# China Life Insurance Co., Ltd.
# Financial Statements
# For The Nine-month Periods Ended
# 30 September 2017 and 2016
# 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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## Index to financial statements

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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 30 September 2017 and 30 September 2016, and the related statements of comprehensive income for the three-month and nine-month periods ended 30 September 2017 and 2016, changes in equity and cash flows for the nine-month periods ended 30 September 2017 and 2016. 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 endorsed and became effective by Financial Supervisory Commission.

Ernst & Young

Ernst & Young
Certified Public Accountants
Taipei, Taiwan, R.O.C.
10 November 2017

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.

English Translation of Financial Statements Originally Issued in Chinese

**China Life Insurance Co., Ltd.**
**Unaudited balance sheets**
**As at 30 September 2017, 31 December 2016, and 30 September 2016**
**(30 September 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)**
**(Expressed in Thousands of New Taiwan Dollars)**

| | | 2017/9/30 | | 2016/12/31 | | 2016/9/30 | |
|---|---|---|---|---|---|---|---|
| Assets | Notes | Amount | % | Amount | % | Amount | % |
| Cash and cash equivalents | VI.1 | $29,487,951 | 2 | $34,318,710 | 3 | $54,926,985 | 4 |
| Receivables | VI.2 | 10,914,397 | 1 | 12,886,631 | 1 | 11,766,400 | 1 |
| Current tax assets | | - | - | 1,235,430 | 0 | 1,235,429 | 0 |
| Financial assets at fair value through profit or loss | VI.3 | 811,153 | 0 | 700,451 | 0 | 4,227,191 | 0 |
| Available-for-sale financial assets | VI.4 | 410,292,631 | 29 | 380,457,315 | 29 | 379,887,828 | 29 |
| Debt instrument investments for which no active market exists | VI.5 | 644,798,636 | 45 | 621,002,336 | 47 | 606,095,178 | 47 |
| Held-to-maturity financial assets | VI.6 | 177,534,772 | 12 | 125,363,713 | 9 | 90,254,402 | 7 |
| Investment property | VI.8 | 23,366,706 | 2 | 23,350,354 | 2 | 23,812,594 | 2 |
| Loans | VI.7 | 30,835,617 | 2 | 30,776,732 | 2 | 30,636,215 | 2 |
| Reinsurance assets | VI.9 | 427,116 | 0 | 285,097 | 0 | 298,661 | 0 |
| Property and equipment | VI.10 | 8,994,950 | 1 | 8,088,226 | 1 | 7,624,821 | 1 |
| Intangible assets | | 145,034 | 0 | 158,582 | 0 | 145,554 | 0 |
| Deferred tax assets | VI.25 | 4,682,246 | 0 | 1,455,392 | 0 | 608,053 | 0 |
| Other assets | VI.11 | 21,629,333 | 2 | 19,192,292 | 1 | 19,384,462 | 2 |
| Separate account product assets | VI.27 | 60,923,532 | 4 | 64,440,197 | 5 | 65,486,494 | 5 |
| Total assets | | $1,424,844,074 | 100 | $1,323,711,458 | 100 | $1,296,390,267 | 100 |

**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 balance sheets - (continued)**

**As at 30 September 2017, 31 December 2016, and 30 September 2016**

**(30 September 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)**

**(Expressed in Thousands of New Taiwan Dollars)**

| | | 2017/9/30 | | 2016/12/31 | | 2016/9/30 | |
|---|---|---|---|---|---|---|---|
| Liabilities and equity | Notes | Amount | % | Amount | % | Amount | % |
| Payables | VI.12 | $14,122,707 | 1 | $8,531,169 | 1 | $8,910,701 | 1 |
| Current tax liabilities | | 4,688,720 | 0 | 496,255 | 0 | 1,125,508 | 0 |
| Financial liabilities at fair value through profit or loss | VI.13 | 3,507,793 | 0 | 8,361,215 | 1 | 438,238 | 0 |
| Insurance liabilities | VI.14 | 1,248,227,230 | 88 | 1,144,322,632 | 86 | 1,113,848,471 | 86 |
| Foreign exchange valuation reserve | VI.15 | 2,821,112 | 0 | 6,382,932 | 0 | 4,596,062 | 0 |
| Provisions | VI.16 | 88,159 | 0 | 97,753 | 0 | 134,711 | 0 |
| Deferred tax liabilities | VI.25 | 1,846,232 | 0 | 4,619,185 | 0 | 3,611,827 | 0 |
| Other liabilities | | 2,370,465 | 0 | 5,388,023 | 0 | 1,892,918 | 0 |
| Separate account product liabilities | VI.27 | 60,923,532 | 4 | 64,440,197 | 5 | 65,486,494 | 5 |
| Total liabilities | | 1,338,595,950 | 93 | 1,242,639,361 | 93 | 1,200,044,930 | 92 |
| | | | | | | | |
| Capital stock | VI.18 | | | | | | |
| Common stock | | 37,863,984 | 3 | 34,737,600 | 3 | 34,737,600 | 3 |
| Capital surplus | VI.19 | 2,289,273 | 0 | 2,289,273 | 0 | 2,289,273 | 0 |
| Retained earnings | VI.20 | | | | | | |
| Legal capital reserve | | 9,811,298 | 1 | 7,917,627 | 1 | 7,917,627 | 1 |
| Special capital reserve | | 22,880,185 | 2 | 21,473,047 | 2 | 21,133,183 | 2 |
| Unappropriated retained earnings | | 9,932,098 | 1 | 11,534,406 | 1 | 11,442,174 | 1 |
| Other equity | VI.21 | 3,471,286 | 0 | 3,120,144 | 0 | 18,825,480 | 1 |
| Total equity | | 86,248,124 | 7 | 81,072,097 | 7 | 96,345,337 | 8 |
| Total liabilities and equity | | $1,424,844,074 | 100 | $1,323,711,458 | 100 | $1,296,390,267 | 100 |

**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 comprehensive income**

**For the three-month and nine-month periods ended 30 September 2017 and 2016**

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

**(Expressed in Thousands of New Taiwan Dollars, except for Earnings per Share)**

| | | 1 July-30 Septrmber 2017 | | 1 July-30 September 2016 | | 1 January-30 September 2017 | | 1 January-30 September 2016 | |
|---|---|---|---|---|---|---|---|---|---|
| Item | Notes | Amount | % | Amount | % | Amount | % | Amount | % |
| Operating revenue | | | | | | | | | |
| Direct premium income | | $51,357,974 | 73 | $47,682,965 | 76 | $145,891,580 | 77 | $138,782,391 | 77 |
| Premium income | | 51,357,974 | 73 | 47,682,965 | 76 | 145,891,580 | 77 | 138,782,391 | 77 |
| Deduct: Premiums ceded to reinsurers | | (293,329) | (0) | (287,294) | (0) | (879,370) | (0) | (846,722) | (0) |
| Net changes in unearned premium reserve | VI.14 | 44,602 | 0 | 11,936 | 0 | (333,185) | (0) | 89,500 | 0 |
| Retained earned premium | VI.22 | 51,109,247 | 73 | 47,407,607 | 76 | 144,679,025 | 77 | 138,025,169 | 77 |
| Reinsurance commission earned | | 56,720 | 0 | 63,973 | 0 | 200,736 | 0 | 222,193 | 0 |
| Handling fees earned | | 220,524 | 0 | 225,845 | 0 | 652,600 | 0 | 671,826 | 0 |
| Net investment profits and losses | | | | | | | | | |
| Interest income | | 10,711,294 | 15 | 9,668,161 | 15 | 30,683,757 | 16 | 27,703,096 | 15 |
| Gains (losses) on financial assets and liabilities at fair value through profit or loss | | (74,498) | (0) | 12,347,121 | 20 | 26,042,694 | 14 | 22,126,343 | 12 |
| Realized gains on available-for-sale financial assets | | 6,629,646 | 9 | 5,802,542 | 9 | 11,370,163 | 6 | 11,965,539 | 7 |
| Realized gains on debt instrument investments for which no active market exists | | 542,307 | 1 | 832,066 | 1 | 2,729,374 | 1 | 2,096,386 | 1 |
| Realized losses on held-to-maturity financial assets | | 27,756 | 0 | - | - | 27,756 | 0 | (40,912) | (0) |
| Foreign exchange gains (losses) | | (1,935,522) | (3) | (17,865,858) | (28) | (39,632,607) | (21) | (31,584,082) | (17) |
| Net changes in foreign exchange valuation reserve | VI.15 | (183,238) | (0) | 2,008,663 | 3 | 3,561,820 | 2 | 3,099,762 | 2 |
| Gains on investment property | | 118,863 | 0 | 125,780 | 0 | 283,144 | 0 | 321,270 | 0 |
| Impairment losses and gains on reversal of impairment losses | | - | - | - | - | - | - | (2,955) | (0) |
| Separate account product revenue | VI.27 | 3,463,968 | 5 | 2,708,753 | 4 | 8,706,133 | 5 | 5,933,386 | 3 |
| Subtotal | | 70,687,067 | 100 | 63,324,653 | 100 | 189,304,595 | 100 | 180,537,021 | 100 |
| Operating costs | | | | | | | | | |
| Insurance claim payments | | (17,864,275) | (25) | (19,327,852) | (31) | (52,311,208) | (27) | (58,812,229) | (33) |
| Deduct: Claims recovered from reinsures | | 151,685 | 0 | 139,239 | 0 | 493,133 | 0 | 423,857 | 0 |
| Retained claim payments | VI.23 | (17,712,590) | (25) | (19,188,613) | (31) | (51,818,075) | (27) | (58,388,372) | (33) |
| Net changes in insurance liabilities | VI.14 | (40,648,762) | (58) | (34,459,800) | (54) | (111,136,469) | (58) | (94,080,326) | (52) |
| Brokerage expenses | | (2,642) | (0) | (1,763) | (0) | (5,879) | (0) | (4,748) | (0) |
| Commission expenses | | (2,358,068) | (3) | (3,065,086) | (5) | (7,170,347) | (4) | (9,023,570) | (5) |
| Finance costs | | (2,074) | (0) | (11,004) | (0) | (7,157) | (0) | (14,717) | (0) |
| Other operating costs | | (97,579) | (0) | (65,835) | (0) | (228,184) | (0) | (179,734) | (0) |
| Separate account product expenses | VI.27 | (3,463,968) | (5) | (2,708,753) | (4) | (8,706,133) | (5) | (5,933,386) | (3) |
| Subtotal | | (64,285,683) | (91) | (59,500,854) | (94) | (179,072,244) | (94) | (167,624,853) | (93) |

**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 comprehensive income - (continued)**

**For the three-month and nine-month periods ended 30 September 2017 and 2016**

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

**(Expressed in Thousands of New Taiwan Dollars, except for Earnings per Share)**

| | | 1 July-30 Septrmber 2017 | | 1 July-30 September 2016 | | 1 January-30 September 2017 | | 1 January-30 September 2016 | |
|---|---|---|---|---|---|---|---|---|---|
| Item | Notes | Amount | % | Amount | % | Amount | % | Amount | % |
| Operating expenses | VI.24 | | | | | | | | |
| Business expenses | | $(676,361) | (1) | $(657,555) | (1) | $(1,971,165) | (1) | $(1,886,797) | (1) |
| Administrative and general expenses | | (541,951) | (1) | (312,353) | (0) | (1,113,593) | (1) | (1,059,017) | (1) |
| Employee training expenses | | (8,102) | (0) | (6,319) | (0) | (19,661) | (0) | (16,877) | (0) |
| Subtotal | | (1,226,414) | (2) | (976,227) | (1) | (3,104,419) | (2) | (2,962,691) | (2) |
| Operating income (loss) | | 5,174,970 | 7 | 2,847,572 | 5 | 7,127,932 | 4 | 9,949,477 | 5 |
| Non-operating income and expenses | | 11,645 | 0 | 12,506 | 0 | (2,556) | (0) | 49,174 | 0 |
| Income (loss) from continuing operations before income tax | | 5,186,615 | 7 | 2,860,078 | 5 | 7,125,376 | 4 | 9,998,651 | 5 |
| Income tax benefit (expense) | VI.25 | 73,572 | 0 | 293,210 | 0 | 478,517 | 0 | (929,226) | (0) |
| Net income (loss) from continuing operations | | 5,260,187 | 7 | 3,153,288 | 5 | 7,603,893 | 4 | 9,069,425 | 5 |
| Net income (loss) | | 5,260,187 | 7 | 3,153,288 | 5 | 7,603,893 | 4 | 9,069,425 | 5 |
| Other comprehensive income, net of tax | VI.21 | | | | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | | | | | |
| Gains on revaluation | | 110,081 | 0 | 9,999 | 0 | 110,081 | 0 | 9,999 | 0 |
| Income taxes relating to items that are not be reclassified | | (9,133) | (0) | (4,353) | (0) | (9,133) | (0) | (4,353) | (0) |
| Items that are or may be reclassified subsequently to profit or loss | | | | | | | | | |
| Unrealized valuation gains (losses) on available-for-sale financial assets | | (4,533,859) | (6) | 438,174 | 1 | (170,912) | (0) | 6,588,173 | 4 |
| Income taxes relating to items that are or may be reclassified subsequently to profit or loss | | 26,133 | 0 | 100,716 | 0 | 421,106 | 0 | 102,313 | 0 |
| Other comprehensive income, net of tax | | (4,406,778) | (6) | 544,536 | 1 | 351,142 | 0 | 6,696,132 | 4 |
| Total comprehensive income | | $853,409 | 1 | $3,697,824 | 6 | $7,955,035 | 4 | $15,765,557 | 9 |
| | | | | | | | | | |
| Earnings per share (In New Taiwan Dollars) | VI.26 | | | | | | | | |
| Basic earnings per share | | $1.39 | | $0.83 | | $2.01 | | $2.40 | |

**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 nine-month periods ended 30 September 2017 and 2016**

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

**(Expressed in Thousands of New Taiwan Dollars)**

| | | | | Retained earnings | | | Other equity | | |
|---|---|---|---|---|---|---|---|---|---|
| Summary | Notes | 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 | Total |
| 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 |
| Appropriation and distribution of earnings for the year 2015 | VI.20 | | | | | | | | |
| Legal capital reserve | | | | 1,834,380 | | (1,834,380) | | | - |
| Special capital reserve | | | | | 1,337,896 | (1,337,896) | | | - |
| Cash dividends | | | | | | (2,004,088) | | | (2,004,088) |
| Stock dividends | | 1,336,133 | | | | (1,336,133) | | | - |
| Net income for the nine-months periods ended 30 September 2016 | | | | | | 9,069,425 | | | 9,069,425 |
| Other comprehensive income for the nine-month periods ended 30 September 2016 | VI.21 | | | | | | 6,690,486 | 5,646 | 6,696,132 |
| Total comprehensive income for the nine-month periods ended 30 September 2016 | | - | - | - | - | 9,069,425 | 6,690,486 | 5,646 | 15,765,557 |
| Balance on 30 September 2016 | | $34,737,600 | $2,289,273 | $7,917,627 | $21,133,183 | $11,442,174 | $18,645,034 | $180,446 | $96,345,337 |
| Balance on 1 January 2017 | | $34,737,600 | $2,289,273 | $7,917,627 | $21,473,047 | $11,534,406 | $2,939,698 | $180,446 | $81,072,097 |
| Appropriation and distribution of earnings for the year 2016 | VI.20 | | | | | | | | |
| Legal capital reserve | | | | 1,893,671 | | (1,893,671) | | | - |
| Special capital reserve | | | | | 1,407,138 | (1,407,138) | | | - |
| Cash dividends | | | | | | (2,779,008) | | | (2,779,008) |
| Stock dividends | | 3,126,384 | | | | (3,126,384) | | | - |
| Net income for the nine-month periods ended 30 September 2017 | | | | | | 7,603,893 | | | 7,603,893 |
| Other comprehensive income for the nine-month periods ended 30 September 2017 | VI.21 | | | | | | 250,194 | 100,948 | 351,142 |
| Total comprehensive income for the nine-month periods ended 30 September 2017 | | - | - | - | - | 7,603,893 | 250,194 | 100,948 | 7,955,035 |
| Balance on 30 September 2017 | | $37,863,984 | $2,289,273 | $9,811,298 | $22,880,185 | $9,932,098 | $3,189,892 | $281,394 | $86,248,124 |

