

**China Life Insurance Co., Ltd.**  
**Financial Statements**  
**For The The Years Ended**  
**31 December 2017 and 2016**  
**With Independent Auditors' 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**

	<b>Page</b>
Independent auditors' report	3-6
Balance sheets as at 31 December 2017 and 2016	7-8
Statements of comprehensive income for the years ended 31 December 2017 and 2016	9
Statements of changes in equity for the years ended 31 December 2017 and 2016	10
Statements of cash flows for the years ended 31 December 2017 and 2016	11
Notes to financial statements	12-107

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

To China Life Insurance Co., Ltd.

**Opinion**

We have audited the accompanying balance sheets of China Life Insurance Co., Ltd. (the "Company") as of 31 December 2017 and 2016, and the related statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2017 and 2016, and notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2017 and 2016, and its financial performance and cash flows for the years ended 31 December 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and become effective by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2017 financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value measurement of investments with no active market exists

Some of the Company's financial assets were measured at fair value determined by valuation techniques as no active market exists. The Company adopts internal models to evaluate or refer to quotes of other financial institutions as fair value. The changes in the assumptions used in the valuation will affect the fair value of financial instruments and have a significant influence on the

financial statements of the Company; therefore, we consider it as key audit matter. We performed audit procedures, including but not limited to the following for valuation of financial assets with no active market exists. We performed audit of internal controls to understand procedures of valuation, including decision of valuation methods, model approval and change process, and test for the effectiveness of controls over valuation. We understood and evaluated reasonableness of methods and key assumptions of valuation, performed independent verification, and compared whether the evaluation made by the management is within the reasonable range on a sample basis with the assistance of our valuation specialists. Finally, we assessed the appropriateness of the disclosure related to valuation for those financial assets in Notes IV, V and VIII.

#### Valuation of insurance liabilities

The Company' insurance liabilities represented 94% of the total liabilities as of 31 December 2017. The assessment of insurance liabilities is based on the assumptions established at the time of the contract and calculated in accordance with the relevant laws and regulations. The assessment have a significant influence on the financial statements of the Company; therefore, we consider it as key audit matter. We performed audit procedures including but not limited to the following for valuations of insurance liabilities. We performed audit of internal controls to understand and test procedures of valuation, including decision of valuation methods, model approval and change process, and test for the effectiveness of controls over valuation. We used our actuarial specialists to assist us in sampling and performing our audit procedures. We reviewed the classifications of insurance contracts, assessed whether reserve methods and assumptions complied with the relevant laws and regulations and independently built models to verify the accuracy of the sampled policy reserve amount. Finally, we assessed the appropriateness of the disclosure related to insurance liabilities in Notes IV, V, VI and VII.

#### Liability adequacy test

Liability adequacy test is based on integrated insurance contract and relevant laws and regulations. This test compared 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. The result of test had a significant influence on the financial statements of the Company; therefore, we consider it as key audit matter. We performed audit procedures, including but not limited to the following for liability adequacy test with the assistance of our actuarial specialists. We assessed the completeness of scope tested, the reasonableness of relevant methods and assumptions, and sensitivity analysis for significant assumptions. Finally, we assessed the appropriateness of the disclosure related to liability adequacy in Notes IV, V, VI and VII.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Financial Reporting Standards, International

Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and become effective by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial

statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the accompanying notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



FUH, WEN-FUN

CHANG, CHENG-TAO

Ernst & Young, Taiwan

27 February 2018

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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

**Balance sheets**

**As at 31 December 2017 and 31 December 2016**

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

Assets	Notes	2017/12/31		2016/12/31	
		Amount	%	Amount	%
Cash and cash equivalents	VI.1	\$44,717,613	3	\$34,318,710	3
Receivables	VI.2	12,998,829	1	12,886,631	1
Current tax assets		-	-	1,235,430	0
Financial assets at fair value through profit or loss	VI.3	4,531,910	0	700,451	0
Available-for-sale financial assets	VI.4	424,694,976	29	380,457,315	29
Debt instrument investments for which no active market exists	VI.5	632,451,850	43	621,002,336	47
Held-to-maturity financial assets	VI.6	194,762,878	13	125,363,713	9
Investment property	VI.8	23,149,852	2	23,350,354	2
Loans	VI.7	31,490,373	2	30,776,732	2
Reinsurance assets	VI.9	302,104	0	285,097	0
Property and equipment	VI.10	9,387,145	1	8,088,226	1
Intangible assets		186,275	0	158,582	0
Deferred tax assets	VI.25	5,689,044	1	1,455,392	0
Other assets	VI.11	19,546,345	1	19,192,292	1
Separate account product assets	VI.27	61,824,990	4	64,440,197	5
Total assets		\$1,465,734,184	100	\$1,323,711,458	100

The accompanying notes are an integral part of financial statements.

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

**Balance sheets - (continued)**

**As at 31 December 2017 and 31 December 2016**

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

Liabilities and equity	Notes	2017/12/31		2016/12/31	
		Amount	%	Amount	%
Payables	VI.12	\$8,547,929	1	\$8,531,169	1
Current tax liabilities		4,934,199	0	496,255	0
Financial liabilities at fair value through profit or loss	VI.13	535,854	0	8,361,215	1
Insurance liabilities	VI.14	1,284,198,018	88	1,144,322,632	86
Foreign exchange valuation reserve	VI.15	2,703,763	0	6,382,932	0
Provisions	VI.16	120,084	0	97,753	0
Deferred tax liabilities	VI.25	2,553,444	0	4,619,185	0
Other liabilities		4,978,156	0	5,388,023	0
Separate account product liabilities	VI.27	61,824,990	4	64,440,197	5
<b>Total liabilities</b>		<b>1,370,396,437</b>	<b>93</b>	<b>1,242,639,361</b>	<b>93</b>
Capital stock	VI.18				
Common stock		37,863,984	2	34,737,600	3
Capital surplus	VI.19	2,289,273	0	2,289,273	0
Retained earnings	VI.20				
Legal capital reserve		9,811,298	1	7,917,627	1
Special capital reserve		23,458,101	2	21,473,047	2
Unappropriated retained earnings		10,807,840	1	11,534,406	1
Other equity	VI.21	11,107,251	1	3,120,144	0
<b>Total equity</b>		<b>95,337,747</b>	<b>7</b>	<b>81,072,097</b>	<b>7</b>
<b>Total liabilities and equity</b>		<b>\$1,465,734,184</b>	<b>100</b>	<b>\$1,323,711,458</b>	<b>100</b>

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



English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Statements of comprehensive income

For the years ended 31 December 2017 and 2016

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

Item	Notes	2017		2016		Percentage change(%)
		Amount	%	Amount	%	
Operating revenue						
Direct premium income		\$196,149,682	77	\$182,917,477	77	7
Reinsurance premium income		-	-	-	-	-
Premium income		196,149,682	77	182,917,477	77	7
Deduct: Premiums ceded to reinsurers		(1,185,065)	(1)	(1,122,796)	(0)	6
Net changes in unearned premium reserve	VI.14	(320,185)	(0)	48,424	0	(761)
Retained earned premium	VI.22	194,644,432	76	181,843,105	77	7
Reinsurance commission earned		238,965	0	244,924	0	(2)
Handling fees earned		876,142	0	890,165	0	(2)
Net investment profits and losses						
Interest income		41,757,193	16	37,800,577	16	10
Gains on financial assets and liabilities at fair value through profit or loss		32,539,681	13	7,372,379	3	341
Realized gains on available-for-sale financial assets		14,248,132	6	12,968,825	5	10
Realized gains on debt instrument investments for which no active market exists		4,038,727	2	2,161,224	1	87
Realized gains (losses) on held-to-maturity financial assets		184,365	0	(40,912)	(0)	(551)
Foreign exchange losses		(49,503,030)	(19)	(14,957,502)	(6)	231
Net changes in foreign exchange valuation reserve	VI.15	3,679,169	1	1,312,892	1	180
Gains on investment property		382,898	0	313,398	0	22
Impairment losses and gains on reversal of impairment losses		(1,535)	(0)	20,642	0	(107)
Separate account product revenue	VI.27	12,243,195	5	7,292,543	3	68
Subtotal		255,328,334	100	237,222,260	100	8
Operating costs						
Insurance claim payments		(71,131,658)	(28)	(82,432,466)	(35)	(14)
Deduct: Claims recovered from reinsurers		649,883	0	550,164	0	18
Retained claim payments	VI.23	(70,481,775)	(28)	(81,882,302)	(35)	(14)
Net changes in insurance liabilities	VI.14	(149,663,933)	(58)	(121,325,764)	(51)	23
Brokerage expenses		(9,765)	(0)	(6,957)	(0)	40
Commission expenses		(9,448,777)	(4)	(11,724,025)	(5)	(19)
Finance costs		(11,781)	(0)	(16,703)	(0)	(29)
Other operating costs		(323,667)	(0)	(240,687)	(0)	34
Separate account product expenses	VI.27	(12,243,195)	(5)	(7,292,543)	(3)	68
Subtotal		(242,182,893)	(95)	(222,488,981)	(94)	9
Operating expenses	VI.24					
Business expenses		(2,690,502)	(1)	(2,582,121)	(1)	4
Administrative and general expenses		(1,683,516)	(1)	(1,447,592)	(1)	16
Employee training expenses		(31,242)	(0)	(27,206)	(0)	15
Subtotal		(4,405,260)	(2)	(4,056,919)	(2)	9
Operating income		8,740,181	3	10,676,360	4	(18)
Non-operating income and expenses		(897)	(0)	56,268	0	(102)
Income from continuing operations before income tax		8,739,284	3	10,732,628	4	(19)
Income tax benefit (expense)	VI.25	344,688	0	(1,264,271)	(0)	(127)
Net income from continuing operations		9,083,972	3	9,468,357	4	(4)
Net income		9,083,972	3	9,468,357	4	(4)
Other comprehensive income, net of tax	VI.21					
Items that will not be reclassified subsequently to profit or loss						
Remeasurements of the net defined benefit liability or asset		(31,832)	(0)	39,956	0	(180)
Gains on revaluation		110,081	0	9,999	0	1,001
Income taxes relating to items that are not reclassified		(3,722)	(0)	(11,145)	(0)	(67)
Items that are or may be reclassified subsequently to profit or loss						
Unrealized valuation gains (losses) on available-for-sale financial assets		7,541,388	3	(9,752,930)	(4)	(177)
Income taxes relating to items that are or may be reclassified subsequently to profit or loss		344,771	0	738,080	0	(53)
Other comprehensive income, net of tax		7,960,686	3	(8,976,040)	(4)	(189)
Total comprehensive income		\$17,044,658	6	\$492,317	0	3,362
Earnings per share (In New Taiwan Dollars)	VI.26					
Basic earnings per share		\$2.40		\$2.50		

The accompanying notes are an integral part of financial statements.

