Notes payable	\$129,164	\$90,075	\$228,955
Life insurance proceeds payable	107,840	104,040	124,394
Commissions payable	1,129,867	1,407,307	714,205
Due to reinsurers and ceding companies	191,710	222,447	302,242
Other payables			
Salary payable	411,526	565,889	290,812
Accrued expenses	1,980,702	2,019,258	1,316,534
Tax payable	13,297	61,400	51,749
Collection payable	37,275	42,291	34,077
Payable on investments	250,749	499,913	3,739,169
Payable on insurance policies	2,943,442	2,888,525	2,146,588
Others	168,781	154,553	109,890
Subtotal	<u>5,805,772</u>	<u>6,231,829</u>	<u>7,688,819</u>
Total	<u>\$7,364,353</u>	<u>\$8,055,698</u>	<u>\$9,058,615</u>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

13. Financial liabilities at fair value through profit or loss

Item	2016.3.31	2015.12.31	2015.3.31
Held for trading:			
Derivative financial instruments			
Swaps and forward foreign exchange contracts	\$205,760	\$3,984,347	\$249,048
Total	\$205,760	\$3,984,347	\$249,048

14. Insurance contracts and provision for financial instruments with discretionary participation feature

As at 31 March 2016, 31 December 2015, and 31 March 2015, movement in reserves of insurance contracts and financial instruments with discretionary participation feature is as follows:

(1) Reserve for life insurance liabilities:

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$703,590,745	\$76,438,284	\$780,029,029
Health insurance	86,962,524	-	86,962,524
Annuity insurance	766,264	158,387,170	159,153,434
Investment-linked insurance	1,889,494	-	1,889,494
Total	\$793,209,027	\$234,825,454	\$1,028,034,481

  

	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$680,341,792	\$80,876,923	\$761,218,715
Health insurance	85,126,882	-	85,126,882
Annuity insurance	767,663	157,203,645	157,971,308
Investment-linked insurance	1,900,260	-	1,900,260
Total	\$768,136,597	\$238,080,568	\$1,006,217,165

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.3.31		
	Financial instruments		
	with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$608,177,235	\$98,224,044	\$706,401,279
Health insurance	77,014,993	-	77,014,993
Annuity insurance	814,683	148,089,974	148,904,657
Investment-linked insurance	1,913,473	-	1,913,473
<b>Total</b>	<b>\$687,920,384</b>	<b>\$246,314,018</b>	<b>\$934,234,402</b>

Note: There is no ceded liability reserve for the above insurance contracts.

Movement in reserve for life insurance liabilities is summarized below:

	For the three-month period ended 31 March 2016		
	Financial instruments		
	with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$768,136,597	\$238,080,568	\$1,006,217,165
Reserve	34,410,142	4,472,034	38,882,176
Recover	(6,990,492)	(7,727,148)	(14,717,640)
Losses (gains) on foreign exchange	(2,347,220)	-	(2,347,220)
<b>Ending balance</b>	<b>\$793,209,027</b>	<b>\$234,825,454</b>	<b>\$1,028,034,481</b>

	For the three-month period ended 31 March 2015		
	Financial instruments		
	with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$675,660,879	\$243,082,953	\$918,743,832
Reserve	21,499,600	9,197,898	30,697,498
Recover	(8,425,259)	(5,966,833)	(14,392,092)
Losses (gains) on foreign exchange	(814,836)	-	(814,836)
<b>Ending balance</b>	<b>\$687,920,384</b>	<b>\$246,314,018</b>	<b>\$934,234,402</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(2) Unearned premium reserve:

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,412	\$-	\$1,412
Individual injury insurance	846,654	-	846,654
Individual health insurance	1,567,682	-	1,567,682
Group insurance	441,246	-	441,246
Investment-linked insurance	50,930	-	50,930
Annuity insurance	-	40	40
<b>Total</b>	<b>\$2,907,924</b>	<b>\$40</b>	<b>\$2,907,964</b>
Less ceded unearned premium reserve:			
Individual life insurance	\$14,325	\$-	\$14,325
Individual injury insurance	840	-	840
Individual health insurance	23,705	-	23,705
Group insurance	1,567	-	1,567
Investment-linked insurance	5,015	-	5,015
<b>Total</b>	<b>\$45,452</b>	<b>\$-</b>	<b>\$45,452</b>
<b>Net amount</b>	<b>\$2,862,472</b>	<b>\$40</b>	<b>\$2,862,512</b>
	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,495	\$-	\$1,495
Individual injury insurance	906,739	-	906,739
Individual health insurance	1,759,903	-	1,759,903
Group insurance	388,842	-	388,842
Investment-linked insurance	51,142	-	51,142
Annuity insurance	-	60	60
<b>Total</b>	<b>\$3,108,121</b>	<b>\$60</b>	<b>\$3,108,181</b>
Less ceded unearned premium reserve:			
Individual life insurance	\$14,085	\$-	\$14,085
Individual injury insurance	1,157	-	1,157
Individual health insurance	23,369	-	23,369
Group insurance	1,372	-	1,372
Investment-linked insurance	4,945	-	4,945
<b>Total</b>	<b>\$44,928</b>	<b>\$-</b>	<b>\$44,928</b>
<b>Net amount</b>	<b>\$3,063,193</b>	<b>\$60</b>	<b>\$3,063,253</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,448	\$-	\$1,448
Individual injury insurance	750,233	-	750,233
Individual health insurance	1,467,536	-	1,467,536
Group insurance	422,620	-	422,620
Investment-linked insurance	49,850	-	49,850
Annuity insurance	-	90	90
<b>Total</b>	<b>\$2,691,687</b>	<b>\$90</b>	<b>\$2,691,777</b>
Less ceded unearned premium reserve:			
Individual life insurance	\$13,910	\$-	\$13,910
Individual injury insurance	1,172	-	1,172
Individual health insurance	21,949	-	21,949
Group insurance	3,572	-	3,572
Investment-linked insurance	5,077	-	5,077
<b>Total</b>	<b>\$45,680</b>	<b>\$-</b>	<b>\$45,680</b>
<b>Net amount</b>	<b>\$2,646,007</b>	<b>\$90</b>	<b>\$2,646,097</b>

Movement in unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2016		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$3,108,121	\$60	\$3,108,181
Reserve	576,834	40	576,874
Recover	(777,031)	(60)	(777,091)
<b>Ending balance</b>	<b>\$2,907,924</b>	<b>\$40</b>	<b>\$2,907,964</b>
Less ceded unearned premium reserve:			
Beginning balance	\$44,928	\$-	\$44,928
Increase	11,784	-	11,784
Decrease	(11,260)	-	(11,260)
<b>Ending balance</b>	<b>\$45,452</b>	<b>\$-</b>	<b>\$45,452</b>
<b>Net amount</b>	<b>\$2,862,472</b>	<b>\$40</b>	<b>\$2,862,512</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the three-month period ended 31 March 2015		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$2,886,475	\$74	\$2,886,549
Reserve	526,831	90	526,921
Recover	(721,619)	(74)	(721,693)
Ending balance	\$2,691,687	\$90	\$2,691,777
Less ceded unearned premium reserve:			
Beginning balance	\$42,973	\$-	\$42,973
Increase	13,450	-	13,450
Decrease	(10,743)	-	(10,743)
Ending balance	\$45,680	\$-	\$45,680
Net amount	\$2,646,007	\$90	\$2,646,097

(3) Reserve for claims:

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$231,738	\$33,782	\$265,520
— Unreported claim	454	-	454
Individual injury insurance			
— Reported but not paid claim	86,008	-	86,008
— Unreported claim	102,343	-	102,343
Individual health insurance			
— Reported but not paid claim	136,200	-	136,200
— Unreported claim	376,137	-	376,137
Group insurance			
— Reported but not paid claim	67,365	-	67,365
— Unreported claim	228,550	-	228,550
Investment-linked insurance			
— Reported but not paid claim	32,304	-	32,304
— Unreported claim	-	-	-

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Annuity insurance			
— Reported but not paid claim	-	26,368	26,368
— Unreported claim	-	149	149
<b>Total</b>	<b>\$1,261,099</b>	<b>\$60,299</b>	<b>\$1,321,398</b>
Less ceded reserve for claims:			
Individual life insurance	\$137	\$-	\$137
Individual injury insurance	24,300	-	24,300
Individual health insurance	7,207	-	7,207
Investment-linked insurance	2,000	-	2,000
<b>Total</b>	<b>\$33,644</b>	<b>\$-</b>	<b>\$33,644</b>
<b>Net amount</b>	<b>\$1,227,455</b>	<b>\$60,299</b>	<b>\$1,287,754</b>

	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$233,983	\$12,283	\$246,266
— Unreported claim	460	-	460
Individual injury insurance			
— Reported but not paid claim	103,326	-	103,326
— Unreported claim	82,480	-	82,480
Individual health insurance			
— Reported but not paid claim	148,018	-	148,018
— Unreported claim	347,858	-	347,858
Group insurance			
— Reported but not paid claim	78,501	-	78,501
— Unreported claim	214,119	-	214,119
Investment-linked insurance			
— Reported but not paid claim	21,917	-	21,917
— Unreported claim	-	-	-

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Annuity insurance			
— Reported but not paid claim	915	41,792	42,707
— Unreported claim	-	154	154
<b>Total</b>	<b>\$1,231,577</b>	<b>\$54,229</b>	<b>\$1,285,806</b>
Less ceded reserve for claims:			
Individual life insurance	\$9,139	\$-	\$9,139
Individual injury insurance	23,300	-	23,300
Individual health insurance	8,916	-	8,916
Group insurance	9,013	-	9,013
Investment-linked insurance	1,000	-	1,000
<b>Total</b>	<b>\$51,368</b>	<b>\$-</b>	<b>\$51,368</b>
<b>Net amount</b>	<b>\$1,180,209</b>	<b>\$54,229</b>	<b>\$1,234,438</b>

	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$227,824	\$12,547	\$240,371
— Unreported claim	572	-	572
Individual injury insurance			
— Reported but not paid claim	76,075	-	76,075
— Unreported claim	110,353	-	110,353
Individual health insurance			
— Reported but not paid claim	171,460	-	171,460
— Unreported claim	320,675	-	320,675
Group insurance			
— Reported but not paid claim	58,245	-	58,245
— Unreported claim	224,946	-	224,946
Investment-linked insurance			
— Reported but not paid claim	21,994	-	21,994
— Unreported claim	-	-	-

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Annuity insurance			
– Reported but not paid claim	-	12,908	12,908
– Unreported claim	-	120	120
Total	\$1,212,144	\$25,575	\$1,237,719
Less ceded reserve for claims:			
Individual life insurance	\$2,963	\$-	\$2,963
Individual injury insurance	17,800	-	17,800
Individual health insurance	12,560	-	12,560
Group insurance	1,500	-	1,500
Total	\$34,823	\$-	\$34,823
Net amount	\$1,177,321	\$25,575	\$1,202,896

Movement in reserve for claims is summarized below:

	For the three-month period ended 31 March 2016		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,231,577	\$54,229	\$1,285,806
Reserve	1,261,288	60,299	1,321,587
Recover	(1,231,577)	(54,229)	(1,285,806)
Losses (gains) on foreign exchange	(189)	-	(189)
Ending balance	\$1,261,099	\$60,299	\$1,321,398
Less ceded unearned premium reserve:			
Beginning balance	\$51,368	\$-	\$51,368
Increase	33,644	-	33,644
Decrease	(51,368)	-	(51,368)
Ending balance	\$33,644	\$-	\$33,644
Net amount	\$1,227,455	\$60,299	\$1,287,754