**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 cash flows**

**For the nine-month periods ended 30 September 2017 and 2016**

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

**(Expressed in Thousands of New Taiwan Dollars)**

| | 1 January-30 September 2017 | 1 January-30 September 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income (loss) before tax | $7,125,376 | $9,998,651 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss) | | |
| Depreciation expense | 105,725 | 85,253 |
| Amortization expense | 51,610 | 37,861 |
| Provision (reversal of provision) for bad debt expense | 6,166 | 8,427 |
| Net losses (gains) on financial assets and liabilities at fair value through profit or loss | (26,042,694) | (22,126,343) |
| Net losses (gains) on available-for-sale financial assets | (5,727,333) | (8,120,066) |
| Net losses (gains) on debt instrument investments for which no active market exists | (2,729,374) | (2,096,386) |
| Net losses (gains) on held to maturity financial assets | (27,756) | 40,912 |
| Interest expenses | 7,157 | 14,717 |
| Interest income | (30,683,757) | (27,703,096) |
| Dividend income | (5,642,830) | (3,845,473) |
| Net changes in insurance liabilities | 103,903,310 | 88,150,112 |
| Net changes in foreign exchange valuation reserve | (3,561,820) | (3,099,762) |
| Net changes in provisions | (8,421) | (1,025) |
| (Gains) losses on disposal or scrapping of property and equipment | 355 | 237 |
| (Gains) losses on disposal of investment property | (1,084) | (1,507) |
| Impairment losses on financial assets | - | 2,955 |
| Unrealized foreign exchange losses (gains) | 45,423,411 | 26,792,388 |
| (Gains) losses on valuation of investment property | 79,158 | 55,716 |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in financial assets at fair value through profit or loss | 21,066,147 | 14,686,007 |
| Decrease (increase) in notes receivable | 196,302 | 189,012 |
| Decrease (increase) in other receivables | 502,055 | (1,353,816) |
| Decrease (increase) in prepaid expenses and other prepayments | (170,029) | 92,851 |
| Decrease (increase) in refundable deposits | (1,927,550) | 58 |
| Decrease (increase) in reinsurance assets | (140,731) | 26,956 |
| Decrease (increase) in other assets | 1,306 | (3,255) |
| Increase (decrease) in notes payable | (27,924) | (16,616) |
| Increase (decrease) in life insurance proceeds payable | 46,586 | 93,183 |
| Increase (decrease) in other payables | 3,269,208 | 1,113,882 |
| Increase (decrease) in due to reinsurers and ceding companies | 177,433 | 23,855 |
| Increase (decrease) in commissions payable | (653,996) | (364,637) |
| Increase (decrease) in accounts collected in advance | (1,529,357) | (106,684) |
| Increase (decrease) in guarantee deposits received | 704 | (1,674) |
| Increase (decrease) in other liabilities | (1,488,905) | 734,686 |
| Increase (decrease) in provision for employee benefits | (1,173) | (141,756) |
| Cash generated from operations activities | 101,597,275 | 73,165,623 |
| Interest received | 22,994,441 | 26,335,895 |
| Dividends received | 5,579,874 | 3,636,615 |
| Interest paid | (7,157) | (14,717) |
| Income taxes refunded (paid) | 319,802 | 213,215 |
| Net cash provided by (used in) operating activities | 130,484,235 | 103,336,631 |
| Cash flows from investing activities | | |
| Acquisition of available-for-sale financial assets | (199,236,546) | (120,792,968) |
| Disposal of available-for-sale financial assets | 167,321,590 | 188,003,497 |
| Return of capital from available-for-sale financial assets | 52,481 | 67,633 |
| Acquisition of debt instrument investments for which no active market exists | (116,271,891) | (213,614,342) |
| Disposal of debt instrument investment for which no active market exists | 59,699,488 | 84,132,553 |
| Maturity principal from debt instrument investments for which no active market exists | 13,544,795 | 13,726,384 |
| Acquisition of held-to-maturity financial assets | (63,463,821) | (50,902,422) |
| Disposal of held-to-maturity financial assets | 3,988,835 | 649,371 |
| Acquisition of property and equipment | (867,930) | (505,817) |
| Acquisition of intangible assets | (32,488) | (47,980) |
| Decrease (increase) in loans | (65,162) | 288,785 |
| Disposal of investment property | 15,655 | 163,037 |
| Net cash provided by (used in) investing activities | (135,314,994) | (98,832,269) |
| Cash flows from financing activities | | |
| Cash dividend paid | - | (2,004,088) |
| Net cash provided by (used in) financing activities | - | (2,004,088) |
| Increase (decrease) in cash and cash equivalents | (4,830,759) | 2,500,274 |
| Cash and cash equivalents at the beginning of the period | 34,318,710 | 52,426,711 |
| Cash and cash equivalents at the end of the period | $29,487,951 | $54,926,985 |

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

**<u>English Translation of Financial Statements Originally Issued in Chinese</u>**

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

**Notes to financial statements**

**For the nine-month periods ended 30 September 2017 and 2016**

**(30 September 2017 and 2016 reviewed only,not audited in accordance with the generally accepted auditing standards)**

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

I. <u>Organizations and business scope</u>

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, Pintung 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.

The Company was informed by the tender offeror, China Development Financial Holding Corp. (CDF), about the tender offer of the Company's ordinary shares and the Public Tender Offer Report on 16 August 2017. CDF started the tender offer from 17 August 2017 to 6 September 2017. CDF has finished the tender offer on 13 September 2017 and acquired 880,000,000 common shares of the Company. CDF totally holds 1,215,376,618 shares of the Company, including 335,376,618 shares owned by its subsidiary KGI securities by the settlement date. The holding accounts for 34.99% of the Company's outstanding shares. (The number of actual volume of trades was disclosed based on the record date, 13 September 2017.)

II. <u>Date and procedures of authorization of financial statements for issue</u>

The financial statements of the Company were authorized to issue in accordance with a resolution of the Company's board of directors on 10 November 2017.

III. <u>Newly issued or revised standards and interpretations</u>

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

<u>IAS 36 *"Impairment of Assets" (Amendment)*</u>

This amendments relate to the amendments issued in May 2011 and require 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 amendments also require 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.

2. Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Company at the date of issuance of the Company's financial statements are listed below.

| | Contents of Standards or interpretations | Adoption Date (Note1) |
|---|---|---|
| (1) | IFRS 15 *"Revenue from Contracts with Customers"* | 1 January 2018 |
| (2) | IFRS 9 *"Financial Instruments"* | 1 January 2018 |
| (3) | IFRS 10 *"Consolidated Financial Statements" and* IAS 28 *"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures* | Note2 |
| (4) | IAS 12 *"Income Taxes" — Recognition of Deferred Tax Assets for Unrealized Losses* | 1 January 2017 |
| (5) | Disclosure Initiative — Amendment to IAS 7 *"Statement of Cash Flows"* | 1 January 2017 |
| (6) | IFRS 15 *"Revenue from Contracts with Customers"* — Clarifications to IFRS 15 | 1 January 2018 |
| (7) | IFRS 2 "*Share-Based Payment*" — Amendments to IFRS 2 | 1 January 2018 |
| (8) | Applying IFRS 9 "*Financial Instruments"* with IFRS 4 *"Insurance Contracts"* — Amendments to IFRS 4 | 1 January 2018 |
| (9) | Transfers of Investment Property — Amendment to IAS 40 | 1 January 2018 |
| (10) | Improvements to International Financial Reporting Standards (2014-2016 cycle): | |
| | IFRS 1 "First-time Adoption of International Financial Reporting Standards" | 1 January 2018 |
| | IFRS 12 "Disclosure of Interests in Other Entities" | 1 January 2017 |
| | IAS 28 "Investments in Associates and Joint Ventures" | 1 January 2018 |

| Contents of Standards or interpretations | Adoption Date (Note1) |
|---|---|
| (11) IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*" | 1 January 2018 |

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

Note2: The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Except for the potential impact determined by the Company listed below, the remaining standards and interpretations have no material impact on the Company.

*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).

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.

Consequential amendments on the related disclosures also become effective for annual periods beginning on or after 1 January 2018.

The Company elects not to restate prior periods in accordance with the requirements of IFRS

9 at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Company:

A. Classification and measurement of financial assets

The Company will reclassify financial assets according to IFRS 9. However, the Company is still currently evaluating the potential impacts of the reclassification.

Moreover, for financial assets not measured at fair value through profit or loss, in accordance with the requirements of IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach (provision matrix); and no assessment of impairment on equity instrument is required. The aforementioned requirements on impairment is different from the current incurred loss model and the final impact is yet to be determined.

B. Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

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

The amendments clarify how to account for deferred tax assets for unrealized losses.

The Company will apply the amendments and retrospectively recognize deferred income tax assets on 1 January 2018.

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

The amendments relate 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.

Additional disclosure of a reconciliation of the carrying amount of liabilities arising from financing activities at the beginning and end of the period would be required.

IFRS 15 *"Revenue from Contracts with Customers"* — Clarifications to IFRS 15

The amendments clarify 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 licence should be recognized at a point in time or over time.

The Company has no significant impact on recognition of revenue from contracts with customers.

Applying IFRS 9 *"Financial Instruments"* with IFRS 4 *"Insurance Contracts"* — Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 "Financial Instruments" (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 "Financial Instruments" before the IASB's new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

The Company will apply IFRS9 and is expected to adopt an overlay approach at the same time and increase related disclosure on 1 January 2018.

Transfers of Investment Property — Amendments to IAS 40

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The Company will apply the amendments on 1 January 2018.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it), the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

The Company will apply the clarification of interpretation above prospectively on 1 January 2018.

3. Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

| | Contents of Standards or interpretations | Adoption Date (Note1) |
|---|---|---|
| (1) | IFRS 16 *"Leases"* | 1 January 2019 |
| (2) | IFRIC 23 *"Uncertainty Over Income Tax Treatments"* | 1 January 2019 |
| (3) | IFRS 17 *"Insurance contracts"* | 1 January 2021 |
| (4) | IAS 28 "I*nvestment in Associates and Joint Ventures" — Amendments to IAS 28* | 1 January 2019 |
| (5) | IFRS 9 *"Financial Instruments" — Amendments to IFRS 9* | 1 January 2019 |

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

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.

IFRIC 23 *"Uncertainty Over Income Tax Treatments"*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

IFRS 17 *"Insurance contracts"*

IFRS 17 will replace IFRS 4, providing business entities with accounting methods regarding recognition, measurement, presentation and disclosure requirements of insurance contracts. On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

1. estimates of future cash flows;
2. an adjustment to reflect the time value of money and the financial risks related to the future cash flows and;
3. a risk adjustment for non-financial risk

The entity shall disclose the quality and quantity information in relevance with insurance contracts.

IFRS 9 *"Financial Instruments" — Amendments to IFRS 9*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

The abovementioned standards and interpretations issued by IASB have 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.

## IV. Summary of significant accounting policies

### 1. Statement of compliance

The financial statements of the Company for the nine-month periods ended 30 September 2017 and 2016 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 endorsed and became effective 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.

(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.

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.

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:

- 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 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.

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.

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.

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 exits 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.

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 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 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.

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.

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.

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.

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. <u>Investment-linked insurance products</u>

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. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the end of March of the following year. 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.

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.

In case that an employee’s monthly wage exceeds the upper limit of monthly wage allocation classification schedule, the Company may set aside monthly 6% of the excess portion as retirement reserve. Upon meeting the requirements of the pension plan, the employees are entitled to receive this kind of the retirement reserve.

For the defined contribution plan, the Company recognizes expenses in the period in which the contribution becomes due. The defined benefit plan is recognized based on the actuarial report at the end of the annual 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.

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.

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

- 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. Claim 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.

B. Claim 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.

(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 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 is only used for capital increase or offset deficit. 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 by arranging 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 even if the reinsurer fails to fulfill their responsibility.

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 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 potential impact of the above cases that the Company will receive from reinsurers can be measured reliably, 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 and measure the individual deposit component, then the reinsurance contracts need to be recognized separately as the insurance component and the deposit component. That is, the Company receives (or pays) the contract's value minus the insurance component, recognizing it as financial liabilities (or assets), and not as incomes (or expenses). The financial liabilities (or assets) are recognized with the fair value approach and uses the present value of future cash flow as the basis for the fair value approach.

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.

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 unappropriated 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.*

## 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.

(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.

(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 benefits and the present value of the defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include determination of the discount rate, future salary increases, etc.

(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.

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.

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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 | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Cash on hand | $422 | $887 | $880 |
| Revolving funds | 3,977 | 4,518 | 4,535 |
| Cash in banks | 13,802,477 | 9,162,432 | 15,224,968 |
| Time deposits | 7,457,569 | 3,104,900 | 13,351,300 |
| Cash equivalents－bond with resale agreement | 8,223,506 | 22,045,973 | 26,345,302 |
| Total | $29,487,951 | $34,318,710 | $54,926,985 |

### 2. Receivables

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Notes receivable－net | $163,957 | $360,260 | $228,907 |
| Other receivables－net | | | |
| Interest receivable | 8,900,082 | 10,241,207 | 8,422,765 |
| Financial instruments settlement receivable | 530,540 | 126,399 | 1,278,541 |
| Separate accounts receivable | 1,006,100 | 1,764,991 | 1,349,240 |
| Other receivables | 313,718 | 393,774 | 486,947 |
| Overdue receivables | 730 | 840 | 739 |
| Less: Allowance for bad debts - Overdue receivables | (730) | (840) | (739) |
| Subtotal | 10,750,440 | 12,526,371 | 11,537,493 |
| Total | $10,914,397 | $12,886,631 | $11,766,400 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

3. Financial assets at fair value through profit or loss

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Held for sale: | | | |
| Derivative financial assets | | | |
| Swaps and forward foreign exchange contracts | $575,499 | $503,339 | $3,805,173 |
| Non-derivative financial assets | | | |
| Government bonds | - | - | 148,759 |
| Designated financial assets at fair value through profit or loss: | | | |
| Convertible bonds | 235,654 | 197,112 | 273,259 |
| Total | $811,153 | $700,451 | $4,227,191 |

4. Available-for-sale financial assets

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Domestic listed stocks | $106,483,712 | $63,278,217 | $58,881,056 |
| Domestic beneficiary certificates | 2,378,202 | 913,808 | 1,377,255 |
| Domestic real estate investment trust | 1,305,139 | 1,481,987 | 1,539,331 |
| Domestic government bonds | 122,598,589 | 129,039,575 | 151,957,658 |
| Domestic corporate bonds | 10,251,459 | 2,266,742 | 3,286,678 |
| Domestic financial debentures | 516,384 | 1,025,084 | 1,031,048 |
| Domestic preferred stocks | 2,564,316 | 2,603,105 | 329,400 |
| Domestic unlisted stocks | 2,561,424 | 2,541,481 | 2,591,328 |
| Overseas listed stocks | 20,811,776 | 16,180,002 | 13,369,434 |
| Overseas beneficiary certificates | 7,238,403 | 7,645,706 | 7,336,593 |
| Overseas government bonds | 11,021,377 | 11,030,754 | 1,674,713 |
| Overseas corporate bonds | 66,323,148 | 67,455,060 | 60,385,376 |
| Overseas financial debentures | 44,408,221 | 51,771,796 | 54,655,630 |
| Overseas preferred stocks | - | 4,189,046 | 4,349,332 |
| Overseas unlisted stocks | 13,520,474 | 20,576,090 | 18,720,970 |
| Less: Refundable deposits | (1,689,993) | (1,541,138) | (1,597,974) |
| Total | $410,292,631 | $380,457,315 | $379,887,828 |

Please refer to Note XIII for more details on available-for-sale financial assets under pledge.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

5. Debt instrument investments for which no active market exists

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Domestic government bonds | $9,402,828 | $9,450,845 | $9,466,830 |
| Domestic corporate bonds | 39,455,743 | 38,303,806 | 37,213,290 |
| Domestic financial debentures | 30,900,000 | 31,401,763 | 31,302,586 |
| Overseas government bonds | 23,327,287 | 22,401,216 | 16,139,553 |
| Overseas corporate bonds | 54,490,920 | 79,473,881 | 72,668,174 |
| Overseas financial debentures | 431,094,327 | 390,133,184 | 396,093,220 |
| Overseas real estate mortgage bonds | 60,418,840 | 53,786,588 | 47,164,233 |
| Less: Refundable deposits | (4,291,309) | (3,948,947) | (3,952,708) |
| Total | $644,798,636 | $621,002,336 | $606,095,178 |

Please refer to Note XIII for more details on debt instrument investments for which no active market exists under pledge.