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.  
 Statements of changes in equity  
 For the years ended 31 December 2017 and 2016  
 (Expressed in Thousands of New Taiwan Dollars)

Summary	Notes	Retained earnings					Other equity		Total
		Common stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Unrealized valuation gains (losses) on available-for-sale financial assets	Revaluation surplus	
Balance on 1 January 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 year ended 31 December 2016						9,468,357			9,468,357
Other comprehensive income for the year ended 31 December 2016	VI.21					33,164	(9,014,850)	5,646	(8,976,040)
Total comprehensive income for the year ended 31 December 2016		-	-	-	-	9,501,521	(9,014,850)	5,646	492,317
Net changes in special reserve	VI.20				339,864	(339,864)			-
Balance on 31 December 2016		\$34,737,600	\$2,289,273	\$7,917,627	\$21,473,047	\$11,534,406	\$2,939,698	\$180,446	\$81,072,097
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 year ended 31 December 2017						9,083,972			9,083,972
Other comprehensive income for the year ended 31 December 2017	VI.21					(26,421)	7,886,159	100,948	7,960,686
Total comprehensive income for the year ended 31 December 2017		-	-	-	-	9,057,551	7,886,159	100,948	17,044,658
Net changes in special reserve	VI.20				577,916	(577,916)			-
Balance on 31 December 2017		\$37,863,984	\$2,289,273	\$9,811,298	\$23,458,101	\$10,807,840	\$10,825,857	\$281,394	\$95,337,747

Note:

The amounts of the employees' compensation, \$70,000 thousand and directors' remuneration, \$84,000 thousand have been deducted from the statements of comprehensive income for the year of 2016.

The amounts of the employees' compensation, \$70,000 thousand and directors' remuneration, \$84,000 thousand have been deducted from the statements of comprehensive income for the year of 2017.

The accompanying notes are an integral part of financial statements.

## China Life Insurance Co., Ltd.

## Statements of cash flows

For the years ended 31 December 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities		
Net income (loss) before tax	\$8,739,284	\$10,732,628
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	143,230	114,839
Amortization expense	74,596	54,235
Provision (reversal of provision) for bad debt expense	7,987	(10,005)
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	(32,539,681)	(7,372,379)
Net losses (gains) on available-for-sale financial assets	(8,385,706)	(8,966,195)
Net losses (gains) on debt instrument investments for which no active market exists	(4,038,727)	(2,161,224)
Net losses (gains) on held to maturity financial assets	(184,365)	40,912
Interest expenses	11,781	16,703
Interest income	(41,757,193)	(37,800,577)
Dividend income	(5,862,426)	(4,002,630)
Net changes in insurance liabilities	139,878,950	118,640,050
Net changes in foreign exchange valuation reserve	(3,679,169)	(1,312,892)
Net changes in provisions	(8,404)	(3,625)
(Gains) losses on disposal or scrapping of property and equipment	355	(2,918)
(Gains) losses on disposal of investment property	(1,844)	(1,507)
Impairment losses on financial assets	-	6,460
Impairment losses on non-financial assets and (gains) on reversal of impairment losses	1,133	(27,262)
Unrealized foreign exchange losses (gains)	54,470,879	16,937,185
(Gains) losses on valuation of investment property	97,883	186,329
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	20,865,821	11,375,445
Decrease (increase) in notes receivable	41,195	57,659
Decrease (increase) in other receivables	(46,353)	(859,523)
Decrease (increase) in prepaid expenses and other prepayments	559	219,872
Decrease (increase) in refundable deposits	(65,761)	27
Decrease (increase) in reinsurance assets	(20,571)	24,742
Decrease (increase) in other assets	2,361	1,327
Increase (decrease) in notes payable	(22,732)	(26,452)
Increase (decrease) in life insurance proceeds payable	48,308	(88,594)
Increase (decrease) in other payables	262,734	382,353
Increase (decrease) in due to reinsurers and ceding companies	51,891	8,640
Increase (decrease) in commissions payable	(325,015)	192,763
Increase (decrease) in accounts collected in advance	(1,232,052)	1,675,165
Increase (decrease) in guarantee deposits received	2,274,969	(1,147)
Increase (decrease) in other liabilities	(1,452,784)	2,447,416
Increase (decrease) in provision for employee benefits	(1,098)	(136,157)
Cash generated from operations activities	127,350,035	100,341,663
Interest received	29,539,087	34,775,110
Dividends received	5,874,320	4,014,334
Interest paid	(11,781)	(16,703)
Income taxes refunded (paid)	61,294	39,334
Net cash provided by (used in) operating activities	162,812,955	139,153,738
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	(259,699,854)	(177,045,846)
Disposal of available-for-sale financial assets	222,658,814	229,006,687
Return of capital from available-for-sale financial assets	52,481	67,633
Acquisition of debt instrument investments for which no active market exists	(135,644,028)	(258,349,655)
Disposal of debt instrument investment for which no active market exists	82,943,803	115,504,743
Maturity principal from debt instrument investments for which no active market exists	20,049,768	20,303,384
Acquisition of held-to-maturity financial assets	(86,302,670)	(85,009,662)
Disposal of held-to-maturity financial assets	8,158,672	649,371
Acquisition of property and equipment	(1,091,908)	(672,656)
Disposal of property and equipment	-	31,860
Acquisition of intangible assets	(67,715)	(73,348)
Decrease (increase) in loans	(721,744)	166,802
Disposal of investment property	29,337	163,036
Net cash provided by (used in) investing activities	(149,635,044)	(155,257,651)
Cash flows from financing activities		
Cash dividend paid	(2,779,008)	(2,004,088)
Net cash provided by (used in) financing activities	(2,779,008)	(2,004,088)
Increase (decrease) in cash and cash equivalents	10,398,903	(18,108,001)
Cash and cash equivalents at the beginning of the year	34,318,710	52,426,711
Cash and cash equivalents at the end of the year	\$44,717,613	\$34,318,710

The accompanying notes are an integral part of financial statements.

**English Translation of Financial Statements Originally Issued in Chinese**  
**China Life Insurance Co., Ltd.**  
**Notes to financial statements**  
**For the years ended 31 December 2017 and 2016**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

I. Organizations and business scope

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

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

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

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. Date and procedures of authorization of financial statements for issue

The financial statements of the Company were authorized to issue in accordance with a resolution of the Company’s board of directors on 27 February 2018.

III. Newly issued or revised standards and interpretations

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:

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

IAS 36 “Impairment of Assets” (Amendment)

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 for 2017 financial statements are listed below.

Contents of Standards or interpretations	Adoption Date (Note1)
(1) <i>IFRS 15 “Revenue from Contracts with Customers”</i>	1 January 2018
(2) <i>IFRS 9 “Financial Instruments”</i>	1 January 2018
(3) <i>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</i>	Note2
(4) <i>IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses</i>	1 January 2017
(5) <i>Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”</i>	1 January 2017
(6) <i>IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15</i>	1 January 2018
(7) <i>IFRS 2 “Share-Based Payment” — Amendments to IFRS 2</i>	1 January 2018
(8) <i>Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” — Amendments to IFRS 4</i>	1 January 2018
(9) <i>Transfers of Investment Property — Amendment to IAS 40</i>	1 January 2018
(10) <i>Improvements to International Financial Reporting Standards (2014-2016 cycle):</i>	
<i>IFRS 1 “First-time Adoption of International Financial Reporting Standards”</i>	1 January 2018
<i>IFRS 12 “Disclosure of Interests in Other Entities”</i>	1 January 2017
<i>IAS 28 “Investments in Associates and Joint Ventures”</i>	1 January 2018
(11) <i>IFRIC 22 “Foreign Currency Transactions and Advance Consideration”</i>	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.

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

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:

A. Classification and measurement of financial assets

Financial assets at fair value through profit or loss

Financial assets classified as derivative instruments of held for trading of financial assets at fair value through profit or loss and as mixed instruments of designated financial assets at fair value through profit or loss under IAS 39 are to classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

Available-for-sale financial assets

Financial assets classified as available-for-sale financial assets under IAS 39, including funds, equity instrument and bonds investments. The explanation for movement of the classification is as below:

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

**Notes to financial statements (Continued)**

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

a. Funds investments

As the cash flow characteristics for funds are not solely payments of principal and interest on the principal outstanding, funds are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

b. Equity instrument investments

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed)

Based on the facts and circumstances that existed as of 1 January 2018, the Company elected to designate some investments as financial assets measured at fair value through other comprehensive income as these investments are not held for trading. Others are reclassified as financial assets mandatorily measured at fair value through profit or loss. For stocks measured at fair value, the aforementioned reclassification incurs no difference on carrying amount. Nonetheless, stocks with impairment loss recognized under IAS 39 need not to recognize impairment loss in accordance with IFRS 9.

As the Company applies IFRS 9 and simultaneously elects to adopt the overlay approach in IFRS 4 to express the profit and loss for designated financial assets, for stocks reclassified from available-for-sale financial assets to financial assets mandatorily measured at fair value through profit or loss, no other difference incurs except for the reclassification of other equity accounts as at the date of initial application.

c. Bonds investments

Bonds investments, whose cash flow characteristics are solely payments of principal and interest on the principal outstanding and whose business model is to collect contractual cash flows based on facts and circumstances existed as of 1 January 2018 under IFRS 9, are reclassified from available-for-sale financial assets to financial assets measured at amortized cost. The Company adjusts the difference between previously recognized fair value and amortized cost in other equity and carrying amount of reclassified financial assets, and conducts impairment assessment to the aforementioned assets in accordance with IFRS9.

Bonds investments whose cash flow characteristics are not solely payments of principal and interest on the principal outstanding are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As the Company applied IFRS 9 and simultaneously elects to adopt the overlay approach in IFRS 4 to express the profit and loss for designated financial assets, no other difference will incur except for the reclassification of other equity accounts.

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

**Notes to financial statements (Continued)**

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

Held-to-maturity financial assets and debt instrument investments for which no active market exists

Bonds investments classified as held-to-maturity financial assets and loans and receivables (recognized as debt instrument investments for which no active market exists) under IAS 39, whose characteristics are solely payments of principal and interest on the principal outstanding and whose business model is to collect contractual cash flows based on facts and circumstances existed as of 1 January 2018 under IFRS 9, are reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost and conducts impairment assessment in accordance with IFRS9. For those whose business model is to collect contractual cash flows and sell financial assets are reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets at fair value through other comprehensive income and conducts impairment assessment in accordance with IFRS9. The reclassification adjusts to increase other equity and carrying amount of reclassified financial assets.

Bonds investments classified as loans and receivables under IAS 39 (recognized as debt instrument investments for which no active market exists), whose cash flows characteristics are not solely payments of principal and interest on the principal outstanding, are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As the Company applies IFRS 9 and simultaneously elects to adopt the overlay approach in IFRS 4 to express the profit and loss for designated financial assets, the reclassification increases the carrying amount of reclassified financial assets and other equity.

**B. Impairment of financial assets**

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with 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. The aforementioned requirements on impairment assessment is different from the current incurred loss model.

The impairment assessment in accordance with IFRS 9 is based on the facts and circumstances that existed as of 1 January 2018. The Company adjusts to decrease carrying amount and retained earnings for classification of financial assets measured at amortized cost and adjusts to decrease retained earnings and increase other equity for classification of financial asset measured at fair value through profit or loss.

C. The application of classification and measurement of financial assets and impairment assessment in accordance with IFRS 9, the Company adjusts to increase assets by NT\$7,203,111 thousand, increase liability by NT\$1,271,994 thousand, decrease retained earnings by NT\$63,878 thousand and increase other equity by NT\$5,994,995 thousand on balance sheet at the date of initial application (1 January 2018).

