

**China Life Insurance Co., Ltd.**  
**Financial Statements**  
**For The Three-month Periods Ended**  
**31 March 2017 and 2016**  
**With Independent Auditors' Review Report**

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

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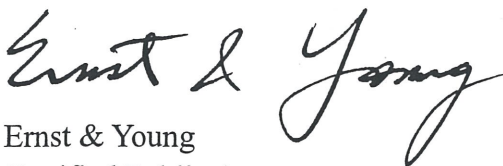
**Review Report of Independent Auditors**  
English Translation of a Report Originally Issued in Chinese

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

We have reviewed the accompanying balance sheets of China Life Insurance Co., Ltd. (the "Company") as of 31 March 2017 and 31 March 2016, and the related statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2017 and 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these statements based on our review.

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

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



Ernst & Young  
Certified Public Accountants

Taipei, Taiwan, R.O.C.

27 April 2017

Notice to Readers:

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

## English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited balance sheets

As at 31 March 2017, 31 December 2016, and 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	2017/3/31		2016/12/31		2016/3/31	
		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	VI.1	\$63,066,907	5	\$34,318,710	3	\$55,965,872	5
Receivables	VI.2	17,144,416	1	12,886,631	1	17,504,502	1
Current tax assets		1,235,429	0	1,235,430	0	2,044,157	0
Financial assets at fair value through profit or loss	VI.3	10,067,282	1	700,451	0	7,903,168	1
Available-for-sale financial assets	VI.4	366,338,041	27	380,457,315	29	415,482,971	34
Debt instrument investments for which no active market exists	VI.5	589,875,106	44	621,002,336	47	531,644,798	43
Held-to-maturity financial assets	VI.6	143,701,210	11	125,363,713	9	48,283,047	4
Investment property	VI.8	23,350,354	2	23,350,354	2	23,882,694	2
Loans	VI.7	30,237,906	2	30,776,732	2	30,552,040	2
Reinsurance assets	VI.9	393,342	0	285,097	0	390,966	0
Property and equipment	VI.10	8,240,824	1	8,088,226	1	7,426,509	1
Intangible assets		147,266	0	158,582	0	124,351	0
Deferred tax assets	VI.25	4,770,812	0	1,455,392	0	3,415,504	0
Other assets	VI.11	19,231,778	1	19,192,292	1	19,377,136	2
Separate account product assets	VI.27	65,110,771	5	64,440,197	5	64,479,354	5
Total assets		<u>\$1,342,911,444</u>	<u>100</u>	<u>\$1,323,711,458</u>	<u>100</u>	<u>\$1,228,477,069</u>	<u>100</u>

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

# English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited balance sheets - (continued)

As at 31 March 2017, 31 December 2016, and 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2017/3/31		2016/12/31		2016/3/31	
		Amount	%	Amount	%	Amount	%
Payables	VI.12	\$12,146,389	1	\$8,531,169	1	\$7,364,353	1
Current tax liabilities		3,950,255	0	496,255	0	-	-
Financial liabilities at fair value through profit or loss	VI.13	83,273	0	8,361,215	1	205,760	0
Insurance liabilities	VI.14	1,171,516,264	87	1,144,322,632	86	1,047,863,087	85
Foreign exchange valuation reserve	VI.15	2,543,612	0	6,382,932	0	6,657,177	1
Provisions	VI.16	88,956	0	97,753	0	122,855	0
Deferred tax liabilities	VI.25	3,351,681	0	4,619,185	0	7,273,740	1
Other liabilities		3,858,039	0	5,388,023	0	2,081,542	0
Separate account product liabilities	VI.27	65,110,771	5	64,440,197	5	64,479,354	5
Total liabilities		1,262,649,240	93	1,242,639,361	93	1,136,047,868	93
Capital stock	VI.18						
Common stock		34,737,600	3	34,737,600	3	33,401,467	3
Capital surplus	VI.19	2,289,273	0	2,289,273	0	2,289,273	0
Retained earnings	VI.20						
Legal capital reserve		7,917,627	1	7,917,627	1	6,083,247	0
Special capital reserve		21,473,047	2	21,473,047	2	19,795,287	2
Unappropriated retained earnings		11,569,122	1	11,534,406	1	11,577,477	1
Other equity	VI.21	2,275,535	0	3,120,144	0	19,282,450	1
Total equity		80,262,204	7	81,072,097	7	92,429,201	7
Total liabilities and equity		\$1,342,911,444	100	\$1,323,711,458	100	\$1,228,477,069	100

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

# English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited statements of comprehensive income

For the three-month periods ended 31 March 2017 and 2016

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

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

Item	Notes	1 January-31 March 2017		1 January-31 March 2016	
		Amount	%	Amount	%
Operating revenue					
Direct premium income		\$48,022,625	83	\$37,864,116	77
Premium income		48,022,625	83	37,864,116	77
Deduct: Premiums ceded to reinsurers		(290,598)	(0)	(275,202)	(0)
Net changes in unearned premium reserve	VI.14	(51,992)	(0)	200,741	0
Retained earned premium	VI.22	47,680,035	83	37,789,655	77
Reinsurance commission earned		77,089	0	50,410	0
Handling fees earned		209,470	0	220,170	0
Net investment profits and losses					
Interest income		9,912,524	17	8,812,868	18
Gains (losses) on financial assets and liabilities at fair value through profit or loss		30,932,070	54	9,170,154	19
Realized gains on available-for-sale financial assets		2,025,196	4	2,477,415	5
Realized gains on debt instrument investments for which no active market exists		1,238,607	2	511,309	1
Foreign exchange gains (losses)		(40,736,530)	(71)	(12,037,013)	(24)
Net changes in foreign exchange valuation reserve	VI.15	3,839,320	7	1,038,647	2
Gains on investment property		122,199	0	124,861	0
Separate account product revenue	VI.27	2,462,066	4	1,036,674	2
Subtotal		<u>57,762,046</u>	<u>100</u>	<u>49,195,150</u>	<u>100</u>
Operating costs					
Insurance claim payments		(17,240,066)	(30)	(16,575,249)	(34)
Deduct: Claims recovered from reinsurers		187,336	0	161,752	0
Retained claim payments	VI.23	(17,052,730)	(30)	(16,413,497)	(34)
Net changes in insurance liabilities	VI.14	(34,882,017)	(60)	(24,762,663)	(50)
Brokerage expenses		(1,426)	(0)	(1,109)	0
Commission expenses		(2,695,421)	(5)	(2,579,094)	(5)
Finance costs		(1,588)	(0)	(1,825)	0
Other operating costs		(66,345)	(0)	(47,357)	0
Separate account product expenses	VI.27	(2,462,066)	(4)	(1,036,674)	(2)
Subtotal		<u>(57,161,593)</u>	<u>(99)</u>	<u>(44,842,219)</u>	<u>91</u>
Operating expenses					
Business expenses	VI.24	(644,938)	(1)	(606,381)	(1)
Administrative and general expenses		(281,207)	(1)	(459,594)	(1)
Employee training expenses		(3,252)	0	(2,702)	(0)
Subtotal		<u>(929,397)</u>	<u>(2)</u>	<u>(1,068,677)</u>	<u>(2)</u>
Operating income (loss)					
		(328,944)	(1)	3,284,254	7
Non-operating income and expenses					
		(5,137)	0	19,015	0
Income (loss) from continuing operations before income tax					
		(334,081)	(1)	3,303,269	7
Income tax benefit (expense)					
	VI.25	368,797	1	(611,038)	(1)
Net income (loss) from continuing operations					
		34,716	0	2,692,231	6
Net income (loss)					
		34,716	0	2,692,231	6
Other comprehensive income, net of tax					
Items that are or may be reclassified subsequently to profit or loss					
Unrealized valuation gains (losses) on available-for-sale financial assets		(1,437,631)	(2)	6,739,989	14
profit or loss		593,022	1	413,113	0
Other comprehensive income, net of tax					
		(844,609)	(1)	7,153,102	14
Total comprehensive income					
		<u>\$ (809,893)</u>	<u>(1)</u>	<u>\$9,845,333</u>	<u>20</u>
Earnings per share (In New Taiwan Dollars)					
Basic earnings per share	VI.26	<u>\$0.01</u>		<u>\$0.78</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited statements of changes in equity