6. Held-to-maturity financial assets

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Domestic government bonds | $19,410,489 | $6,135,128 | $2,473,085 |
| Overseas government bonds | 21,687,877 | 17,614,299 | 4,249,688 |
| Overseas corporate bonds | 102,363,994 | 68,852,783 | 57,699,143 |
| Overseas financial debentures | 34,072,412 | 32,761,503 | 25,832,486 |
| Total | $177,534,772 | $125,363,713 | $90,254,402 |

The Company has the intent and ability to hold held-to-maturity financial assets to maturity. Only when the issuers take the initiative to redeem in advance, or when the credit of issuers deteriorate, would the Company dispose the non-material held-to-maturity financial assets before its maturity date. The book value, realized gains or losses, and the percentage of the book value of held-to-maturity financial assets at the beginning of the period book value are as follow:

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Book value | $324,400 | $640,532 | $640,532 |
| Realized gains or losses | 27,756 | (40,912) | (40,912) |
| The percentage of the book value of held-to-maturity financial assets at the beginning of the period | 0.26% | 1.52% | 1.52% |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

7. Loans

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Policy loans | $23,581,967 | $23,210,498 | $23,107,856 |
| Automatic premium loans | 5,478,920 | 5,348,403 | 5,140,295 |
| Secured loans－net | 1,774,730 | 2,217,831 | 2,388,064 |
| Secured loans | 1,814,853 | 2,251,677 | 2,440,444 |
| Less:allowance for bad debts - secured loans | (40,123) | (33,846) | (52,380) |
| Total | $30,835,617 | $30,776,732 | $30,636,215 |

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

| | For the nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Beginning balance | $33,846 | $43,935 |
| Charge (reversal) for the current period | 6,277 | 8,445 |
| Ending balance | $40,123 | $52,380 |

The above impairment is assessed collectively.

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 nine-month period ended 30 September 2017 | | | |
|---|---|---|---|---|
| | Land | Buildings | Prepayments for buildings | Total |
| Beginning balance | $15,364,441 | $5,463,804 | $- | $20,828,245 |
| Gains (losses) generated from fair value adjustments | 172,426 | (251,584) | - | (79,158) |
| Disposals | (7,704) | (6,867) | - | (14,571) |
| Transfers from (to) property and equipment | 57,244 | 52,837 | - | 110,081 |
| Ending balance | $15,586,407 | $5,258,190 | $- | $20,844,597 |

## China Life Insurance Co., Ltd.
## Notes to financial statements (Continued)
### (Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | For the nine-month period ended 30 September 2016 | | | |
|---|---|---|---|---|
| | Land | Buildings | Prepayments for buildings | Total |
| Beginning balance | $15,764,935 | $5,868,698 | $- | $21,633,633 |
| Gains (losses) generated from fair value adjustments | 187,706 | (243,422) | - | (55,716) |
| Disposals | (6,498) | (10,936) | - | (17,434) |
| Transfers from (to) property and equipment | (184,921) | (57,974) | - | (242,895) |
| Ending balance | $15,761,222 | $5,556,366 | $- | $21,317,588 |

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 nine-month period ended 30 September 2017 | | | |
|---|---|---|---|---|
| | Land | Buildings | Prepayments for buildings | Total |
| Costs: | | | | |
| Beginning balance | $3,654,175 | $- | $- | $3,654,175 |
| Ending balance | $3,654,175 | $- | $- | $3,654,175 |
| Accumulated impairment : | | | | |
| Beginning balance | $1,132,066 | $- | $- | $1,132,066 |
| Ending balance | $1,132,066 | $- | $- | $1,132,066 |

| | For the nine-month period ended 30 September 2016 | | | |
|---|---|---|---|---|
| | Land | Buildings | Prepayments 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 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | | | | |
|---|---|---|---|---|
| Net carrying amount : | | | | |
| 2017.9.30 | $18,108,516 | $5,258,190 | $- | $23,366,706 |
| 2016.12.31 | $17,886,550 | $5,463,804 | $- | $23,350,354 |
| 2016.9.30 | $18,256,228 | $5,556,366 | $- | $23,812,594 |

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, and valuation dates are 30 June 2017, 31 December 2016, and 30 June 2016.The appraisers have reviewed the original valuation reports and clarified that the valuation reports are in effect on 30 September 2017 and 30 September 2016. 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:

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| | Mainly | Mainly | Mainly |
| Income capitalization rate | 0.655%~3.92% | 0.99%~4.47% | 0.97%~4.47% |

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$361,217 thousand and NT$375,479 thousand for the nine-month periods ended 30 September 2017 and 2016. Related direct operating expenses were NT$51,739 thousand and NT$53,683 thousand. The direct operating expenses of investment properties generating no rents were NT$4,308 thousand and NT$1,855 thousand.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

As at 30 September 2017, 31 December 2016, and 30 September 2016, no investment properties were pledged as collateral.

9. Reinsurance assets

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Claims recoverable from reinsurers | $342,357 | $171,459 | $181,940 |
| Due from reinsurers and ceding companies | 17,545 | 47,711 | 35,017 |
| Reinsurance reserve assets | | | |
| Ceded unearned premium reserve | 47,719 | 43,020 | 46,006 |
| Ceded reserve for claims | 19,495 | 22,907 | 35,698 |
| Subtotal | 67,214 | 65,927 | 81,704 |
| Total | $427,116 | $285,097 | $298,661 |

The above reinsurance assets are not impaired.

10. Property and equipment

| | For the nine-month period ended 30 September 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Buildings | Computer equipment | Transportation equipment | Other equipment | Leased assets | Prepayments for buildings and construction in progress | Total |
| Cost: | | | | | | | | |
| 1 January 2017 | $6,094,542 | $1,776,212 | $496,510 | $19,581 | $360,895 | $21,174 | $1,052,285 | $9,821,199 |
| Additions | 406,281 | 44,738 | 35,299 | 637 | 39,008 | - | 341,967 | 867,930 |
| Disposals | - | - | (31,495) | (2,610) | (838) | - | - | (34,943) |
| Transfers | - | - | 46,107 | - | - | - | 98,767 | 144,874 |
| 30 September 2017 | $6,500,823 | $1,820,950 | $546,421 | $17,608 | $399,065 | $21,174 | $1,493,019 | $10,799,060 |
| Accumulated Depreciation: | | | | | | | | |
| 1 January 2017 | $- | $433,602 | $258,659 | $13,727 | $261,168 | $21,059 | $- | $988,215 |
| Depreciation | - | 32,021 | 51,102 | 1,346 | 21,209 | 47 | - | 105,725 |
| Disposals | - | - | (31,154) | (2,610) | (824) | - | - | (34,588) |
| 30 September 2017 | $- | $465,623 | $278,607 | $12,463 | $281,553 | $21,106 | $- | $1,059,352 |
| Accumulated impairment: | | | | | | | | |
| 1 January 2017 | $741,097 | $3,661 | $- | $- | $- | $- | $- | $744,758 |
| 30 September 2017 | $741,097 | $3,661 | $- | $- | $- | $- | $- | $744,758 |

## China Life Insurance Co., Ltd.
## Notes to financial statements (Continued)
### (Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | For the nine-month period ended 30 September 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 | - | - | 162,068 | 1,084 | 20,866 | 78 | 321,721 | 505,817 |
| Disposals | - | - | (21,248) | (38) | (651) | - | - | (21,937) |
| Transfers from (to) investment property | 198,919 | 52,965 | - | - | - | - | - | 251,884 |
| Transfers | - | - | 2,557 | 571 | - | - | (39,726) | (36,598) |
| 30 September 2016 | $5,789,754 | $1,742,688 | $496,010 | $19,569 | $343,155 | $21,174 | $919,681 | $9,332,031 |
| Accumulated Depreciation: | | | | | | | | |
| 1 January 2016 | $- | $384,117 | $234,975 | $12,064 | $245,888 | $20,890 | $- | $897,934 |
| Depreciation | - | 30,291 | 41,635 | 1,239 | 11,935 | 153 | - | 85,253 |
| Disposals | - | - | (21,011) | (38) | (651) | - | - | (21,700) |
| Transfers from (to) investment property | - | 805 | - | - | - | - | - | 805 |
| 30 September 2016 | $- | $415,213 | $255,599 | $13,265 | $257,172 | $21,043 | $- | $962,292 |
| Accumulated impairment: | | | | | | | | |
| 1 January 2016 | $741,557 | $5,176 | $- | $- | $- | $- | $- | $746,733 |
| Transfers from (to) investment property | (337) | (1,478) | - | - | - | - | - | (1,815) |
| 30 September 2016 | $741,220 | $3,698 | $- | $- | $- | $- | $- | $744,918 |
| Net book value: | | | | | | | | |
| 2017.9.30 | $5,759,726 | $1,351,666 | $267,814 | $5,145 | $117,512 | $68 | $1,493,019 | $8,994,950 |
| 2016.12.31 | $5,353,445 | $1,338,949 | $237,851 | $5,854 | $99,727 | $115 | $1,052,285 | $8,088,226 |
| 2016.9.30 | $5,048,534 | $1,323,777 | $240,411 | $6,304 | $85,983 | $131 | $919,681 | $7,624,821 |

Property and equipment held by the Company are not pledged.

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

11. Other assets

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Prepayments | | | |
| Prepayment－surface rights | $13,432,878 | $13,584,831 | $13,635,482 |
| Other prepayments | 258,352 | 86,818 | 163,188 |
| Subtotal | 13,691,230 | 13,671,649 | 13,798,670 |
| Refundable deposits | | | |
| Insurance industry deposits | 5,969,436 | 5,470,290 | 5,530,773 |
| Lawsuit deposits | 11,866 | 19,795 | 19,909 |
| Other deposits | 84,881 | 19,271 | 19,240 |
| Collateral of derivative instruments transactions | 1,861,939 | - | - |
| Subtotal | 7,928,122 | 5,509,356 | 5,569,922 |
| Other assets－others | 9,981 | 11,287 | 15,870 |
| Total | $21,629,333 | $19,192,292 | $19,384,462 |

Prepayment－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 | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Notes payable | $35,698 | $63,622 | $73,458 |
| Life insurance proceeds payable | 153,921 | 107,335 | 197,223 |
| Commissions payable | 946,074 | 1,600,070 | 1,042,670 |
| Due to reinsurers and ceding companies | 408,520 | 231,087 | 246,303 |
| Other payables | | | |
| Salary payable | 555,266 | 643,693 | 553,597 |
| Accrued expenses | 1,131,504 | 1,690,956 | 1,696,812 |
| Tax payable | 56,342 | 28,431 | 27,010 |
| Dividends payable | 2,779,008 | - | - |
| Collection payable | 41,326 | 44,008 | 47,345 |
| Payable on investments | 3,231,305 | 281,004 | 1,256,370 |
| Payable on insurance policies | 4,636,682 | 3,792,224 | 3,708,697 |
| Others | 147,061 | 48,739 | 61,216 |
| Subtotal | 12,578,494 | 6,529,055 | 7,351,047 |
| Total | $14,122,707 | $8,531,169 | $8,910,701 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

13. Financial liabilities at fair value through profit or loss

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Held for trading: | | | |
| Derivative financial instruments | | | |
| Swaps and forward foreign exchange contracts | $3,507,793 | $8,361,215 | $438,238 |
| Total | $3,507,793 | $8,361,215 | $438,238 |

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

As at 30 September 2017, 31 December 2016, and 30 September 2016, movement in reserves of insurance contracts and financial instruments with discretionary participation feature is as follows:

(1) Reserve for life insurance liabilities:

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Life insurance | $905,226,530 | $60,618,381 | $965,844,911 |
| Health insurance | 102,067,187 | - | 102,067,187 |
| Annuity insurance | 684,759 | 156,853,177 | 157,537,936 |
| Investment-linked insurance | 1,825,441 | - | 1,825,441 |
| Total | $1,009,803,917 | $217,471,558 | $1,227,275,475 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Life insurance | $802,032,333 | $66,559,466 | $868,591,799 |
| Health insurance | 94,692,295 | - | 94,692,295 |
| Annuity insurance | 721,937 | 157,406,271 | 158,128,208 |
| Investment-linked insurance | 1,832,118 | - | 1,832,118 |
| Total | $899,278,683 | $223,965,737 | $1,123,244,420 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Life insurance | $770,319,515 | $69,122,531 | $839,442,046 |
| Health insurance | 91,853,504 | - | 91,853,504 |
| Annuity insurance | 725,645 | 159,708,171 | 160,433,816 |
| Investment-linked insurance | 1,852,137 | - | 1,852,137 |
| Total | $864,750,801 | $228,830,702 | $1,093,581,503 |

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

Movement in reserve for life insurance liabilities is summarized below:

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $899,278,683 | $223,965,737 | $1,123,244,420 |
| Reserve | 136,847,248 | 17,073,483 | 153,920,731 |
| Recover | (20,403,390) | (22,062,593) | (42,465,983) |
| Losses (gains) on foreign exchange | (5,918,624) | (1,505,069) | (7,423,693) |
| Ending balance | $1,009,803,917 | $217,471,558 | $1,227,275,475 |

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $768,136,597 | $238,080,568 | $1,006,217,165 |
| Reserve | 125,939,761 | 17,678,120 | 143,617,881 |
| Recover | (24,894,777) | (25,632,115) | (50,526,892) |
| Losses (gains) on foreign exchange | (4,430,779) | (1,295,872) | (5,726,651) |
| Ending balance | $864,750,802 | $228,830,701 | $1,093,581,503 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(2) Unearned premium reserve:

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $1,196 | $- | $1,196 |
| Individual injury insurance | 1,004,924 | - | 1,004,924 |
| Individual health insurance | 1,678,406 | - | 1,678,406 |
| Group insurance | 654,961 | - | 654,961 |
| Investment-linked insurance | 56,179 | - | 56,179 |
| Annuity insurance | - | 65 | 65 |
| Total | 3,395,666 | 65 | 3,395,731 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 13,208 | - | 13,208 |
| Individual injury insurance | 1,671 | - | 1,671 |
| Individual health insurance | 26,089 | - | 26,089 |
| Group insurance | 1,768 | - | 1,768 |
| Investment-linked insurance | 4,983 | - | 4,983 |
| Total | 47,719 | - | 47,719 |
| Net amount | $3,347,947 | $65 | $3,348,012 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $1,393 | $- | $1,393 |
| Individual injury insurance | 960,069 | - | 960,069 |
| Individual health insurance | 1,641,421 | - | 1,641,421 |
| Group insurance | 402,643 | - | 402,643 |
| Investment-linked insurance | 52,261 | - | 52,261 |
| Annuity insurance | - | 61 | 61 |
| Total | 3,057,787 | 61 | 3,057,848 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 14,722 | - | 14,722 |
| Individual injury insurance | 1,308 | - | 1,308 |
| Individual health insurance | 25,820 | - | 25,820 |
| Group insurance | (3,703) | - | (3,703) |
| Investment-linked insurance | 4,873 | - | 4,873 |
| Total | 43,020 | - | 43,020 |
| Net amount | $3,014,767 | $61 | $3,014,828 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $1,332 | $- | $1,332 |
| Individual injury insurance | 925,469 | - | 925,469 |
| Individual health insurance | 1,570,349 | - | 1,570,349 |
| Group insurance | 469,638 | - | 469,638 |
| Investment-linked insurance | 52,928 | - | 52,928 |
| Annuity insurance | - | 42 | 42 |
| Total | 3,019,716 | 42 | 3,019,758 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 14,698 | - | 14,698 |
| Individual injury insurance | 1,511 | - | 1,511 |
| Individual health insurance | 23,910 | - | 23,910 |
| Group insurance | 1,574 | - | 1,574 |
| Investment-linked insurance | 4,313 | - | 4,313 |
| Total | 46,006 | - | 46,006 |
| Net amount | $2,973,710 | $42 | $2,973,752 |