**D. Others**

Consequential amendments on the related disclosures in IFRS 7 were also made as a result



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

**Notes to financial statements (Continued)**

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

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.

*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).

When the Company applies IFRS 9 on 1 January 2018, the Company elects to adopt the overlay approach in IFRS 4 simultaneously to express the profit or loss of designated financial assets and increases the related disclosures.

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

Contents of Standards or interpretations	Adoption Date (Note1)
(1) <i>IFRS 16 “Leases”</i>	1 January 2019
(2) <i>IFRIC 23 “Uncertainty Over Income Tax Treatments”</i>	1 January 2019
(3) <i>IFRS 17 “Insurance contracts”</i>	1 January 2021
(4) <i>IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28</i>	1 January 2019
(5) <i>Prepayment Features with Negative Compensation (Amendments to IFRS 9)</i>	1 January 2019
(6) <i>Improvements to International Financial Reporting Standards (2015-2017 cycle):</i>	
<i>IFRS 3 “Business Combinations”</i>	1 January 2019
<i>IFRS 11 “Joint Arrangements”</i>	1 January 2019
<i>IAS 12 “Income Taxes”</i>	1 January 2019
<i>IAS 23 “Borrowing Costs”</i>	1 January 2019
(7) <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i>	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.

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

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 principles 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.

Prepayment Features with Negative Compensation (Amendments to IFRS9)

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.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as

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

**Notes to financial statements (Continued)**

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

amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its current service cost and net interest.

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 years ended 31 December 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed and became effective by FSC.

**2. Basis of preparation**

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

**3. Foreign currency transactions**

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

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

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

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

**Notes to financial statements (Continued)**

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

- (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:

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

**Notes to financial statements (Continued)**

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

- 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

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

**Notes to financial statements (Continued)**

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

or loss. Such assets are subsequently measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

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

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

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

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

**Notes to financial statements (Continued)**

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

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.

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

(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.



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

**Notes to financial statements (Continued)**

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

Other loss events may include:

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

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

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

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

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

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

**Notes to financial statements (Continued)**

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

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.

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

**Notes to financial statements (Continued)**

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

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

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

**Notes to financial statements (Continued)**

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

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*.

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

**Notes to financial statements (Continued)**

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

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

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

**Notes to financial statements (Continued)**

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

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.

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

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

14. Investment-linked insurance products

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

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

15. Post-employment benefits

The Company set up a pension plan and an independently administered pension fund committee according to Labor Standards Act. The Company deposits retirement reserve according to a certain percentage of wages to the specific account of Bank of Taiwan every month. 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.

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

**Notes to financial statements (Continued)**

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

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.

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.



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

**Notes to financial statements (Continued)**

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

(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

**j** For the retained businesses with policy period within 1 year, the special reserve is classified into 2 categories, “Special Catastrophe Reserve” and “Special Reserve for

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

Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

A. Special catastrophe reserve

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. 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 addressed previously, the balance of the annual reserve net of tax needs to 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 shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contract’s fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 17 “*Insurance Contract*” in the future implementation. By the time the related assets dispose, the reserve which comes from the changes of fair value due to

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

**Notes to financial statements (Continued)**

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

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

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

**Notes to financial statements (Continued)**

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

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 capital 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

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

**Notes to financial statements (Continued)**

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

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 liability (asset) 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.

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

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.

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.

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

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

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

(4) Judgment for interests in structured entities

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

2. Estimates and assumptions

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

(1) Fair value of financial instruments

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

(2) Fair value of investment property

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

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

(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. Please refer to Note VI.17 for more details.

(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.



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

**Notes to financial statements (Continued)**

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

(6) Income taxes

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

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

VI. Description of significant accounting items

1. Cash and cash equivalents

Item	2017.12.31	2016.12.31
Cash on hand	\$1,827	\$887
Revolving funds	3,977	4,518
Cash in banks	9,690,106	9,162,432
Time deposits	19,829,084	3,104,900
Cash equivalents — bond with resale agreement	15,192,619	22,045,973
Total	<u>\$44,717,613</u>	<u>\$34,318,710</u>

2. Receivables

Item	2017.12.31	2016.12.31
Notes receivable – net	\$319,065	\$360,260
Other receivables – net		
Interest receivable	10,287,642	10,241,207
Financial instruments settlement receivable	640,200	126,399
Separate accounts receivable	1,260,556	1,764,991
Other receivables	491,366	393,774
Overdue receivables	724	840
Less: Allowance for bad debts - Overdue receivables	(724)	(840)
Subtotal	<u>12,679,764</u>	<u>12,526,371</u>
Total	<u>\$12,998,829</u>	<u>\$12,886,631</u>

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

3. Financial assets at fair value through profit or loss

Item	2017.12.31	2016.12.31
Held for sale:		
Derivative financial assets		
Swaps and forward foreign exchange contracts	\$4,287,344	\$503,339
Designated financial assets at fair value through profit or loss:		
Convertible bonds	244,566	197,112
<b>Total</b>	<b>\$4,531,910</b>	<b>\$700,451</b>

4. Available-for-sale financial assets

Item	2017.12.31	2016.12.31
Domestic listed stocks	\$112,630,446	\$63,278,217
Domestic beneficiary certificates	748,176	913,808
Domestic real estate investment trust	1,356,184	1,481,987
Domestic government bonds	121,129,635	129,039,575
Domestic corporate bonds	10,246,523	2,266,742
Domestic financial debentures	514,391	1,025,084
Domestic preferred stocks	2,600,044	2,603,105
Domestic unlisted stocks	2,959,343	2,541,481
Overseas listed stocks	20,391,024	16,180,002
Overseas beneficiary certificates	6,831,302	7,645,706
Overseas government bonds	9,847,662	11,030,754
Overseas corporate bonds	75,427,178	67,455,060
Overseas financial debentures	47,658,990	51,771,796
Overseas preferred stocks	-	4,189,046
Overseas unlisted stocks	14,049,353	20,576,090
Less: Refundable deposits	(1,695,275)	(1,541,138)
<b>Total</b>	<b>\$424,694,976</b>	<b>\$380,457,315</b>

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

5. Debt instrument investments for which no active market exists

Item	2017.12.31	2016.12.31
Domestic government bonds	\$9,386,501	\$9,450,845
Domestic corporate bonds	40,306,199	38,303,806
Domestic financial debentures	29,900,000	31,401,763
Overseas government bonds	18,878,309	22,401,216
Overseas corporate bonds	55,387,911	79,473,881
Overseas financial debentures	420,621,473	390,133,184
Overseas real estate mortgage bonds	62,258,577	53,786,588
Less: Refundable deposits	(4,287,120)	(3,948,947)
<b>Total</b>	<b>\$632,451,850</b>	<b>\$621,002,336</b>

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

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	2017.12.31	2016.12.31
Domestic government bonds	\$23,460,390	\$6,135,128
Overseas government bonds	27,296,237	17,614,299
Overseas corporate bonds	107,732,750	68,852,783
Overseas financial debentures	36,273,501	32,761,503
Total	<u>\$194,762,878</u>	<u>\$125,363,713</u>

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:

	2017.12.31	2016.12.31
Book value	\$4,337,628	\$640,532
Realized gains or losses	184,365	(40,912)
The percentage of the book value of held-to-maturity financial assets at the beginning of the period	3.46%	1.52%

7. Loans

Item	2017.12.31	2016.12.31
Policy loans	\$24,244,766	\$23,210,498
Automatic premium loans	5,614,425	5,348,403
Secured loans – net	1,631,182	2,217,831
Secured loans	1,673,132	2,251,677
Less: Allowance for bad debts – secured loans	(41,950)	(33,846)
Total	<u>\$31,490,373</u>	<u>\$30,776,732</u>

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

	For the years ended 31 December	
	2017	2016
Beginning balance	\$33,846	\$43,935
Charge (reversal) for the current period	8,104	(10,089)
Ending balance	<u>\$41,950</u>	<u>\$33,846</u>

The above impairment is assessed collectively.

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

**Notes to financial statements (Continued)**

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

**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 year ended 31 December 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	216,896	(314,779)	-	(97,883)
Disposals	(17,321)	(10,172)	-	(27,493)
Transfers from (to) property and equipment	(85,589)	11,998	-	(73,591)
Ending balance	\$15,478,427	\$5,150,851	\$-	\$20,629,278

	For the year ended 31 December 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	121,953	(308,282)	-	(186,329)
Disposals	(6,498)	(10,936)	-	(17,434)
Transfers from (to) property and equipment	(515,949)	(85,676)	-	(601,625)
Ending balance	\$15,364,441	\$5,463,804	\$-	\$20,828,245

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 year ended 31 December 2017			
	Land	Buildings	Prepayment 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
Charge (reversal) for the current period	1,535	-	-	1,535
Ending balance	\$1,133,601	\$-	\$-	\$1,133,601

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

**Notes to financial statements (Continued)**

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

	For the year ended 31 December 2016			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$4,135,804	\$-	\$-	\$4,135,804
Disposals	(481,629)	-	-	(481,629)
Ending balance	<u>\$3,654,175</u>	<u>\$-</u>	<u>\$-</u>	<u>\$3,654,175</u>
Accumulated impairment :				
Beginning balance	\$1,495,895	\$-	\$-	\$1,495,895
Charge (reversal) for the current period	(27,103)	-	-	(27,103)
Disposals	(336,726)	-	-	(336,726)
Ending balance	<u>\$1,132,066</u>	<u>\$-</u>	<u>\$-</u>	<u>\$1,132,066</u>
Net carrying amount :				
2017.12.31	<u>\$17,999,001</u>	<u>\$5,150,851</u>	<u>\$-</u>	<u>\$23,149,852</u>
2016.12.31	<u>\$17,886,550</u>	<u>\$5,463,804</u>	<u>\$-</u>	<u>\$23,350,354</u>

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 31 December 2017 and 31 December 2016. Please refer to the original financial report 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:

	2017.12.31	2016.12.31
	Mainly	Mainly
Income capitalization rate	0.73%~3.92%	0.99%~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.

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

**Notes to financial statements (Continued)**

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

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\$478,938 thousand and NT\$498,220 thousand for the years ended 31 December 2017 and 2016. Related direct operating expenses were NT\$66,023 thousand and NT\$67,293 thousand. The direct operating expenses of investment properties generating no rents were NT\$5,480 thousand and NT\$2,077 thousand.

For the year ended 31 December 2017, the Company recovered gain on reversal of impairment loss NT\$402 thousand and wrote down impairment loss NT\$1,535 thousand respectively of certain property, plant and equipment and investment property measured at cost to the recoverable amount. These have been recognized in the statement of comprehensive income. The recoverable amount is assessed as the fair value deducting disposition cost. Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and categorized in Level 3 of fair value hierarchy. The valuation technique and the key assumption adopted in this case of impairment are comparison approach and land development analysis approach based on Regulations on Real Estate Appraisal. The case has also considered cases in the market as well as future trends to measure appropriate market value and to discount to present value based on urban land readjustment time schedule. The valuation technique and the key assumption adopted in this case of reversal of impairment loss are comparison approach and income approach based on Regulations on Real Estate Appraisal. The case has considered cases in the market as well as future trends to measure appropriate market value.