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in Thousands of New Taiwan Dollars)

Summary	Notes	Retained earnings					Other equity		Total
		Common stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	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
Net income for the three-month period ended 31 March 2016						2,692,231			2,692,231
Other comprehensive income for the three-month period ended 31 March 2016	VI.21						7,153,102		7,153,102
Total comprehensive income for the three-month period ended 31 March 2016		-	-	-	-	2,692,231	7,153,102	-	9,845,333
Balance on 31 March 2016		\$33,401,467	\$2,289,273	\$6,083,247	\$19,795,287	\$11,577,477	\$19,107,650	\$174,800	\$92,429,201
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
Net income for the three-month period ended 31 March 2017						34,716			34,716
Other comprehensive income for the three-month period ended 31 March 2017	VI.21						(844,609)		(844,609)
Total comprehensive income for the three-month period ended 31 March 2017		-	-	-	-	34,716	(844,609)	-	(809,893)
Balance on 31 March 2017		\$34,737,600	\$2,289,273	\$7,917,627	\$21,473,047	\$11,569,122	\$2,095,089	\$180,446	\$80,262,204

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

# English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Unaudited statements of cash flows

For the three-month periods ended 31 March 2017 and 2016

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

(Expressed in Thousands of New Taiwan Dollars)

	1 January-31 March 2017	1 January-31 March 2016
Cash flows from operating activities		
Net income (loss) before tax	\$(334,081)	\$3,303,269
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	33,694	25,317
Amortization expense	16,160	10,721
Provision (reversal of provision) for bad debt expense	2,842	4,915
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	(30,932,070)	(9,170,154)
Net losses (gains) on available-for-sale financial assets	(1,899,785)	(2,320,248)
Net losses (gains) on debt instrument investments for which no active market exists	(1,238,607)	(511,309)
Interest expenses	1,588	1,825
Interest income	(9,912,524)	(8,812,868)
Dividend income	(125,411)	(157,167)
Net changes in insurance liabilities	27,184,743	22,167,335
Net changes in foreign exchange valuation reserve	(3,839,320)	(1,038,647)
Net changes in provisions	(8,454)	(1,217)
(Gains) losses on disposal or scrapping of property and equipment	321	186
(Gains) losses on disposal of investment property	-	(30)
Unrealized foreign exchange losses (gains)	46,279,458	12,084,919
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	13,283,172	(2,160,581)
Decrease (increase) in notes receivable	164,577	201,256
Decrease (increase) in other receivables	(5,494,516)	(7,232,265)
Decrease (increase) in prepaid expenses and other prepayments	(13,479)	(110,849)
Decrease (increase) in refundable deposits	(21,097)	183
Decrease (increase) in reinsurance assets	(99,356)	(67,958)
Decrease (increase) in other assets	(2,725)	(1,013)
Increase (decrease) in notes payable	(17,394)	39,089
Increase (decrease) in life insurance proceeds payable	28,499	13,781
Increase (decrease) in other payables	4,135,579	(436,194)
Increase (decrease) in due to reinsurers and ceding companies	44,242	(30,737)
Increase (decrease) in commissions payable	(575,442)	(277,440)
Increase (decrease) in accounts collected in advance	(1,551,913)	589,265
Increase (decrease) in guarantee deposits received	1,507,851	(1,779)
Increase (decrease) in other liabilities	(1,485,922)	227,467
Increase (decrease) in provision for employee benefits	(343)	(153,419)
Cash generated from operations activities	<u>35,130,287</u>	<u>6,185,653</u>
Interest received	8,445,708	6,491,320
Dividends received	65,166	115,618
Interest paid	(1,588)	(1,825)
Income taxes refunded (paid)	(167,368)	(239,205)
Net cash provided by (used in) operating activities	<u>43,472,205</u>	<u>12,551,561</u>
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	(36,487,622)	(23,523,635)
Disposal of available-for-sale financial assets	43,253,983	54,390,278
Acquisition of debt instrument investments for which no active market exists	(25,270,787)	(59,874,180)
Disposal of debt instrument investment for which no active market exists	25,839,795	25,754,724
Maturity principal from debt instrument investments for which no active market exists	3,126,409	1,073,713
Acquisition of held-to-maturity financial assets	(25,530,460)	(7,100,613)
Acquisition of property and equipment	(187,110)	(245,328)
Acquisition of intangible assets	(4,346)	(8,776)
Decrease (increase) in loans	536,130	376,484
Disposal of investment property	-	144,933
Net cash provided by (used in) investing activities	<u>(14,724,008)</u>	<u>(9,012,400)</u>
Increase (decrease) in cash and cash equivalents	28,748,197	3,539,161
Cash and cash equivalents at the beginning of the period	34,318,710	52,426,711
Cash and cash equivalents at the end of the period	<u>\$63,066,907</u>	<u>\$55,965,872</u>

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



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

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

**Notes to financial statements**

**For the three-month periods ended 31 March 2017 and 2016**

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

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

**I. Organizations and business scope**

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

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

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

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

The financial statements of the Company for the three-month periods ended 31 March 2017 and 2016 were authorized to issue in accordance with a resolution of the Company’s board of directors on 27 April 2017.

**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 recognized 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 amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

2. Standards or interpretations issued, revised or amended, by IASB but not yet recognized 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) IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
(2) IFRS 9 “Financial Instruments”	1 January 2018
(3) IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Note2
(4) IFRS 16 “Leases”	1 January 2019
(5) IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
(6) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”	1 January 2017
(7) IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15	1 January 2018
(8) IFRS 2 “Share-Based Payment” — Amendments to IFRS 2	1 January 2018
(9) Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” — Amendments to IFRS 4	1 January 2018
(10) Transfers of Investment Property — Amendment to IAS 40	1 January 2018
(11) Improvements to International Financial Reporting Standards (2014-2016 cycle):	
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	1 January 2018
IFRS 12 “Disclosure of Interests in Other Entities”	1 January 2017
IAS 28 “Investments in Associates and Joint Ventures”	1 January 2018
(12) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	1 January 2018

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

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 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.

*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.

*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.

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

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

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

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

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

IFRS 15 *“Revenue from Contracts with Customers” — Clarifications to IFRS 15*

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

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 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).

Transfers of Investment Property — Amendments to IAS 40

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

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

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

IV. Summary of significant accounting policies

1. Statement of compliance

The financial statements of the Company for the three-month periods ended 31 March 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises (“the Regulations”) and IAS 34 Interim Financial Reporting as endorsed and became effective by the FSC.

2. Basis of preparation

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

3. Foreign currency transactions

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

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

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

**Notes to financial statements (Continued)**

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

- (1) The foreign currency items which are applicable to IAS 39 *Financial Instruments: Recognition and Measurements* should be dealt with the accounting policy of financial instruments.
- (2) Exchange differences of monetary items arising from the translation of the net investment in foreign operations are recognized in other comprehensive income. When the investment is disposed of or sold, exchange differences are reclassified from other comprehensive income into profit or loss.

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

4. Product categories

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

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

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

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

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

These contractual rights have the following characteristics:

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

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

5. Cash and cash equivalents

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

6. Financial assets and liabilities

(1) Initial recognition and subsequent measurement

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

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

**Notes to financial statements (Continued)**

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable. Any gain or loss already recognized in profit or loss shall not be reversed. Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.



**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

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

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

Held-to-maturity financial assets

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

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

**Notes to financial statements (Continued)**

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

Loans and receivables

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

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

Financial liabilities

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

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

(2) Derecognition of financial assets and liabilities

Financial assets

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

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

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

**Notes to financial statements (Continued)**

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

Financial liabilities

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

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

(3) Offsetting financial instruments

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

(4) Impairment of financial assets

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

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

Other loss events may include:

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

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

**Notes to financial statements (Continued)**

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

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 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 .