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the three-month period ended 31 March 2015		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,241,331	\$23,387	\$1,264,718
Reserve	1,212,153	25,575	1,237,728
Recover	(1,241,331)	(23,387)	(1,264,718)
Losses (gains) on foreign exchange	(9)	-	(9)
Ending balance	\$1,212,144	\$25,575	\$1,237,719
Less ceded unearned premium reserve:			
Beginning balance	\$38,079	\$-	\$38,079
Increase	34,823	-	34,823
Decrease	(38,079)	-	(38,079)
Ending balance	\$34,823	\$-	\$34,823
Net amount	\$1,177,321	\$25,575	\$1,202,896

Reported but not paid claims are reserved according to insurance type and claims department's estimates based on each individual case's related information without exceeding promised insurance amount for covered accidents. Those reported but not paid reserve is reasonably assessed, sufficient to reflect actual claims paid. In addition, some types of claims are not expected to close shortly because these claims usually depend on court judgments before the closure. The legal department tracks the development of these claims and reasonably estimates claims reserve. The actuarial department assesses final unreported claims based on past claims experience with consideration of claims development trends for past closed cases, and then develop the final claims based on homogeneous features of each insurance through Bornhuetter-Ferguson Method. Reserve for unreported and unclosed claims changes according to external environment. For example, actual loss rate will lead to fluctuations of claims. The actuarial department will evaluate periodically to make reasonable estimate of claims reserve.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(4) Special reserve:

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$5,527,924	\$-	\$5,527,924
Dividend risk reserve	345,255	-	345,255
<b>Total</b>	<b>\$5,873,179</b>	<b>\$-</b>	<b>\$5,873,179</b>
	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$5,251,212	\$-	\$5,251,212
Dividend risk reserve	345,255	-	345,255
<b>Total</b>	<b>\$5,596,467</b>	<b>\$-</b>	<b>\$5,596,467</b>
	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$5,193,561	\$-	\$5,193,561
Dividend risk reserve	345,255	-	345,255
<b>Total</b>	<b>\$5,538,816</b>	<b>\$-</b>	<b>\$5,538,816</b>

Movement in special reserve is summarized below:

	For the three-month periods ended 31 March	
	2016	2015
	Insurance contract	Insurance contract
Beginning balance	\$5,596,467	\$5,059,991
Reserve for participating policy dividend reserve	291,084	478,825
Recover for participating policies dividends reserve	(14,372)	-
<b>Ending balance</b>	<b>\$5,873,179</b>	<b>\$5,538,816</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(5) Special capital reserve for major incidents and fluctuation of risks

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$2,692	\$-	\$2,692
Individual injury insurance	805,640	-	805,640
Individual health insurance	1,986,489	-	1,986,489
Group insurance	2,279,839	-	2,279,839
Annuity insurance	-	538	538
<b>Total</b>	<b>\$5,074,660</b>	<b>\$538</b>	<b>\$5,075,198</b>
	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$2,692	\$-	\$2,692
Individual injury insurance	805,640	-	805,640
Individual health insurance	1,986,489	-	1,986,489
Group insurance	2,279,839	-	2,279,839
Annuity insurance	-	538	538
<b>Total</b>	<b>\$5,074,660</b>	<b>\$538</b>	<b>\$5,075,198</b>
	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$2,674	\$-	\$2,674
Individual injury insurance	769,533	-	769,533
Individual health insurance	1,832,836	-	1,832,836
Group insurance	2,173,081	-	2,173,081
Annuity insurance	-	272	272
<b>Total</b>	<b>\$4,778,124</b>	<b>\$272</b>	<b>\$4,778,396</b>

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(6) Premium deficiency reserve:

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$9,626,694	\$-	\$9,626,694
Individual health insurance	99,371	-	99,371
Total	\$9,726,065	\$-	\$9,726,065

	2015.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$9,410,410	\$-	\$9,410,410
Individual health insurance	94,923	-	94,923
Total	\$9,505,333	\$-	\$9,505,333

	2015.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$6,128,014	\$-	\$6,128,014
Individual health insurance	79,794	-	79,794
Total	\$6,207,808	\$-	\$6,207,808

Note : Premium deficiency reserve was not ceded in the above insurance contracts.

Movement in premium deficiency reserve is summarized below:

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the three-month period ended 31 March 2016		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$9,505,333	\$-	\$9,505,333
Reserve	763,536	-	763,536
Recover	(495,626)	-	(495,626)
Losses (gains) on foreign exchange	(47,178)	-	(47,178)
Ending balance	\$9,726,065	\$-	\$9,726,065

	For the three-month period ended 31 March 2015		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$6,235,634	\$-	\$6,235,634
Reserve	382,539	-	382,539
Recover	(387,795)	-	(387,795)
Losses (gains) on foreign exchange	(22,570)	-	(22,570)
Ending balance	\$6,207,808	\$-	\$6,207,808

(7) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2016.3.31	2015.12.31	2015.3.31
Reserve for life insurance liabilities	\$1,028,034,481	\$1,006,217,165	\$934,234,402
Unearned premium reserve	2,907,964	3,108,181	2,691,777
Premium deficiency reserve	9,726,065	9,505,333	6,207,808
Special reserve	5,873,179	5,596,467	5,538,816
Book value of insurance liabilities	\$1,046,541,689	\$1,024,427,146	\$948,672,803
Estimated present value of cash flows	\$825,108,616	\$831,682,675	\$798,885,110
Balance of liability adequacy reserve	\$-	\$-	\$-

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Liability adequacy testing methodology is listed as follows:

	2016.3.31	2015.12.31 and 2015.3.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2015).	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2014), and discount rates as at 31 December 2015 should be evaluated with consideration of current information.

15. Foreign exchange valuation reserve

(1) The hedge strategy and risk exposure

The Company consistently adjusts the hedge ratios to establish an adequate risk exposure planning based on the new foreign exchange valuation exposure principle by integrating the exchange rate and interest rate trends of domestic and foreign financial markets. However, changes in the hedge and risk exposure ratios should follow the internal risk control to alert and adjust hedge strategy in advance to meet the optimal hedge considerations.

(2) Adjustment in foreign exchange valuation reserve:

	For the three-month periods ended 31 March	
	2016	2015
Beginning balance	\$7,695,824	\$5,263,545
Reserve		
Compulsory reserve	224,853	181,180
Extra reserve	1,046,591	143,514
Subtotal	1,271,444	324,694
Recover	(2,310,091)	(437,538)
Ending balance	<u>\$6,657,177</u>	<u>\$5,150,701</u>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Effects due to foreign exchange valuation reserve:

Item	For the three-month period ended 31 March 2016		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	1,830,154	2,692,231	862,077
Earnings per share (dollar)	0.55	0.81	0.26
Foreign exchange valuation reserve	-	6,657,177	6,657,177
Equity	96,530,483	92,429,201	(4,101,282)

  

Item	For the three-month period ended 31 March 2015		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	3,202,518	3,296,178	93,660
Earnings per share (dollar)	0.96	0.99	0.03
Foreign exchange valuation reserve	-	5,150,701	5,150,701
Equity	84,855,990	82,005,083	(2,850,907)

16. Provisions

Item	2016.3.31	2015.12.31	2015.3.31
Provisions for employee benefits	\$110,081	\$263,501	\$249,527
Litigation liabilities	12,774	13,990	17,607
Total	<u>\$122,855</u>	<u>\$277,491</u>	<u>\$267,134</u>

The Company has an official policy to control and manage litigations. When a professional advice has been made and the loss can be reasonably estimated, the Company will make adjustments to recognize losses and any negative effects arising out of any financial claims. As at 31 March 2016, the Company has 97 unresolved legal suits.

17. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plans for the three-month periods ended 31 March 2016 and 2015 were NT\$55,217 thousand and NT\$50,909 thousand, respectively.

Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 31 March 2016 and 2015 were NT\$6,401 thousand and NT\$5,279 thousand, respectively.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

18. Common stock

- (1) As of 31 March 2016, 31 December 2015, and 31 March 2015, the Company's authorized and issued capital were NT\$33,401,467 thousand, NT\$33,401,467 thousand, and NT\$30,364,970 thousand, divided into 3,340,146,700, 3,340,146,700, and 3,036,497,000 common shares at NT\$10 par value.
- (2) On 26 June 2015, the Company decided to appropriate NT\$910,949 thousand and NT\$2,125,548 thousand from 2014 distributable earnings and additional paid-in capital respectively to increase capital in shareholders' meeting, issuing 91,094,910 and 212,554,790 common shares at NT\$10 par value. The capital increase was documented by the authorities on 16 July 2015 and approved to set 9 August 2015 as subscription base date by board of directors.

19. Capital surplus

Item	2016.3.31	2015.12.31	2015.3.31
Additional paid-in capital	\$2,254,442	\$2,254,442	\$4,379,990
Treasury stock transactions	34,831	34,831	34,831
Total	\$2,289,273	\$2,289,273	\$4,414,821

Pursuant to the Company Act, the capital surplus shall not be used except for covering the deficit of the company. When a company incurs no loss, it may distribute the capital surplus related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

On 26 June 2015, the Company decided to issue NT\$2,125,548 thousand of new shares from additional paid-in capital in shareholders' meeting, issuing 212,554,790 common shares at NT\$10 par value.

20. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Legal capital reserve shall not be used

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

except for making good the deficit of the company. When the Company incurs no loss, the Company's board of directors may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders.

(2) Special capital reserve

Pursuant to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special reserves for contingency are appropriated as special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-0910074195, after obtaining approval at the stockholders' meeting in the following year. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2014 was NT\$347,516 thousand, resolved in the stockholders' meeting in 2015. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2015 was NT\$463,451 thousand, expected to be resolved in the stockholders' meeting in 2016.

The Company set aside special reserves for major incidents and fluctuation of risks for the retained businesses with policy period within 1 year in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". Please refer to Note IV.17 for the set-aside and release calculation. The after-tax amount of reserve and release for the special reserve is converted to special capital reserve at the end of current year. Special capital reserves for the year of 2015 were set aside NT\$784,991 thousand and released NT\$488,189 thousand. In addition, in accordance with the Order No. Financial-Supervisory-Insurance-Corporate-10302077080, in 2014 the Company released special reserves under liabilities in the amount of NT\$1,306,408 thousand, of which the after-tax amount of NT\$1,084,318 thousand was set aside as special capital reserve under equity with a resolution of the shareholders' meeting in 2015.

The Company adopts foreign exchange reserve mechanism and hence be required by law to provide special capital reserve. Please refer to Note IV.18. The Company set aside NT\$319,910 thousand and NT\$651,196 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2014, and recovered such reserve to increase the share capital in 2014. The abovementioned amounts were resolved in the shareholders' meeting in 2015. The Company set aside NT\$917,190 thousand based on 10% of after-tax earnings for 2015, expected to be resolved in the shareholders' meeting in 2016.

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**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

The Company changed its accounting policy for subsequent measurement of investment property from cost to fair value starting from 2014. In order to ensure the soundness and stability of the financial structure, the Order No. Financial-Supervisory-Securities-Corporate-10402501001 issued by the FSC on 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. Hence, the amount set aside by the Company as special capital reserve was NT\$8,394,443 thousand. The special capital reserve shall be used only to cover insufficiency of life insurance liabilities resulting from valid contracts' fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 4 Insurance Contracts second stage in the future. The net amount of income from changes in fair value for 2014 was NT\$500,406 thousand, resolved in the shareholders' meeting in 2015 to set aside as special capital reserve.