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

**9. Reinsurance assets**

Item	2017.12.31	2016.12.31
Claims recoverable from reinsurers	\$201,338	\$171,459
Due from reinsurers and ceding companies	38,403	47,711
Reinsurance reserve assets		
Ceded unearned premium reserve	49,879	43,020
Ceded reserve for claims	12,484	22,907
Subtotal	62,363	65,927
Total	\$302,104	\$285,097

The above reinsurance assets are not impaired.

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

**10. Property and equipment**

		For the year ended 31 December 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	44,739	59,970	715	46,438	-	533,765	1,091,908
Disposals		-	-	(33,430)	(2,632)	(1,239)	-	-	(37,301)
Transfers from (to)									
investment property		142,833	43,442	-	-	-	-	-	186,275
Transfers		-	-	50,132	-	-	-	116,392	166,524
31 December 2017		<u>\$6,643,656</u>	<u>\$1,864,393</u>	<u>\$573,182</u>	<u>\$17,664</u>	<u>\$406,094</u>	<u>\$21,174</u>	<u>\$1,702,442</u>	<u>\$11,228,605</u>
Accumulated Depreciation:									
1 January 2017		\$-	\$433,602	\$258,659	\$13,727	\$261,168	\$21,059	\$-	\$988,215
Depreciation		-	42,989	68,549	1,805	29,825	62	-	143,230
Disposals		-	-	(33,089)	(2,631)	(1,226)	-	-	(36,946)
Transfers from (to)									
investment property		-	2,605	-	-	-	-	-	2,605
31 December 2017		<u>\$-</u>	<u>\$479,196</u>	<u>\$294,119</u>	<u>\$12,901</u>	<u>\$289,767</u>	<u>\$21,121</u>	<u>\$-</u>	<u>\$1,097,104</u>
Accumulated impairment:									
1 January 2017		\$741,097	\$3,661	\$-	\$-	\$-	\$-	\$-	\$744,758
Reversal of impairment loss		(314)	(88)	-	-	-	-	-	(402)
31 December 2017		<u>\$740,783</u>	<u>\$3,573</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$744,356</u>
		For the year ended 31 December 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		-	-	170,665	1,096	38,713	78	462,104	672,656
Disposals		(26,240)	(4,124)	(33,089)	(38)	(758)	-	-	(64,249)
Transfers from (to)									
investment property		529,947	90,613	-	-	-	-	-	620,560
Transfers		-	-	6,301	571	-	-	(47,505)	(40,633)
31 December 2016		<u>\$6,094,542</u>	<u>\$1,776,212</u>	<u>\$496,510</u>	<u>\$19,581</u>	<u>\$360,895</u>	<u>\$21,174</u>	<u>\$1,052,285</u>	<u>\$9,821,199</u>
Accumulated Depreciation:									
1 January 2016		\$-	\$384,117	\$234,975	\$12,064	\$245,888	\$20,890	\$-	\$897,934
Depreciation		-	40,398	56,536	1,701	16,035	169	-	114,839
Disposals		-	(1,663)	(32,852)	(38)	(755)	-	-	(35,308)
Transfers from (to)									
investment property		-	10,750	-	-	-	-	-	10,750
31 December 2016		<u>\$-</u>	<u>\$433,602</u>	<u>\$258,659</u>	<u>\$13,727</u>	<u>\$261,168</u>	<u>\$21,059</u>	<u>\$-</u>	<u>\$988,215</u>
Accumulated impairment:									
1 January 2016		\$741,557	\$5,176	\$-	\$-	\$-	\$-	\$-	\$746,733
Transfers from (to)									
investment property		(337)	(1,479)	-	-	-	-	-	(1,816)
Reversal of impairment loss		(123)	(36)	-	-	-	-	-	(159)
31 December 2016		<u>\$741,097</u>	<u>\$3,661</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$744,758</u>
Net book value:									
2017.12.31		<u>\$5,902,873</u>	<u>\$1,381,624</u>	<u>\$279,063</u>	<u>\$4,763</u>	<u>\$116,327</u>	<u>\$53</u>	<u>\$1,702,442</u>	<u>\$9,387,145</u>
2016.12.31		<u>\$5,353,445</u>	<u>\$1,338,949</u>	<u>\$237,851</u>	<u>\$5,854</u>	<u>\$99,727</u>	<u>\$115</u>	<u>\$1,052,285</u>	<u>\$8,088,226</u>

Property and equipment held by the Company are not pledged.

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

11. Other assets

Item	2017.12.31	2016.12.31
Prepayments		
Prepayment— surface rights	\$13,382,227	\$13,584,831
Other prepayments	87,765	86,818
Subtotal	<u>13,469,992</u>	<u>13,671,649</u>
Refundable deposits		
Insurance industry deposits	5,970,541	5,470,290
Lawsuit deposits	11,854	19,795
Other deposits	85,032	19,271
Subtotal	<u>6,067,427</u>	<u>5,509,356</u>
Other assets— others	8,926	11,287
Total	<u>\$19,546,345</u>	<u>\$19,192,292</u>

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	2017.12.31	2016.12.31
Notes payable	\$40,890	\$63,622
Life insurance proceeds payable	155,643	107,335
Commissions payable	1,275,055	1,600,070
Due to reinsurers and ceding companies	282,978	231,087
Other payables		
Salary payable	781,963	643,693
Accrued expenses	1,165,090	1,690,956
Tax payable	56,677	28,431
Collection payable	44,288	44,008
Payable on investments	75,468	281,004
Payable on insurance policies	4,579,736	3,792,224
Others	90,141	48,739
Subtotal	<u>6,793,363</u>	<u>6,529,055</u>
Total	<u>\$8,547,929</u>	<u>\$8,531,169</u>

13. Financial liabilities at fair value through profit or loss

Item	2017.12.31	2016.12.31
Held for trading:		
Derivative financial instruments		
Swaps and forward foreign exchange contracts	\$535,854	\$8,361,215
Total	<u>\$535,854</u>	<u>\$8,361,215</u>



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

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

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

(1) Reserve for life insurance liabilities:

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$940,755,861	\$59,541,345	\$1,000,297,206
Health insurance	104,884,793	-	104,884,793
Annuity insurance	664,066	156,189,075	156,853,141
Investment-linked insurance	1,809,009	-	1,809,009
<b>Total</b>	<b>\$1,048,113,729</b>	<b>\$215,730,420</b>	<b>\$1,263,844,149</b>

  

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	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
<b>Total</b>	<b>\$899,278,683</b>	<b>\$223,965,737</b>	<b>\$1,123,244,420</b>

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

Movement in reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$899,278,683	\$223,965,737	\$1,123,244,420
Reserve	185,972,240	22,737,655	208,709,895
Recover	(29,092,798)	(29,093,316)	(58,186,114)
Losses (gains) on foreign exchange	(8,044,396)	(1,879,656)	(9,924,052)
<b>Ending balance</b>	<b>\$1,048,113,729</b>	<b>\$215,730,420</b>	<b>\$1,263,844,149</b>

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

**Notes to financial statements (Continued)**

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

For the year ended 31 December 2016

	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$768,136,597	\$238,080,568	\$1,006,217,165
Reserve	166,117,092	24,669,164	190,786,256
Recover	(32,993,258)	(38,184,871)	(71,178,129)
Losses (gains) on foreign exchange	(1,981,749)	(599,123)	(2,580,872)
Ending balance	\$899,278,682	\$223,965,738	\$1,123,244,420

(2) Unearned premium reserve:

2017.12.31

	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Individual life insurance	\$1,213	\$-	\$1,213
Individual injury insurance	1,037,088	-	1,037,088
Individual health insurance	1,764,841	-	1,764,841
Group insurance	527,757	-	527,757
Investment-linked insurance	53,934	-	53,934
Annuity insurance	-	57	57
Total	3,384,833	57	3,384,890
Less ceded unearned premium reserve:			
Individual life insurance	14,836	-	14,836
Individual injury insurance	1,006	-	1,006
Individual health insurance	27,308	-	27,308
Group insurance	1,766	-	1,766
Investment-linked insurance	4,963	-	4,963
Total	49,879	-	49,879
Net amount	\$3,334,954	\$57	\$3,335,011

2016.12.31

	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
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

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

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
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

Movement in unearned premium reserve is summarized below:

	For the year ended 31 December 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$3,057,787	\$61	\$3,057,848
Reserve	3,384,834	58	3,384,892
Recover	(3,057,787)	(61)	(3,057,848)
Losses (gains) on foreign exchange	(1)	(1)	(2)
Ending balance	3,384,833	57	3,384,890
Less ceded unearned premium reserve:			
Beginning balance	43,020	-	43,020
Increase	53,582	-	53,582
Decrease	(46,723)	-	(46,723)
Ending balance	49,879	-	49,879
Net amount	\$3,334,954	\$57	\$3,335,011

	For the year ended 31 December 2016		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$3,108,121	\$60	\$3,108,181
Reserve	3,057,787	61	3,057,848
Recover	(3,108,120)	(60)	(3,108,180)
Losses (gains) on foreign exchange	(1)	-	(1)
Ending balance	3,057,787	61	3,057,848
Less ceded unearned premium reserve:			
Beginning balance	44,928	-	44,928
Increase	43,020	-	43,020
Decrease	(44,928)	-	(44,928)
Ending balance	43,020	-	43,020
Net amount	\$3,014,767	\$61	\$3,014,828

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

(3) Reserve for claims:

	2017.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Individual life insurance			
– Reported but not paid claim	\$244,206	\$80,286	\$324,492
– Unreported claim	-	-	-
Individual injury insurance			
– Reported but not paid claim	42,643	-	42,643
– Unreported claim	174,687	-	174,687
Individual health insurance			
– Reported but not paid claim	113,776	-	113,776
– Unreported claim	460,408	-	460,408
Group insurance			
– Reported but not paid claim	72,290	-	72,290
– Unreported claim	301,794	-	301,794
Investment-linked insurance			
– Reported but not paid claim	28,147	-	28,147
– Unreported claim	-	-	-
Annuity insurance			
– Reported but not paid claim	-	26,484	26,484
– Unreported claim	-	56	56
<b>Total</b>	<b>1,437,951</b>	<b>106,826</b>	<b>1,544,777</b>
Less ceded reserve for claims:			
Individual life insurance	2,084	-	2,084
Individual injury insurance	107	-	107
Individual health insurance	9,493	-	9,493
Group insurance	800	-	800
<b>Total</b>	<b>12,484</b>	<b>-</b>	<b>12,484</b>
<b>Net amount</b>	<b>\$1,425,467</b>	<b>\$106,826</b>	<b>\$1,532,293</b>

	2016.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
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

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

	2016.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
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
<b>Total</b>	<b>1,215,366</b>	<b>29,100</b>	<b>1,244,466</b>
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
<b>Total</b>	<b>22,907</b>	<b>-</b>	<b>22,907</b>
<b>Net amount</b>	<b>\$1,192,459</b>	<b>\$29,100</b>	<b>\$1,221,559</b>

Movement in reserve for claims is summarized below:

	For the year ended 31 December 2017		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$1,215,366	\$29,100	\$1,244,466
Reserve	1,438,793	107,550	1,546,343
Recover	(1,215,366)	(29,100)	(1,244,466)
Losses (gains) on foreign exchange	(842)	(724)	(1,566)
Ending balance	1,437,951	106,826	1,544,777
Less ceded unearned premium reserve:			
Beginning balance	22,907	-	22,907
Increase	12,484	-	12,484
Decrease	(22,907)	-	(22,907)
Ending balance	12,484	-	12,484
<b>Net amount</b>	<b>\$1,425,467</b>	<b>\$106,826</b>	<b>\$1,532,293</b>

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

**Notes to financial statements (Continued)**

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

	For the year ended 31 December 2016		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$1,231,577	\$54,229	\$1,285,806
Reserve	1,215,478	29,522	1,245,000
Recover	(1,231,577)	(54,229)	(1,285,806)
Losses (gains) on foreign exchange	(112)	(422)	(534)
Ending balance	1,215,366	29,100	1,244,466
Less ceded unearned premium reserve:			
Beginning balance	51,368	-	51,368
Increase	22,907	-	22,907
Decrease	(51,368)	-	(51,368)
Ending balance	22,907	-	22,907
Net amount	\$1,192,459	\$29,100	\$1,221,559

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.