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

**Notes to financial statements (Continued)**

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

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.

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

**Notes to financial statements (Continued)**

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

9. Property and equipment

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

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

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

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

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

10. Investment property

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

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

**Notes to financial statements (Continued)**

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

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

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

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

11. Leases

The Company as a lessee

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

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

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

The Company as a lessor

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



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

12. Intangible assets

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

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

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

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

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

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

13. Impairment of non-financial assets

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

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

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

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

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

14. 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."

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

15. Post-employment benefits

The Company set up a pension plan and an independently administered pension fund committee according to Labor Standards Act. The Company deposits retirement reserve according to a certain percentage of wages to the specific account of Bank of Taiwan every month. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the end of March of the following year. As the retirement reserves are deposited under the committee's name in the specific bank account, the reserves are not associated with the Company. Therefore, retirement reserve is not included in the Company's financial statements.

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

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

For the defined contribution plan, the Company recognizes expenses in the period in which the contribution becomes due. The defined benefit plan is recognized based on the actuary 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.

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

**Notes to financial statements (Continued)**

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

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

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

16. Provisions

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

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

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

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

(1) Unearned premium reserve

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

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

(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 Capital Reserve—Special Reserve for Major Incidents” and “Special Capital Reserve—Special Reserve for Fluctuation of Risks.” The dollar amount of reserve required is addressed as follows:

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

**Notes to financial statements (Continued)**

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

**A. Claim reserve—Special reserve for major incidents**

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

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

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

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

**k** The Company sells participating life insurance policy. According to the “Rule Governing application of revenue and expenses related to participating / non-participating policy”, the Company is required to set aside special reserve for dividend participation based on income before tax and dividend. On the date of declaration, dividend should be withdrawn from this account. The excess dividend should be accounted as special reserve for dividend risks.

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

**Notes to financial statements (Continued)**

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

- I** The net impact from first adoption of fair value in subsequent measurement has been appropriated into dividend reserve for participating policy which relates to investment property. That reserve can only be used to recover the shortage of valid contract according to the fair value of the liability reserve assessment approved by the authority and replenish the liabilities under the stage two of IFRS 4 “*Insurance Contracts*” for the sustainable of financial structure. By the time the related assets dispose, the reserve which comes from the changes of fair value due to the cumulative net value-added benefits can be processed according to the related distribution provision of participating policy.

(5) Premium deficiency reserve

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

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

(6) Liability adequacy reserve

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

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

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

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

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

18. Foreign exchange valuation reserve

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

19. Insurance premium income and expenses

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

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



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

20. Reinsurance

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

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

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

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

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

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

21. Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

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

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

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.

(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	2017.3.31	2016.12.31	2016.3.31
Cash on hand	\$611	\$887	\$969
Revolving funds	3,988	4,518	4,540
Cash in banks	8,809,525	9,162,432	14,663,809
Time deposits	33,048,702	3,104,900	23,745,900
Cash equivalents – bond with resale agreement	21,204,081	22,045,973	17,550,654
Total	<u>\$63,066,907</u>	<u>\$34,318,710</u>	<u>\$55,965,872</u>

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

2. Receivables

Item	2017.3.31	2016.12.31	2016.3.31
Notes receivable - Net	\$195,682	\$360,260	\$216,663
Other receivables - Net			
Interest receivable	8,815,253	10,241,207	8,294,083
Financial instruments settlement receivable	6,423,999	126,399	7,638,264
Separate accounts receivable	1,443,634	1,764,991	1,018,944
Other receivables	265,848	393,774	336,548
Overdue receivables	986	840	750
Less: Allowance for bad debts - Overdue receivables	(986)	(840)	(750)
Subtotal	16,948,734	12,526,371	17,287,839
Total	\$17,144,416	\$12,886,631	\$17,504,502

3. Financial assets at fair value through profit or loss

Item	2017.3.31	2016.12.31	2016.3.31
Held for sale:			
Derivative financial assets			
Swaps and forward foreign exchange contracts	\$9,799,261	\$503,339	\$7,571,367
Designated financial assets at fair value through profit or loss:			
Convertible bonds	268,021	197,112	331,801
Total	\$10,067,282	\$700,451	\$7,903,168

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

**Notes to financial statements (Continued)**

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

4. Available-for-sale financial assets

Item	2017.3.31	2016.12.31	2016.3.31
Domestic listed stocks	\$84,563,336	\$63,278,217	\$71,817,939
Domestic beneficiary certificates	4,855,044	913,808	745,509
Domestic real estate investment trust	1,426,374	1,481,987	1,559,401
Domestic government bonds	109,734,734	129,039,575	183,537,589
Domestic corporate bonds	2,261,116	2,266,742	3,295,187
Domestic financial debentures	1,021,575	1,025,084	1,034,762
Domestic preferred stocks	2,563,619	2,603,105	-
Domestic unlisted stocks	2,684,506	2,541,481	2,659,599
Overseas listed stocks	16,106,028	16,180,002	15,054,559
Overseas beneficiary certificates	8,158,885	7,645,706	8,195,231
Overseas government bonds	7,442,337	11,030,754	1,969,670
Overseas corporate bonds	60,876,802	67,455,060	39,871,118
Overseas financial debentures	45,522,077	51,771,796	64,511,335
Overseas preferred stocks	4,010,393	4,189,046	4,430,979
Overseas unlisted stocks	16,658,248	20,576,090	18,390,826
Less: Refundable deposits	(1,547,033)	(1,541,138)	(1,590,733)
<b>Total</b>	<b>\$366,338,041</b>	<b>\$380,457,315</b>	<b>\$415,482,971</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	2017.3.31	2016.12.31	2016.3.31
Domestic government bonds	\$9,435,092	\$9,450,845	\$9,498,390
Domestic corporate bonds	38,304,425	38,303,806	38,561,688
Domestic financial debentures	31,400,957	31,401,763	31,304,192
Overseas government bonds	21,695,357	22,401,216	12,179,618
Overseas corporate bonds	65,242,373	79,473,881	73,819,902
Overseas financial debentures	378,455,046	390,133,184	340,283,034
Overseas real estate mortgage bonds	49,287,093	53,786,588	29,749,267
Less: Refundable deposits	(3,945,237)	(3,948,947)	(3,751,293)
<b>Total</b>	<b>\$589,875,106</b>	<b>\$621,002,336</b>	<b>\$531,644,798</b>

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



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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6. Held-to-maturity financial assets

Item	2017.3.31	2016.12.31	2016.3.31
Domestic government bonds	\$6,631,281	\$6,135,128	\$2,472,656
Overseas government bonds	17,434,495	17,614,299	2,725,071
Overseas corporate bonds	86,471,289	68,852,783	29,273,904
Overseas financial debentures	33,164,145	32,761,503	13,811,416
Total	<u>\$143,701,210</u>	<u>\$125,363,713</u>	<u>\$48,283,047</u>

The Company has the intent and ability to hold held-to-maturity financial assets to maturity. Only when the credit of issuers deteriorate, or when the issuers redeem in advance 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:

Item	2017.3.31	2016.12.31	2016.3.31
Book value	\$-	\$640,532	\$-
Realized gains or losses	-	(40,912)	-
The percentage of the book value of held-to-maturity financial assets at the beginning of the period	0%	1.52%	0%

7. Loans

Item	2017.3.31	2016.12.31	2016.3.31
Policy loans	\$22,821,681	\$23,210,498	\$22,852,583
Automatic premium loans	5,350,976	5,348,403	4,997,517
Secured loans — net	<u>2,065,249</u>	<u>2,217,831</u>	<u>2,701,940</u>
Secured loans — non-related parties	2,101,791	2,251,677	2,750,795
Less: Allowance for bad debts	(36,542)	(33,846)	(48,855)
Total	<u>\$30,237,906</u>	<u>\$30,776,732</u>	<u>\$30,552,040</u>

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

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**Notes to financial statements (Continued)**  
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	For the three-month periods ended 31 March	
	2017	2016
Beginning balance	\$33,846	\$43,935
Charge (reversal) for the current period	2,696	4,920
Ending balance	\$36,542	\$48,855

The above impairment is assessed collectively.