Movement in unearned premium reserve is summarized below:

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $3,057,787 | $61 | $3,057,848 |
| Reserve | 2,631,220 | 65 | 2,631,285 |
| Recover | (2,293,340) | (61) | (2,293,401) |
| Losses (gains) on foreign exchange | (1) | - | (1) |
| Ending balance | 3,395,666 | 65 | 3,395,731 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance | 43,020 | - | 43,020 |
| Increase | 39,811 | - | 39,811 |
| Decrease | (35,112) | - | (35,112) |
| Ending balance | 47,719 | - | 47,719 |
| Net amount | $3,347,947 | $65 | $3,348,012 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $3,108,121 | $60 | $3,108,181 |
| Reserve | 2,242,687 | 42 | 2,242,729 |
| Recover | (2,331,091) | (60) | (2,331,151) |
| Losses (gains) on foreign exchange | (1) | - | (1) |
| Ending balance | 3,019,716 | 42 | 3,019,758 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance | 44,928 | - | 44,928 |
| Increase | 34,774 | - | 34,774 |
| Decrease | (33,696) | - | (33,696) |
| Ending balance | 46,006 | - | 46,006 |
| Net amount | $2,973,710 | $42 | $2,973,752 |

(3) Reserve for claims:

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | | | |
| －Reported but not paid claim | $242,310 | $83,891 | $326,201 |
| －Unreported claim | 1,380 | - | 1,380 |
| Individual injury insurance | | | |
| －Reported but not paid claim | 55,695 | - | 55,695 |
| －Unreported claim | 142,561 | - | 142,561 |
| Individual health insurance | | | |
| －Reported but not paid claim | 89,926 | - | 89,926 |
| －Unreported claim | 438,519 | - | 438,519 |
| Group insurance | | | |
| －Reported but not paid claim | 61,973 | - | 61,973 |
| －Unreported claim | 275,118 | - | 275,118 |
| Investment-linked insurance | | | |
| －Reported but not paid claim | 27,208 | - | 27,208 |
| －Unreported claim | - | - | - |
| Annuity insurance | | | |
| －Reported but not paid claim | - | 58,201 | 58,201 |
| －Unreported claim | - | 94 | 94 |
| Total | 1,334,690 | 142,186 | 1,476,876 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Less ceded reserve for claims: | | | |
| Individual life insurance | 4,136 | - | 4,136 |
| Individual injury insurance | 3,607 | - | 3,607 |
| Individual health insurance | 5,996 | - | 5,996 |
| Group insurance | 3,756 | - | 3,756 |
| Investment-linked insurance | 2,000 | - | 2,000 |
| Total | 19,495 | - | 19,495 |
| Net amount | $1,315,195 | $142,186 | $1,457,381 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | | | |
| －Reported but not paid claim | $193,436 | $2,578 | $196,014 |
| －Unreported claim | 1,538 | - | 1,538 |
| Individual injury insurance | | | |
| －Reported but not paid claim | 81,497 | - | 81,497 |
| －Unreported claim | 113,544 | - | 113,544 |
| Individual health insurance | | | |
| －Reported but not paid claim | 121,659 | - | 121,659 |
| －Unreported claim | 398,869 | - | 398,869 |
| Group insurance | | | |
| －Reported but not paid claim | 66,260 | - | 66,260 |
| －Unreported claim | 235,517 | - | 235,517 |
| Investment-linked insurance | | | |
| －Reported but not paid claim | 3,046 | - | 3,046 |
| －Unreported claim | - | - | - |
| Annuity insurance | | | |
| －Reported but not paid claim | - | 26,443 | 26,443 |
| －Unreported claim | - | 79 | 79 |
| Total | 1,215,366 | 29,100 | 1,244,466 |
| Less ceded reserve for claims: | | | |
| Individual life insurance | 3,251 | - | 3,251 |
| Individual injury insurance | 8,107 | - | 8,107 |
| Individual health insurance | 7,749 | - | 7,749 |
| Group insurance | 3,800 | - | 3,800 |
| Total | 22,907 | - | 22,907 |
| Net amount | $1,192,459 | $29,100 | $1,221,559 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | | | |
| －Reported but not paid claim | $186,535 | $7,604 | $194,139 |
| －Unreported claim | - | - | - |
| Individual injury insurance | | | |
| －Reported but not paid claim | 72,311 | - | 72,311 |
| －Unreported claim | 126,133 | - | 126,133 |
| Individual health insurance | | | |
| －Reported but not paid claim | 122,142 | - | 122,142 |
| －Unreported claim | 388,938 | - | 388,938 |
| Group insurance | | | |
| －Reported but not paid claim | 62,035 | - | 62,035 |
| －Unreported claim | 238,432 | - | 238,432 |
| Investment-linked insurance | | | |
| －Reported but not paid claim | 27,459 | - | 27,459 |
| －Unreported claim | - | - | - |
| Annuity insurance | | | |
| －Reported but not paid claim | - | 19,713 | 19,713 |
| －Unreported claim | - | 113 | 113 |
| Total | 1,223,985 | 27,430 | 1,251,415 |
| Less ceded reserve for claims: | | | |
| Individual life insurance | - | - | - |
| Individual injury insurance | 20,881 | - | 20,881 |
| Individual health insurance | 7,507 | - | 7,507 |
| Group insurance | 1,800 | - | 1,800 |
| Investment-linked insurance | 5,510 | - | 5,510 |
| Total | 35,698 | - | 35,698 |
| Net amount | $1,188,287 | $27,430 | $1,215,717 |

Movement in reserve for claims is summarized below:

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $1,215,366 | $29,100 | $1,244,466 |
| Reserve | 1,335,231 | 142,639 | 1,477,870 |
| Recover | (1,215,367) | (29,100) | (1,244,467) |
| Losses (gains) on foreign exchange | (540) | (453) | (993) |
| Ending balance | 1,334,690 | 142,186 | 1,476,876 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Less ceded unearned premium reserve: | | | |
| Beginning balance | 22,907 | - | 22,907 |
| Increase | 19,495 | - | 19,495 |
| Decrease | (22,907) | - | (22,907) |
| Ending balance | 19,495 | - | 19,495 |
| Net amount | $1,315,195 | $142,186 | $1,457,381 |

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $1,231,577 | $54,229 | $1,285,806 |
| Reserve | 1,224,148 | 27,892 | 1,252,040 |
| Recover | (1,231,577) | (54,229) | (1,285,806) |
| Losses (gains) on foreign exchange | (163) | (462) | (625) |
| Ending balance | 1,223,985 | 27,430 | 1,251,415 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance | 51,368 | - | 51,368 |
| Increase | 35,698 | - | 35,698 |
| Decrease | (51,368) | - | (51,368) |
| Ending balance | 35,698 | - | 35,698 |
| Net amount | $1,188,287 | $27,430 | $1,215,717 |

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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(4) Special reserve:

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Participating policies dividend reserve | $6,056,681 | $- | $6,056,681 |
| Dividend risk reserve | - | - | - |
| Total | $6,056,681 | $- | $6,056,681 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Participating policies dividend reserve | $5,559,434 | $- | $5,559,434 |
| Dividend risk reserve | 345,255 | - | 345,255 |
| Total | $5,904,689 | $- | $5,904,689 |

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Participating policies dividend reserve | $5,167,136 | $- | $5,167,136 |
| Dividend risk reserve | 345,255 | - | 345,255 |
| Total | $5,512,391 | $- | $5,512,391 |

Movement in special reserve is summarized below:

| | For the nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| | Insurance contract | Insurance contract |
| Beginning balance | $5,904,689 | $5,596,467 |
| Reserve for participating policy dividend reserve | 2,086,015 | 1,657,689 |
| Recover for participating policies dividends reserve | (1,588,768) | (1,741,765) |
| Reserve for dividend risk reserve | (345,255) | - |
| Ending balance | $6,056,681 | $5,512,391 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(5) Claim reserve for major incidents and fluctuation of risks

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $1,353 | $- | $1,353 |
| Individual injury insurance | 845,090 | - | 845,090 |
| Individual health insurance | 2,148,580 | - | 2,148,580 |
| Group insurance | 2,419,620 | - | 2,419,620 |
| Annuity insurance | - | 419 | 419 |
| Total | $5,414,643 | $419 | $5,415,062 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $1,353 | $- | $1,353 |
| Individual injury insurance | 845,090 | - | 845,090 |
| Individual health insurance | 2,148,580 | - | 2,148,580 |
| Group insurance | 2,419,620 | - | 2,419,620 |
| Annuity insurance | - | 419 | 419 |
| Total | $5,414,643 | $419 | $5,415,062 |

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary 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 |
| Total | $5,074,660 | $538 | $5,075,198 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(6) Premium deficiency reserve:

| | 2017.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $9,903,420 | $- | $9,903,420 |
| Individual health insurance | 119,047 | - | 119,047 |
| Total | $10,022,467 | $- | $10,022,467 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $10,761,421 | $- | $10,761,421 |
| Individual health insurance | 109,788 | - | 109,788 |
| Total | $10,871,209 | $- | $10,871,209 |

| | 2016.9.30 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Individual life insurance | $10,377,531 | $- | $10,377,531 |
| Individual health insurance | 105,873 | - | 105,873 |
| Total | $10,483,404 | $- | $10,483,404 |

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

Movement in premium deficiency reserve is summarized below:

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $10,871,209 | $- | $10,871,209 |
| Reserve | 1,546,264 | - | 1,546,264 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Recover | (2,253,350) | - | (2,253,350) |
| Losses (gains) on foreign exchange | (141,656) | - | (141,656) |
| Ending balance | $10,022,467 | $- | $10,022,467 |

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Beginning balance | $9,505,333 | $- | $9,505,333 |
| Reserve | 2,838,767 | - | 2,838,767 |
| Recover | (1,747,258) | - | (1,747,258) |
| Losses (gains) on foreign exchange | (113,438) | - | (113,438) |
| Ending balance | $10,483,404 | $- | $10,483,404 |

(7) Liability adequacy reserve:

| | Insurance contract and financial instruments with discretionary participation feature | | |
|---|---|---|---|
| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
| Reserve for life insurance liabilities | $1,227,275,475 | $1,123,244,420 | $1,093,581,503 |
| Unearned premium reserve | 3,395,731 | 3,057,848 | 3,019,758 |
| Premium deficiency reserve | 10,022,467 | 10,871,209 | 10,483,404 |
| Special reserve | 6,056,681 | 5,904,689 | 5,512,391 |
| Book value of insurance liabilities | $1,246,750,354 | $1,143,078,166 | $1,112,597,056 |
| Estimated present value of cash flows | $922,400,713 | $873,576,174 | $859,237,161 |
| Balance of liability adequacy reserve | $- | $- | $- |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Liability adequacy testing methodology is listed as follows:

| | 2017.9.30 | 2016.12.31 and 2016.9.30 |
|---|---|---|
| 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 actuarial report (the actuarial report of 2016), and discount rate was evaluated with consideration of current information. | Adopt the best estimated scenario investment return on the most recent actuarial report (the actuarial report of 2015), and discount rate was 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 nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Beginning balance | $6,382,932 | $7,695,824 |
| Reserve | | |
| Compulsory reserve | 615,537 | 717,062 |
| Extra reserve | 564,503 | 1,552,880 |
| Subtotal | 1,180,040 | 2,269,942 |
| Recover | (4,741,860) | (5,369,704) |
| Ending balance | $2,821,112 | $4,596,062 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Effects due to foreign exchange valuation reserve:

| Item | For the nine-month period ended 30 September 2017 Inapplicable amount (1) | Applicable amount (2) | Effects (2) - (1) |
|---|---|---|---|
| Net income | $4,647,582 | $7,603,893 | $2,956,311 |
| Earnings per share (dollar) | 1.23 | 2.01 | 0.78 |
| Foreign exchange valuation reserve | - | 2,821,112 | 2,821,112 |
| Equity | 87,165,471 | 86,248,124 | (917,347) |

| Item | For the nine-month period ended 30 September 2016 Inapplicable amount (1) | Applicable amount (2) | Effects (2) - (1) |
|---|---|---|---|
| Net income | $6,496,623 | $9,069,425 | $2,572,802 |
| Earnings per share (dollar) | 1.72 | 2.40 | 0.68 |
| Foreign exchange valuation reserve | - | 4,596,062 | 4,596,062 |
| Equity | 98,735,894 | 96,345,337 | (2,390,557) |

16. Provisions

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Provisions for employee benefits | $86,215 | $87,388 | $121,745 |
| Litigation liabilities | 1,944 | 10,365 | 12,966 |
| Total | $88,159 | $97,753 | $134,711 |

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 30 September 2017, the Company has 59 unresolved legal suits.

17. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plans for the three-month periods ended 30 September 2017 and 2016 were NT$55,579 thousand and NT$56,920 thousand, respectively, and for the nine-month periods ended 30 September 2017 and 2016 were NT$172,892 thousand and NT$162,720 thousand, respectively.

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Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 30 September 2017 and 2016 were NT$464 thousand and NT$14,265 thousand, respectively, and for the nine-month periods ended 30 September 2017 and 2016 were NT$1,392 thousand and NT$28,145 thousand, respectively.

18. Common stock

(1) As of 30 September 2017, 31 December 2016, and 30 September 2016, the Company's authorized and issued capital were NT$37,863,984 thousand, NT$34,737,600 thousand, and NT$34,737,600 thousand, divided into 3,786,398,400, 3,473,760,000, and 3,473,760,000 common shares at NT$10 par value.

(2) On 31 May 2016, the Company decided to appropriate NT$1,336,133 thousand from 2015 distributable earnings to increase capital in shareholders' meeting, issuing 133,613,300 common shares at NT$10 par value. The capital increase was documented by the authorities on 4 July 2016 and approved to set 27 July 2016 as subscription base date by board of directors.

(3) On 26 May 2017, the Company decided to appropriate NT$3,126,384 thousand from 2016 distributable earnings to increase capital in shareholders' meeting, issuing 312,638,400 common shares at NT$10 par value. The capital increase was documented by the authorities on 6 July 2017 and approved to set 20 September 2017 as subscription base date by board of directors.

19. Capital surplus

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Additional paid-in capital | $2,254,442 | $2,254,442 | $2,254,442 |
| Treasury stock transactions | 34,831 | 34,831 | 34,831 |
| Total | $2,289,273 | $2,289,273 | $2,289,273 |

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.

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 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 2016 and 2015 was NT$437,218 thousand and NT$463,451 thousand, resolved in the stockholders' meeting in 2017 and 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 2016 and 2015 were set aside NT$803,298 thousand and NT$784,991 thousand, respectively, and released NT$463,434 thousand and NT$488,189 thousand, respectively.

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$917,190 thousand based on 10% of after-tax earnings for 2015. The abovementioned amounts were resolved in the shareholders' meeting in 2016. The Company set aside NT$139,256 thousand and NT$946,836 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2016, resolved in the shareholders' meeting in 2017.