(4) Special reserve:

	2017.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Participating policies dividend reserve	\$6,259,742	\$-	\$6,259,742
Dividend risk reserve	-	-	-
Total	\$6,259,742	\$-	\$6,259,742

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

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

Movement in special reserve is summarized below:

	For the years ended 31 December	
	2017	2016
	Insurance contract	Insurance contract
Beginning balance	\$5,904,689	\$5,596,467
Reserve for participating policies dividend reserve	2,289,076	2,090,337
Recover for participating policies dividend reserve	(1,588,768)	(1,782,115)
Reserve for dividend risk reserve	(345,255)	-
<b>Ending balance</b>	<b>\$6,259,742</b>	<b>\$5,904,689</b>

(5) Special reserve for catastrophe and fluctuation of risks

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,893	\$-	\$1,893
Individual injury insurance	846,176	-	846,176
Individual health insurance	2,286,647	-	2,286,647
Group insurance	2,857,669	-	2,857,669
Annuity insurance	-	593	593
<b>Total</b>	<b>\$5,992,385</b>	<b>\$593</b>	<b>\$5,992,978</b>

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	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
<b>Total</b>	<b>\$5,414,643</b>	<b>\$419</b>	<b>\$5,415,062</b>

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

(6) Premium deficiency reserve:

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$9,042,441	\$-	\$9,042,441
Individual health insurance	122,019	-	122,019
<b>Total</b>	<b>\$9,164,460</b>	<b>\$-</b>	<b>\$9,164,460</b>

  

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

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

Movement in premium deficiency reserve is summarized below:

	For the year ended 31 December 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$10,871,209	\$-	\$10,871,209
Reserve	880,972	-	880,972
Recover	(2,408,173)	-	(2,408,173)
Losses (gains) on foreign exchange	(179,548)	-	(179,548)
<b>Ending balance</b>	<b>\$9,164,460</b>	<b>\$-</b>	<b>\$9,164,460</b>

  

	For the year ended 31 December 2016		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$9,505,333	\$	\$9,505,333
Reserve	3,739,464	-	3,739,464
Recover	(2,317,704)	-	(2,317,704)
Losses (gains) on foreign exchange	(55,884)	-	(55,884)
<b>Ending balance</b>	<b>\$10,871,209</b>	<b>\$-</b>	<b>\$10,871,209</b>



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

(7) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature	
	2017.12.31	2016.12.31
Reserve for life insurance liabilities	\$1,263,844,149	\$1,123,244,420
Unearned premium reserve	3,384,890	3,057,848
Premium deficiency reserve	9,164,460	10,871,209
Special reserve	6,259,742	5,904,689
Book value of insurance liabilities	<u>\$1,282,653,241</u>	<u>\$1,143,078,166</u>
Estimated present value of cash flows	<u>\$974,892,299</u>	<u>\$873,576,174</u>
Balance of liability adequacy reserve	<u>\$-</u>	<u>\$-</u>

Liability adequacy testing methodology is listed as follows:

	2017.12.31	2016.12.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2016), and discount rates were evaluated with consideration of current information.	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2015), and discount rates were 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 years ended 31 December	
	2017	2016
Beginning balance	\$6,382,932	\$7,695,824
Reserve		
Compulsory reserve	816,178	942,252
Extra reserve	629,273	3,114,560
Subtotal	<u>1,445,451</u>	<u>4,056,812</u>
Recover	<u>(5,124,620)</u>	<u>(5,369,704)</u>
Ending balance	<u>\$2,703,763</u>	<u>\$6,382,932</u>

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

(3) Effects due to foreign exchange valuation reserve:

Item	For the year ended 31 December 2017		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$6,030,262	\$9,083,972	\$3,053,710
Earnings per share (dollar)	1.59	2.40	0.81
Foreign exchange valuation reserve	-	2,703,763	2,703,763
Equity	96,157,695	95,337,747	(819,948)

  

Item	For the year ended 31 December 2016		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$8,378,656	\$9,468,357	\$1,089,701
Earnings per share (dollar)	2.21	2.50	0.29
Foreign exchange valuation reserve	-	6,382,932	6,382,932
Equity	84,945,755	81,072,097	(3,873,658)

16. Provisions

Item	2017.12.31	2016.12.31
Provisions for employee benefits	\$118,123	\$87,388
Litigation liabilities	1,961	10,365
Total	\$120,084	\$97,753

The Company has an official policy to control and manage litigations. When a professional advice has been made and the loss can be reasonably estimated, the Company will make adjustments to recognize losses and any negative effects arising out of any financial claims. As at 31 December 2017, the Company has 64 unresolved legal suits.

17. Post-employment benefits

The Company's post-employment benefits are classified into defined contribution plan and defined benefit plan based on start date of employment and personal choice. Employees who start employment after 1 July 2005 apply to defined contribution plan; employees who start employment before 1 July 2005 can choose to apply to defined benefit plan or defined contribution plan. Employees who originally apply to defined benefit plan can change to defined contribution plan before 30 June 2010. Those who have chosen or mandatorily applied to defined contribution plan shall not change to defined benefit plan.

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act

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

**Notes to financial statements (Continued)**

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

of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plans for the years ended 31 December 2017 and 2016 were NT\$229,405 thousand and NT\$231,193 thousand, respectively.

Defined benefit plans

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15<sup>th</sup> year. The total units shall not exceed upper limit. Under the Labor Standards Act, the Company contributes an amount equivalent to certain percentage of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. 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 same year, the Company will make up the difference in one appropriation before the end of March of the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT5,244 thousand to its defined benefit plan during the 12 months beginning after 31 December 2017.

The weighted average duration of the defined benefit obligation as at 31 December 2017 and 2016, are 14 years and 15 years.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

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

**Notes to financial statements (Continued)**

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

	For the years ended 31 December	
	2017	2016
Current service cost	\$644	\$26,097
Net interest on the net defined benefit liability (asset)	1,213	2,535
<b>Total</b>	<b>\$1,857</b>	<b>\$28,632</b>

Changes in the present value of the defined benefit obligation and the fair value of plan assets are as follows:

	2017.12.31	2016.12.31	2016.1.1
The present value of the defined benefit obligation	\$323,044	\$303,737	\$328,491
The fair value of plan assets	(219,461)	(216,349)	(64,990)
<b>Net defined benefit liability (asset)</b>	<b>\$103,583</b>	<b>\$87,388</b>	<b>\$263,501</b>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
2017.1.1	\$303,737	\$(216,349)	\$87,388
Current service cost	644	-	644
Net interest on the net defined benefit liability (asset)	5,194	(3,981)	1,213
<b>Subtotal</b>	<b>5,838</b>	<b>(3,981)</b>	<b>1,857</b>
<b>Remeasurements of the net defined benefit liability (asset) :</b>			
Actuarial gains and losses arising from changes in demographic assumptions	8,076	-	8,076
Actuarial gains and losses arising from changes in financial assumptions	9,290	-	9,290
Experience adjustments	11,811	-	11,811
<b>Remeasurements of the net defined benefit asset</b>	<b>-</b>	<b>2,655</b>	<b>2,655</b>
<b>Subtotal</b>	<b>29,177</b>	<b>2,655</b>	<b>31,832</b>
Payments from the plan	(15,708)	15,708	-
Contributions by employer	-	(17,494)	(17,494)
<b>2017.12.31</b>	<b>\$323,044</b>	<b>\$(219,461)</b>	<b>\$103,583</b>

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

**Notes to financial statements (Continued)**

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

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
2016.1.1	\$328,491	\$(64,990)	\$263,501
Current service cost	26,097	-	26,097
Net interest on the net defined benefit liability (asset)	4,504	(1,969)	2,535
Subtotal	30,601	(1,969)	28,632
Remeasurements of the net defined benefit liability (asset) :			
Actuarial gains and losses arising from changes in demographic assumptions	3,943	-	3,943
Actuarial gains and losses arising from changes in financial assumptions	(29,219)	-	(29,219)
Experience adjustments	(16,572)	-	(16,572)
Remeasurements of the net defined benefit asset	-	1,892	1,892
Subtotal	(41,848)	1,892	(39,956)
Payments from the plan	(13,507)	10,924	(2,583)
Contributions by employer	-	(162,206)	(162,206)
2016.12.31	\$303,737	\$(216,349)	\$87,388

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2017.12.31	2016.12.31
Discount rate	1.31%	1.71%
Expected growth rate of salary - office staff	1.79%	1.94%
Expected growth rate of salary - field staff	0.00%	1.94%

A sensitivity analysis for significant assumptions as at 31 December 2017 and 2016 is, as shown below:

	Effect on the present value of the defined benefit obligation			
	2017		2016	
	Increase present value of the defined benefit obligation	Decrease present value of the defined benefit obligation	Increase present value of the defined benefit obligation	Decrease present value of the defined benefit obligation
Discount rate increase by 0.5%	\$-	\$21,655	\$-	\$21,370
Discount rate decrease by 0.5%	23,505	-	23,273	-
Expected growth rate of salary increase by 1%	44,701	-	44,590	-
Expected growth rate of salary decrease by 1%	-	39,063	-	38,696

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

**Notes to financial statements (Continued)**

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

The sensitivity analyses above are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

18. Common stock

- (1) As of 31 December 2017 and 31 December 2016, the Company's authorized and issued capital were NT\$37,863,984 thousand and NT\$34,737,600 thousand, divided into 3,786,398,400 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	2017.12.31	2016.12.31
Additional paid-in capital	\$2,254,442	\$2,254,442
Treasury stock transactions	34,831	34,831
Total	\$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.

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

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 fluctuation of risks 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 catastrophe 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 2017 and 2016 were set aside NT\$ 943,709 thousand and NT\$803,298 thousand, respectively, and released NT\$365,793 thousand and NT\$463,434 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

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

**Notes to financial statements (Continued)**

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

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 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



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

**Notes to financial statements (Continued)**

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

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.