8. Investment property

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

	For the three-month period ended 31 March 2017			
	Land	Buildings	Prepayments for buildings	Total
Costs:				
Beginning balance	\$15,364,441	\$5,463,804	\$-	\$20,828,245
Ending balance	\$15,364,441	\$5,463,804	\$-	\$20,828,245

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

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:

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

**Notes to financial statements (Continued)**

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

	For the three-month period ended 31 March 2017			
	Land	Buildings	Prepayments for buildings	Total
Costs:				
Beginning balance	\$3,654,175	\$-	\$-	\$3,654,175
Disposals	-	-	-	-
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment :				
Beginning balance	\$1,132,066	\$-	\$-	\$1,132,066
Disposals	-	-	-	-
Ending balance	\$1,132,066	\$-	\$-	\$1,132,066
	For the three-month period ended 31 March 2016			
	Land	Buildings	Prepayments for buildings	Total
Costs :				
Beginning balance	\$4,135,804	\$-	\$-	\$4,135,804
Disposals	(481,629)	-	-	(481,629)
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment :				
Beginning balance	\$1,495,895	\$-	\$-	\$1,495,895
Disposals	(336,726)	-	-	(336,726)
Ending balance	\$1,159,169	\$-	\$-	\$1,159,169
Net carrying amount :				
2017.3.31	\$17,886,550	\$5,463,804	\$-	\$23,350,354
2016.12.31	\$17,886,550	\$5,463,804	\$-	\$23,350,354
2016.3.31	\$18,073,220	\$5,809,474	\$-	\$23,882,694

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

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal. Valuation reports are issued every six months and evaluated the effectiveness of the fair value at the balance sheet date quarterly to determine whether to issue new valuation reports. The valuation date of the valuation reports for the

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

**Notes to financial statements (Continued)**

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

reporting period is 31 December 2016, and review reports on 31 March 2017 and 2016 are also acquired. Please refer to original financial reports for detail information of the appraisers and agencies.

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

The inputs mainly used are as follows:

	<u>2017.3.31</u>	<u>2016.12.31</u>	<u>2016.3.31</u>
	Mainly	Mainly	Mainly
Income capitalization rate	0.99%~4.47%	0.99%~4.47%	1.30%~4.46%

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

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

Rents from investment properties were NT\$122,199 thousand and NT\$124,830 thousand for the three-month periods ended 31 March 2017 and 2016. Related direct operating expenses were NT\$19,649 thousand and NT\$18,708 thousand. The direct operating expenses of investment properties generating no rents were NT\$514 thousand and NT\$572 thousand.

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

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

Item	2017.3.31	2016.12.31	2016.3.31
Claims recoverable from reinsurers	\$244,028	\$171,459	\$243,223
Due from reinsurers and ceding companies	74,498	47,711	68,647
Reinsurance reserve assets			
Ceded unearned premium reserve	48,231	43,020	45,452
Ceded reserve for claims	26,585	22,907	33,644
Subtotal	74,816	65,927	79,096
Total	\$393,342	\$285,097	\$390,966

The above reinsurance assets are not impaired.

10. Property and equipment

For the three-month period ended 31 March 2017

	Prepayments for buildings and construction in progress							Total
	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Leased assets	
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	-	-	13,967	124	10,598	-	162,421	187,110
Disposals	-	-	(3,675)	-	(366)	-	-	(4,041)
Transfers	-	-	32,847	-	-	-	(33,344)	(497)
31 March 2017	\$6,094,542	\$1,776,212	\$539,649	\$19,705	\$371,127	\$21,174	\$1,181,362	\$10,003,771
Accumulated Depreciation:								
1 January 2017	\$-	\$433,602	\$258,659	\$13,727	\$261,168	\$21,059	\$-	\$988,215
Depreciation	-	10,306	16,230	455	6,687	16	-	33,694
Disposals	-	-	(3,357)	-	(363)	-	-	(3,720)
31 March 2017	\$-	\$443,908	\$271,532	\$14,182	\$267,492	\$21,075	\$-	\$1,018,189
Accumulated impairment:								
1 January 2017	\$741,097	\$3,661	\$-	\$-	\$-	\$-	\$-	\$744,758
31 March 2017	\$741,097	\$3,661	\$-	\$-	\$-	\$-	\$-	\$744,758

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

For the three-month period ended 31 March 2016

	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2016	\$5,590,835	\$1,689,723	\$352,633	\$17,952	\$322,940	\$21,096	\$637,686	\$8,632,865
Additions	-	-	114,355	6	10,879	-	120,088	245,328
Disposals	-	-	(4,668)	-	(100)	-	-	(4,768)
Transfers from (to)								
investment property	186,721	66,070	-	-	-	-	-	252,791
Transfers	-	-	-	-	-	-	(27,459)	(27,459)
31 March 2016	<u>\$5,777,556</u>	<u>\$1,755,793</u>	<u>\$462,320</u>	<u>\$17,958</u>	<u>\$333,719</u>	<u>\$21,096</u>	<u>\$730,315</u>	<u>\$9,098,757</u>
Accumulated								
Depreciation:								
1 January 2016	\$-	\$384,117	\$234,975	\$12,064	\$245,888	\$20,890	\$-	\$897,934
Depreciation	-	9,986	10,892	407	3,973	59	-	25,317
Disposals	-	-	(4,482)	-	(100)	-	-	(4,582)
Transfers from (to)								
investment property	-	6,846	-	-	-	-	-	6,846
31 March 2016	<u>\$-</u>	<u>\$400,949</u>	<u>\$241,385</u>	<u>\$12,471</u>	<u>\$249,761</u>	<u>\$20,949</u>	<u>\$-</u>	<u>\$925,515</u>
Accumulated								
impairment:								
1 January 2016	\$741,557	\$5,176	\$-	\$-	\$-	\$-	\$-	\$746,733
31 March 2016	<u>\$741,557</u>	<u>\$5,176</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$746,733</u>
Net book value:								
2017.3.31	<u>\$5,353,445</u>	<u>\$1,328,643</u>	<u>\$268,117</u>	<u>\$5,523</u>	<u>\$103,635</u>	<u>\$99</u>	<u>\$1,181,362</u>	<u>\$8,240,824</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>
2016.3.31	<u>\$5,035,999</u>	<u>\$1,349,668</u>	<u>\$220,935</u>	<u>\$5,487</u>	<u>\$83,958</u>	<u>\$147</u>	<u>\$730,315</u>	<u>\$7,426,509</u>

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	2017.3.31	2016.12.31	2016.3.31
Prepayments			
Prepayment—surface rights	\$13,534,180	\$13,584,831	\$13,736,785
Other prepayments	150,948	86,818	265,584
Subtotal	13,685,128	13,671,649	14,002,369
Refundable deposits			
Insurance industry deposits	5,472,481	5,470,290	5,323,029
Lawsuit deposits	19,789	19,795	18,997
Other deposits	40,367	19,271	19,114
Subtotal	5,532,637	5,509,356	5,361,140
Other assets—others	14,013	11,287	13,627
Total	\$19,231,778	\$19,192,292	\$19,377,136

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	2017.3.31	2016.12.31	2016.3.31
Notes payable	\$46,229	\$63,622	\$129,164
Life insurance proceeds payable	135,834	107,335	209,710
Commissions payable	1,024,628	1,600,070	1,129,867
Due to reinsurers and ceding companies	275,330	231,087	191,710
Other payables			
Salary payable	256,800	643,693	411,526
Accrued expenses	1,171,227	1,690,956	1,980,702
Tax payable	52,765	28,431	13,297
Collection payable	42,440	44,008	37,275
Payable on investments	4,629,146	281,004	250,749
Payable on insurance policies	4,458,209	3,771,046	2,943,442
Others	53,781	69,917	66,911
Subtotal	10,664,368	6,529,055	5,703,902
Total	\$12,146,389	\$8,531,169	\$7,364,353