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 the 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 17 *Insurance Contracts* in the future implementation. The net loss from changes in fair value for 2015 was NT$42,288 thousand and the reversal from sale was $456 thousand. The abovementioned amounts were resolved in the shareholders' meeting in 2016. The net loss from changes in fair value for 2016 was NT$163,436 thousand and the reversal from sale was $79 thousand. The abovementioned amounts are resolved in the shareholders' meeting in 2017.

In order to cope with the rapid development in finance technology, to assist the transformation of employees in insurance industry and to protect the employees' rights, the Company has acted in accordance with the Order No. Financial- Supervisory-Securites-Corporate-10502066461 issue by the FSC on 13 July 2016 that companies shall set aside special capital reserve between the range from 0.5% to 1% of after-tax earnings while distributing earnings from 2016 to 2018. The Company set aside special capital reserve NT$47,342 based on 0.5% of 2016 after-tax earnings. The abovementioned amounts are resolved in the shareholders' meeting in 2017.

(3) According to 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 for 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 and may distribute preferred stock dividends thereafter, 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 as dividends for common shares. The proposal of surplus earnings distribution shall be submitted by the

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Board of Directors to the shareholders' meeting for approval. In case the unappropriated retained earnings is less than NT $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 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.

(4) 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.

(5) Earnings appropriation for the years of 2016 and 2015 is as follows:

| | Appropriation of earnings | | Dividends per share(NT$) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Legal capital reserve | $1,893,671 | $1,834,380 | $- | $- |
| Special capital reserve | 1,747,001 | 1,634,699 | - | - |
| Common stock-cash dividend | 2,779,008 | 2,004,088 | 0.80 | 0.60 |
| Common stock-stock dividend | 3,126,384 | 1,336,133 | 0.90 | 0.40 |

Earnings appropriation for the year of 2016 and 2015 was resolved by shareholder's meeting on 26 May 2017 and 31 May 2016.

Please refer to Note VI.24.(2) for more details on employees' compensation and remuneration to directors.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

21. Components of other comprehensive income

| | For the three-month period ended 30 September 2017 | | | |
|---|---|---|---|---|
| | Arising during the period | Reclassification adjustments during the period | Income tax benefit (expense) | Other comprehensive income, net of tax |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Gains on revaluation | $110,081 | $- | $(9,133) | $100,948 |
| To be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized valuation gains (losses) from available-for-sale financial assets | (2,836,288) | (1,697,571) | 26,133 | (4,507,726) |
| Total | $(2,726,207) | $(1,697,571) | $17,000 | $(4,406,778) |

| | For the three-month period ended 30 September 2016 | | | |
|---|---|---|---|---|
| | Arising during the period | Reclassification adjustments during the period | Income tax benefit (expense) | Other comprehensive income, net of tax |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Gains on revaluation | $9,999 | $- | $(4,353) | $5,646 |
| To be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized valuation gains (losses) from available-for-sale financial assets | 3,425,699 | (2,987,525) | 100,716 | 538,890 |
| Total | $3,435,698 | $(2,987,525) | $96,363 | $544,536 |

| | For the nine-month period ended 30 September 2017 | | | |
|---|---|---|---|---|
| | Arising during the period | Reclassification adjustments during the period | Income tax benefit (expense) | Other comprehensive income, net of tax |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Gains on revaluation | $110,081 | $- | $(9,133) | $100,948 |
| To be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized valuation gains (losses) from available-for-sale financial assets | 5,556,421 | (5,727,333) | 421,106 | 250,194 |
| Total | $5,666,502 | $(5,727,333) | $411,973 | $351,142 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | For the nine-month period ended 30 September 2016 | | | |
|---|---|---|---|---|
| | Arising during the period | Reclassification adjustments during the period | Income tax benefit (expense) | Other comprehensive income, net of tax |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Gains on revaluation | $9,999 | $- | $(4,353) | $5,646 |
| To be reclassified to profit or loss in subsequent periods: | | | | |
| Unrealized valuation gains (losses) from available-for-sale financial assets | 14,705,284 | (8,117,111) | 102,313 | 6,690,486 |
| Total | $14,715,283 | $(8,117,111) | $97,960 | $6,696,132 |

## 22. Retained earned premium

| | For the three-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct premium income | $47,187,183 | $4,170,791 | $51,357,974 |
| Reinsurance premium income | - | - | - |
| Premium income | 47,187,183 | 4,170,791 | 51,357,974 |
| Less: | | | |
| Premiums ceded to reinsurers | 293,329 | - | 293,329 |
| Changes in unearned premium reserve | (44,594) | (8) | (44,602) |
| Subtotal | 248,735 | (8) | 248,727 |
| Retained earned premium | $46,938,448 | $4,170,799 | $51,109,247 |

| | For the three-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct premium income | $43,489,762 | $4,193,203 | $47,682,965 |
| Reinsurance premium income | - | - | - |
| Premium income | 43,489,762 | 4,193,203 | 47,682,965 |
| Less: | | | |
| Premiums ceded to reinsurers | 287,294 | - | 287,294 |
| Changes in unearned premium reserve | (11,940) | 4 | (11,936) |
| Subtotal | 275,354 | 4 | 275,358 |
| Retained earned premium | $43,214,408 | $4,193,199 | $47,407,607 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct premium income | $132,432,578 | $13,459,002 | $145,891,580 |
| Reinsurance premium income | - | - | - |
| Premium income | 132,432,578 | 13,459,002 | 145,891,580 |
| Less: | | | |
| Premiums ceded to reinsurers | 879,370 | - | 879,370 |
| Changes in unearned premium reserve | 333,181 | 4 | 333,185 |
| Subtotal | 1,212,551 | 4 | 1,212,555 |
| Retained earned premium | $131,220,027 | $13,458,998 | $144,679,025 |

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct premium income | $124,714,812 | $14,067,579 | $138,782,391 |
| Reinsurance premium income | - | - | - |
| Premium income | 124,714,812 | 14,067,579 | 138,782,391 |
| Less: | | | |
| Premiums ceded to reinsurers | 846,722 | - | 846,722 |
| Changes in unearned premium reserve | (89,482) | (18) | (89,500) |
| Subtotal | 757,240 | (18) | 757,222 |
| Retained earned premium | $123,957,572 | $14,067,597 | $138,025,169 |

23. Retained claim payments

| | For the three-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct insurance claim payments | $10,840,883 | $7,023,278 | $17,864,161 |
| Reinsurance claim payments | 114 | - | 114 |
| Insurance claim payments | 10,840,997 | 7,023,278 | 17,864,275 |
| Less: | | | |
| Claims recovered from reinsures | 151,685 | - | 151,685 |
| Retained claim payments | $10,689,312 | $7,023,278 | $17,712,590 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the three-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct insurance claim payments | $9,421,128 | $9,906,698 | $19,327,826 |
| Reinsurance claim payments | 26 | - | 26 |
| Insurance claim payments | 9,421,154 | 9,906,698 | 19,327,852 |
| Less: | | | |
| Claims recovered from reinsures | 139,239 | - | 139,239 |
| Retained claim payments | $9,281,915 | $9,906,698 | $19,188,613 |

| | For the nine-month period ended 30 September 2017 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct insurance claim payments | $30,248,880 | $22,062,214 | $52,311,094 |
| Reinsurance claim payments | 114 | - | 114 |
| Insurance claim payments | 30,248,994 | 22,062,214 | 52,311,208 |
| Less: | | | |
| Claims recovered from reinsures | 493,133 | - | 493,133 |
| Retained claim payments | $29,755,861 | $22,062,214 | $51,818,075 |

| | For the nine-month period ended 30 September 2016 | | |
|---|---|---|---|
| | Insurance contract | Investment contracts with discretionary participation feature | Total |
| Direct insurance claim payments | $33,156,254 | $25,655,962 | $58,812,216 |
| Reinsurance claim payments | 13 | - | 13 |
| Insurance claim payments | 33,156,267 | 25,655,962 | 58,812,229 |
| Less: | | | |
| Claims recovered from reinsures | 423,857 | - | 423,857 |
| Retained claim payments | $32,732,410 | $25,655,962 | $58,388,372 |

24. Employee benefits, depreciation and amortization

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

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the three-month periods ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Operating costs | Operating expenses | Total amount | Operating costs | Operating expenses | Total amount |
| Employee benefits expense | $1,126,742 | $809,533 | $1,936,275 | $1,256,438 | $608,561 | $1,864,999 |
| Salaries | 1,126,742 | 606,078 | 1,732,820 | 1,256,438 | 397,198 | 1,653,636 |
| Labor and health insurance | - | 100,379 | 100,379 | - | 100,139 | 100,139 |
| Pension | - | 56,043 | 56,043 | - | 71,185 | 71,185 |
| Other employee benefits expense | - | 47,033 | 47,033 | - | 40,039 | 40,039 |
| Depreciation | - | 36,833 | 36,833 | - | 30,250 | 30,250 |
| Amortization | - | 18,221 | 18,221 | - | 14,247 | 14,247 |

| | For the nine-month periods ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Operating costs | Operating expenses | Total amount | Operating costs | Operating expenses | Total amount |
| Employee benefits expense | $3,389,699 | $1,987,433 | $5,377,132 | $3,550,585 | $1,922,434 | $5,473,019 |
| Salaries | 3,389,699 | 1,359,485 | 4,749,184 | 3,550,585 | 1,315,743 | 4,866,328 |
| Labor and health insurance | - | 320,411 | 320,411 | - | 300,735 | 300,735 |
| Pension | - | 174,285 | 174,285 | - | 190,865 | 190,865 |
| Other employee benefits expense | - | 133,252 | 133,252 | - | 115,091 | 115,091 |
| Depreciation | - | 105,725 | 105,725 | - | 85,253 | 85,253 |
| Amortization | - | 51,610 | 51,610 | - | 37,861 | 37,861 |

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

The average number of employees for the nine-month periods ended 30 September 2017 and 2016 were 13,514 and 13,083, respectively.

(2) A resolution was passed at the shareholders' meeting of the Company held on 31 May 2016 to amend the Articles of Incorporation of the Company. The information about employees' compensation and remuneration to directors is as follows:

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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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.

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 nine-month period ended 30 September 2017 and 2016, the Company estimated the amounts of the employees' compensation to be NT$39,386 thousand and NT$60,295 thousand, and remuneration to directors both to be NT$0, respectively, recognized as operating expense.

On 23 February 2017, the Board of Directors meeting resolved to distribute $70,000 thousand and $84,000 thousand of employees' compensation and remuneration to directors for the year ended 31 December 2016. No material differences exist between the estimated amount and the actual amount for the year ended 31 December 2016.

No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors for the year ended 31 December 2015.

25. Income taxes

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

Income tax expense recognized in profit or loss

| | For the three-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Current income tax expense (benefit): | | |
| Current income tax payable | $(168,603) | $931,912 |
| Adjustment from prior year income tax expense to current year | (489) | - |
| Deferred income tax expense (benefit): | | |
| Deferred tax expense (benefit) relating to origination and reversal of temporary differences | 104,083 | (2,966,770) |
| Deferred tax expense (benefit) relating to origination and reversal of tax loss and tax credit | - | 1,681,655 |
| Additional income tax under the Alternative Minimum Tax Act | - | 59,376 |
| Others | (8,563) | 617 |
| Total income tax expense (benefit) | $(73,572) | $(293,210) |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | For the nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Current income tax expense (benefit): | | |
| Current income tax payable | $5,108,811 | $1,167,387 |
| Adjustment from prior year income tax expense to current year | (906) | (5,597) |
| Deferred income tax expense (benefit): | | |
| Deferred tax expense (benefit) relating to origination and reversal of temporary differences | (5,526,355) | (4,204,123) |
| Deferred tax expense (benefit) relating to origination and reversal of tax loss and tax credit | - | 3,434,923 |
| Additional income tax under the Alternative Minimum Tax Act | - | 491,049 |
| Others | (60,067) | 45,587 |
| Total income tax expense (benefit) | $(478,517) | $929,226 |

Income tax expense recognized in other comprehensive income

| | For the three-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Deferred tax expense (benefit): | | |
| Unrealized losses (gains) from available-for-sale financial assets | $(26,133) | $(100,716) |
| Unrealized revaluation increments | 9,133 | 4,353 |
| Income tax expense (benefit) relating to components of other comprehensive income | $(17,000) | $(96,363) |

| | For the nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Deferred tax expense (benefit): | | |
| Unrealized losses (gains) from available-for-sale financial assets | $(421,106) | $(102,313) |
| Unrealized revaluation increments | 9,133 | 4,353 |
| Income tax expense (benefit) relating to components of other comprehensive income | $(411,973) | $(97,960) |

(2) Imputation credit information

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Balance of the imputation credit amount | $449,731 | $296,076 | $238,433 |

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 13.44% and 4.38%, 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 30 June 2017, the income tax returns of the Company have been assessed and approved up to the year of 2015.

26. Earnings per share

Basic earnings per share amounts 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 periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company | $5,260,187 | $3,153,288 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 3,786,398 | 3,786,398 |
| Basic earnings per share (in dollars) | $1.39 | $0.83 |

| | For the nine-month periods ended 30 September | |
|---|---|---|
| | 2017 | 2016 |
| Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company | $7,603,893 | $9,069,425 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 3,786,398 | 3,786,398 |
| Basic earnings per share (in dollars) | $2.01 | $2.40 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Weighted average number of ordinary shares have been retroactively adjusted according to proposal for issuance new shares through capitalization of earnings, resolved in the shareholders' meeting in 2016.

27. Separate account insurance products

(1) Separate account insurance products－assets and liabilities

| Item | Assets 2017.9.30 | Assets 2016.12.31 | Assets 2016.9.30 |
|---|---|---|---|
| Cash in bank | $1,093,936 | $302,721 | $499,310 |
| Financial assets at fair value through profit or loss | 59,769,572 | 64,067,015 | 64,902,173 |
| Other receivables | 60,024 | 70,461 | 85,011 |
| Total | $60,923,532 | $64,440,197 | $65,486,494 |

| Item | Liabilities 2017.9.30 | Liabilities 2016.12.31 | Liabilities 2016.930 |
|---|---|---|---|
| Reserve for separate account | $60,511,521 | $64,131,791 | $65,204,823 |
| Other payables | 412,011 | 308,406 | 281,671 |
| Total | $60,923,532 | $64,440,197 | $65,486,494 |

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

| Item | Revenues For the three-month periods ended 30 September 2017 | Revenues For the three-month periods ended 30 September 2016 |
|---|---|---|
| Premium income | $1,435,760 | $1,514,081 |
| Gains (losses) from financial assets and liabilities at fair value through profit or loss | 2,032,257 | 1,614,154 |
| Interest income | 67 | 12 |
| Other revenues | 47,901 | 46,249 |
| Foreign exchange gains (losses) | (52,017) | (465,743) |
| Total | $3,463,968 | $2,708,753 |

| Item | Expenses For the three-month periods ended 30 September 2017 | Expenses For the three-month periods ended 30 September 2016 |
|---|---|---|
| Insurance claim payments | $1,848,805 | $1,398,233 |
| Net change in separate account reserve | 1,110,383 | 838,664 |
| Custodian fee | 504,780 | 471,856 |
| Total | $3,463,968 | $2,708,753 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| Item | Revenues For the nine-month periods ended 30 September 2017 | 2016 |
|---|---|---|
| Premium income | $4,263,088 | $4,403,411 |
| Gains (losses) from financial assets and liabilities at fair value through profit or loss | 5,180,005 | 2,143,000 |
| Interest income | 81 | 65 |
| Other revenues | 143,345 | 138,671 |
| Foreign exchange gains (losses) | (880,386) | (751,761) |
| Total | $8,706,133 | $5,933,386 |

| Item | Expenses For the nine-month periods ended 30 September 2017 | 2016 |
|---|---|---|
| Insurance claim payments | $4,583,760 | $3,837,757 |
| Net change in separate account reserve | 2,696,439 | 685,388 |
| Custodian fee | 1,425,934 | 1,410,241 |
| Total | $8,706,133 | $5,933,386 |

(3) The rebate earned for engaging in investment-linked insurance business from counterparties for the three-month periods and the nine-month periods ended 30 September 2017 and 2016 were NT$75,145 thousand, NT$77,575 thousand, NT$229,134 and NT$227,665, 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. 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 approved by the board of directors. Moreover, the business units should be responsible for the risks identification, report the risk exposure, 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:

According to risk management policies, the Company sets an effective mechanism to proceed 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.