**21. Components of other comprehensive income**

	For the year ended 31 December 2017			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements on defined benefit plans	\$(31,832)	\$-	\$5,411	\$(26,421)
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	15,927,094	(8,385,706)	344,771	7,886,159
Total	\$16,005,343	\$(8,385,706)	\$341,049	\$7,960,686

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

	For the year ended 31 December 2016			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements on defined benefit plans	\$39,956	\$-	\$(6,792)	\$33,164
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	(793,195)	(8,959,735)	738,080	(9,014,850)
<b>Total</b>	<b>\$(743,240)</b>	<b>\$(8,959,735)</b>	<b>\$726,935</b>	<b>\$(8,976,040)</b>

**22. Retained earned premium**

	For the year ended 31 December 2017		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct premium income	\$178,425,208	\$17,724,474	\$196,149,682
Reinsurance premium income	-	-	-
Premium income	178,425,208	17,724,474	196,149,682
Less:			
Premiums ceded to reinsurers	1,185,065	-	1,185,065
Changes in unearned premium reserve	320,189	(4)	320,185
Subtotal	1,505,254	(4)	2,505,250
Retained earned premium	\$176,919,954	\$17,724,478	\$194,644,432

	For the year ended 31 December 2016		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct premium income	\$163,210,357	\$19,707,120	\$182,917,477
Reinsurance premium income	-	-	-
Premium income	163,210,357	19,707,120	182,917,477
Less:			
Premiums ceded to reinsurers	1,122,796	-	1,122,796
Changes in unearned premium reserve	(48,425)	1	(48,424)
Subtotal	1,074,371	1	1,074,372
Retained earned premium	\$162,135,986	\$19,707,119	\$181,843,105

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

23. Retained claim payments

	For the year ended 31 December 2017		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$42,038,676	\$29,092,903	\$71,131,579
Reinsurance claim payments	79	-	79
Insurance claim payments	42,038,755	29,092,903	71,131,658
Less:			
Claims recovered from reinsures	649,883	-	649,883
Retained claim payments	\$41,388,872	\$29,092,903	\$70,481,775

  

	For the year ended 31 December 2016		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$44,204,635	\$38,227,816	\$82,432,451
Reinsurance claim payments	15	-	15
Insurance claim payments	44,204,650	38,227,816	82,432,466
Less:			
Claims recovered from reinsures	550,164	-	550,164
Retained claim payments	\$43,654,486	\$38,227,816	\$81,882,302

24. Employee benefits, depreciation and amortization

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

	For the years ended 31 December					
	2017			2016		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense	\$4,658,139	\$2,813,000	\$7,471,139	\$4,919,715	\$2,600,650	\$7,520,365
Salaries	4,658,139	1,897,024	6,555,163	4,919,715	1,701,178	6,620,893
Labor and health insurance	-	416,757	416,757	-	395,757	395,757
Pension	-	231,262	231,262	-	259,825	259,825
Other employee benefits expense	-	267,957	267,957	-	243,890	243,890
Depreciation	-	143,230	143,230	-	114,839	114,839
Amortization	-	74,596	74,596	-	54,235	54,235

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

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

The average number of employees for years ended 31 December 2017 and 2016 were 13,426 and 13,075, 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.

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 profits for the years ended 31 December 2017 and 2016, the Company estimated the amounts of the employees' compensation both to be NT\$70,000 thousand, and remuneration to directors both to be NT\$84,000, 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 differences exist between the estimated amount and the actual amount for the year ended 31 December 2016.

25. Income taxes

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

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

**Notes to financial statements (Continued)**

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

Income tax expense recognized in profit or loss

	For the years ended 31 December	
	2017	2016
Current income tax expense (benefit):		
Current income tax payable	\$5,612,309	\$350,455
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	(5,885,057)	(3,396,719)
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	-	852,608
Others	(71,034)	28,601
Total income tax expense (benefit)	<u><u>\$(344,688)</u></u>	<u><u>\$1,264,271</u></u>

Income tax expense recognized in other comprehensive income

	For the years ended 31 December	
	2017	2016
Deferred tax expense (benefit):		
Unrealized valuation losses on available-for-sale financial assets	\$(344,771)	\$(738,080)
Remeasurements on defined benefit plans	(5,411)	6,792
Unrealized revaluation increments	9,133	4,353
Income tax expense (benefit) relating to components of other comprehensive income	<u><u>\$(341,049)</u></u>	<u><u>\$(726,935)</u></u>

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended 31 December	
	2017	2016
Income from continuing operations before income tax	<u><u>\$8,739,284</u></u>	<u><u>\$10,732,628</u></u>
Tax at the domestic rates applicable to profits in the country concerned	1,485,678	1,824,547
Tax effect of revenues exempt from taxation	(1,869,564)	(1,710,974)
Tax effect of expenses not deductible for tax purposes	328	(2,887)
Tax effect of deferred tax assets/ liabilities	-	42,498

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

**Notes to financial statements (Continued)**

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

	For the years ended 31 December	
	2017	2016
10% surtax on undistributed retained earnings	-	235,475
Alternative minimum tax threshold	-	852,608
Adjustments in respect of current income tax of prior periods	(906)	(5,597)
Unused foreign investment tax credit	110,810	-
Others	(71,034)	28,601
<b>Total income tax expense (benefit) recognized in profit or loss</b>	<b>\$(344,688)</b>	<b>\$1,264,271</b>

(2) Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Depreciation difference for tax purpose	\$81,398	\$2,716	\$-	\$84,114
Revaluations of financial assets at fair value through profit or loss	1,335,838	(1,973,592)	-	(637,754)
Revaluations of available-for-sale financial assets	(1,382,258)	-	344,771	(1,037,487)
Provisions	1,762	(1,429)	-	333
Net defined benefit liability	21,121	(516)	5,411	26,016
Compensated absences payable	12,802	(2,367)	-	10,435
Unrealized (gains) losses on foreign exchange	(2,314,300)	7,879,036	-	5,564,736
Land value increment tax	(8,005)	-	-	(8,005)
Fair value adjustment for investment property	(914,621)	53,557	(9,133)	(870,197)
Fair value adjustment for Property and equipment	2,470	939	-	3,409
Deferred tax benefit (expense)		<b>\$5,958,344</b>	<b>\$341,049</b>	
Net deferred tax assets (liabilities)	<b>\$(3,163,793)</b>			<b>\$3,135,600</b>
Reflected in balance sheet as follows:				
Deferred tax assets	<b>\$1,455,392</b>			<b>\$5,689,044</b>
Deferred tax liabilities	<b>\$(4,619,185)</b>			<b>\$(2,553,444)</b>

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

**Notes to financial statements (Continued)**

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

For the year ended 31 December 2016

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Depreciation difference for tax purpose	\$79,000	\$2,398	\$-	\$81,398
Revaluations of financial assets at fair value through profit or loss	673,494	662,344	-	1,335,838
Revaluations of available-for-sale financial assets	(2,120,338)	-	738,080	(1,382,258)
Provisions	2,379	(617)	-	1,762
Net defined benefit liability	50,811	(22,898)	(6,792)	21,121
Compensated absences payable	8,861	3,941	-	12,802
Unrealized (gains) losses on foreign exchange	(5,084,808)	2,770,508	-	(2,314,300)
Unused tax loss	3,434,923	(3,434,923)	-	-
Land value increment tax	(8,005)	-	-	(8,005)
Fair value adjustment for investment property	(869,455)	(40,813)	(4,353)	(914,621)
Fair value adjustment for Property and equipment	1,648	822	-	2,470
Deferred tax benefit (expense)		<u>\$(59,238)</u>	<u>\$726,935</u>	
Net deferred tax assets (liabilities)	<u>\$(3,831,490)</u>			<u>\$(3,163,793)</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$4,251,116</u>			<u>\$1,455,392</u>
Deferred tax liabilities	<u>\$(8,082,606)</u>			<u>\$(4,619,185)</u>

(3) The following table contains information of the unused tax losses of the Company:

As of 31 December 2017 and 2016, the Company has no unused tax losses.

(4) Unrecognized deferred tax assets

As of 31 December 2017 and 2016, deferred tax assets that have not been recognized amount to NT\$21,244 thousand and NT\$22,696 thousand.

(5) Imputation credit information

	2017.12.31	2016.12.31
Balance of the imputation credit amount	\$908,483	\$296,076

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

**Notes to financial statements (Continued)**

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

The expected creditable ratio for 2017 and the actual creditable ratio for 2016 were 8.41% and 19.01%, respectively. According to Article 66-6 of Income Tax Act, the imputation credit ratio shall be cut in half for individual shareholders who reside in the Republic of China. Moreover, the amendment to the Income Tax Law has been promulgated by the President on 7 February 2018 to abolish imputation tax system. The expected creditable ratio for 2017 is for reference only.

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

(6) The assessment of income tax returns

As of 31 December 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 years ended 31 December	
	2017	2016
<u>Basic earnings per share</u>		
Profit attributable to ordinary equity holders of the Company	\$9,083,972	\$9,468,357
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)	\$2.40	\$2.50

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 2017.

27. Separate account insurance products

(1) Separate account insurance products — assets and liabilities

Item	Assets	
	2017.12.31	2016.12.31
Cash in bank	\$838,493	\$302,721
Financial assets at fair value through profit or loss	60,904,301	64,067,015
Other receivables	82,196	70,461
Total	\$61,824,990	\$64,440,197



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

**Notes to financial statements (Continued)**

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

Item	Liabilities	
	2017.12.31	2016.12.31
Reserve for separate account	\$61,371,597	\$64,131,791
Other payables	453,393	308,406
<b>Total</b>	<b>\$61,824,990</b>	<b>\$64,440,197</b>

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

Item	Revenues	
	For the years ended 31 December	
	2017	2016
Premium income	\$6,211,241	\$5,825,529
Gains (losses) from financial assets and liabilities at fair value through profit or loss	6,945,114	1,670,647
Interest income	148	74
Other revenues	190,892	186,456
Foreign exchange gains (losses)	(1,104,200)	(390,163)
<b>Total</b>	<b>\$12,243,195</b>	<b>\$7,292,543</b>

Item	Expenses	
	For the years ended 31 December	
	2017	2016
Insurance claim payments	\$6,522,681	\$5,340,808
Net change in separate account reserve	3,893,927	47,765
Custodian fee	1,826,587	1,903,970
<b>Total</b>	<b>\$12,243,195</b>	<b>\$7,292,543</b>

(3) The rebate earned for engaging in investment-linked insurance business from counterparties for the years ended 31 December 2017 and 2016 were NT\$304,162 thousand and NT\$305,567 thousand, respectively.

**VII. Information of insurance contracts**

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

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

The board of directors should ensure the effectiveness of risk management and bear the ultimate responsibility for risk management, responsible for formulating the company's overall risk appetite and risk tolerance, review and approve the Company's risk management objectives and strategies. "Risk Management Committee" is set under the board of directors. Various risk management report and related issues are first report to

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

**Notes to financial statements (Continued)**

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

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

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

**Notes to financial statements (Continued)**

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

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 31 December 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 catastrophe and fluctuation of risks for abnormal changes in loss ratio and claims of each type of insurance needs to be recognized in special capital reserve under equity in accordance with IAS 12.