The net amount of loss from changes in fair value for 2015 was NT\$42,288 thousand, expected to be resolved by the shareholders' meeting in 2016 to recover special capital reserve.

- (3) A resolution was passed at the shareholders' meeting of the Company held on 17 June 2014 to amend the Articles of Incorporation of the Company. The information about earnings distribution is as follows:

The Company adopts residual dividend policy in order to keep expanding the business scale, meet the demands capital and long-term financial plan of the Company, and pursue sustainable and stable development.

Where the Company has surplus earnings after the settlement of account at the end of fiscal year, it shall first cover the losses in the previous fiscal years and pay the taxes by laws. After setting aside legal reserve and special reserve as provided in laws or reversing special reserve, the balance, if applicable, shall be appropriated more than 1% as employees' bonus. Any remaining portion shall be added to beginning retained earnings as the unappropriated retained earnings, thirty to one hundred percent of which shall be distributed. The proposal of surplus earnings distribution shall be submitted by the Board of Directors to the shareholders' meeting for approval. In case the unappropriated retained earnings is less than New Taiwan Dollar 0.5 each share, it may be reserved and not distributed on the basis of canon of economy.

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**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

The board of directors is authorized to determine the independent directors' remuneration based on participation of the Company's operation, value of contribution and taking into account industry standards at home and abroad. The independent directors do not take apart in the earnings distribution.

According to the Company's business plans, the surplus earnings distribution shall be based on the capital required and retained for distributing stock dividends, but it may reserve a proportion for distribution in the form of cash dividends. Where cash dividends are distributed in that year, the total amount of cash dividends shall not be less than ten percent of the total amount of dividends. The proportion of the preceding stock dividends and cash dividends may be adjusted appropriately, depending on that year's actual profits and capital condition. The Board of Directors shall draw up the proposal and submit to the shareholders' meeting for deciding the most appropriate dividend policy.

The amended Articles of Incorporation set forth the Company's ratio of distributable earnings, and it was applied to earnings distribution in 2014. Distribution of 2013 earnings was in accordance with Article of Incorporation revised on 22 June 2012.

- (4) A resolution was passed at the Board of Directors' meeting of the Company held on 26 February 2016 to amend the Articles of Incorporation of the Company. The information about earnings distribution is as follows:

The Company adopts residual dividend policy in order to keep expanding the business scale, meet the demands capital and long-term financial plan of the Company, and pursue sustainable and stable development.

Where the Company has surplus earnings after the settlement of account at the end of fiscal year, it shall first cover the losses in the previous fiscal years and pay the taxes by laws. After setting aside legal reserve and special reserve as provided in laws or reversing special reserve, the balance, if applicable, shall be added to beginning retained earnings as the unappropriated retained earnings, thirty to one hundred percent of which shall be distributed. The proposal of surplus earnings distribution shall be submitted by the Board of Directors to the shareholders' meeting for approval. In case the unappropriated retained earnings is less than New Taiwan Dollar 0.5 each share, it may be reserved and not distributed on the basis of canon of economy.

According to the Company's business plans, the surplus earnings distribution shall be based on the capital required and retained for distributing stock dividends, but it may reserve a proportion for distribution in the form of cash dividends. Where cash dividends are distributed in that year, the total amount of cash dividends shall not be less than ten

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

percent of the total amount of dividends. The proportion of the preceding stock dividends and cash dividends may be adjusted appropriately, depending on that year's actual profits and capital condition. The Board of Directors shall draw up the proposal and submit to the shareholders' meeting for deciding the most appropriate dividend policy.

The abovementioned amended Company's Articles of Incorporation is expected to be resolved by the shareholders' meeting in 2016.

- (5) Pursuant to the Order No. Financial-Supervisory-Securities-Corporate-10202501992 issued by the FSC on 8 February 2013, if the life insurance industry appropriates earnings by distributing cash dividends (not including preferred stocks in liability type), it should report to the FSC and the FSC will review the plan based on the soundness of individual company's finance and business.

For related information about earnings appropriation approved and resolved by the Board of Directors' meeting and shareholders' meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

- (6) Earnings appropriation for the years of 2015 and 2014 is as follows:

	Appropriation of earnings		Dividends per share(NT\$)	
	2015	2014	2015	2014
Legal capital reserve	\$1,834,380	\$1,302,392	\$-	\$-
Special capital reserve (reversal)	1,634,699	11,501,703	-	-
Common stock -cash dividend	2,004,088	1,214,599	0.60	0.40
Common stock-stock dividend	1,336,133	910,949	0.40	0.30
Remuneration to directors	(Note)	42,000	-	-
Employees' compensation (cash bonus)	(Note)	42,000	-	-

Earnings appropriation for the year of 2014 was resolved by shareholder's meeting on 26 June 2015. Earnings appropriation for the year of 2015 was approved by the Board of Directors' meeting on 24 March 2016, but not yet resolved by the shareholders' meeting.

Note: According to the amendment of Article 235 and Article 235-1 of the Company Act announced on 20 May 2015, employees' compensation and remuneration to directors do not belong to items of earnings appropriation from the year of 2015. Please refer to Note VI.24.(2) for further details on employees' compensation and remuneration to directors.

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**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

21. Components of other comprehensive income

	For the three-month period ended 31 March 2016		
	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:			
Unrealized valuation gains (losses) from available-for-sale financial assets	\$9,060,237	\$(2,320,248)	\$413,113
Total	\$9,060,237	\$(2,320,248)	\$413,113

	For the three-month period ended 31 March 2015		
	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:			
Unrealized valuation gains (losses) from available-for-sale financial assets	\$6,777,087	\$(2,366,263)	\$(26,412)
Total	\$6,777,087	\$(2,366,263)	\$(26,412)

22. Retained earned premium

	For the three-month period ended 31 March 2016		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct premium income	\$33,964,535	\$3,899,581	\$37,864,116
Reinsurance premium income	-	-	-
Premium income	33,964,535	3,899,581	37,864,116
Less:			
Premiums ceded to reinsurers	275,202	-	275,202
Changes in unearned premium reserve	(200,721)	(20)	(200,741)
Subtotal	74,481	(20)	74,461
Retained earned premium	\$33,890,054	\$3,899,601	\$37,789,655

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**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	For the three-month period ended 31 March 2015		
	Investment contracts with discretionary		
	Insurance contract	participation feature	Total
Direct premium income	\$20,711,885	\$8,355,959	\$29,067,844
Reinsurance premium income	-	-	-
Premium income	20,711,885	8,355,959	29,067,844
Less:			
Premiums ceded to reinsurers	246,263	-	246,263
Changes in unearned premium reserve	(197,496)	16	(197,480)
Subtotal	48,767	16	48,783
Retained earned premium	\$20,663,118	\$8,355,943	\$29,019,061

23. Retained claim payments

	For the three-month period ended 31 March 2016		
	Investment contracts with discretionary		
	Insurance contract	participation feature	Total
Direct insurance claim payments	\$8,835,693	\$7,739,569	\$16,575,262
Reinsurance claim payments	(13)	-	(13)
Insurance claim payments	8,835,680	7,739,569	16,575,249
Less:			
Claims recovered from reinsures	161,752	-	161,752
Retained claim payments	\$8,673,928	\$7,739,569	\$16,413,497

	For the three-month period ended 31 March 2015		
	Investment contracts with discretionary		
	Insurance contract	participation feature	Total
Direct insurance claim payments	\$10,701,159	\$5,966,827	\$16,667,986
Reinsurance claim payments	-	-	-
Insurance claim payments	10,701,159	5,966,827	16,667,986
Less:			
Claims recovered from reinsures	150,096	-	150,096
Retained claim payments	\$10,551,063	\$5,966,827	\$16,517,890

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

24. Employee benefits, depreciation and amortization

(1) Summary statement of employee benefits, depreciation and amortization expenses breakdown:

	For the three-month period ended 31 March 2016		
	Operating costs	Operating expenses	Total
Employee benefits	\$982,036	\$747,807	\$1,729,843
Salaries and wages	982,036	543,108	1,525,144
Labor and health insurance	-	110,985	110,985
Pension expense	-	61,618	61,618
Other employee benefits	-	32,096	32,096
Depreciation	-	25,317	25,317
Amortization	-	10,721	10,721

	For the three-month period ended 31 March 2015		
	Operating costs	Operating expenses	Total
Employee benefits	\$981,648	\$613,201	\$1,594,849
Salaries and wages	981,648	422,067	1,403,715
Labor and health insurance	-	107,183	107,183
Pension expense	-	56,188	56,188
Other employee benefits	-	27,763	27,763
Depreciation	-	23,312	23,312
Amortization	-	6,078	6,078

Note : Other employee benefits expenses consist of meals, group insurance, training and employee benefits.

The average number of employees for the three-month periods ended 31 March 2016 and 2015 were 13,101 and 11,612, respectively.

(2) A resolution was passed at the Board of Directors meeting of the Company held on 26 February 2016 to amend the Articles of Incorporation of the Company. The information about employees' compensation and remuneration to directors is as follows:

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

Where the Company makes profits, it shall allocate no less than 0.5 percent of the profits to be the remuneration of employees, and no more than 3 percent to be the remuneration of directors. But the Company shall reserve the amount of money to be used to cover its losses if it still has accumulated losses, and later it shall allocate the remuneration in proportion for employees and directors. The preceding remuneration of employees may be given in the form of share certificates or cash. The remuneration of directors shall only be given to non-independent directors.

The abovementioned Articles of Incorporation is expected to be resolved by the shareholders' meeting in 2016. For related information on employees' compensation and remuneration to directors approved by the Board of Directors meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Based on profit for the three-month period ended 31 March 2016, the Company estimated the amounts of the employees' compensation and remuneration to directors to be NT\$16,599 thousand and NT\$0 thousand, respectively, recognized as salaries and wages. The difference between the estimation and the resolution of Board of Directors meeting will be recognized in profit or loss of the next year.

The estimated employee bonuses and remuneration to directors for the three-month period ended 31 March 2015 were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The Company estimated the amounts of the employee bonuses and remuneration to directors for the three-month period ended 31 March 2015 to be NT\$21,187 thousand and NT\$0 thousand, respectively, recognized as salaries and wages. The difference between the estimation and the resolution of Board of Directors meeting will be recognized in profit or loss of the next year.

No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended 31 December 2014.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

25. Income taxes

(1) The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	For the three-month period ended	
	31 March	
	2016	2015
Deferred income tax expense (benefit):		
Deferred tax expense relating to origination and reversal of temporary differences	\$174,957	\$462,983
Deferred tax benefit relating to origination and reversal of tax loss and tax credit	164,538	31,869
Adjustment of tax loss, tax credit and temporary differences unrecognized for prior periods	-	18,353
Additional income tax under the Alternative Minimum Tax Act	171,023	134,971
Others	100,520	181,536
Total income tax expense	\$611,038	\$829,712

Income tax expense recognized in other comprehensive income

	For the three-month period ended	
	31 March	
	2016	2015
Deferred income tax expense (benefit):		
Unrealized losses (gains) from available-for-sale financial assets	\$(413,113)	\$26,412
Income tax expense relating to components of other comprehensive income	\$(413,113)	\$26,412

(2) Imputation credit information

	2016.3.31	2015.12.31	2015.3.31
Balance of the imputation credit amount	\$146,555	\$144,550	\$102,804

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The expected creditable ratio for 2015 and the actual creditable ratio for 2014 were 1.65% and 8.87%, respectively.