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 department to manage various risks, including market, credit, operation, liquidity, underwriting, claim reserve, 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. 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.

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 30 September 2017, 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.

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(3) Claim development trend

j Direct business loss development trend

| Accident year | Development year(NT$) | | | | | | | | | Reserve for claims |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| 2009 | $2,243,111 | $2,870,648 | $2,924,110 | $2,934,461 | $2,936,046 | $2,939,451 | $2,940,095 | $2,940,209 | $2,940,740 | |
| 2010 | 2,574,879 | 3,071,401 | 3,132,443 | 3,137,874 | 3,143,299 | 3,143,963 | 3,144,299 | 3,144,902 | | |
| 2011 | 2,610,108 | 3,276,928 | 3,328,279 | 3,342,075 | 3,346,106 | 3,350,438 | 3,351,589 | | | |
| 2012 | 2,345,575 | 2,953,776 | 3,029,335 | 3,045,381 | 3,048,828 | 3,051,069 | | | | |
| 2013 | 2,267,213 | 2,964,954 | 3,028,400 | 3,040,442 | 3,045,063 | | | | | |
| 2014 | 3,448,229 | 4,203,186 | 4,284,682 | 4,297,020 | | | | | | |
| 2015 | 3,518,471 | 4,403,823 | 4,462,959 | | | | | | | |
| 2016 | 3,696,639 | 4,575,428 | | | | | | | | |
| 2017 | 3,023,241 | | | | | | | | | $904,087 |

Note: This table does not include long term life insurance

| | |
|---|---|
| Add : Long term insurance claims | 450,931 |
| Claim reserve for discount on no claim | 121,858 |
| Reserve for claims balance | $1,476,876 |

k Retained business loss development trend

| Accident year | Development year(NT$) | | | | | | | | | Reserve for claims |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| 2009 | $2,204,858 | $2,820,114 | $2,862,350 | $2,868,022 | $2,869,572 | $2,872,900 | $2,873,529 | $2,873,640 | $2,874,159 | |
| 2010 | 2,535,358 | 3,010,157 | 3,068,543 | 3,066,830 | 3,072,133 | 3,072,782 | 3,073,109 | 3,073,699 | | |
| 2011 | 2,561,841 | 3,214,455 | 3,260,383 | 3,266,408 | 3,270,348 | 3,274,581 | 3,275,706 | | | |
| 2012 | 2,304,504 | 2,897,464 | 2,967,538 | 2,976,431 | 2,979,800 | 2,981,991 | | | | |
| 2013 | 2,227,515 | 2,908,429 | 2,966,622 | 2,971,604 | 2,976,120 | | | | | |
| 2014 | 3,387,852 | 4,123,055 | 4,197,276 | 4,199,732 | | | | | | |
| 2015 | 3,456,864 | 4,319,866 | 4,371,917 | | | | | | | |
| 2016 | 3,631,913 | 4,488,200 | | | | | | | | |
| 2017 | 2,970,306 | | | | | | | | | $896,713 |

Note: This table does not include long term life insurance

| | |
|---|---|
| Add : Long term insurance claims | 438,810 |
| Claim reserve for discount on no claim | 121,858 |
| Reserve for claims balance | $1,457,381 |

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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(5) Liquidity risk:

As at 30 September 2017, 31 December 2016, and 30 September 2016, the maturity analysis of liquidity risk for insurance contract liabilities are as follow:

| 30 September 2017 | 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 | $(25,921,734) | $1,807,054 | $101,805,669 | $448,802,722 | $2,943,841,268 |
| Reserve for insurance contracts with feature of financial instruments | - | - | - | - | - |

| 31 December 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 | $(6,923,232) | $(2,998,948) | $67,779,329 | $408,694,020 | $2,959,398,573 |
| Reserve for insurance contracts with feature of financial instruments | - | - | - | - | - |

| 30 September 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 | $3,269,623 | $(4,136,448) | $66,267,103 | $392,099,704 | $2,868,767,213 |
| 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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(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

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Financial assets at fair value through profit or loss: | | | |
| Held for trading | $575,499 | $503,339 | $3,953,932 |
| Designated at fair value through profit or loss at initial recognition | 235,654 | 197,112 | 273,259 |
| Subtotal | 811,153 | 700,451 | 4,227,191 |
| Available-for-sale financial assets | 410,292,631 | 380,457,315 | 379,887,828 |
| Held-to-maturity financial assets | 177,534,772 | 125,363,713 | 90,254,402 |
| Loans and receivables : | | | |
| Cash and cash equivalents (Exclude cash on hand and revolving funds) | 29,483,552 | 34,313,305 | 54,921,570 |
| Debt instrument investments for which no active market exists | 644,798,636 | 621,002,336 | 606,095,178 |
| Receivables | 10,914,397 | 12,886,631 | 11,766,400 |
| Loans | 30,835,617 | 30,776,732 | 30,636,215 |
| Refundable deposits | 7,928,122 | 5,509,356 | 5,569,922 |
| Subtotal | 723,960,324 | 704,488,360 | 708,989,285 |
| Total | $1,312,598,880 | $1,211,009,839 | $1,183,358,706 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Financial liabilities

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss : | | | |
| Held for trading | $3,507,793 | $8,361,215 | $438,238 |
| Financial liabilities at amortized cost : | | | |
| Payables | 14,122,707 | 8,531,169 | 8,910,701 |
| Guarantee deposits received | 136,927 | 136,222 | 135,696 |
| Subtotal | 14,259,634 | 8,667,391 | 9,046,397 |
| Total | $17,767,427 | $17,028,606 | $9,484,635 |

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 and payables 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.

**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).

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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, loans, accounts payable and deposits received 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 | | |
|---|---|---|---|
| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
| Financial assets: | | | |
| Held-to-maturity financial assets | $177,534,772 | $125,363,713 | $90,254,402 |
| Debt instrument investments for which no active market exists | 644,798,636 | 621,002,336 | 606,095,178 |
| Refundable deposits－Bonds | 4,291,309 | 3,948,947 | 3,952,708 |

| | Fair value | | |
|---|---|---|---|
| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
| Financial assets: | | | |
| Held-to-maturity financial assets | $181,112,348 | $122,755,906 | $94,035,743 |
| Debt instrument investments for which no active market exists | 652,293,247 | 622,698,966 | 623,898,249 |
| Refundable deposits－Bonds | 4,598,315 | 4,172,847 | 4,322,732 |

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:

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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:

| | 2017.9.30 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Bonds | $235,654 | $- | $- | $235,654 |
| Swaps and forward foreign exchange contracts | 575,499 | - | 575,499 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 145,941,702 | 129,859,804 | 132,596 | 15,949,302 |
| Bonds | 253,429,185 | 63,816,356 | 189,612,829 | - |
| Others | 10,921,744 | 9,757,178 | - | 1,164,566 |
| Investment property | 20,844,597 | - | - | 20,844,597 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Swaps and forward foreign exchange contracts | (3,507,793) | - | (3,507,793) | - |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | 2016.12.31 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Bonds | $197,112 | $- | $- | $197,112 |
| Swaps and forward foreign exchange contracts | 503,339 | - | 503,339 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 109,367,941 | 86,250,370 | 10,500 | 23,107,071 |
| Bonds | 261,047,873 | 51,825,544 | 209,222,329 | - |
| Others | 10,041,501 | 9,000,432 | - | 1,041,069 |
| Investment property | 20,828,245 | - | - | 20,828,245 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Swaps and forward foreign exchange contracts | (8,361,215) | - | (8,361,215) | - |

| | 2016.9.30 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Bonds | $422,018 | $148,759 | $- | $273,259 |
| Swaps and forward foreign exchange contracts | 3,805,173 | - | 3,805,173 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 98,241,520 | 76,929,222 | - | 21,312,298 |
| Bonds | 271,393,129 | 70,330,576 | 201,062,553 | - |
| Others | 10,253,179 | 9,279,269 | - | 973,910 |
| Investment property | 21,317,588 | - | - | 21,317,588 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Swaps and forward foreign exchange contracts | (438,238) | - | (438,238) | - |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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

During the nine-month periods ended 30 September 2017 and 2016, the Company's bonds of available-for-sale financial assets measured on a recurring basis, amounted to $6,664,219 thousand and $17,807,286 thousand, respectively, transferred from Level 2 to Level 1 because the Company can access quoted market prices. Bonds of available-for-sale financial assets amounted to $5,485,890 thousand and $0 thousand, respectively, transferred from Level 1 to Level 2 because the Company can't access quoted market prices.

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:

For the nine-month period ended 30 September 2017:

| | | Total gains and losses recognized | | | | | |
|---|---|---|---|---|---|---|---|
| | Beginning balance | Recognized in profit or loss (Note 1) | Recognized in OCI (Note 2) | Acquisition or issue | Disposal or settlement | Transfer in (out) of Level 3 (Note 3) | Ending balance |
| Assets | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | |
| Convertible bonds | $197,112 | $38,542 | $- | $- | $- | $- | $235,654 |
| Available-for-sale financial assets | | | | | | | |
| Stock | 23,107,071 | - | (7,174,751) | 78,600 | (52,481) | (9,137) | 15,949,302 |
| Others | 1,041,069 | 536 | (95,055) | 231,781 | (13,765) | - | 1,164,566 |
| Investment property | 20,828,245 | (78,074) | 110,081 | - | (15,655) | - | 20,844,597 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

For the nine-month period ended 30 September 2016:

| | Beginning balance | Total gains and losses recognized: Recognized in profit or loss (Note 1) | Total gains and losses recognized: Recognized in OCI (Note 2) | Acquisition or issue | Disposal or settlement | Transfer in (out) of Level 3 (Note 3) | Ending balance |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | |
| Convertible bonds | $335,329 | $(62,070) | $- | $- | $- | $- | $273,259 |
| Available-for-sale financial assets | | | | | | | |
| Stock | 22,332,458 | (73,827) | (951,112) | 65,700 | (8,421) | (52,500) | 21,312,298 |
| Others | 553,316 | (26) | 19,374 | 402,837 | (1,591) | - | 973,910 |
| Investment property | 21,633,633 | (54,240) | 9,999 | - | (18,910) | (252,894) | 21,317,588 |

Note1: presented in "Financial assets and liabilities at fair value through profit or loss / Realized gains (losses) from available-for-sale financial assets / Gains (losses) on investment property" in the comprehensive income statement.

Note2: presented in "Unrealized gains (losses) from available-for-sale financial assets/ Gains (losses) on revaluation" 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.

Total gains (losses) recognized in profit or loss above contains gains (losses) related to assets on hand as of 30 September 2017 and 2016 is as follows:

| | For the nine-month periods ended 30 September: 2017 | 2016 |
|---|---|---|
| Total gains and losses | | |
| Recognize in profit or loss | $(40,616) | $(117,786) |
| Recognized in other comprehensive income | (7,159,725) | (921,739) |

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:

### (Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | 2017.9.30 | | | |
|---|---|---|---|---|
| | 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 | 34.704% | 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 | Market approach | Control premium | 0%~10% | The higher the control premium, the higher the estimated fair value |
| Stock | Discounted cash flow approach | Long-term operating profit, long-term average cost of capital | 6.58% | 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 | | | |

| | 2016.12.31 | | | |
|---|---|---|---|---|
| | 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 | 45.36% | 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 | Market approach | Control premium | 0%~10% | The higher the control premium, the higher 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 | | | |

| | 2016.9.30 | | | |
|---|---|---|---|---|
| | 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 | 21.354% | 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 | Market approach | Control premium | 0%~10% | The higher the control premium, the higher 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 | | | |

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.

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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

| | 2017.9.30 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Held-to-maturity financial assets | | | | |
| Bonds | $111,222,697 | $69,889,651 | $- | $181,112,348 |
| Debt instrument investments for which no active market exists | | | | |
| Bonds | 97,472,413 | 554,820,834 | - | 652,293,247 |
| Refundable deposits | | | | |
| Bonds | - | 4,598,315 | - | 4,598,315 |

| | 2016.12.31 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Held-to-maturity financial assets | | | | |
| Bonds | $56,063,578 | $66,692,328 | $- | $122,755,906 |
| Debt instrument investments for which no active market exists | | | | |
| Bonds | 65,025,057 | 557,673,909 | - | 622,698,966 |
| Refundable deposits | | | | |
| Bonds | - | 4,172,847 | - | 4,172,847 |

| | 2016.9.30 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Held-to-maturity financial assets | | | | |
| Bonds | $59,776,129 | $34,259,614 | $- | $94,035,743 |
| Debt instrument investments for which no active market exists | | | | |
| Bonds | 160,662,903 | 463,235,346 | - | 623,898,249 |
| Refundable deposits | | | | |
| Bonds | - | 4,322,732 | - | 4,332,732 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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:

| | 2017.9.30 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | | | | Relevant amount that has not been offset on balance sheet (d) | | |
| | Gross amount of recognized financial assets (a) | Gross amount of offset financial liabilities recognized on balance sheet (b) | Net financial assets recognized on balance sheet (c)= (a)- (b) | Financial instruments | Cash collateral received | Net amount (e)= (c)- (d) |
| Derivative financial instrument | $575,499 | $- | $575,499 | $496,906 | $ | $78,593 |

| | 2017.9.30 | | | | | |
|---|---|---|---|---|---|---|
| | Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | | | | Relevant amount that has not been offset on balance sheet (d) | | |
| | Gross amount of recognized financial liabilities (a) | Gross amount of offset financial assets recognized on balance sheet (b) | Net financial liabilities recognized on balance sheet (c)= (a)- (b) | Financial instruments | Cash collateral pledged | Net amount (e)= (c)- (d) |
| Derivative financial instrument | $3,507,793 | $- | $3,507,793 | $496,906 | $1,861,939 | $1,148,948 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | 2016.12.31 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | Gross amount of recognized financial assets (a) | Gross amount of offset financial liabilities recognized on balance sheet (b) | Net financial assets recognized on balance sheet (c)= (a)- (b) | Relevant amount that has not been offset on balance sheet (d) | | Net amount (e)= (c)- (d) |
| | | | | Financial instruments | Cash collateral received | |
| Derivative financial instrument | $503,339 | $- | $503,339 | $393,512 | $- | $109,827 |

| | 2016.12.31 | | | | | |
|---|---|---|---|---|---|---|
| | Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | Gross amount of recognized financial liabilities (a) | Gross amount of offset financial 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) | | Net amount (e)= (c)- (d) |
| | | | | Financial instruments | Cash collateral pledged | |
| Derivative financial instrument | $8,361,215 | $- | $8,361,215 | $393,512 | $- | $7,967,703 |

| | 2016.9.30 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | Gross amount of recognized financial assets (a) | Gross amount of offset financial liabilities recognized on balance sheet (b) | Net financial assets recognized on balance sheet (c)= (a)- (b) | Relevant amount that has not been offset on balance sheet (d) | | Net amount (e)= (c)- (d) |
| | | | | Financial instruments | Cash collateral received | |
| Derivative financial instrument | $3,805,173 | $- | $3,805,173 | $421,322 | $- | $3,383,851 |

| | 2016.9.30 | | | | | |
|---|---|---|---|---|---|---|
| | Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement | | | | | |
| | Gross amount of recognized financial liabilities (a) | Gross amount of offset financial 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) | | Net amount (e)= (c)- (d) |
| | | | | Financial instruments | Cash collateral pledged | |
| Derivative financial instrument | $438,238 | $- | $438,238 | $421,322 | $- | $16,916 |