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars 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	\$2,940,748	
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	3,351,824			
2012	2,345,575	2,953,776	3,029,335	3,045,381	3,048,828	3,051,256				
2013	2,267,213	2,964,954	3,028,400	3,040,442	3,045,355					
2014	3,448,229	4,203,186	4,284,682	4,298,217						
2015	3,518,471	4,403,823	4,479,887							
2016	3,696,639	4,617,098								
2017	4,300,693									\$982,988

Note: This table does not include long term life insurance

Add : Long term insurance claims	434,166
Claim reserve for discount on no claim	127,623
Reserve for claims balance	<u>\$1,544,777</u>

**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	\$2,874,167	
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	3,275,936			
2012	2,304,504	2,897,464	2,967,538	2,976,431	2,979,800	2,982,173				
2013	2,227,515	2,908,429	2,966,622	2,971,604	2,976,405					
2014	3,387,852	4,123,055	4,197,276	4,200,902						
2015	3,456,864	4,319,866	4,388,499							
2016	3,631,913	4,529,075								
2017	4,225,389									\$982,081

Note: This table does not include long term life insurance

Add : Long term insurance claims	422,589
Claim reserve for discount on no claim	127,623
Reserve for claims balance	<u>\$1,532,293</u>

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

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

**Notes to financial statements (Continued)**

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

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.

(5) Liquidity risk:

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

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

31 December 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	\$(20,408,694)	\$9,987,603	\$111,026,996	\$457,700,212	\$2,985,206,011
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	-	-	-	-	-

Note:

1. This table estimates net cash flow of all related insurance liabilities at its 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.

(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.

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

**VIII. Financial instruments**

**1. Categories of financial instruments**

**Financial assets**

	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial assets at fair value through profit or loss:		
Held for trading	\$4,287,344	\$503,339
Designated at fair value through profit or loss at initial recognition	244,566	197,112
Subtotal	<u>4,531,910</u>	<u>700,451</u>
Available-for-sale financial assets	424,694,976	380,457,315
Held-to-maturity financial assets	194,762,878	125,363,713
Loans and receivables :		
Cash and cash equivalents (Exclude cash on hand and revolving funds)	44,711,809	34,313,305
Debt instrument investments for which no active market exists	632,451,850	621,002,336
Receivables	12,998,829	12,886,631
Loans	31,490,373	30,776,732
Refundable deposits	6,067,427	5,509,356
Subtotal	<u>727,720,288</u>	<u>704,488,360</u>
Total	<u><u>\$1,351,710,052</u></u>	<u><u>\$1,211,009,839</u></u>

**Financial liabilities**

	<u>2017.12.31</u>	<u>2016.12.31</u>
Financial liabilities at fair value through profit or loss :		
Held for trading	\$535,854	\$8,361,215
Financial liabilities at amortized cost :		
Payables	8,547,929	8,531,169
Guarantee deposits received	2,411,191	136,222
Subtotal	<u>10,959,120</u>	<u>8,667,391</u>
Total	<u><u>\$11,494,974</u></u>	<u><u>\$17,028,606</u></u>

**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:

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

**Notes to financial statements (Continued)**

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

- 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).

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:



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

**Notes to financial statements (Continued)**

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

	Carrying amount	
	2017.12.31	2016.12.31
Financial assets:		
Held-to-maturity financial assets	\$194,762,878	\$125,363,713
Debt instrument investments for which no active market exists	632,451,850	621,002,336
Refundable deposits - Bonds	4,287,120	3,948,947
	Fair value	
	2017.12.31	2016.12.31
Financial assets:		
Held-to-maturity financial assets	\$201,950,348	\$122,755,906
Debt instrument investments for which no active market exists	643,868,816	622,698,966
Refundable deposits - Bonds	4,609,848	4,172,847

3. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for assets or liabilities.

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

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

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

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

**Notes to financial statements (Continued)**

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

	2017.12.31			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value through profit or loss				
Bonds	\$244,566	\$-	\$-	\$244,566
Swaps and forward foreign exchange contracts	4,287,344	-	4,287,344	-
Available-for-sale financial assets				
Stocks	152,630,210	135,621,514	427,514	16,581,182
Bonds	263,129,104	77,349,125	185,779,980	-
Others	8,935,662	7,755,664	-	1,179,998
Investment property	20,629,278	-	-	20,629,278
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Swaps and forward foreign exchange contracts	(535,854)	-	(535,854)	-
	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)	-

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

During the years ended 31 December 2017 and 2016, the Company's bonds of available-for-sale financial assets measured on a recurring basis, amounted to NT\$37,686,358 thousand and NT\$1,616,965 thousand, respectively, transferred from Level 2 to Level 1 because the Company can access quoted market prices. Bonds of

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

**Notes to financial statements (Continued)**

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

available-for-sale financial assets measured at fair value on a recurring basis amounted to NT\$0 thousand and NT\$7,942,705 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 year ended 31 December 2017:

	<u>Total gains and losses recognized</u>					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
<b>Assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Convertible bonds	\$197,112	\$47,454	\$-	\$-	\$-	\$-	\$244,566
<b>Available-for-sale financial assets</b>							
Stock	23,107,071	-	(6,564,063)	99,792	(52,481)	(9,137)	16,581,182
Others	1,041,069	(757)	(136,955)	299,485	(22,844)	-	1,179,998
Investment property	20,828,245	(96,039)	110,081	-	(29,337)	(183,672)	20,629,278

For the year ended 31 December 2016:

	<u>Total gains and losses recognized</u>					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
<b>Assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Convertible bonds	\$335,329	\$(138,217)	\$-	\$-	\$-	\$-	\$197,112
<b>Available-for-sale financial assets</b>							
Stock	22,332,458	(73,827)	856,861	52,500	(8,421)	(52,500)	23,107,071
Others	553,316	(26)	55,996	433,374	(1,591)	-	1,041,069
Investment property	21,633,633	(184,853)	9,999	-	(18,910)	(611,624)	20,828,245

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

**Notes to financial statements (Continued)**

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

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 31 December 2017 and 2016 is as follows:

	For the years ended 31 December	
	2017	2016
Total gains and losses		
Recognized in profit or loss	\$(50,429)	\$(324,546)
Recognized in other comprehensive income	6,590,937	922,856

**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:

2017.12.31				
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	26.727%	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	6.51%	The higher the long-term average cost of capital, the lower the estimated fair value
Stock	Net asset value approach	N/A	N/A	N/A
Private Equity Fund	Net asset value approach	N/A	N/A	N/A
Investment property			Please refer to Note VI.8	

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

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			

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

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

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

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

**Notes to financial statements (Continued)**

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

	2017.12.31			
	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	\$120,725,199	\$81,225,149	\$-	\$201,950,348
Debt instrument investments for which no active market exists				
Bonds	74,365,024	569,503,792	-	643,868,816
Refundable deposits				
Bonds	-	4,609,848	-	4,609,848
	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

**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:

	2017.12.31					
	Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement					
	Gross amount of	Net financial	Relevant amount that has not			
Gross amount	offset financial	assets	been offset on balance sheet			
of recognized	liabilities	recognized on	(d)			
financial	recognized on	balance sheet	Financial	Cash collateral	Net amount	
assets (a)	balance sheet (b)	(c)= (a)- (b)	instruments	received	(e)= (c)- (d)	
Derivative financial instrument	\$4,287,344	\$-	\$4,287,344	\$493,857	\$-	\$3,793,487

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

2017.12.31						
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet (d)			
	financial liabilities (a)	(b)	(c)= (a)- (b)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$535,854	\$-	\$535,854	\$493,857	\$2,275,612	\$(2,233,615)
2016.12.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet (d)			
	financial assets (a)	(b)	(c)= (a)- (b)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
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 offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet (d)			
	financial liabilities (a)	(b)	(c)= (a)- (b)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$8,361,215	\$-	\$8,361,215	\$393,512	\$-	\$7,967,703

**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.

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

**Notes to financial statements (Continued)**

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

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.

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

(2) Financial assets credit risk concentration analysis

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

Date: 31 December 2017

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$37,942,583	\$2,655,757	\$4,113,469	\$-	\$-	\$44,711,809
Financial assets at fair value						
through profit or loss	244,566	-	-	-	-	244,566
Available-for-sale financial assets	130,195,274	47,346,210	32,785,699	51,139,887	1,662,034	263,129,104
Debt instrument investments for						
which no active market exists	90,963,102	140,614,283	156,877,446	228,488,478	15,508,541	632,451,850
Held-to-maturity financial assets	23,460,391	43,333,988	31,667,515	96,300,984	-	194,762,878
Refundable deposits - Bonds	5,982,395	-	-	-	-	5,982,395
<b>Total</b>	<b>\$288,788,311</b>	<b>\$233,950,238</b>	<b>\$225,444,129</b>	<b>\$375,929,349</b>	<b>\$17,170,575</b>	<b>\$1,141,282,602</b>
Proportion	25.30%	20.50%	19.75%	32.94%	1.51%	100.00%



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

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
<b>Total</b>	<b>\$263,746,124</b>	<b>\$206,443,128</b>	<b>\$204,743,740</b>	<b>\$354,519,353</b>	<b>\$17,962,079</b>	<b>\$1,047,414,424</b>
Proportion	25.18%	19.71%	19.55%	33.85%	1.71%	100.00%

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

Date: 31 December 2017

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$825,222	\$416,195	\$389,765	\$1,631,182
Overdue receivables	-	-	-	-
<b>Total</b>	<b>\$825,222</b>	<b>\$416,195</b>	<b>\$389,765</b>	<b>\$1,631,182</b>
Proportion	50.59%	25.52%	23.89%	100.00%

Date: 31 December 2016

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

(3) Financial asset credit quality and overdue impairment analysis

A. Grading of financial instrument credit risk quality

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

**Notes to financial statements (Continued)**

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

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: 31 December 2017

Financial assets	Normal assets		Past due but not impaired		Total
	Investment grade	Non-investment grade	impaired	Impaired	
Cash and cash equivalents	\$44,711,809	\$-	\$-	\$-	\$44,711,809
Financial assets at fair value through profit or loss	244,566	-	-	-	244,566
Available-for-sale financial assets	263,129,104	-	-	-	263,129,104
Debt instrument investments for which no active market exists	632,451,850	-	-	-	632,451,850
Held-to-maturity financial assets	194,762,878	-	-	-	194,762,878
Refundable deposits	5,982,395	-	-	-	5,982,395
<b>Total</b>	<b>\$1,141,282,602</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,141,282,602</b>
Proportion	100.00%	-	-	-	100.00%

Date: 31 December 2016

Financial assets	Normal assets		Past due but not impaired		Total
	Investment grade	Non-investment grade	impaired	Impaired	
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
<b>Total</b>	<b>\$1,047,414,424</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,047,414,424</b>
Proportion	100.00%	-	-	-	100.00%

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

**Notes to financial statements (Continued)**

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

- B. The Company classifies the risk of secured loans to evaluate whether there is objective evidence indicating impairment and whether there is observable information indicating credit deterioration of the borrower. The credit classification is defined as follows:
- a. Normal users: the borrower makes monthly payment within 30 days after the due date. There is no sign of credit deterioration, so the borrower can make payments continuously.
  - b. Worsening solvency: there is no objective evidence indicating impairment. However, the borrower has financial difficulty and credit deterioration. The borrower enters in financial reorganization such as conducting a repayment agreement, preceding compromise, liquidation or debt settlement proceedings, indicating the borrower's capacity to make payment worsens.
  - c. Delayed users: the borrower makes monthly payment in 31 to 90 days after the due date. The borrower is lack of contractual capacity since the borrower fails to make payment on time under the terms of the loan contract.
  - d. Past due but not impaired: the borrower makes monthly payment over 91 days after the due date. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated future cash flows (including disposal of collateral) is higher than the book value of the loan, indicating the asset is not impaired.
  - e. Past due and impaired: the overdue day meets the standard of overdue loans. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated future cash flows (including disposal of collateral) is lower than the book value of the loan, indicating the asset is impaired.