The Company's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated.

(3) The assessment of income tax returns

As of 31 March 2016, the income tax returns of the Company have been assessed and approved up to 2012.

26. Earnings per share

Basic earnings per share are calculated by dividing net income for the year by the weighted average number of shares outstanding during the year.

As the Company has not issued any potential common shares with dilutive effect, the Company would no need to adjust to basic earnings per share.

	For the three-month period ended	
	31 March	
	2016	2015
<u>Basic earnings per share</u>		
Net income available to common shareholders	\$2,692,231	\$3,296,178
Weighted average number of common shares outstanding for basic earnings per share (in thousands)	3,340,147	3,340,147
Basic earnings per share (in dollars)	\$0.81	\$0.99

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

27. Separate account insurance products

(1) Separate account insurance products - assets and liabilities

Item	Assets		
	2016.3.31	2015.12.31	2015.3.31
Cash in bank	\$426,204	\$772,904	\$274,676
Financial assets at fair value through profit or loss	63,979,209	64,108,288	68,982,594
Other receivables	73,941	81,086	133,806
<b>Total</b>	<b>\$64,479,354</b>	<b>\$64,962,278</b>	<b>\$69,391,076</b>

Item	Liabilities		
	2016.3.31	2015.12.31	2015.3.31
Reserve for separate account	\$64,232,788	\$64,678,147	\$68,990,583
Other payables	246,566	284,131	400,493
<b>Total</b>	<b>\$64,479,354</b>	<b>\$64,962,278</b>	<b>\$69,391,076</b>

(2) Separate account insurance products - revenues and expenses:

Item	Revenues	
	For the three-month period ended 31 March	
	2016	2015
Premium income	\$1,429,602	\$1,408,251
Gains (losses) from financial assets and liabilities at fair value through profit or loss	(149,844)	820,002
Interest income	31	24
Other revenues	45,946	44,082
Foreign exchange gains (losses)	(289,061)	(323,095)
<b>Total</b>	<b>\$1,036,674</b>	<b>\$1,949,264</b>

Item	Expenses	
	For the three-month period ended 31 March	
	2016	2015
Insurance claim payments	\$1,092,808	\$1,407,761
Net change in separate account reserve	(524,350)	70,018
Custodian fee	468,216	471,485
<b>Total</b>	<b>\$1,036,674</b>	<b>\$1,949,264</b>

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

- (3) The rebate earned for engaging in investment-linked insurance business from counterparties for the three-month period ended 31 March 2016 and 2015 were NT\$75,528 thousand and NT\$82,262 thousand, respectively.

#### VII. Information of insurance contracts

##### 1. Objectives, policies, procedures and methods of insurance contracts risk management

- (1) Framework of risk management, organization structure and responsibilities:

The board of directors should ensure the effectiveness of risk management and bear the ultimate responsibility for risk management, responsible for formulating the company's overall risk appetite and risk tolerance, review and approve the Company's risk management objectives and strategies. "Risk Management Committee" is set under the board of directors and proposes risk management report at time of board of directors meeting. Various risk management report and related issues are first report to risk management committee and made the final approval by the board of directors. Besides the risk management committee, the Company set up an assets and liabilities management team to strengthen the risk management organization and structure.

In addition, the Company establishes the risk management department independent to the business units, which is responsible for the implementation of various risk management measures and the fulfillment of each risk management system, including monitoring the daily risks, measuring and evaluating related issues, assisting the board to develop Company's risk appetite, executing the risk management policies and regulations approved by risk management committee. Moreover, the business units should be responsible for the risks identification, report the risk exposure conditions, measure the impact of risks, review the various risks and limits regularly, and make sure that the internal control procedures of each unit are implemented effectively in accordance with related regulations and the Company's risk management policy.

- (2) Risk management policies, procedures and methods:

The Company sets an effective system in its risk management policies to deal with identification, measurement, monitoring, reporting and response to risk, establishes clear objectives for risk management, controls approaches and attribution of responsibility to make sure that each operational risk is controlled under the tolerable range, making the largest surplus and profits for shareholders.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Pursuant to “China Life Insurance Company Limited Risk Management Policy”, approved by the board of directors, the Company follows the principle of centralized management and specialization, and assigns responsible risk management department to manage various risks, including market, credit, operation, liquidity, underwriting, claim renews, insurance product development and pricing, asset-liability management, reinsurance and catastrophe risk based on the sources of risk. In addition, the Company develops management guidelines for various types of risk, standardizes measurement and evaluation methods, and regularly issues risk reports to monitor the various risks.

- (3) Risk management policies, procedures and methods related to reserves:

Reserve-related risks refer to risks that various reserves are unable to deal with future obligations due to understatement of liability for premium business.

The Company sets and implements the appropriate risk management system for the insurance business reserves and related risks.

- (4) Risk management policies, procedures and methods related to matching assets and liabilities:

Risks related to matching assets and liabilities indicate risks arising from inconsistent movement of assets and liabilities. The Company sets appropriate asset-liability management system based on the attributes and complexity of insurance liability risks. The system allows the Company to form, implement, monitor and correct related strategies within the tolerable range and achieves the Company’s predetermined financial goals. The contents include the following items:

- j** Risk identification related to matching of assets and liabilities
- k** Risk measurement related to matching of assets and liabilities
- l** Risk responses related to matching of assets and liabilities

## 2. Information of insurance risks

- (1) Sensitivity of insurance risks - Insurance contracts and financial instruments with discretionary participation features:

Insurance companies set aside various reserves according to the legal requirements and regularly conduct adequacy test of liability to assess the adequacy of insurance liabilities of the company as a whole.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

For the insurance contracts and financial instruments with discretionary participation features underwritten by the Company, the main risks include mortality, morbidity, surrender, expense and investment returns rate.

When doing the liability adequacy test, various actuarial assumptions are made based on available information at assessment point for all insurance contracts and financial instruments with discretionary participation feature, to assess whether the insurance liability of the Company is adequate. If the test result indicates the insurance liability is not adequate, then set aside the insufficient amount as liability adequacy reserve according to the provision. The reserve will affect current profit and loss.

As at 31 March 2016, assuming a 5% change in mortality, morbidity, surrender and expenses, and a decrease in investment return of 0.1%, all insurance contracts and financial instruments with discretionary participation feature will not cause the Company's insurance liability inadequate.

(2) Interpretation for concentration of insurance risks

**j** The Company's insurance business is mainly in Taiwan, Republic of China and there is no significant difference in insurance risk between each region. The Company had set tolerable cumulative risk limits for each risk unit and incident. Insurance risks that exceed the limits will be transferred through reinsurance. Please refer to Note VI.14 for concentration of risk before and after the reinsurance for the Company.

**k** Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increased special capital reserve, excluding taxes, for major incidents and fluctuation of risks for abnormal changes in loss ratio and claims of each type of insurance needs to be recognized in special capital reserve under equity in accordance with IAS 12.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(3) Claim development trend

**j** Direct business loss development trend

Accident year	Development year									Reserve for claims
	1	2	3	4	5	6	7	8	9	
2008	\$2,170,100	\$2,736,556	\$2,776,542	\$2,781,989	\$2,786,399	\$2,792,187	\$2,798,032	\$2,798,807	\$2,799,107	
2009	2,243,111	2,870,648	2,924,110	2,934,461	2,936,046	2,939,451	2,940,095	2,940,102		
2010	2,574,879	3,071,401	3,132,443	3,137,874	3,143,299	3,143,963	3,144,000			
2011	2,610,108	3,276,928	3,328,279	3,342,075	3,346,106	3,346,233				
2012	2,345,575	2,953,776	3,029,335	3,045,381	3,046,275					
2013	2,267,213	2,964,954	3,028,400	3,034,845						
2014	3,448,229	4,203,186	4,230,231							
2015	3,518,471	4,070,970								
2016	557,205									\$810,623

Note: This table does not include long term life insurance

Add : Long term insurance claims	395,502
Claim reserve for discount on no claim	115,273
Reserve for claims balance	<u>\$1,321,398</u>

**k** Retained business loss development trend

Accident year	Development year									Reserve for claims
	1	2	3	4	5	6	7	8	9	
2008	\$2,128,556	\$2,682,784	\$2,721,905	\$2,719,002	\$2,723,312	\$2,728,970	\$2,734,682	\$2,735,440	\$2,735,733	
2009	2,204,858	2,820,114	2,862,350	2,868,022	2,869,572	2,872,900	2,873,529	2,873,535		
2010	2,535,358	3,010,157	3,068,543	3,066,830	3,072,133	3,072,782	3,072,817			
2011	2,561,841	3,214,455	3,260,383	3,266,408	3,270,348	3,270,471				
2012	2,304,504	2,897,464	2,967,538	2,976,431	2,977,304					
2013	2,227,515	2,908,429	2,966,622	2,966,133						
2014	3,387,852	4,123,055	4,143,936							
2015	3,456,864	3,993,359								
2016	547,449									\$786,061

Note: This table does not include long term life insurance

Add : Long term insurance claims	386,420
Claim reserve for discount on no claim	115,273
Reserve for claims balance	<u>\$1,287,754</u>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

**(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)**

The Company recognizes claim reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in claim reserves. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. The Company was not notified of some claims in time. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experience. Thus, it is uncertain that the estimated claim reserve on the balance sheet date will be equal to the final settled amount of claim payments. The claim reserve recorded on the book is estimated based on the current available information. However, the final amount probably will differ from the original estimates because of the follow-up development of the claim events.

The charts above show the development trend of claim payments (not including cases whose payment and time will be confirmed within a year). The accident year is the actual year for the occurrence of the insurance claim events; the x-axis is the year of the development for the settlement cases. Each slash represents the cumulative amount of compensation for each accident event at the end of the year. The occurred claims include decided and undecided claims which represent the accumulated estimated dollar amounts need to be paid for each accident year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for claim reserve in the current year will be different from those in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by the charts above.

(4) Credit risk:

For insurance contracts undertaken by the Company, the credit risk comes from reinsurers who fail to fulfill their obligation of reinsurance contracts, causing the Company to be exposed to the risk of financial loss. If the Company disputes with the reinsurers, then it may lead to impairment of reinsurance assets. In addition, the account receivables of insurance brokers and agents also have credit risk.

The Company's highest risk exposure for the reinsurance contracts are the carrying amount of reinsurance assets. In order to manage that risk and avoid credit losses, the Company decides to deal with reinsurance companies that have good credits. The Company sets related selection standard, makes regular assessment and monitors the reinsurers' financial business condition, credit status and rating. Also, it will adjust the business scope and scale based on the circumstances to prevent from over concentration of credit risk.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(5) Liquidity risk:

As at 31 March 2016, 31 December 2015, and 31 March 2015, the maturity analysis of liquidity risk for insurance contract liabilities are as follow:

31 March 2016	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment					
contracts with discretionary					
participation features	\$12,967,425	\$13,853,941	\$51,444,467	\$366,151,096	\$2,710,194,154
Reserve for insurance contracts with					
feature of financial instruments	-	-	-	-	-
31 December 2015	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment					
contracts with discretionary					
participation features	\$8,348,546	\$25,870,176	\$48,977,540	\$399,432,352	\$2,200,881,372
Reserve for insurance contracts with					
feature of financial instruments	-	-	-	-	-
31 March 2015	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment					
contracts with discretionary					
participation features	\$15,212,761	\$102,182,252	\$83,125,903	\$323,990,542	\$1,946,937,495
Reserve for insurance contracts with					
feature of financial instruments	-	-	-	-	-

Note:

1. This table estimates net cash flow of all related insurance liabilities at it starting point.
2. The actual maturity date will change according to the exercise of termination right by the policyholders.
3. The table cannot match with the liabilities of balance sheet because the above contracts use the undiscounted contractual cash flow analysis. In addition, it includes the cash inflows of future renewal premiums.
4. In addition to the analysis of the above table, the Company uses both the estimated of the expected less and more than 12 months to analyze assets and liabilities. Please refer to Note X.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(6) Market risk:

Pursuant to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, when the Company measures insurance liabilities, it sets aside the reserve by using the discount rate required by the authorities. Since the discount rate assumption does not move in the same direction with the interest rate, changes in market risks have no significant influence on the Company’s profit or loss and equity for insurance contracts. However, changes in market risks may have influence on liability adequacy test evaluated based on available information. But, it has little influence on the adequacy of current recognized insurance liabilities.