## 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.

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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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: 30 September 2017

| Financial assets | Taiwan | Asia | Europe | America | Global | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $14,845,002 | $14,178,361 | $460,189 | $- | $- | $29,483,552 |
| Financial assets at fair value through profit or loss | 235,654 | - | - | - | - | 235,654 |
| Available-for-sale financial assets | 131,676,439 | 48,204,129 | 23,002,679 | 48,858,513 | 1,687,425 | 253,429,185 |
| Debt instrument investments for which no active market exists | 92,289,447 | 140,938,123 | 162,895,731 | 233,065,051 | 15,610,284 | 644,798,636 |
| Held-to-maturity financial assets | 19,410,488 | 27,375,918 | 30,156,717 | 100,591,649 | - | 177,534,772 |
| Refundable deposits－bonds | 5,981,302 | - | - | - | - | 5,981,302 |
| Total | $264,438,332 | $230,696,531 | $216,515,316 | $382,515,213 | $17,297,709 | $1,111,463,101 |
| Proportion | 23.79% | 20.76% | 19.48% | 34.41% | 1.56% | 100.00% |

Date: 31 December 2016

| Financial assets | Taiwan | Asia | Europe | America | Global | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $29,924,302 | $3,029,968 | $1,359,035 | $- | $- | $34,313,305 |
| Financial assets at fair value through profit or loss | 197,112 | - | - | - | - | 197,112 |
| Available-for-sale financial assets | 130,790,263 | 54,534,989 | 28,671,865 | 45,290,784 | 1,759,972 | 261,047,873 |
| Debt instrument investments for which no active market exists | 91,209,234 | 125,566,375 | 149,141,304 | 238,883,316 | 16,202,107 | 621,002,336 |
| Held-to-maturity financial assets | 6,135,128 | 23,311,796 | 25,571,536 | 70,345,253 | - | 125,363,713 |
| Refundable deposits－bonds | 5,490,085 | - | - | - | - | 5,490,085 |
| Total | $263,746,124 | $206,443,128 | $204,743,740 | $354,519,353 | $17,962,079 | $1,047,414,424 |
| Proportion | 25.18% | 19.71% | 19.55% | 33.85% | 1.71% | 100.00% |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Date: 30 September 2016

| Financial assets | Taiwan | Asia | Europe | America | Global | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | $33,342,070 | $17,420,197 | $4,159,303 | $- | $- | $54,921,570 |
| Financial assets at fair value through profit or loss | 422,018 | - | - | - | - | 422,018 |
| Available-for-sale financial assets | 154,677,410 | 47,124,238 | 23,997,150 | 43,796,515 | 1,797,816 | 271,393,129 |
| Debt instrument investments for which no active market exists | 105,185,320 | 112,858,118 | 148,120,490 | 224,317,208 | 15,614,042 | 606,095,178 |
| Held-to-maturity financial assets | 2,473,086 | 12,042,943 | 21,645,058 | 54,093,315 | - | 90,254,402 |
| Refundable deposits－bonds | 5,550,682 | - | - | - | - | 5,550,682 |
| Total | $301,650,586 | $189,445,496 | $197,922,001 | $322,207,038 | $17,411,858 | $1,028,636,979 |
| Proportion | 29.33% | 18.42% | 19.24% | 31.32% | 1.69% | 100.00% |

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

Date: 30 September 2017

| Location | Northern areas: Taipei and eastern counties | Central area: Taichung to Changhua and Nantou | Southern area: Counties below Tainan | Total |
|---|---|---|---|---|
| Secured loans | $890,480 | $463,959 | $420,291 | $1,774,730 |
| Overdue receivables | - | - | - | - |
| Total | $890,480 | $463,959 | $420,291 | $1,774,730 |
| Proportion | 50.18% | 26.14% | 23.68% | 100.00% |

Date: 31 December 2016

| Location | Northern areas: Taipei and eastern counties | Central area: Taichung to Changhua and Nantou | Southern area: Counties below Tainan | Total |
|---|---|---|---|---|
| Secured loans | $571,339 | $1,121,987 | $524,505 | $2,217,831 |
| Overdue receivables | - | - | - | - |
| Total | $571,339 | $1,121,987 | $524,505 | $2,217,831 |
| Proportion | 25.76% | 50.59% | 23.65% | 100.00% |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Date: 30 September 2016

| Location | Northern areas: Taipei and eastern counties | Central area: Taichung to Changhua and Nantou | Southern area: Counties below Tainan | Total |
|---|---|---|---|---|
| Secured loans | $1,205,353 | $616,941 | $565,770 | $2,388,064 |
| Overdue receivables | - | - | - | - |
| Total | $1,205,353 | $616,941 | $565,770 | $2,388,064 |
| Proportion | 50.47% | 25.84% | 23.69% | 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.

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

Date: 30 September 2017

| | Normal assets | | Past due | | |
|---|---|---|---|---|---|
| Financial assets | Investment grade | Non-investment grade | but not impaired | Impaired | Total |
| Cash and cash equivalents | $29,483,552 | $- | $- | $- | $29,483,552 |
| Financial assets at fair value through profit or loss | 235,654 | - | - | - | 235,654 |
| Available-for-sale financial assets | 253,429,185 | - | - | - | 253,429,185 |
| Debt instrument investments for which no active market exists | 644,798,636 | - | - | - | 644,798,636 |
| Held-to-maturity financial assets | 177,534,772 | - | - | - | 177,534,772 |
| Refundable deposits | 5,981,302 | - | - | - | 5,981,302 |
| Total | $1,111,463,101 | $- | $- | $- | $1,111,463,101 |
| Proportion | 100.00% | - | - | - | 100.00% |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Date: 31 December 2016

| Financial assets | Normal assets: Investment grade | Normal assets: Non-investment grade | Past due but not impaired | Impaired | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $34,313,305 | $- | $- | $- | $34,313,305 |
| Financial assets at fair value through profit or loss | 197,112 | - | - | - | 197,112 |
| Available-for-sale financial assets | 261,047,873 | - | - | - | 261,047,873 |
| Debt instrument investments for which no active market exists | 621,002,336 | - | - | - | 621,002,336 |
| Held-to-maturity financial assets | 125,363,713 | - | - | - | 125,363,713 |
| Refundable deposits | 5,490,085 | - | - | - | 5,490,085 |
| Total | $1,047,414,424 | $- | $- | $- | $1,047,414,424 |
| Proportion | 100.00% | - | - | - | 100.00% |

Date: 30 September 2016

| Financial assets | Normal assets: Investment grade | Normal assets: Non-investment grade | Past due but not impaired | Impaired | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $54,921,570 | $- | $- | $- | $54,921,570 |
| Financial assets at fair value through profit or loss | 422,018 | - | - | - | 422,018 |
| Available-for-sale financial assets | 271,393,129 | - | - | - | 271,393,129 |
| Debt instrument investments for which no active market exists | 606,095,178 | - | - | - | 606,095,178 |
| Held-to-maturity financial assets | 90,254,402 | - | - | - | 90,254,402 |
| Refundable deposits | 5,550,682 | - | - | - | 5,550,682 |
| Total | $1,028,636,979 | $- | $- | $- | $1,028,636,979 |
| 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:

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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 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: 30 September 2017

| | Low risk | Potential risk | | | | | |
|---|---|---|---|---|---|---|---|
| Secured loans and Overdue receivables | Normal users | Worsening solvency | Delayed users | Past due but not impaired | Past due and impaired | Provision for impairment | Total |
| Consumer finance | $1,788,901 | $21,330 | $4,622 | $- | $- | $40,123 | $1,774,730 |
| Corporate finance | - | - | - | - | - | - | - |
| Total | $1,788,901 | $21,330 | $4,622 | $- | $- | $40,123 | $1,774,730 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Date: 31 December 2016

| Secured loans and Overdue receivables | Low risk: Normal users | Potential risk: Worsening solvency | Potential risk: Delayed users | Past due but not impaired | Past due and impaired | Provision for impairment | Total |
|---|---|---|---|---|---|---|---|
| Consumer finance | $2,217,915 | $26,439 | $7,323 | $- | $- | $33,846 | $2,217,831 |
| Corporate finance | - | - | - | - | - | - | - |
| Total | $2,217,915 | $26,439 | $7,323 | $- | $- | $33,846 | $2,217,831 |

Date :30 September 2016

| Secured loans and Overdue receivables | Low risk: Normal users | Potential risk: Worsening solvency | Potential risk: Delayed users | Past due but not impaired | Past due and impaired | Provision for impairment | Total |
|---|---|---|---|---|---|---|---|
| Consumer finance | $2,407,187 | $27,310 | $5,947 | $- | $- | $52,380 | $2,388,064 |
| Corporate finance | - | - | - | - | - | - | - |
| Total | $2,407,187 | $27,310 | $5,947 | $- | $- | $52,380 | $2,388,064 |

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

| | Neither delayed nor impaired | Delayed but not impaired | Past due or impaired | | |
|---|---|---|---|---|---|
| | Within 30 days | 31-90 days | 91-180 days | Over 181 days | Total |
| 2017.9.30 | $1,770,201 | $4,529 | $- | $- | $1,774,730 |
| 2016.12.31 | 2,210,654 | 7,177 | - | - | 2,217,831 |
| 2016.9.30 | 2,382,236 | 5,828 | - | - | 2,388,064 |

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 deal with possible liquidity risk early, the company reports duration of assets and liabilities quarterly, creates cash flow model and reviews cash flow status regularly.

(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.

<u>Non-derivative financial instruments</u>

| | In 1 year | Over 1 year | Total |
|---|---|---|---|
| 2017.9.30 | | | |
| Payables | $14,122,707 | $- | $14,122,707 |
| | | | |
| 2016.12.31 | | | |
| Payables | $8,531,169 | $- | $8,531,169 |
| 2016.9.30 | | | |
| Payables | $8,910,701 | $- | $8,910,701 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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:

| | 2017.9.30 | | | | |
|---|---|---|---|---|---|
| | In 90 days | 91-180 days | 181 days -1 year | Over 1 year | Total |
| Financial liabilities at fair value through profit or loss | $3,376,062 | $48,441 | $83,290 | $- | $3,507,793 |

| | 2016.12.31 | | | | |
|---|---|---|---|---|---|
| | In 90 days | 91-180 days | 181 days -1 year | Over 1 year | Total |
| Financial liabilities at fair value through profit or loss | $8,349,720 | $11,495 | $- | $- | $8,361,215 |

| | 2016.9.30 | | | | |
|---|---|---|---|---|---|
| | In 90 days | 91-180 days | 181 days -1 year | Over 1 year | Total |
| Financial liabilities at fair value through profit or loss | $437,318 | $920 | $- | $- | $438,238 |

3. Market risk analysis

(1) Market risk refers to financial assets and liabilities due to market risk factors volatility, making the change of the value to cause the risk of loss.

The Company has built Value at Risk (VaR) model. All financial assets involve market risks regularly monitor by risk management system and calculate the VaR. Risk control indices are notional amount and VaR. It will issue risk management reports and execute routine control and process when over limit. We also report VaR, the use of risk 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.

(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-traded 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 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 backtesting 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 VaR model. Stress testing measures the potential impact on the value of the investment portfolio when extreme fluctuations of financial variables occur.

The Company performs 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:

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.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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 nine-month period ended 30 September 2017

| Risk Factors | Changes (+/-) | Changes in income | Changes in equity |
|---|---|---|---|
| Equity risk (Stock index) | +1% | - | 1,172,309 |
| Interest rate risk (Yield curve) | +1BP | (39) | (360,273) |
| Exchange risk (Foreign exchange rate) | +1%( USD for each currency appreciates 1%) | 840,492 | 47,200 |

For the year ended 31 December 2016

| Risk Factors | Changes (+/-) | Changes in income | Changes in equity |
|---|---|---|---|
| Equity risk (Stock index) | +1% | - | 748,281 |
| Interest rate risk (Yield curve) | +1BP | (46) | (347,853) |
| Exchange risk (Foreign exchange rate) | +1%( USD for each currency appreciates 1%) | 1,046,320 | 73,536 |

For the nine-month period ended 30 September 2016

| Risk Factors | Changes (+/-) | Changes in income | Changes in equity |
|---|---|---|---|
| Equity risk (Stock index) | +1% | - | 716,777 |
| Interest rate risk (Yield curve) | +1BP | (213) | (357,970) |
| Exchange risk (Foreign exchange rate) | +1%( USD for each currency appreciates 1%) | 1,311,073 | 86,652 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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:

| | 2017.9.30 | | |
|---|---|---|---|
| Item | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Assets | | | |
| Cash and cash equivalents | $29,487,951 | $- | $29,487,951 |
| Receivables | 10,914,397 | - | 10,914,397 |
| Financial assets at fair value through profit or loss | 575,499 | 235,654 | 811,153 |
| Available-for-sale financial assets | 137,964,527 | 272,328,104 | 410,292,631 |
| Debt instrument investments for which no active market exists | 2,849,085 | 641,949,551 | 644,798,636 |
| Held-to-maturity financial assets | - | 177,534,772 | 177,534,772 |
| Investment property | - | 23,366,706 | 23,366,706 |
| Loans | 10,923 | 30,824,694 | 30,835,617 |
| Reinsurance assets | 427,116 | - | 427,116 |
| Property and equipment | - | 8,994,950 | 8,994,950 |
| Intangible assets | - | 145,034 | 145,034 |
| Deferred tax assets | 4,574,217 | 108,029 | 4,682,246 |
| Other assets | 2,322,895 | 19,306,438 | 21,629,333 |
| Separate account product assets | | | 60,923,532 |
| Total assets | $189,126,610 | $1,174,793,932 | $1,424,844,074 |
| | | | |
| Liabilities | | | |
| Payables | $14,122,707 | $- | $14,122,707 |
| Current tax liabilities | 4,688,720 | - | 4,688,720 |
| Financial liabilities at fair value through profit or loss | 3,507,793 | - | 3,507,793 |
| Insurance liabilities | 26,542,312 | 1,221,684,918 | 1,248,227,230 |
| Foreign exchange valuation reserve | - | 2,821,112 | 2,821,112 |
| Provision | - | 88,159 | 88,159 |
| Deferred tax liabilities | - | 1,846,232 | 1,846,232 |
| Other liabilities | 642,319 | 1,728,146 | 2,370,465 |
| Separate account product liabilities | | | 60,923,532 |
| Total liabilities | $49,503,851 | $1,228,168,567 | $1,338,595,950 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| Item | 2016.12.31 Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | $34,318,710 | $- | $34,318,710 |
| Receivables | 12,886,631 | - | 12,886,631 |
| Current tax assets | 1,235,430 | - | 1,235,430 |
| Financial assets at fair value through profit or loss | 503,339 | 197,112 | 700,451 |
| Available-for-sale financial assets | 94,662,818 | 285,794,497 | 380,457,315 |
| Debt instrument investments for which no active market exists | 4,456,166 | 616,546,170 | 621,002,336 |
| Held-to-maturity financial assets | 18,370 | 125,345,343 | 125,363,713 |
| Investment property | - | 23,350,354 | 23,350,354 |
| Loans | 18,545 | 30,758,187 | 30,776,732 |
| Reinsurance assets | 285,097 | - | 285,097 |
| Property and equipment | - | 8,088,226 | 8,088,226 |
| Intangible assets | - | 158,582 | 158,582 |
| Deferred tax assets | 1,348,640 | 106,752 | 1,455,392 |
| Other assets | 289,422 | 18,902,870 | 19,192,292 |
| Separate account product assets | | | 64,440,197 |
| Total assets | $150,023,168 | $1,109,248,093 | $1,323,711,458 |
| | | | |
| Liabilities | | | |
| Payables | $8,531,169 | $- | $8,531,169 |
| Current tax liabilities | 496,255 | - | 496,255 |
| Financial liabilities at fair value through profit or loss | 8,361,215 | - | 8,361,215 |
| Insurance liabilities | 17,336,579 | 1,126,986,053 | 1,144,322,632 |
| Foreign exchange valuation reserve | - | 6,382,932 | 6,382,932 |
| Provision | - | 97,753 | 97,753 |
| Deferred tax liabilities | 2,314,300 | 2,304,885 | 4,619,185 |
| Other liabilities | 2,171,677 | 3,216,346 | 5,388,023 |
| Separate account product liabilities | | | 64,440,197 |
| Total liabilities | $39,211,195 | $1,138,987,969 | $1,242,639,361 |