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

Date: 31 December 2017

Secured loans and Overdue receivables	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Consumer finance	\$1,646,887	\$18,938	\$7,307	\$-	\$-	\$41,950	\$1,631,182
Corporate finance	-	-	-	-	-	-	-
<b>Total</b>	<b>\$1,646,887</b>	<b>\$18,938</b>	<b>\$7,307</b>	<b>\$-</b>	<b>\$-</b>	<b>\$41,950</b>	<b>\$1,631,182</b>

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

Date: 31 December 2016

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

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

	Neither delayed nor impaired	Delayed but not impaired	Past due or impaired		Total
	Within 30 days	31-90 days	91-180 days	Over 181 days	
2017.12.31	\$1,624,021	\$7,161	\$-	\$-	\$1,631,182
2016.12.31	2,210,654	7,177	-	-	2,217,831

## 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

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

**Notes to financial statements (Continued)**

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

A. Financial assets held for managing liquidity risk

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

B. Maturity analysis of non-derivative financial liabilities

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

Non-derivative financial instruments

	In 1 year	Over 1 year	Total
2017.12.31			
Payables	\$8,547,929	\$-	\$8,547,929
2016.12.31			
Payables	\$8,531,169	\$-	\$8,531,169

C. Maturity analysis of derivative financial liabilities

The Company operates derivatives including foreign exchange derivative instruments (such as currency forward contracts, foreign exchange forward).

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:

	2017.12.31				Total
	In 90 days	91-180 days	181 days -1 year	Over 1 year	
Financial liabilities at fair value through profit or loss	\$406,856	\$117,292	\$11,706	\$-	\$535,854

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

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

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.

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

**Notes to financial statements (Continued)**

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

(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.

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

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.

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 year ended 31 December 2017

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	-	1,193,279
Interest rate risk (Yield curve)	+1BP	(35)	(381,892)
Exchange risk (Foreign exchange rate)	+1%( USD for each currency appreciates 1%)	1,017,499	56,501

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



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

Item	2017.12.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$44,717,613	\$-	\$44,717,613
Receivables	12,998,829	-	12,998,829
Financial assets at fair value through profit or loss	4,287,344	244,566	4,531,910
Available-for-sale financial assets	142,584,419	282,110,557	424,694,976
Debt instrument investments for which no active market exists	5,057,107	627,394,743	632,451,850
Held-to-maturity financial assets	-	194,762,878	194,762,878
Investment property	-	23,149,852	23,149,852
Loans	10,094	31,480,279	31,490,373
Reinsurance assets	302,104	-	302,104
Property and equipment	-	9,387,145	9,387,145
Intangible assets	-	186,275	186,275
Deferred tax assets	5,575,171	113,873	5,689,044
Other assets	290,369	19,255,976	19,546,345
Separate account product assets			61,824,990
Total assets	\$215,823,050	\$1,188,086,144	\$1,465,734,184
<b>Liabilities</b>			
Payables	\$8,547,929	\$-	\$8,547,929
Current tax liabilities	4,934,199	-	4,934,199
Financial liabilities at fair value through profit or loss	535,854	-	535,854
Insurance liabilities	35,604,701	1,248,593,317	1,284,198,018
Foreign exchange valuation reserve	-	2,703,763	2,703,763
Provision	-	120,084	120,084
Deferred tax liabilities	637,753	1,915,691	2,553,444
Other liabilities	939,625	4,038,531	4,978,156
Separate account product liabilities			61,824,990
Total liabilities	\$51,200,061	\$1,257,371,386	\$1,370,396,437

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

Item	2016.12.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
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
<b>Liabilities</b>			
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

#### 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.

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

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/Juristic-person director of the Company (Parent company)
Tai li Investment Co., Ltd.	Juristic-person director of the Company (Other related party)
EVER-RICH Co.,Ltd.	Juristic-person director of the Company (Other related party)
Videoland Inc.	Juristic-person director of the Company (Other related party)(Note1)
Lan wan Investment Corporation	Juristic-person director of the Company (Other related party)(Note1)
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)
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: Videoland Inc. and Lan wan Investment Corporation are no longer related parties of the Company from 1 November 2017.

Note 2: 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.

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

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

(1) Cash in banks

Name	2017.12.31	2016.12.31
Other related parties	\$154,175	\$-

(2) Receivables

Name	2017.12.31	2016.12.31
Other receivables:		
Other related parties	\$104,487	\$-

(3) Derivative financial instruments

Name	Contract type	Period	Notional Amount (In thousands of USD dollars)	Balance Sheets (106.12.31)	
				Accounting items	Balance
Other related parties	Swap contracts	2017/2/15- 2018/9/21	USD 235,000	financial assets at fair value through profit or loss	\$61,327
Other related parties	Swap contracts	2017/2/14- 2018/9/25	USD 464,000	financial assets at fair value through profit or loss	65,887
			<u>USD 699,000</u>		<u>\$127,214</u>

(4) Available-for-sale financial assets

Name	2017.12.31	2016.12.31
Stocks:		
Parent company	\$5,709,053	\$-
Other related parties	329,406	555,253
Beneficiary certificates:		
Other related parties	801,453	-
Total	<u>\$6,839,912</u>	<u>\$555,253</u>

(5) Secured loans

Name	For the year ended 2017			
	Maximum amount	Ending balance	Rate	Interest income
Other related parties	<u>\$-</u>	<u>\$-</u>	-	<u>\$-</u>

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

Name	For the year ended 2016			
	Maximum amount	Ending balance	Rate	Interest income
Other related parties	\$332	\$309	2.33%~2.67%	\$8

(6) Policy loans

Name	2017.12.31	2016.12.31
Other related parties	\$2,877	\$-

(7) Payables

Name	2017.12.31	2016.12.31
Commissions payable:		
Other related parties	\$17,204	\$2
Other payables:		
Other related parties	52,535	-
Total	\$69,739	\$2

(8) Guarantee deposits received

Name	2017.12.31	2016.12.31
Other related parties	\$2,421	\$-

(9) Premium income

Name	For the years ended 31 December	
	2017	2016
Parent company	\$253	\$-
Other related parties	89,234	124,670
Total	\$89,487	\$124,670

(10) Handling fees earned

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$2,974	\$-

(11) Interest income

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$228	\$-

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

(12) Realized gains on available-for-sale financial assets - Dividend income

Name	For the years ended 31 December	
	2017.12.31	2016.12.31
Other related parties	\$29,474	\$11,183

(13) Gains on Investment property - rental income

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$3,442	\$-

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

(14) Insurance claim payments

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$150	\$3,971

(15) Commission expenses

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$86,194	\$41

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

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$11,217	\$-

Other handling fees earned (recognized in operating expenses)

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$1,638	\$-

(17) Finance costs

Name	For the years ended 31 December	
	2017	2016
Other related parties	\$9	\$-

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

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

3. Key management personnel remuneration

Item	For the years ended 31 December	
	2017	2016
Short-term employee benefits	\$361,670	\$331,247
Post-employment benefits	4,128	1,960
Total	<u>\$365,798</u>	<u>\$333,207</u>

XIII. Pledged assets

Details of pledged and guaranteed assets are as follows:

Item	2017.12.31	2016.12.31
Government bonds-Insurance deposits (Recognized as refundable deposits)	\$5,970,541	\$5,470,290
Government bonds-Litigation deposits (Recognized as refundable deposits)	11,854	19,795
Total	<u>\$5,982,395</u>	<u>\$5,490,085</u>

XIV. Commitment and Contingencies

1. Operating lease commitment—the Company as the lessee

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

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

	2017.12.31	2016.12.31
Less than one year	\$121,955	\$130,084
More than one year but less than five years	451,549	476,252
More than five years	5,250,407	5,337,914
Total	<u>\$5,823,911</u>	<u>\$5,944,250</u>

The minimum lease payments of operating lease for the year ended 31 December 2017 and 2016 amounted to NT\$68,207 thousand and NT\$68,241 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.

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

**Notes to financial statements (Continued)**

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

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

	2017.12.31	2016.12.31
Less than one year	\$401,125	\$386,004
More than one year but less than five years	1,000,913	968,627
More than five years	232,402	238,667
Total	<u>\$1,634,440</u>	<u>\$1,593,298</u>

3. Finance lease commitment – the Company as the lessee

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

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

	2017.12.31	2016.12.31
Less than one year	\$51,874	\$53,764
More than one year but less than five years	85,012	136,887
Total	<u>\$136,886</u>	<u>\$190,651</u>

4. Investment commitment for private equity fund

As of 31 December 2017, the maximum remaining capital commitment for the contracted private equity fund of the Company was US\$34,454 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 NT\$5,623,913 thousands. As of 31 December 2017, the actual accumulated payment of construction is NT\$308,187 thousands after deducting 5% of construction reserve, leaving NT\$5,315,726 thousands unpaid.

6. On 19 October 2017, the Board has resolved 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 regulators.

XV. Significant disaster damages

None.



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

**XVI. Significant subsequent events**

Amendment of Income Tax Act has been promulgated by the President on 7 February 2018. In accordance with the newly amended Income Tax Act, business income tax rate shall be raised from 17% to 20% beginning in 2018. The alteration of the tax rate will subsequently increase the deferred tax asset by NT\$1,003,949 thousand and the deferred tax liability by NT\$355,088 thousand.

Furthermore, the Company has evaluated the influences of IFRS 9 on the date of initial application. The abovementioned alteration of the tax rate will subsequently increase the deferred tax asset by NT\$1,835 thousand and the deferred tax liability by NT\$408,533 thousand.

**XVII. Other matters**

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

	2017.12.31		
	<u>Foreign currency</u>	<u>Exchange rate (dollar)</u>	<u>NTD</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$27,567,151	\$29.8480	\$822,824,310
<u>Non-monetary items</u>			
USD	211,293	29.8480	6,306,678
<u>Financial Liabilities</u>			
<u>Payables</u>			
USD	76,240	29.8480	2,275,612
	2016.12.31		
	<u>Foreign currency</u>	<u>Exchange rate (dollar)</u>	<u>NTD</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
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
<u>Non-monetary items</u>			
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

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

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

2. Participation of unconsolidated structured entities

As of 31 December 2017 and 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.

Date: 31 December 2017

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate	Total
Assets held by the Company				
Available-for-sale financial assets	\$1,179,998	\$1,356,184	\$-	\$2,536,182
Debt instrument investments for which no active market exists	-	-	62,258,577	62,258,577
The maximum exposure amount	1,179,998	1,356,184	62,258,577	64,794,759
Financial or other support provided		None	None	

Date: 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	

**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

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

**Notes to financial statements (Continued)**

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

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.