VIII. Financial instruments

1. Categories of financial instruments

Financial assets

	2016.3.31	2015.12.31	2015.3.31
Financial assets at fair value through profit or loss:			
Held for trading	\$7,571,367	\$22,615	\$2,223,304
Designated at fair value through profit or loss at initial recognition	331,801	335,329	651,105
Subtotal	7,903,168	357,944	2,874,409
Available-for-sale financial assets	415,482,971	439,274,726	453,145,612
Held-to-maturity financial assets	48,283,047	42,124,302	9,447,689
Loans and receivables :			
Cash and cash equivalents (Exclude cash on hand and revolving funds)	55,960,363	52,420,379	61,279,721
Debt instrument investments for which no active market exists	531,644,798	504,141,924	429,376,787
Receivables	17,504,502	11,220,392	13,866,624
Loans	30,552,040	30,933,445	30,530,021
Refundable deposits	5,361,140	5,347,920	4,820,343
Subtotal	641,022,843	604,064,060	539,873,496
Total	\$1,112,692,029	\$1,085,821,032	\$1,005,341,206

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Financial liabilities

	2016.3.31	2015.12.31	2015.3.31
Financial liabilities at fair value through profit or loss :			
Held for trading	\$205,760	\$3,984,347	\$249,048
Financial liabilities at amortized cost :			
Payables	7,364,353	8,055,698	9,058,615
Guarantee deposits received	135,591	137,370	127,396
Subtotal	7,499,944	8,193,068	9,186,011
Total	\$7,705,704	\$12,177,415	\$9,435,059

2. Fair value of financial instruments

(1) 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 methods and assumptions used by the Company to measure and disclose fair value of the financial assets and liabilities are as follows:

**j** Fair value of cash and cash equivalents, receivables, payables and other current liabilities are approximately equal to the carrying amount due to their short maturity.

**k** For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value are determined based on market quotation price. (including listed stocks and beneficiary certificates, etc.)

**l** Fair value of financial instruments with no active market is estimated based on the valuation methods. The estimates and assumptions used are consistent with those made by market participants during the pricing of financial instruments.

**m** The assessment bases for forward exchange are exchange rates on the Reuters, the NT as the closing price, and the purchase price of the other currency. Fair value of each forward exchange contract is calculated based on the exchange rate on each maturity date. Fair value of interest rate swap is the quoted price provided by traded parties.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

n Fair value of other financial assets and liabilities are determined based on discounted cash flow analysis. The interest rates and discount rates assumptions mainly refer to related information of similar instruments and yield curve for the duration, etc.

o The adjustments of credit risk valuation for the derivative instrument contracts traded over-the-counter are classified as Credit value adjustments (CVA) and Debit value adjustments (DVA), to reflect the probability of default of the counterparty (CVA) and the Company (DVA).

Under the assumption that the Company will not default, the Company determines its credit value adjustment (CVA) by multiplying three factors, probability of default (PD), loss given default (LGD), and exposure at default (EAD) of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default of the Company. The Company estimates probability of default through internal rating, estimates loss given default at 60% by considering suggestions by scholars and foreign financial institutions, and estimates exposure at default through market approach for derivative instruments, to reflect credit risk of the counterparty and the credit quality of the Company.

(2) Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivable, accounts payable and other current liabilities whose carrying amount approximates their fair value, the fair value of financial assets and financial liabilities measured at amortized cost is as follows:

	Carrying amount		
	2016.3.31	2015.12.31	2015.3.31
Financial assets:			
Held-to-maturity financial assets	\$48,283,047	\$42,124,302	\$9,447,689
Debt instrument investments for which no active market exists	531,644,798	504,141,924	429,376,787
Refundable deposits - Bonds	3,751,293	3,754,886	3,292,999

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Fair value		
	2016.3.31	2015.12.31	2015.3.31
Financial assets:			
Held-to-maturity financial assets	\$49,067,047	\$41,331,369	\$9,429,980
Debt instrument investments for which no active market exists	537,431,988	502,622,477	437,590,386
Refundable deposits - Bonds	4,080,705	4,039,495	3,387,130

3. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3 – Unobservable inputs for assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value hierarchy of the Company's assets and liabilities measured on a recurring basis is as follows:



**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.3.31			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value				
through profit or loss				
Stocks	\$872,034	\$872,034	\$-	\$-
Bonds	651,105	-	-	651,105
Swaps and forward foreign				
exchange contracts	1,351,270	-	1,351,270	-
Available-for-sale financial assets				
Stocks	129,859,510	108,119,721	-	21,739,789
Bonds	311,191,885	75,114,360	236,077,525	-
Others	12,094,217	12,094,217	-	-
Investment property	20,781,458	-	-	20,781,458
Financial liabilities:				
Financial liabilities at fair value				
through profit or loss				
Swaps and forward foreign				
exchange contracts	(249,048)	-	(249,048)	-

**A. Transfers between Level 1 and Level 2 during the period**

During the three-month period ended 31 March 2016, the Company's bonds of available-for-sale financial assets measured on a recurring basis, amounted to \$1,408,506 thousand, transferred from Level 1 to Level 2 because the Company can not assess quoted market prices. During the three-month period ended 31 March 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

**B. Reconciliation for Level 3 of the fair value hierarchy**

Reconciliation for recurring fair value measurements categorized within Level 3 of the fair value hierarchy for movements during the period is as follows:

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

For the three-month period ended 31 March 2016:

	Total gains and losses recognized					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
	<b>Assets</b>						
<b>Financial assets at fair value</b>							
<b>through profit or loss</b>							
Convertible bonds	\$335,329	\$(3,528)	\$-	\$-	\$-	\$-	\$331,801
<b>Available-for-sale financial assets</b>							
Stock	22,332,458	(73,827)	(1,142,801)	13,200	(78,605)	-	21,050,425
Others	553,316	-	2,266	62,576	-	-	618,158
Investment property	21,633,633	-	-	-	-	(245,945)	21,387,688

For the three-month period ended 31 March 2015:

	Total gains and losses recognized					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
	<b>Assets</b>						
<b>Financial assets at fair value</b>							
<b>through profit or loss</b>							
Convertible bonds	\$612,231	\$38,874	\$-	\$-	\$-	\$-	\$651,105
<b>Available-for-sale financial assets</b>							
Stock	20,551,354	-	1,038,441	149,994	-	-	21,739,789
Investment property	20,802,675	-	-	-	(21,217)	-	20,781,458

Note1: presented in “Financial assets and liabilities at fair value through profit or loss / realized gains (losses) on available-for-sale financial assets” in the comprehensive income statement.

Note2: presented in “Unrealized gains (losses) on available-for-sale financial assets” in the comprehensive income statement.

Note3: The amount of investment property is related to transfer between property and equipment, no transfer in (out) for fair value level.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Total gains (losses) recognized in profit or loss above contains gains (losses) related to assets on hand as of 31 March 2016 and 2015 is as follows:

	For the three-month periods ended 31 March	
	2016	2015
Total gains and losses		
Recognize in profit or loss	\$(77,355)	\$38,874
Recognized in other comprehensive income	(1,140,535)	1,038,441

**C. Information on significant unobservable inputs to valuation**

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

2016.3.31				
	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value				
through profit or loss				
Private Convertible bonds	Option	Volatility in stock price for the three-month period	32.68%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Available-for-sale				
Stock	Market approach	Discount for lack of liquidity	10%~30%	The higher the discount for lack of liquidity, the lower the estimated fair value
Stock	Discounted cash flow approach	Long-term operating profit, long-term average cost of capital	6.00%	The higher the long-term average cost of capital, the lower the estimated fair value
Stock	Net asset value approach	N/A	N/A	N/A
Private Equity Fund	Net asset value approach	N/A	N/A	N/A
Investment property				Please refer to Note VI.8

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2015.12.31				
	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss				
Private Convertible bonds	Option	Volatility in stock price for the three-month period	34.61%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Available-for-sale				
Stock	Market approach	Discount for lack of liquidity	10%~30%	The higher the discount for lack of liquidity, the lower the estimated fair value
Stock	Discounted cash flow approach	Long-term operating profit, long-term average cost of capital	6.00%	The higher the long-term average cost of capital, the lower the estimated fair value
Stock	Net asset value approach	N/A	N/A	N/A
Private Equity Fund	Net asset value approach	N/A	N/A	N/A
Investment property			Please refer to Note VI.8	

2015.3.31				
	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss				
Private convertible bonds	Option	Volatility in stock price for the three-month period	33.37%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Available-for-sale				
Stocks	Market approach	Discount for lack of liquidity	10%~30%	The higher the discount for lack of liquidity, the lower the estimated fair value
Stocks	Discounted cash flow approach	Long-term operating profit, long-term average cost of capital	6.50%	The higher the long-term average cost of capital, the lower the estimated fair value
Stocks	Net asset value approach	N/A	N/A	N/A
Investment property			Please refer to Note VI.8	

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

D. Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions and the sources are independent, reliable, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices.. The Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed according to the Company's accounting policies at each reporting date. Also, assessment of fair value for investment property are outsourced to appraisers from professional agencies every half year and they evaluates the effectiveness of fair value on the balance sheet date quarterly and decides whether to re-issue reports or issue review report. The Company's real estate department will review the legality, the rationality and correctness of valuation parameters important to results from external reports case-by-case.

(3) Fair value hierarchy of assets and liabilities not measured at fair value but for which the fair value is disclosed

	2016.3.31			
	Level 1	Level 2	Level 3	Total
Only financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$46,139,692	\$2,927,355	\$-	\$49,067,047
Debt instrument investments for which no active market exists				
Bonds	362,822,348	174,609,640	-	537,431,988
Refundable deposits				
Bonds	-	4,080,705	-	4,080,705

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.12.31			
	Level 1	Level 2	Level 3	Total
Only financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$38,533,570	\$2,797,799	\$-	\$41,331,369
Debt instrument investments for which no active market exists				
Bonds	320,450,238	182,172,239	-	502,622,477
Refundable deposits				
Bonds	-	4,039,495	-	4,039,495
	2015.3.31			
	Level 1	Level 2	Level 3	Total
Only assets at fair value disclosed:				
Held-to-maturity financial assets				
Bonds	\$9,429,980	\$-	\$-	\$9,429,980
Debt instrument investments for which no active market exists				
Bonds	159,517,695	278,072,691	-	437,590,386
Refundable deposits				
Bonds	-	3,387,130	-	3,387,130

**4. Offsetting financial assets and financial liabilities**

The Company holds financial instruments in accordance with paragraph 42 of IAS 32 recognized by the FSC and the related assets and liabilities are offset on the balance sheet.