## China Life Insurance Co., Ltd.
## Notes to financial statements (Continued)
### (Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

| | 2016.9.30 | | |
|---|---|---|---|
| Item | Recovery or settlement within 12 months | Recovery or settlement more than 12 months | Total |
| Assets | | | |
| Cash and cash equivalents | $54,926,985 | $- | $54,926,985 |
| Receivables | 11,766,400 | - | 11,766,400 |
| Current tax assets | 1,235,429 | - | 1,235,429 |
| Financial assets at fair value through profit or loss | 3,805,173 | 422,018 | 4,227,191 |
| Available-for-sale financial assets | 89,573,536 | 290,314,292 | 379,887,828 |
| Debt instrument investments for which no active market exists | 4,440,699 | 601,654,479 | 606,095,178 |
| Held-to-maturity financial assets | 18,595 | 90,235,807 | 90,254,402 |
| Investment property | - | 23,812,594 | 23,812,594 |
| Loans | - | 30,636,215 | 30,636,215 |
| Reinsurance assets | 298,661 | - | 298,661 |
| Property and equipment | - | 7,624,821 | 7,624,821 |
| Intangible assets | - | 145,554 | 145,554 |
| Deferred tax assets | 384,801 | 223,252 | 608,053 |
| Other assets | 365,792 | 19,018,670 | 19,384,462 |
| Separate account product assets | | | 65,486,494 |
| Total assets | $166,816,071 | $1,064,087,702 | $1,296,390,267 |
| | | | |
| Liabilities | | | |
| Payables | $8,910,701 | $- | $8,910,701 |
| Current tax liabilities | 1,125,508 | - | 1,125,508 |
| Financial liabilities at fair value through profit or loss | 438,238 | - | 438,238 |
| Insurance liabilities | 18,541,722 | 1,095,306,749 | 1,113,848,471 |
| Foreign exchange valuation reserve | - | 4,596,062 | 4,596,062 |
| Provision | - | 134,711 | 134,711 |
| Deferred tax liabilities | 572,379 | 3,039,448 | 3,611,827 |
| Other liabilities | 389,828 | 1,503,090 | 1,892,918 |
| Separate account product liabilities | | | 65,486,494 |
| Total liabilities | $29,978,376 | $1,104,580,060 | $1,200,044,930 |

## 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

Information of the related parties that had transactions with the company during the financial reporting period is as follows:

1. Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|---|---|
| China Development Financial Holding Corp. (CDF) | Parent company (Parent company) |
| Videoland Inc. | Juristic-person director of the Company (Other related party) |
| Tai li Investment Co., Ltd. | Juristic-person director of the Company (Other related party) |
| Lan wan Investment Corporation | Juristic-person director of the Company (Other related party) |
| EVER-RICH Co.,Ltd. | Juristic-person director of the Company (Other related party) |
| CDIB Capital Group | Brother company (Other related party) |
| KGI Securities Co., Ltd. | Brother company (Other related party) |
| China Development Asset Management Corp. | Brother company (Other related party) |
| KGI Bank | Brother company (Other related party) |
| CDIB Capital Management Inc. | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB & Partners Investment Holding Corporation | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB Innovation Advisors Corporation Limited | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB Capital Growth Partners L.P. | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB Management Consulting Corporation | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB CME Fund Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| KGI Venture Capital Co., Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB Biomedical Venture Capital Corporation | Equity method investee of subsidiary of parent company (Other related party) |
| KGI Securities Investment Trust Co., Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| KGI Insurance Brokers Co., Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| KGI Futures Co., Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| CDC Finance & Leasing Corp. | Equity method investee of subsidiary of parent company (Other related party) |
| KGI Securities Investment Advisory Co., Ltd. | Equity method investee of subsidiary of parent company (Other related party) |
| CDIB Capital Asia Partners Limited | Equity method investee of subsidiary of parent company (Other related party) |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| Name of the related parties | Nature of relationship of the related parties |
|---|---|
| Bank of Taiwan Co., Ltd. | Juristic-person director of parent company (Other related party) |
| GPPC Chemical Corporation | Juristic-person director of parent company (Other related party) |
| Others | Directors, the key management personnel with their spouse, children, dependent relatives and CDIBH's affiliates or actual related parties (Other related party) |

Note 1: Related parties such as parent company, brother company, equity method investee of subsidiary of parent company, juristic-person directors of parent company become related parties of the Company as the result of the tender offer by CDF.

Note 2: On 11 October 2017, the Company received directors' resignation of Videoland Inc. and Tai li Investment Co., Ltd., and the effective date is 31 October 2017, therefore they are no longer related parties of the Company from 1 November 2017.

2. Significant transactions with the related parties are as follows:

(1) Cash in banks

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Other related parties | $298,303 | $- | $- |

(2) Receivables

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Other receivables: | | | |
| Other related parties | $231 | $- | $- |

(3) Financial assets at fair value through profit or loss-derivative financial instruments

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Other related parties | $40,278 | $- | $- |

(4) Available-for-sale financial assets

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Stocks: | | | |
| Parent company | $5,124,086 | $- | $- |
| Other related parties | 752,113 | 555,253 | 603,230 |
| Beneficiary certificates: | | | |
| Other related parties | 815,656 | - | - |
| Total | $6,691,855 | $555,253 | $603,230 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(5) Secured loans

| | 2017.9.30 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Rate | Interest income |
| Other related parties | $- | $- | - | $- |

| | 2016.12.31 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Rate | Interest income |
| Other related parties | $332 | $309 | 2.33%~2.67% | $8 |

| | 2016.9.30 | | | |
|---|---|---|---|---|
| Name | Maximum amount | Ending balance | Rate | Interest income |
| Other related parties | $332 | $315 | 2.33%~2.67% | $6 |

(6) Policy loans

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Other related parties | $697 | $- | $- |

(7) Payables

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Commissions payable: | | | |
| Other related parties | $14,400 | $2 | $3 |
| Other payables: | | | |
| Parent company | 704,000 | - | - |
| Other related parties | 306,173 | - | - |
| Total | $1,024,573 | $2 | $3 |

(8) Financial liabilities at fair value through profit or loss-derivative financial instruments

| Name | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Other related parties | $84,335 | $- | $- |

(9) Guarantee deposits received

| Name | 2017.9.30 | 2016.12.31 | 2016..9.30 |
|---|---|---|---|
| Other related parties | $3,614 | $- | $- |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(10)Premium income

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Parent company | $68 | $- | $68 | $- |
| Other related parties | 14,546 | 8,972 | 47,466 | 114,763 |
| Total | $14,614 | $8,972 | $47,534 | $114,763 |

(11)Realized gains on available-for-sale financial assets - dividend income

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $25,917 | $11,183 | $25,917 | $11,183 |

(12)Gains on Investment property – rental income

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $977 | $- | $977 | $- |

According to contracts, leasing periods are generally 3 to 5 years, and rentals are usually paid on a monthly basis.

(13)Non-operating income and expenses – other income

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $294 | $- | $294 | $- |

(14)Insurance claim payments

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $- | $- | $120 | $3,891 |

(15)Commission expenses

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $16,304 | $11 | $16,345 | $25 |

(16)Handling fees earned (recognized in net investment profits and losses)

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $2,530 | $- | $2,530 | $- |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

Other handling fees earned (recognized in operating expenses)

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $1,638 | $- | $1,638 | $- |

(17)Finance costs

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Other related parties | $3 | $- | $3 | $- |

The abovementioned transaction terms with related parties do not differ from that with non-related parties.

3.Key management personnel remuneration

| Name | 2017.7.1~ 2017.9.30 | 2016.7.1~ 2016.9.30 | 2017.1.1~ 2017.9.30 | 2016.1.1~ 2016.9.30 |
|---|---|---|---|---|
| Short-term employee benefits | $27,443 | $27,265 | $230,562 | $223,777 |
| Post-employment benefits | 484 | 492 | 1,470 | 1,459 |
| Total | $27,927 | $27,757 | $232,032 | $225,236 |

XIII. Pledged assets

Details of pledged and guaranteed assets are as follows:

| Item | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Government bonds-Insurance deposits (Recognized as refundable deposits) | $5,969,436 | $5,470,290 | $5,530,773 |
| Government bonds-Litigation deposits (Recognized as refundable deposits) | 11,866 | 19,795 | 19,909 |
| Cash in bank-Collateral of derivative instruments transactions (Recognized as refundable deposits) | 1,861,939 | - | - |
| Total | $7,843,241 | $5,490,085 | $5,550,682 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

## 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 30 September 2017, 31 December 2016, and 30 September 2016 are as follows:

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Less than one year | $125,063 | $130,084 | $122,303 |
| More than one year but less than five years | 452,914 | 476,252 | 470,579 |
| More than five years | 5,272,284 | 5,337,914 | 5,359,791 |
| Total | $5,850,261 | $5,944,250 | $5,952,673 |

The minimum lease payments of operating lease for the three-month periods ended 30 September 2017 and 2016 amounted to NT$17,086 thousand and NT$17,319 thousand, respectively, and for the nine-month periods ended 30 September 2017 and 2016 amounted to NT$50,660 thousand and NT$50,688 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 ten years, and most of these lease contracts contain terms about adjusting rents according to market environment annually.

In accordance with the non-cancellable operating lease, the total amount of the minimum lease payment as at 30 September 2017, 31 December 2016, 30 September 2016 are as follows:

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Less than one year | $406,546 | $386,004 | $406,527 |
| More than one year but less than five years | 1,054,616 | 968,627 | 992,026 |
| More than five years | 250,290 | 238,667 | 256,046 |
| Total | $1,711,452 | $1,593,298 | $1,654,599 |

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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 30 September 2017, 31 December 2016, 30 September 2016 are as follows:

| | 2017.9.30 | 2016.12.31 | 2016.9.30 |
|---|---|---|---|
| Less than one year | $52,347 | $53,764 | $55,807 |
| More than one year but less than five years | 97,981 | 136,887 | 150,328 |
| Total | $150,328 | $190,651 | $206,135 |

4. Investment commitment for private equity fund

As of 30 September 2017, the maximum remaining capital commitment for the contracted private equity fund of the Company was US$36,718 thousand.

5. On 16 December 2016, the Company signed the contract with CHUNG-LU Construction Co., Ltd. for the construction of Taipei Academy. On 1 March 2017, the Company signed the first contract amendment protocol, amending the total amount of contract to be $5,623,913 thousands. As of 30 September 2017, the actual accumulated payment of construction is $154,606 thousands after deducting 5% of construction reserve, leaving $5,469,307 thousands unpaid.

XV. Significant disaster damages

None.

XVI. Significant subsequent events

The Company plans to pay NT$1 to acquire the traditional policies and riders spun off from Allianz Taiwan Life. As per the financial figures of Allianz Taiwan Life as of 31 December 2016, the Company can assume statutory reserves of NT$27.6 billion and corresponding assets of NT$49.8 billion. The actual amount of the transaction will be subject to the valuation on the completion date. The transaction is subject to approval from special shareholders’ meeting and approval from regulators.

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

## XVII. Other matters

1. Foreign currency financial assets and liabilities with significant influence as of 30 September 2017, 31 December 2016, 30 September 2016 are as follows:

| | 2017.9.30 | | |
|---|---|---|---|
| | Foreign currency | Exchange rate (dollar) | NTD |
| Financial assets | | | |
| Monetary items | | | |
| USD | $26,752,228 | $30.3050 | $810,726,273 |
| Non-monetary items | | | |
| USD | 289,685 | 30.3050 | 8,778,917 |
| Financial Liabilities | | | |
| Payables | | | |
| USD | 99,390 | 30.3050 | 3,012,014 |

| | 2016.12.31 | | |
|---|---|---|---|
| | Foreign currency | Exchange rate (dollar) | NTD |
| Financial assets | | | |
| Monetary items | | | |
| USD | $23,118,704 | $32.2790 | $746,248,645 |
| CNH | 8,168,650 | 4.6226 | 37,760,403 |
| CNY | 2,119,092 | 4.6448 | 9,842,758 |
| Non-monetary items | | | |
| USD | 206,479 | 32.2790 | 6,664,929 |
| CNH | 906,210 | 4.6226 | 4,189,046 |
| CNY | 6,743,627 | 4.6448 | 31,322,797 |

| | 2016.9.30 | | |
|---|---|---|---|
| | Foreign currency | Exchange rate (dollar) | NTD |
| Financial assets | | | |
| Monetary items | | | |
| USD | $22,409,981 | $31.3660 | $702,911,477 |
| CNH | 8,307,535 | 4.6953 | 39,006,367 |
| CNY | 2,421,979 | 4.7025 | 11,389,357 |
| Non-monetary items | | | |
| USD | 214,442 | 31.3660 | 6,726,203 |
| CNH | 926,316 | 4.6953 | 4,349,332 |
| CNY | 6,040,343 | 4.7025 | 28,404,715 |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

| | 2016.9.30 | | |
|---|---|---|---|
| | Foreign currency | Exchange rate (dollar) | NTD |
| Financial Liabilities | | | |
| Payables | | | |
| USD | 12,281 | 31.3300 | 384,774 |
| CNY | 5,693 | 4.7104 | 26,818 |
| HKD | 9,779 | 4.0513 | 39,619 |

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 30 September 2017, 31 December 2016, and 30 September 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.

30 September 2017

| | Private Equity Fund | Real estate investment trust | Real estate beneficiary certificate | Total |
|---|---|---|---|---|
| Assets held by the Company | | | | |
| Available-for-sale financial assets | $1,164,566 | $1,305,139 | $- | $2,469,705 |
| Debt instrument investments for which no active market exists | - | - | 60,418,840 | 60,418,840 |
| The maximum exposure amount | 1,164,566 | 1,305,139 | 60,418,840 | 62,888,545 |
| Financial or other support provided | None | None | None | |

31 December 2016

| | Private Equity Fund | Real estate investment trust | Real estate beneficiary certificate | Total |
|---|---|---|---|---|
| Assets held by the Company | | | | |
| Available-for-sale financial assets | $1,041,069 | $1,481,987 | $- | $2,523,056 |
| Debt instrument investments for which no active market exists | - | - | 53,786,588 | 53,786,588 |
| The maximum exposure amount | 1,041,069 | 1,481,987 | 53,786,588 | 56,309,644 |
| Financial or other support provided | None | None | None | |

**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

30 September 2016

| | Private Equity Fund | Real estate investment trust | Real estate beneficiary certificate | Total |
|---|---|---|---|---|
| Assets held by the Company | | | | |
| Available-for-sale financial assets | $973,910 | $1,539,332 | $- | $2,513,242 |
| Debt instrument investments for which no active market exists | - | - | 47,164,233 | 47,164,233 |
| The maximum exposure amount | 973,910 | 1,539,332 | 47,164,233 | 49,677,475 |
| 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. And CCB Life Insurance Company Ltd. made an announcement to change into a company limited by shares from a limited company on 20 December 2016.

   The Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to increase capital of US$216,000 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. MOEAIC authorized the Company to revoke the approved case on 29 August 2011 of US$25,086 thousand not implemented on 2 October 2017.

On 29 December 2016, the Board has resolved to participate CCB Life Insurance Co., Ltd.'s capital raising plan in exact proportion to its current shareholding. MOEAIC authorized the Company to increase capital US$185,000 thousand of CCB Life Insurance Company Ltd. on 29 March 2017.