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

13. Financial liabilities at fair value through profit or loss

Item	2017.3.31	2016.12.31	2016.3.31
Held for trading:			
Derivative financial instruments			
Swaps and forward foreign exchange contracts	\$83,273	\$8,361,215	\$205,760
<b>Total</b>	<b>\$83,273</b>	<b>\$8,361,215</b>	<b>\$205,760</b>

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

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

(1) Reserve for life insurance liabilities:

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$831,045,119	\$64,196,684	\$895,241,803
Health insurance	97,121,702	-	97,121,702
Annuity insurance	712,523	156,569,943	157,282,466
Investment-linked insurance	1,814,625	-	1,814,625
<b>Total</b>	<b>\$930,693,969</b>	<b>\$220,766,627</b>	<b>\$1,151,460,596</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>



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

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

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

Movement in reserve for life insurance liabilities is summarized below:

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$899,278,683	\$223,965,737	\$1,123,244,420
Reserve	44,551,861	4,972,388	49,524,249
Recover	(5,535,037)	(8,171,498)	(13,706,535)
Losses (gains) on foreign exchange	(7,601,538)	-	(7,601,538)
<b>Ending balance</b>	<b>\$930,693,969</b>	<b>\$220,766,627</b>	<b>\$1,151,460,596</b>

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

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

**Notes to financial statements (Continued)**

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

(2) Unearned premium reserve:

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,299	\$-	\$1,299
Individual injury insurance	980,246	-	980,246
Individual health insurance	1,664,087	-	1,664,087
Group insurance	418,046	-	418,046
Investment-linked insurance	51,298	-	51,298
Annuity insurance	-	73	73
<b>Total</b>	<b>3,114,976</b>	<b>73</b>	<b>3,115,049</b>
Less ceded unearned premium reserve:			
Individual life insurance	14,902	-	14,902
Individual injury insurance	1,034	-	1,034
Individual health insurance	25,547	-	25,547
Group insurance	1,754	-	1,754
Investment-linked insurance	4,994	-	4,994
<b>Total</b>	<b>48,231</b>	<b>-</b>	<b>48,231</b>
<b>Net amount</b>	<b>\$3,066,745</b>	<b>\$73</b>	<b>\$3,066,818</b>

	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,393	\$-	\$1,393
Individual injury insurance	960,069	-	960,069
Individual health insurance	1,641,421	-	1,641,421
Group insurance	402,643	-	402,643
Investment-linked insurance	52,261	-	52,261
Annuity insurance	-	61	61
<b>Total</b>	<b>3,057,787</b>	<b>61</b>	<b>3,057,848</b>
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
<b>Total</b>	<b>43,020</b>	<b>-</b>	<b>43,020</b>
<b>Net amount</b>	<b>\$3,014,767</b>	<b>\$61</b>	<b>\$3,014,828</b>

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

**Notes to financial statements (Continued)**

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

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,412	\$-	\$1,412
Individual injury insurance	846,654	-	846,654
Individual health insurance	1,567,682	-	1,567,682
Group insurance	441,246	-	441,246
Investment-linked insurance	50,930	-	50,930
Annuity insurance	-	40	40
<b>Total</b>	<b>2,907,924</b>	<b>40</b>	<b>2,907,964</b>
Less ceded unearned premium reserve:			
Individual life insurance	14,325	-	14,325
Individual injury insurance	840	-	840
Individual health insurance	23,705	-	23,705
Group insurance	1,567	-	1,567
Investment-linked insurance	5,015	-	5,015
<b>Total</b>	<b>45,452</b>	<b>-</b>	<b>45,452</b>
<b>Net amount</b>	<b>\$2,862,472</b>	<b>\$40</b>	<b>\$2,862,512</b>

Movement in unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$3,057,787	\$61	\$3,057,848
Reserve	821,637	73	821,710
Recover	(764,446)	(61)	(764,507)
Losses (gains) on foreign exchange	(2)	-	(2)
<b>Ending balance</b>	<b>3,114,976</b>	<b>73</b>	<b>3,115,049</b>
Less ceded unearned premium reserve:			
Beginning balance	43,020	-	43,020
Increase	16,892	-	16,892
Decrease	(11,681)	-	(11,681)
<b>Ending balance</b>	<b>48,231</b>	<b>-</b>	<b>48,231</b>
<b>Net amount</b>	<b>\$3,066,745</b>	<b>\$73</b>	<b>\$3,066,818</b>

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

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

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

(3) Reserve for claims:

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$240,481	\$77,137	\$317,618
— Unreported claim	987	-	987
Individual injury insurance			
— Reported but not paid claim	40,241	-	40,241
— Unreported claim	156,673	-	156,673
Individual health insurance			
— Reported but not paid claim	106,047	-	106,047
— Unreported claim	421,794	-	421,794
Group insurance			
— Reported but not paid claim	71,797	-	71,797
— Unreported claim	234,921	-	234,921
Investment-linked insurance			
— Reported but not paid claim	15,402	-	15,402
— Unreported claim	-	-	-
Annuity insurance			
— Reported but not paid claim	-	16,643	16,643
— Unreported claim	-	78	78
Total	1,288,343	93,858	1,382,201

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

**Notes to financial statements (Continued)**

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

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Less ceded reserve for claims:			
Individual life insurance	3,281	-	3,281
Individual injury insurance	3,407	-	3,407
Individual health insurance	5,897	-	5,897
Group insurance	14,000	-	14,000
Total	26,585	-	26,585
Net amount	\$1,261,758	\$93,858	\$1,355,616
	2016.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
— Reported but not paid claim	\$193,436	\$2,578	\$196,014
— Unreported claim	1,538	-	1,538
Individual injury insurance			
— Reported but not paid claim	81,497	-	81,497
— Unreported claim	113,544	-	113,544
Individual health insurance			
— Reported but not paid claim	121,659	-	121,659
— Unreported claim	398,869	-	398,869
Group insurance			
— Reported but not paid claim	66,260	-	66,260
— Unreported claim	235,517	-	235,517
Investment-linked insurance			
— Reported but not paid claim	3,046	-	3,046
— Unreported claim	-	-	-
Annuity insurance			
— Reported but not paid claim	-	26,443	26,443
— Unreported claim	-	79	79
Total	1,215,366	29,100	1,244,466
Less ceded reserve for claims:			
Individual life insurance	3,251	-	3,251
Individual injury insurance	8,107	-	8,107
Individual health insurance	7,749	-	7,749
Group insurance	3,800	-	3,800
Total	22,907	-	22,907
Net amount	\$1,192,459	\$29,100	\$1,221,559

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

**Notes to financial statements (Continued)**

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

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
– Reported but not paid claim	\$231,738	\$33,782	\$265,520
– Unreported claim	454	-	454
Individual injury insurance			
– Reported but not paid claim	86,008	-	86,008
– Unreported claim	102,343	-	102,343
Individual health insurance			
– Reported but not paid claim	136,200	-	136,200
– Unreported claim	376,137	-	376,137
Group insurance			
– Reported but not paid claim	67,365	-	67,365
– Unreported claim	228,550	-	228,550
Investment-linked insurance			
– Reported but not paid claim	32,304	-	32,304
– Unreported claim	-	-	-
Annuity insurance			
– Reported but not paid claim	-	26,368	26,368
– Unreported claim	-	149	149
<b>Total</b>	<b>1,261,099</b>	<b>60,299</b>	<b>1,321,398</b>
Less ceded reserve for claims:			
Individual life insurance	137	-	137
Individual injury insurance	24,300	-	24,300
Individual health insurance	7,207	-	7,207
Group insurance	2,000	-	2,000
<b>Total</b>	<b>33,644</b>	<b>-</b>	<b>33,644</b>
<b>Net amount</b>	<b>\$1,227,455</b>	<b>\$60,299</b>	<b>\$1,287,754</b>

Movement in reserve for claims is summarized below:

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$1,215,366	\$29,100	\$1,244,466
Reserve	1,289,255	93,858	1,383,113
Recover	(1,215,366)	(29,099)	(1,244,465)
Losses (gains) on foreign exchange	(913)	-	(913)
<b>Ending balance</b>	<b>1,288,342</b>	<b>93,859</b>	<b>1,382,201</b>

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

**Notes to financial statements (Continued)**

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

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Less ceded unearned premium reserve:			
Beginning balance	22,907	-	22,907
Increase	26,585	-	26,585
Decrease	(22,907)	-	(22,907)
Ending balance	26,585	-	26,585
Net amount	\$1,261,757	\$93,859	\$1,355,616

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

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

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

(4) Special reserve:

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$4,320,406	\$-	\$4,320,406
Dividend risk reserve	160,354	-	160,354
<b>Total</b>	<b>\$4,480,760</b>	<b>\$-</b>	<b>\$4,480,760</b>
	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>
	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$5,527,924	\$-	\$5,527,924
Dividend risk reserve	345,255	-	345,255
<b>Total</b>	<b>\$5,873,179</b>	<b>\$-</b>	<b>\$5,873,179</b>

Movement in special reserve is summarized below:

	For the three-month periods ended 31 March	
	2017	2016
	Insurance contract	Insurance contract
Beginning balance	\$5,904,689	\$5,596,467
Reserve for participating policy dividend reserve	(43,401)	291,084
Recover for participating policies dividends reserve	(1,195,627)	(14,372)
Reserve for dividend risk reserve	(184,901)	-
<b>Ending balance</b>	<b>\$4,480,760</b>	<b>\$5,873,179</b>



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

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

	2017.3.31		
	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>

	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>

	2016.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$2,692	\$-	\$2,692
Individual injury insurance	805,640	-	805,640
Individual health insurance	1,986,489	-	1,986,489
Group insurance	2,279,839	-	2,279,839
Annuity insurance	-	538	538
<b>Total</b>	<b>\$5,074,660</b>	<b>\$538</b>	<b>\$5,075,198</b>

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

	2017.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$10,963,868	\$-	\$10,963,868
Individual health insurance	113,790	-	113,790
<b>Total</b>	<b>\$11,077,658</b>	<b>\$-</b>	<b>\$11,077,658</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>

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

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

Movement in premium deficiency reserve is summarized below:

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$10,871,209	\$-	\$10,871,209
Reserve	1,124,402	-	1,124,402
Recover	(771,140)	-	(771,140)
Losses (gains) on foreign exchange	(146,813)	-	(146,813)
<b>Ending balance</b>	<b>\$11,077,658</b>	<b>\$-</b>	<b>\$11,077,658</b>

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

(7) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2017.3.31	2016.12.31	2016.3.31
	Reserve for life insurance liabilities	\$1,151,460,596	\$1,123,244,420
Unearned premium reserve	3,115,049	3,057,848	2,907,964
Premium deficiency reserve	11,077,658	10,871,209	9,726,065
Special reserve	4,480,760	5,904,689	5,873,179
Book value of insurance liabilities	\$1,170,134,063	\$1,143,078,166	\$1,046,541,689
Estimated present value of			
cash flows	\$851,214,189	\$873,576,174	\$825,108,616
Balance of liability adequacy reserve	\$-	\$-	\$-

Liability adequacy testing methodology is listed as follows:

	2017.3.31	2016.12.31 and 2016.3.31
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2016).	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2015), and 2016.12.31 discount rate was evaluated with consideration of current information.

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15. Foreign exchange valuation reserve

(1) The hedge strategy and risk exposure

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

(2) Adjustment in foreign exchange valuation reserve:

	For the three-month periods ended 31 March	
	2017	2016
Beginning balance	\$6,382,932	\$7,695,824
Reserve		
Compulsory reserve	233,322	224,853
Extra reserve	-	1,046,591
Subtotal	233,322	1,271,444
Recover	(4,072,642)	(2,310,091)
Ending balance	<u>\$2,543,612</u>	<u>\$6,657,177</u>

(3) Effects due to foreign exchange valuation reserve:

Item	For the three-month period ended 31 March 2017		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$(3,151,920)	\$34,716	\$3,186,636
Earnings per share (dollar)	(0.91)	0.01	0.92
Foreign exchange valuation reserve	-	2,543,612	2,543,612
Equity	80,949,226	80,262,204	(687,022)

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**Notes to financial statements (Continued)**  
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Item	For the three-month period ended 31 March 2016		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$1,830,154	\$2,692,231	\$862,077
Earnings per share (dollar)	0.53	0.78	0.25
Foreign exchange valuation reserve	-	6,657,177	6,657,177
Equity	96,530,483	92,429,201	(4,101,282)

16. Provisions

Item	2017.3.31	2016.12.31	2016.3.31
Provisions for employee benefits	\$87,045	\$87,388	\$110,081
Litigation liabilities	1,911	10,365	12,774
Total	\$88,956	\$97,753	\$122,855

The Company has an official policy to control and manage litigations. When a professional advice has been made and the loss can be reasonably estimated, the Company will make adjustments to recognize losses and any negative effects arising out of any financial claims. As at 31 March 2017, the Company has 78 unresolved legal suits.

17. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plans for the three-month periods ended 31 March 2017 and 2016 were NT\$60,237 thousand and NT\$55,217 thousand, respectively.

Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 31 March 2017 and 2016 were NT\$464 thousand and NT\$6,401 thousand, respectively.

18. Common stock

(1) As of 31 March 2017, 31 December 2016, and 31 March 2016, the Company's authorized and issued capital were NT\$34,737,600 thousand, NT\$34,737,600 thousand, and NT\$33,401,467 thousand, divided into 3,473,760,000, 3,473,760,000, and 3,340,146,700 common shares at NT\$10 par value.

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**Notes to financial statements (Continued)**

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

- (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.

19. Capital surplus

Item	2017.3.31	2016.12.31	2016.3.31
Additional paid-in capital	\$2,254,442	\$2,254,442	\$2,254,442
Treasury stock transactions	34,831	34,831	34,831
Total	\$2,289,273	\$2,289,273	\$2,289,273

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

20. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Legal capital reserve shall not be used except for making good the deficit of the company. When the Company incurs no loss, the Company's board of directors may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders.

(2) Special capital reserve

Pursuant to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special reserves for contingency are appropriated

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**Notes to financial statements (Continued)**

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

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 2015 was NT\$463,451 thousand, resolved in the stockholders' meeting in 2016. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2016 was NT\$437,218 thousand, expected to be resolved in the stockholders' meeting in 2017.

The Company set aside special reserves for major incidents and fluctuation of risks for the retained businesses with policy period within 1 year in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". Please refer to Note IV.17 for the set-aside and release calculation. The after-tax amount of reserve and release for the special reserve is converted to special capital reserve at the end of current year. Special capital reserves for the year of 2016 and 2015 were set aside NT\$803,298 thousand and NT\$784,911 thousand, respectively, and released NT\$463,434 thousand and NT\$488,189 thousand, respectively.

The Company adopts foreign exchange reserve mechanism and hence be required by law to provide special capital reserve. Please refer to Note IV.18. The Company set aside NT\$917,190 thousand based on 10% of after-tax earnings for 2015. The abovementioned amounts were resolved in the shareholders' meeting in 2016. The Company set aside NT\$139,256 thousand and NT\$946,836 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2016, expected to be resolved in the shareholders' meeting in 2017.

The Company changed its accounting policy for subsequent measurement of investment property from cost to fair value starting from 2014. In order to ensure the soundness and stability of the financial structure, the Order No. Financial-Supervisory-Securities-Corporate-10402501001 issued by the FSC on 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. Hence, the amount set aside by the Company as special capital reserve was NT\$8,394,443 thousand. The special capital reserve shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contracts' fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 4 *Insurance Contracts* second stage in the future. The net loss from changes in fair value for 2015 was NT\$42,288 thousand and the reversal from sale was \$456 thousand. The

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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 expected to be 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-Securities-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 expected to be 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 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 distributing preferred stock dividends; 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 common stock dividends. The proposal of surplus earnings distribution shall be submitted by the Board of Directors to the shareholders' meeting for approval. In case the unappropriated retained earnings is less than New Taiwan Dollar 0.5 each share, it may be reserved and not distributed on the basis of canon of economy.