The Company may perform transactions not meeting the requirements of offsetting, but has enforceable master netting arrangement or other similar agreements with the counterparties. When both parties agree to settle in net amount, financial assets and financial liabilities could be offset and settled in net amount, and if not, in total amount. However, if any party in the transaction defaults, the other party can choose net settlement.

Related information about above offsetting financial assets and financial liabilities are as follows:

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.3.31							
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial of recognized financial assets (a)	Gross amount of 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)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$7,571,367	\$-	\$7,571,367	\$156,527		\$-	\$7,414,840

2016.3.31							
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial of recognized financial liabilities (a)	Gross amount of assets recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$205,760	\$-	\$205,760	\$156,527		\$-	\$49,233

2015.12.31							
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial of recognized financial assets (a)	Gross amount of 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)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$22,615	\$-	\$22,615	\$12,661		\$-	\$9,954

2015.12.31							
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement							
	Gross amount of offset financial of recognized financial liabilities (a)	Gross amount of assets recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$3,984,347	\$-	\$3,984,347	\$12,661		\$-	\$3,971,686

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2015.3.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of	Net financial	Relevant amount that has not			
Gross amount	offset financial	assets	been offset on balance sheet			
of recognized	liabilities	recognized on	(d)			
financial	recognized on	balance sheet	Financial	Cash collateral	Net amount	
assets (a)	balance sheet (b)	(c)= (a)- (b)	instruments	received	(e)= (c)- (d)	
Derivative financial instrument	\$1,351,270	\$-	\$1,351,270	\$235,999	\$-	\$1,115,271

2015.3.31						
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of	Net financial	Relevant amount that has not			
Gross amount	offset financial	liabilities	been offset on balance sheet			
of recognized	assets recognized	recognized on	(d)			
financial	on balance sheet	balance sheet	Financial	Cash collateral	Net amount	
liabilities (a)	(b)	(c)= (a)- (b)	instruments	pledged	(e)= (c)- (d)	
Derivative financial instrument	\$249,048	\$-	\$249,048	\$235,999	\$-	\$13,049

**IX. Financial risk management**

The Company's financial risk management objectives are primarily managing risks arising from holding financial assets. According to the Company's risk management policies, the main financial risks is market risk, credit risk and liquidity risk. The Company has established guidelines related to the management of the financial risk. The following is the definition, source, management procedures of the risk and methods used to measure the risk :

**1. Credit risk analysis**

- (1) Credit risk refers to the result of the issuer, the contract transaction counterpart and the debtor fail to fulfill responsibilities (obligations), or because of changes in credit quality, resulting in financial assets held by the Company's contractual default or the risk of loss of value. Credit risks from financial instruments transactions include issuer credit risk and counterparty risk.

Issuer credit risk represents that bond issuer, debtor and the guarantor does not pay its debts or declares bankruptcy, commit a crime or changes of tax law and accounting standards that lead to make credit deterioration hence unable to fulfill obligations of the repayment or comply with the terms of the issue of default risk of loss.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Counterparty credit risk refers to the risk of the counterparty, custodian banks, brokers, reinsurers and other participants in the transaction, for the present or the future cash flows, are unable or fail to fulfill the contract delivery responsibilities (obligations).

The Company prepares reports periodically to determine the credit conditions of counterparty and issuer. The Company also identifies internal rating indicators to comprehensively assess the credit risk of existing bond positions. The indicators are based on financial position and operational management performance. The company manages the usage of different level of credit limit by internal rating.

The Company's credit risk limit includes counterparty credit risk limit and issuer credit risk limit. Counterparty credit risk limit can be divided into pre-settlement risk limit and settlement risk limit. Issuer credit risk limit can be determined according to long or short transaction terms.

With respect to credit risk assessment, the Company has established credit VaR model. The model is to calculate credit VaR, which includes estimated expected and unexpected credit loss, in order to assess the maximum loss of the credit positions due to changes of credit rating or default. Besides, the Company also evaluates credit risk and concentration risk based on issuer's region, industry and credit rating within portfolios.

(2) Financial assets credit risk concentration analysis

A. The largest credit risk exposure of the financial debt instrument investments held by the Company or deposit in the bank is listed in accordance with the regional distribution as follows:

Date: 31 March 2016

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$30,910,658	\$23,794,386	\$1,255,319	\$-	\$-	\$55,960,363
Financial assets at fair value						
through profit or loss	331,801	-	-	-	-	331,801
Available-for-sale financial assets	186,276,805	40,932,104	18,309,942	44,046,168	3,063,909	292,628,928
Debt instrument investments for						
which no active market exists	106,178,352	114,130,223	124,593,120	186,640,988	102,115	531,644,798
Held-to-maturity financial assets	2,472,656	9,197,386	13,581,441	23,031,564	-	48,283,047
Refundable deposits - Bonds	5,342,026	-	-	-	-	5,342,026
<b>Total</b>	<b>\$331,512,298</b>	<b>\$188,054,099</b>	<b>\$157,739,822</b>	<b>\$253,718,720</b>	<b>\$3,166,024</b>	<b>\$934,190,963</b>
Proportion	35.49%	20.13%	16.88%	27.16%	0.34%	100.00%

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Date: 31 December 2015

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$45,858,938	\$5,836,036	\$725,405	\$-	\$-	\$52,420,379
Financial assets at fair value						
through profit or loss	335,329	-	-	-	-	335,329
Available-for-sale financial assets	193,707,005	45,637,178	22,013,112	45,413,529	3,055,681	309,826,505
Debt instrument investments for						
which no active market exists	107,501,183	109,821,244	119,153,541	167,562,780	103,176	504,141,924
Held-to-maturity financial assets	2,472,447	8,124,035	9,303,692	22,224,128	-	42,124,302
Refundable deposits - Bonds	5,328,622	-	-	-	-	5,328,622
<b>Total</b>	<b>\$355,203,524</b>	<b>\$169,418,493</b>	<b>\$151,195,750</b>	<b>\$235,200,437</b>	<b>\$3,158,857</b>	<b>\$914,177,061</b>
Proportion	38.85%	18.53%	16.54%	25.73%	0.35%	100.00%

Date: 31 March 2015

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$41,167,234	\$15,368,504	\$4,743,983	\$-	\$-	\$61,279,721
Financial assets at fair value						
through profit or loss	651,105	-	-	-	-	651,105
Available-for-sale financial assets	199,206,159	40,788,863	33,613,902	34,680,644	2,902,317	311,191,885
Debt instrument investments for						429,376,787
which no active market exists	108,728,506	92,773,110	118,323,058	109,447,994	104,119	
Held-to-maturity financial assets	-	2,171,009	-	7,276,680	-	9,447,689
Refundable deposits - Bonds	4,799,068	-	-	-	-	4,799,068
<b>Total</b>	<b>\$354,552,072</b>	<b>\$151,101,486</b>	<b>\$156,680,943</b>	<b>\$151,405,318</b>	<b>\$3,006,436</b>	<b>\$816,746,255</b>
Proportion	43.41%	18.50%	19.18%	18.54%	0.37%	100.00%

B. Regional distribution of credit risk exposure for secured loans and overdue receivables is as follows:

Date: 31 March 2016

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$1,384,168	\$692,897	\$624,875	\$2,701,940
Overdue receivables	-	-	-	-
<b>Total</b>	<b>\$1,384,168</b>	<b>\$692,897</b>	<b>\$624,875</b>	<b>\$2,701,940</b>
Proportion	51.23%	25.64%	23.13%	100.00%

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Date: 31 December 2015

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$1,469,801	\$741,349	\$674,293	\$2,885,443
Overdue receivables	-	-	-	-
Total	\$1,469,801	\$741,349	\$674,293	\$2,885,443
Proportion	50.94%	25.69%	23.37%	100.00%

Date: 31 March 2015

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$1,805,441	\$888,892	\$869,729	\$3,564,062
Overdue receivables	62,740	-	-	62,740
Total	\$1,868,181	\$888,892	\$869,729	\$3,626,802
Proportion	51.51%	24.51%	23.98%	100.00%

(3) Financial asset credit quality and overdue impairment analysis

A. Grading of financial instrument credit risk quality

The Company's internal credit risk is classified into investment grade and non-investment grade mainly based on rating of the credit rating agencies:

- a. Investment grade means credit rating reaches at least BBB- granted by a credit rating agency.
- b. Non-investment grade means no credit rating or credit rating lower than BBB- granted by a credit rating agency.
- c. Impaired means the company or the object fails to perform its obligations. The Company estimates the impairment criteria in accordance with potential losses.

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Company's financial instruments are classified into normal assets, past due but not impaired, impaired according to credit quality, listed as follows:

Date: 31 March 2016

Financial assets	Normal assets		Past due		Total
	Investment grade	Non-investment grade	but not impaired	Impaired	
Cash and cash equivalents	\$55,960,363	\$-	\$-	\$-	\$55,960,363
Financial assets at fair value					
through profit or loss	331,801	-	-	-	331,801
Available-for-sale financial assets	292,628,928	-	-	-	292,628,928
Debt instrument investments for					
which no active market exists	531,644,798	-	-	-	531,644,798
Held-to-maturity financial assets	48,283,047	-	-	-	48,283,047
Refundable deposits	5,342,026	-	-	-	5,342,026
<b>Total</b>	<b>\$934,190,963</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$934,190,963</b>
Proportion	100.00%	-	-	-	100.00%

Date: 31 December 2015

Financial assets	Normal assets		Past due		Total
	Investment grade	Non-investment grade	but not impaired	Impaired	
Cash and cash equivalents	\$52,420,379	\$-	\$-	\$-	\$52,420,379
Financial assets at fair value					
through profit or loss	335,329	-	-	-	335,329
Available-for-sale financial assets	309,826,505	-	-	-	309,826,505
Debt instrument investments for					
which no active market exists	504,141,924	-	-	-	504,141,924
Held-to-maturity financial assets	42,124,302	-	-	-	42,124,302
Refundable deposits	5,328,622	-	-	-	5,328,622
<b>Total</b>	<b>\$914,177,061</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$914,177,061</b>
Proportion	100.00%	-	-	-	100.00%

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Date: 31 March 2015

Financial assets	Normal assets		Past due		Total
	Investment grade	Non-investment grade	but not impaired	Impaired	
Cash and cash equivalents	\$61,279,721	\$-	\$-	\$-	\$61,279,721
Financial assets at fair value					
through profit or loss	651,105	-	-	-	651,105
Available-for-sale financial assets	311,191,885	-	-	-	311,191,885
Debt instrument investments for					
which no active market exists	429,376,787	-	-	-	429,376,787
Held-to-maturity financial assets	9,447,689	-	-	-	9,447,689
Refundable deposits	4,799,068	-	-	-	4,799,068
<b>Total</b>	<b>\$816,746,255</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$816,746,255</b>
Proportion	100.00%	-	-	-	100.00%

B. The Company classifies the risk of secured loans to evaluate whether there is objective evidence indicating impairment and whether there is observable information indicating credit deterioration of the borrower. The credit classification is defined as follows:

- a. Normal users: the borrower makes monthly payment within 30 days after the due date. There is no sign of credit deterioration, so the borrower can make payments continuously.
- b. Worsening solvency: there is no objective evidence indicating impairment. However, the borrower has financial difficulty and credit deterioration. The borrower enters in financial reorganization such as conducting a repayment agreement, preceding compromise, liquidation or debt settlement proceedings, indicating the borrower's capacity to make payment worsens.
- c. Delayed users: the borrower makes monthly payment in 31 to 90 days after the due date. The borrower is lack of contractual capacity since the borrower fails to make payment on time under the terms of the loan contract.
- d. Past due but not impaired: the borrower makes monthly payment over 91 days after the due date. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

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future cash flows (including disposal of collateral) is higher than the book value of the loan, indicating the asset is not impaired.

- e. Past due and impaired: the overdue day meets the standard of overdue loans. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated future cash flows (including disposal of collateral) is lower than the book value of the loan, indicating the asset is impaired.

Secured loans listed according to the above levels are as follows:

Date: 31 March 2016

Secured loans and Overdue receivables	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Consumer finance	\$2,714,605	\$28,951	\$7,239	\$-	\$-	\$48,855	\$2,701,940
Corporate finance	-	-	-	-	-	-	-
<b>Total</b>	<b>\$2,714,605</b>	<b>\$28,951</b>	<b>\$7,239</b>	<b>\$-</b>	<b>\$-</b>	<b>\$48,855</b>	<b>\$2,701,940</b>

Date: 31 December 2015

Secured loans and Overdue receivables	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Consumer finance	\$2,886,347	\$33,661	\$9,370	\$-	\$-	\$43,935	\$2,885,443
Corporate finance	-	-	-	-	-	-	-
<b>Total</b>	<b>\$2,886,347</b>	<b>\$33,661</b>	<b>\$9,370</b>	<b>\$-</b>	<b>\$-</b>	<b>\$43,935</b>	<b>\$2,885,443</b>

Date :31 March 2015

Secured loans and Overdue receivables	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Consumer finance	\$3,525,579	\$46,471	\$10,074	\$-	\$-	\$18,062	\$3,564,062
Corporate finance	-	-	-	105,924	-	43,184	62,740
<b>Total</b>	<b>\$3,525,579</b>	<b>\$46,471</b>	<b>\$10,074</b>	<b>\$105,924</b>	<b>\$-</b>	<b>\$61,246</b>	<b>\$3,626,802</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Aging analysis for net amount of secured loans is as follows:

	Neither delayed nor impaired	Delayed but not impaired	Past due or impaired		Total
	Within 30 days	31-90 days	91-180 days	Over 181 days	
	2016.3.31	\$2,694,845	\$7,095	\$-	
2015.12.31	2,876,260	9,183	-	-	2,885,443
2015.3.31	3,554,190	9,872	-	62,740	3,626,802

As of 31 March 2016, 31 December 2015, and 31 March 2015, the fair value of the collateral for discounted and loan's financial assets of past due but not impaired were NT\$0 thousand, NT\$0 thousand, and NT\$371,747 thousand, respectively.

## 2. Liquidity risk analysis

- (1) Liquidity risks are classified to “funding liquidity risk” and “market liquidity risk.” “Funding liquidity risk” represents that the Company is not able to obtain sufficient funds at a reasonable funding cost to meet the demands within reasonable time. “Market liquidity risk” represents the risk that the Company sells at loss to meet the demand for cash.

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 with symmetric. To decentralize market risk when investment and to maintain investment each aspect (such as asset category, maturity, region, currency and tools) diversification. Planning emergency financing plan in order to assess how the Company in the long term illiquid environment still regularly operate to pay emergency and major funding requirements.

The Company regularly monitors market liquidity and formulates plans to use the funds depending on market conditions and funding demand arrangements for liquidity assets portfolio. To quarterly prepare duration reports of assets and liabilities, the quarterly end of effective contracts estimate future liabilities side of cash expenditures time and the size of the amount. The Company early response to possible liquidity risk assort in order to

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

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assort full term insurance money management of again sales or assets combination adjustment measures, etc. Also, for abnormal and urgent financing needs, the Company makes an emergency management operating procedure to deal with significant liquidity risks.

- (2) Financial assets held for managing liquidity risk and maturity analysis of non-derivative financial liabilities

A. Financial assets held for managing liquidity risk

The Company holds cash, highly liquid and superior assets to deal with payment obligation and the potential urgent funds needs to dispatch in the market environment. Financial assets for managing liquidity risk are cash and cash equivalents, financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity financial assets and debt instrument investments for which no active market exists, etc.

B. Maturity analysis of non-derivative financial liabilities

The analysis of cash outflows to the Company is listed below and based on the residual term from the date of balance sheet to the maturity. The disclosed amount is in accordance with cash flows on contracts, so the partial disclosed items are not the same as related items in the balance sheet.

Non-derivative financial instruments

	In 1 year	Over 1 year	Total
2016.3.31			
Payables	\$7,364,353	\$-	\$7,364,353
2015.12.31			
Payables	\$8,055,698	\$-	\$8,055,698
2015.3.31			
Payables	\$9,058,615	\$-	\$9,058,615

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. Maturity analysis of derivative financial liabilities

The Company operates derivatives including foreign exchange derivative instruments (such as currency forward contracts, foreign exchange forward) and interest rate derivative instruments (such as cross currency swaps, interest rate swaps).

The Company has enough operating capital, including cash and cash equivalents, and highly liquid securities, such as government bonds to pay the investment and liabilities at maturity. Therefore, the risk of liquidity is extremely low. The Company enters into forward contracts, cross currency swaps and interest rate swaps derivative financial instruments, whose currencies are highly liquid, so the possibility of selling out and the risk of market liquidity are low. The forward contracts and cross currency swaps will be operated continually and the capital is enough to pay for settlement, so the risk of capital liquidity is low.

Maturity structure of derivative financial liabilities is as follows:

		2016.3.31				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$148,616	\$50,292	\$6,852	\$-	\$205,760
		2015.12.31				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$3,547,249	\$342,014	\$95,084	\$-	\$3,984,347
		2015.3.31				
		181 days				
		In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair						
value through profit or loss		\$245,046	\$4,002	\$-	\$-	\$249,048

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

3. Market risk analysis

- (1) Market risk refers to financial assets and liabilities due to market risk factors volatility (refer to interest rate, exchange rate, stock prices and other variables), making the change of the value to cause the risk of loss.

The Company has built value at risk model. All financial assets involve market risks regularly monitor by risk management system and calculate the risk value. Over control index are notional amount and risk value. It will issue risk management reports and execute routine control and process when over limit. We also report each asset risk value, the use of various types of credit limits and the results of backtesting regularly to the board of directors or risk management committee.

- (2) Exchange rate risk

The Company continues to exercise swaps and forward exchange derivative transactions to hedge the value change risk of holding foreign currencies because of changes in exchange rates in accordance with relevant laws and internal control requirements to use the correlation model and control mechanism to effectively control this risk.

The Company's exchange rate risk is primarily related to operating activities (the currencies the income or expense used are not the same as the functional currency of the Company).

Some of the Company's accounts receivable and accounts payable are denoted in the same foreign currency. Under such circumstances, the similar positions will naturally generate the hedging effect. Some foreign currency positions use forward exchange contracts to manage foreign exchange risk. As the foregoing natural hedge and foreign exchange forward do not meet the requirements of hedge accounting in terms of managing exchange rate risk, hedge accounting is not adopted.

- (3) Interest rate risk

Interest rate risk refers to the risk resulting from changes in market interest rates which causes fluctuations in the fair value of financial instruments. The Company manages interest rate risk by combinations of fixed and floating interest rate products. Because they do not meet the requirements for hedge accounting, hedge accounting is not adopted.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

#### (4) Equity price risk

The Company holds equity securities of listed and unlisted companies, and OTC-traded and non-OTC traded companies. The price of such equity securities will be affected by uncertainties about the future value of the underlying investment. The equity securities of listed and OTC-listed companies held by the Company fall into held-for-trading and available-for-sale categories, respectively. Equity securities of non-listed and non-OTC traded companies fall into available-for-sale category. The Company diversified its investment and set investment limits for a single equity security to manage price risk of equity securities. Portfolio information of equity securities is required to be regularly reported to senior executives of the Company. The Board of Directors should authorize the senior executives to review and approve the equity securities of all investment decisions.

#### (5) Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. The Company uses 99% VaR to measure the market risk over the next ten days.

VaR model must be able to reasonably and appropriately measure the maximum potential risk of financial instruments and investment portfolio. VaR model used to manage risk must perform model validation and back testing to show that the model can reasonably and effectively measure the maximum potential risks of the financial instruments or investment portfolio.

#### (6) Stress testing

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models. Stress testing measures the potential impact on the value of the investment portfolio when extreme fluctuations of financial variables occur.

The Company performs position stress testing regularly by using “Simple Sensitivity” and “Scenario Analysis” methods. The test is capable of representing the position loss resulted from the movement of a specific risk factor under different kinds of historical scenarios:

##### A. Simple Sensitivity

Simple Sensitivity measures the dollar amount change for the portfolio value from the movement of specific risk factors.

##### B. Scenario Analysis

Scenario Analysis measures the dollar amount changes for the total value of investment positions if stress scenarios occur. The types of scenario include:

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

a. Historical scenario:

Adding fluctuating risk factors to a specific historical event, the Company simulates what the dollar amount of losses for the current investment portfolio would be in the same period of time.

b. Hypothetical scenario:

The Company makes hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant 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.

Summarization of Simple Sensitivity

For the three-month period ended 31 March 2016

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	-	842,924
Interest rate risk (Yield curve)	+1BP	(102)	(358,529)
Exchange risk (Foreign exchange rate)	+1% ( USD for each currency appreciates 1%)	904,123	74,861

For the year ended 31 December 2015

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	-	879,335
Interest rate risk (Yield curve)	+1BP	(108)	(367,189)
Exchange risk (Foreign exchange rate)	+1% ( USD for each currency appreciates 1%)	934,426	79,437

For the three-month period ended 31 March 2015

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	8,409	995,919
Interest rate risk (Yield curve)	+1BP	(250)	(345,149)
Exchange risk (Foreign exchange rate)	+1% ( USD for each currency appreciates 1%)	751,280	69,031

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

X. Assets and liabilities are classified based on expected recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date:

Item	2016.3.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$55,965,872	\$-	\$55,965,872
Receivables	17,504,502	-	17,504,502
Current tax assets	2,044,157	-	2,044,157
Financial assets at fair value through profit or loss	7,571,367	331,801	7,903,168
Available-for-sale financial assets	104,298,215	311,184,756	415,482,971
Debt instrument investments for which no active market exists	4,713,785	526,931,013	531,644,798
Held-to-maturity financial assets	49,753	48,233,294	48,283,047
Investment property	-	23,882,694	23,882,694
Loans	-	30,552,040	30,552,040
Reinsurance assets	390,966	-	390,966
Property and equipment	-	7,426,509	7,426,509
Intangible assets	-	124,351	124,351
Deferred tax assets	3,415,504	-	3,415,504
Other assets	468,189	18,908,947	19,377,136
Separate account product assets	-	-	64,479,354
Total assets	\$196,422,310	\$967,575,405	\$1,228,477,069
<b>Liabilities</b>			
Payables	\$7,364,353	\$-	\$7,364,353
Financial liabilities at fair value through profit or loss	205,760	-	205,760
Insurance liabilities	25,271,223	1,022,591,864	1,047,863,087
Foreign exchange valuation reserve	-	6,657,177	6,657,177
Provision	-	122,855	122,855
Deferred tax liabilities	-	7,273,740	7,273,740
Other liabilities	1,085,776	995,766	2,081,542
Separate account product liabilities	-	-	64,479,354
Total liabilities	\$33,927,112	\$1,037,641,402	\$1,136,047,868