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



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- (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:

	<u>Appropriation of earnings</u>		<u>Dividends per share(NT\$)</u>	
	2016	2015	2016	2015
Legal capital reserve	\$1,893,672	\$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 2015 was resolved by shareholder's meeting on 31 May 2016. Earnings appropriation for the year of 2016 was approved by Board of Director's meeting on 30 March 2017, but not yet resolved by the shareholder's meeting.

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

21. Components of other comprehensive income

	<u>For the three-month period ended 31 March 2017</u>			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) from available-for-sale financial assets	\$462,154	\$(1,899,785)	\$593,022	\$(844,609)
Total	<u>\$462,154</u>	<u>\$(1,899,785)</u>	<u>\$593,022</u>	<u>\$(844,609)</u>

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**Notes to financial statements (Continued)**

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

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

**22. Retained earned premium**

	For the three-month period ended 31 March 2017		
	Investment contracts		Total
	Insurance contract	with discretionary participation feature	
Direct premium income	\$42,908,044	\$5,114,581	\$48,022,625
Reinsurance premium income	-	-	-
Premium income	42,908,044	5,114,581	48,022,625
Less:			
Premiums ceded to reinsurers	290,598	-	290,598
Changes in unearned premium reserve	51,980	12	51,992
Subtotal	342,578	12	342,590
Retained earned premium	\$42,565,466	\$5,114,569	\$47,680,035

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

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**Notes to financial statements (Continued)**  
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23. Retained claim payments

	For the three-month period ended 31 March 2017		
	Investment contracts with discretionary		Total
	Insurance contract	participation feature	
Direct insurance claim payments	\$9,072,160	\$8,167,906	\$17,240,066
Reinsurance claim payments	-	-	-
Insurance claim payments	9,072,160	8,167,906	17,240,066
Less:			
Claims recovered from reinsures	187,336	-	187,336
Retained claim payments	\$8,884,824	\$8,167,906	\$17,052,730

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

24. Employee benefits, depreciation and amortization

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

	For the three-month periods ended 31 March					
	2017			2016		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense	\$1,244,360	\$596,721	\$1,841,081	\$982,036	\$749,623	\$1,731,659
Salaries	1,244,360	372,636	1,616,996	982,036	543,108	1,525,144
Labor and health insurance	-	123,977	123,977	-	110,985	110,985
Pension	-	60,701	60,701	-	61,618	61,618
Other employee benefits expense	-	39,407	39,407	-	33,912	33,912
Depreciation	-	33,694	33,694	-	25,317	25,317
Amortization	-	16,160	16,160	-	10,721	10,721

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

The average number of employees for the three-month periods ended 31 March 2017 and 2016 were 13,335 and 13,105, 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.

The Company is not yet required to estimate the amounts of the employees' compensation and remuneration to directors for the three-month period ended 31 March 2017. Based on profit for the three-month period ended 31 March 2016, the Company estimated the amounts of the employees' compensation and remuneration to directors to be NT\$16,599 thousand and NT\$0 thousand, respectively, recognized as operating expense.

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

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

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25. Income taxes

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

Income tax expense recognized in profit or loss

	For the three-month periods ended 31 March	
	2017	2016
Current income tax expense (benefit):		
Current income tax payable	\$3,621,369	\$-
Deferred income tax expense (benefit):		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(3,973,067)	\$174,957
Deferred tax expense (benefit) relating to origination and reversal of tax loss and tax credit	-	164,538
Additional income tax under the Alternative Minimum Tax Act	-	171,023
Others	(17,099)	100,520
Total income tax expense (benefit)	<u>\$ (368,797)</u>	<u>\$ 611,038</u>

Income tax expense recognized in other comprehensive income

	For the three-month periods ended 31 March	
	2017	2016
Deferred tax expense (benefit):		
Unrealized losses (gains) from available-for-sale financial assets	\$ (593,022)	\$ (413,113)
Income tax expense (benefit) relating to components of other comprehensive income	<u>\$ (593,022)</u>	<u>\$ (413,113)</u>

(2) Imputation credit information

	2017.3.31	2016.12.31	2016.3.31
Balance of the imputation credit amount	\$300,891	\$296,076	\$146,555

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The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 2.57% and 4.38%, respectively.

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

(3) The assessment of income tax returns

As of 31 March 2017, the income tax returns of the Company have been assessed and approved up to the year of 2012 and the year of 2014.

26. Earnings per share

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

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

	For the three-month periods ended 31 March	
	2017	2016
<u>Basic earnings per share</u>		
Profit attributable to ordinary equity holders of the Company	\$34,716	\$2,692,231
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	3,473,760	3,473,760
Basic earnings per share (in dollars)	\$0.01	\$0.78

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

27. Separate account insurance products

(1) Separate account insurance products - assets and liabilities

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Item	Assets		
	2017.3.31	2016.12.31	2016.3.31
Cash in bank	\$434,543	\$302,721	\$426,204
Financial assets at fair value			
through profit or loss	64,608,034	64,067,015	63,979,209
Other receivables	68,194	70,461	73,941
<b>Total</b>	<b>\$65,110,771</b>	<b>\$64,440,197</b>	<b>\$64,479,354</b>

Item	Liabilities		
	2017.3.31	2016.12.31	2016.3.31
Reserve for separate account	\$64,787,697	\$64,131,791	\$64,232,788
Other payables	323,074	308,406	246,566
<b>Total</b>	<b>\$65,110,771</b>	<b>\$64,440,197</b>	<b>\$64,479,354</b>

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

Item	Revenues	
	For the three-month periods ended 31 March	
	2017	2016
Premium income	\$1,451,230	\$1,429,602
Gains (losses) from financial assets and liabilities at fair value through profit or loss	1,893,297	(149,844)
Interest income	8	31
Other revenues	48,002	45,946
Foreign exchange gains (losses)	(930,471)	(289,061)
<b>Total</b>	<b>\$2,462,066</b>	<b>\$1,036,674</b>

Item	Expenses	
	For the three-month periods ended 31 March	
	2017	2016
Insurance claim payments	\$1,310,560	\$1,092,808
Net change in separate account reserve	697,020	(524,350)
Custodian fee	454,486	468,216
<b>Total</b>	<b>\$2,462,066</b>	<b>\$1,036,674</b>

**China Life Insurance Co., Ltd.**  
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- (3) The rebate earned for engaging in investment-linked insurance business from counterparties for the three-month periods ended 31 March 2017 and 2016 were NT\$76,628 thousand and NT\$75,528 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 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.



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

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

Reserve-related risks refer to risks that various reserves are unable to deal with future obligations due to understatement of liability for premium business. The Company sets and implements the appropriate risk management system for the insurance business reserves and related risks.

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

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

**j** Risk identification related to matching of assets and liabilities

**k** Risk measurement related to matching of assets and liabilities

**l** Risk responses related to matching of assets and liabilities

2. Information of insurance risks

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

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

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

**Notes to financial statements (Continued)**

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

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

As at 31 March 2017, assuming a 5% change in mortality, morbidity, surrender and expenses, and a decrease in investment return of 0.1%, all insurance contracts and financial instruments with discretionary participation feature will not cause the Company's insurance liability inadequate.