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item	2015.12.31		
	Recovery or settlement within	Recovery or settlement more	Total
	12 months	than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$52,426,711	\$-	\$52,426,711
Receivables	11,220,392	-	11,220,392
Current tax assets	1,975,975	-	1,975,975
Financial assets at fair value through profit or loss	22,615	335,329	357,944
Available-for-sale financial assets	103,215,426	336,059,300	439,274,726
Debt instrument investments for which no active market exists	4,708,323	499,433,601	504,141,924
Held-to-maturity financial assets	-	42,124,302	42,124,302
Investment property	-	24,273,542	24,273,542
Loans	-	30,933,445	30,933,445
Reinsurance assets	340,209	-	340,209
Property and equipment	-	6,988,198	6,988,198
Intangible assets	-	98,836	98,836
Deferred tax assets	4,251,116	-	4,251,116
Other assets	306,690	18,945,365	19,252,055
Separate account product assets			64,962,278
Total assets	\$178,467,457	\$959,191,918	\$1,202,621,653
<b>Liabilities</b>			
Payables	\$8,055,698	\$-	\$8,055,698
Financial liabilities at fair value through profit or loss	3,984,347	-	3,984,347
Insurance liabilities	27,451,875	998,261,077	1,025,712,952
Foreign exchange valuation reserve	-	7,695,824	7,695,824
Provision	-	277,491	277,491
Deferred tax liabilities	-	8,082,606	8,082,606
Other liabilities	496,511	770,078	1,266,589
Separate account product liabilities			64,962,278
Total liabilities	\$39,988,431	\$1,015,087,076	\$1,120,037,785

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item	2015.3.31		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
<b>Assets</b>			
Cash and cash equivalents	\$61,285,763	\$-	\$61,285,763
Receivables	13,866,624	-	13,866,624
Current tax assets	1,461,310	-	1,461,310
Financial assets at fair value through profit or loss	2,223,304	651,105	2,874,409
Available-for-sale financial assets	118,971,484	334,174,128	453,145,612
Debt instrument investments for which no active market exists	1,379,528	427,997,259	429,376,787
Held-to-maturity financial assets	-	9,447,689	9,447,689
Investment property	-	23,531,841	23,531,841
Loans	-	30,530,021	30,530,021
Reinsurance assets	350,088	-	350,088
Property and equipment	-	7,029,670	7,029,670
Intangible assets	-	50,263	50,263
Deferred tax assets	2,225,483	-	2,225,483
Other assets	451,503	18,570,467	19,021,970
Separate account product assets			69,391,076
Total assets	\$202,215,087	\$851,982,443	\$1,123,588,606
<b>Liabilities</b>			
Payables	\$9,058,615	\$-	\$9,058,615
Financial liabilities at fair value through profit or loss	249,048	-	249,048
Insurance liabilities	21,597,717	928,312,805	949,910,522
Foreign exchange valuation reserve	-	5,150,701	5,150,701
Provision	-	267,134	267,134
Deferred tax liabilities	-	6,397,151	6,397,151
Other liabilities	415,577	743,699	1,159,276
Separate account product liabilities			69,391,076
Total liabilities	\$31,320,957	\$940,871,490	\$1,041,583,523

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

**XI. Capital management**

The Company's main objective of capital management is to make sure the risk-based capital (RBC) ratio calculated in accordance with "Regulations Governing Capital Adequacy of Insurance Companies" meets the ratio provided by the Insurance Act, to maintain a sound capital structure to protect rights and interests of customers and shareholders.

The Company implements capital management mainly by monitoring the results of RBC report to ensure its solvency.

**XII. Related party transaction**

Significant transactions with related party are as follows:

1. Key management personnel remuneration

	For the three-month period ended 31 March	
	2016	2015
Short-term employee benefits	\$177,966	\$152,564
Post-employment benefits	483	473
<b>Total</b>	<b>\$178,449</b>	<b>\$153,037</b>

For more information about the key management personnel remuneration, please refer to the shareholders' meeting annual report.

**XIII. Pledged assets**

1. As of 31 March 2016, 31 December 2015, and 31 March 2015, details of pledged and guaranteed assets are as follows:

Item	2016.3.31	2015.12.31	2015.3.31
Available-for-sale financial assets	\$1,590,733	\$1,573,736	\$1,506,069
Debt instrument investments for which no active market exists	3,751,293	3,754,886	3,292,999
<b>Total</b>	<b>\$5,342,026</b>	<b>\$5,328,622</b>	<b>\$4,799,068</b>

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2. Refundable deposits from above government bonds are as follows:

Item	2016.3.31	2015.12.31	2015.3.31
Insurance deposits	\$5,323,029	\$5,309,535	\$4,777,969
Litigation deposits	18,997	19,087	21,099
Total	<u>\$5,342,026</u>	<u>\$5,328,622</u>	<u>\$4,799,068</u>

**XIV. Commitment and Contingencies**

1. Operating lease commitment — the Company as the lessee

The commercial lease contracts for offices, vehicles and equipment signed by the Company are within one to three years on average without renewal option. There is no restriction on the Company in these contracts. Furthermore, the Company leases the land for 70 years by creating surface right and the agreement is a non-cancellable operating lease.

In accordance with the non-cancellable operating lease, the total amount of the minimum lease payment as at 31 March 2016, 31 December 2015, 1 January 2015 are as follows:

	2016.3.31	2015.12.31	2015.3.31
Less than one year	\$128,300	\$116,357	\$76,948
More than one year but less than five years	509,599	463,858	207,855
More than five years	7,795,745	7,045,202	7,012,522
Total	<u>\$8,433,644</u>	<u>\$7,625,417</u>	<u>\$7,297,325</u>

The minimum lease payments of operating lease for the three-month periods ended 31 March 2016 and 2015 amounted to NT\$17,296 thousand and NT\$15,573 thousand, respectively.

2. Operating lease commitment — the Company as the lessor

The remaining period of commercial property lease contracts the Company signed are within one year to eleven years, and most of these lease contracts contain terms about adjusting rents according to market environment annually.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

In accordance with the non-cancellable operating lease, the total amount of the minimum lease payment as at 31 March 2016, 31 December 2015, 31 March 2015 are as follows:

	2016.3.31	2015.12.31	2015.3.31
Less than one year	\$420,229	\$436,567	\$416,231
More than one year but less than five years	1,011,079	1,066,373	876,013
More than five years	321,596	361,128	345,122
Total	<u>\$1,752,904</u>	<u>\$1,864,068</u>	<u>\$1,637,366</u>

3. Finance lease commitment – the Company as the lessee

The Company has entered into a finance lease contract on certain equipment. The execution date of the contract was 1 November 2015 for a term of 5 years. As of 31 October 2020 of the expiration date, the Company can acquire the equipment with no payment.

In accordance with the non-cancellable finance lease, the total amount of the minimum lease payment as at 31 March 2016 is as follows:

	Less than one year	More than one year but less than five years	Total
2016.3.31	<u>\$59,892</u>	<u>\$177,210</u>	<u>\$237,102</u>

XV. Significant disaster damages

None.

XVI. Significant subsequent events

None.

XVII. Other matters

1. Foreign currency financial assets and liabilities with significant influence as of 31 March 2016, 31 December 2015, 1 January 2015 are as follows:

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.3.31		
	Foreign currency	Exchange rate (dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$18,051,143	\$32.2820	\$582,730,725
AUD	571,683	24.6634	14,099,650
CNH	7,961,048	4.9876	39,706,523
CNY	1,958,180	4.9913	9,773,861
<u>Non-monetary items</u>			
USD	260,954	32.2820	8,424,126
CNY	5,872,186	4.9913	29,309,843
<u>Financial Liabilities</u>			
<u>Payables</u>			
CNY	29,963	4.9713	148,955
	2015.12.31		
	Foreign currency	Exchange rate (dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$16,062,025	\$33.0660	\$531,106,909
AUD	507,727	24.1613	12,267,335
CNH	8,293,310	5.0334	41,743,546
CNY	1,892,348	5.0921	9,635,936
<u>Non-monetary items</u>			
USD	352,656	33.0660	11,660,923
CNY	6,281,166	5.0921	31,984,323
<u>Financial Liabilities</u>			
<u>Payables</u>			
USD	1,033	32.8920	33,990
CNY	29,984	5.0788	152,284

**China Life Insurance Co., Ltd.**

**Notes to financial statements (Continued)**

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2015.3.31		
	Foreign currency	Exchange rate (dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$13,465,307	\$31.4010	\$422,819,322
AUD	665,811	23.8836	15,901,974
NZD	282,759	23.4408	6,628,099
CNH	8,692,245	5.0613	43,994,059
 <u>Non-monetary items</u>			
USD	349,648	31.4010	10,979,299
CNY	5,576,217	5.0650	28,243,538
 <u>Financial Liabilities</u>			
<u>Payables</u>			
USD	46,000	31.3620	1,442,652
CNY	99,834	5.0342	502,585

The above information is disclosed based on the carrying amount of the foreign currencies, which has been translated to the functional currency.

2. Participation of unconsolidated structured entities

As of 31 March 2016, interests in unconsolidated entities the Company holds are as follows. The Company does not provide any financial or other support for these structured entities. The estimated maximum exposure amount is the interests the Company holds.

	Private Equity	Real estate	Real estate	Total
	Fund	investment trust	beneficiary certificate	
<u>Assets held by the Company</u>				
Available-for-sale financial assets	\$618,158	\$1,559,401	\$-	\$2,177,559
Debt instrument investments for which no active market exists	-	-	29,749,267	29,749,267

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

(Expressed in Thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate	Total
The maximum exposure amount	618,158	1,559,401	29,749,267	31,926,826
Financial or other support provided	None	None	None	

#### XVIII. Information regarding investment in Mainland China

1. The Company set up China Life Insurance Co., Ltd. (Taiwan) Beijing Representative Office in Mainland China, which was approved by FSC on November 2004 and was approved by the China Insurance Regulatory Commission in July 2005. The Beijing representative office was officially established in August 2005.
2. The Company participated in the equity investment of Pacific-Antna Life Insurance Company Ltd. in Mainland China authorized by FSC on 30 December 2010, and by the Investment Commission of the Ministry of Economic Affairs (MOEAIC) on 28 January 2011, and by the China Insurance Regulatory Commission on 6 April 2011.

The Company remitted US\$ 58,775 thousand on 24 June 2011, completed settlement on 29 June 2011 and obtained 19.9% ownership. The Company shared 100% equity of Pacific-Antna Life Insurance Company Ltd. with China Construction Bank and other financial investors and used the channel and customer resources of China Construction Bank to develop bank insurance business which is to ensure the Company successfully enters the mainland market and increases the Company's long-term value and shareholders' interests. Pacific-Antna Life Insurance Company Ltd. was renamed to CCB Life Insurance Company Ltd. authorized by the China Insurance Regulatory Commission on 7 June 2011.

The Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to increase capital of CCB Life Insurance Company Ltd. on 29 August 2011 and to remit US\$11,844 thousand on 30 August 2011. The increased share capital case was approved by China Insurance Regulatory Commission on 28 September 2011 and by Shanghai Administration for Industry and Commerce on 13 December 2011. Moreover, the Company remitted US\$179,070 thousand to increase share capital in June 2012, and this increased share capital case was approved by China Insurance Regulatory Commission on 27 July 2012 and by Shanghai Administration for Industry and Commerce on 5 November 2012.