(2) Interpretation for concentration of insurance risks

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

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

(3) Claim development trend

**j** Direct business loss development trend

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

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

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	\$2,940,254	\$864,380
2010	2,574,879	3,071,401	3,132,443	3,137,874	3,143,299	3,143,963	3,144,299	3,144,469		
2011	2,610,108	3,276,928	3,328,279	3,342,075	3,346,106	3,350,438	3,351,114			
2012	2,345,575	2,953,776	3,029,335	3,045,381	3,048,828	3,049,792				
2013	2,267,213	2,964,954	3,028,400	3,040,442	3,041,363					
2014	3,448,229	4,203,186	4,284,682	4,291,759						
2015	3,518,471	4,403,823	4,432,572							
2016	3,696,639	4,331,441								
2017	563,410									

Note: This table does not include long term life insurance

Add : Long term insurance claims	398,218
Claim reserve for discount on no claim	119,603
Reserve for claims balance	\$1,382,201

**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	\$2,873,684	\$846,970
2010	2,535,358	3,010,157	3,068,543	3,066,830	3,072,133	3,072,782	3,073,109	3,073,276		
2011	2,561,841	3,214,455	3,260,383	3,266,408	3,270,348	3,274,581	3,275,242			
2012	2,304,504	2,897,464	2,967,538	2,976,431	2,979,800	2,980,742				
2013	2,227,515	2,908,429	2,966,622	2,971,604	2,972,504					
2014	3,387,852	4,123,055	4,197,276	4,194,590						
2015	3,456,864	4,319,866	4,342,150							
2016	3,631,913	4,248,864								
2017	553,544									

Note: This table does not include long term life insurance

Add : Long term insurance claims	389,043
Claim reserve for discount on no claim	119,603
Reserve for claims balance	\$1,355,616

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

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

**Notes to financial statements (Continued)**

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notified of some claims in time. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experience. Thus, it is uncertain that the estimated claim reserve on the balance sheet date will be equal to the final settled amount of claim payments. The claim reserve recorded on the book is estimated based on the current available information. However, the final amount probably will differ from the original estimates because of the follow-up development of the claim events.

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

(4) Credit risk:

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

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

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**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(5) Liquidity risk:

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

31 March 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	\$(16,307)	\$(7,252)	\$72,096	\$422,929	\$2,769,196
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	-	-	-	-	-
31 March 2016	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment					
contracts with discretionary					
participation features	\$12,967,425	\$13,853,941	\$51,444,467	\$366,151,096	\$2,710,194,154
Reserve for insurance contracts with					
feature of financial instruments	-	-	-	-	-

Note:

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

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**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

(6) Market risk:

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

VIII. Financial instruments

1. Categories of financial instruments

Financial assets

	2017.3.31	2016.12.31	2016.3.31
Financial assets at fair value through profit or loss:			
Held for trading	\$9,799,261	\$503,339	\$7,571,367
Designated at fair value through profit or loss at initial recognition	268,021	197,112	331,801
Subtotal	10,067,282	700,451	7,903,168
Available-for-sale financial assets	366,338,041	380,457,315	415,482,971
Held-to-maturity financial assets	143,701,210	125,363,713	48,283,047
Loans and receivables :			
Cash and cash equivalents (Exclude cash on hand and revolving funds)	63,062,308	34,313,305	55,960,363
Debt instrument investments for which no active market exists	589,875,106	621,002,336	531,644,798
Receivables	17,144,416	12,886,631	17,504,502
Loans	30,237,906	30,776,732	30,552,040
Refundable deposits	5,532,637	5,509,356	5,361,140
Subtotal	705,852,373	704,488,360	641,022,843
Total	\$1,225,958,906	\$1,211,009,839	\$1,112,692,029

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

Financial liabilities

	2017.3.31	2016.12.31	2016.3.31
Financial liabilities at fair value through profit or loss :			
Held for trading	\$83,273	\$8,361,215	\$205,760
Financial liabilities at amortized cost :			
Payables	12,159,258	8,531,169	7,364,353
Guarantee deposits received	1,644,073	136,222	135,591
Subtotal	13,803,331	8,667,391	7,499,944
Total	\$13,886,604	\$17,028,606	\$7,705,704

2. Fair value of financial instruments

(1) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods and assumptions used by the Company to measure and disclose fair value of the financial assets and liabilities are as follows:

- j** Fair value of cash and cash equivalents, receivables, payables and other current liabilities are approximately equal to the carrying amount due to their short maturity.
- k** For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value are determined based on market quotation price. (including listed stocks and beneficiary certificates, etc.)
- l** Fair value of financial instruments with no active market is estimated based on the valuation methods. The estimates and assumptions used are consistent with those made by market participants during the pricing of financial instruments.
- m** The assessment bases for forward exchange are exchange rates on the Reuters, the NT as the closing price, and the purchase price of the other currency. Fair value of each forward exchange contract is calculated based on the exchange rate on each maturity date. Fair value of interest rate swap is the quoted price provided by traded parties.
- 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.

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

**Notes to financial statements (Continued)**

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

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

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

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

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

	Carrying amount		
	2017.3.31	2016.12.31	2016.3.31
Financial assets:			
Held-to-maturity financial assets	\$143,701,210	\$125,363,713	\$48,283,047
Debt instrument investments for which no active market exists	589,875,106	621,002,336	531,644,798
Refundable deposits - Bonds	3,945,237	3,948,947	3,751,293
	Fair value		
	2017.3.31	2016.12.31	2016.3.31
Financial assets:			
Held-to-maturity financial assets	\$141,533,870	\$122,755,906	\$49,067,047
Debt instrument investments for which no active market exists	593,060,694	622,698,966	537,431,988
Refundable deposits - Bonds	4,188,653	4,172,847	4,080,705

3. Fair value measurement hierarchy

(1) Fair value measurement hierarchy



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**Notes to financial statements (Continued)**

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

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

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

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

Level 3 – Unobservable inputs for assets or liabilities.

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

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

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

	2017.3.31			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value				
through profit or loss				
Bonds	\$268,021	\$-	\$-	\$268,021
Swaps and forward foreign				
exchange contracts	9,799,261	-	9,799,261	-
Available-for-sale financial assets				
Stocks	126,586,130	107,243,376	29,529	19,313,225
Bonds	225,311,608	57,458,795	167,852,813	-
Others	14,440,303	13,553,422	-	886,881
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	(83,273)	-	(83,273)	-

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

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

	2016.12.31			
	Total	Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value				
through profit or loss				
Bonds	\$197,112	\$-	\$-	\$197,112
Swaps and forward foreign exchange contracts	503,339	-	503,339	-
Available-for-sale financial assets				
Stocks	109,367,941	86,250,370	10,500	23,107,071
Bonds	261,047,873	51,825,544	209,222,329	-
Others	10,041,501	9,000,432	-	1,041,069
Investment property	20,828,245	-	-	20,828,245
Financial liabilities:				
Financial liabilities at fair value				
through profit or loss				
Swaps and forward foreign exchange contracts	(8,361,215)	-	(8,361,215)	-
2016.3.31				
	Total	Level 1	Level 2	Level 3
Financial assets:				
Financial assets at fair value				
through profit or loss				
Stocks	\$331,801	\$-	\$-	\$331,801
Swaps and forward foreign exchange contracts	7,571,367	-	7,571,367	-
Available-for-sale financial assets				
Stocks	112,353,902	91,303,477	-	21,050,425
Bonds	292,628,928	31,885,354	260,743,574	-
Others	10,500,141	9,881,983	-	618,158
Investment property	21,387,688	-	-	21,387,688
Financial liabilities:				
Financial liabilities at fair value				
through profit or loss				
Swaps and forward foreign exchange contracts	(205,760)	-	(205,760)	-

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

**Notes to financial statements (Continued)**

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

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

During the three-month period ended 31 March 2017 and 2016, the Company's bonds of available-for-sale financial assets measured on a recurring basis, amounted to \$12,817,759 thousand and \$2,229,156 thousand, respectively, transferred from Level 2 to Level 1 because the Company can 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 three-month period ended 31 March 2017:

	Total gains and losses recognized				Disposal or settlement	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			
Assets							
Financial assets at fair value through profit or loss							
Convertible bonds	\$197,112	\$70,909	\$-	\$-	\$-	\$-	\$268,021
Available-for-sale financial assets							
Stock	23,107,071	-	(3,793,846)	-	-	-	19,313,225
Others	1,041,069	668	(146,348)	2,123	(10,631)	-	886,881
Investment property	20,828,245	-	-	-	-	-	20,828,245

For the three-month period ended 31 March 2016:

	Total gains and losses recognized				Disposal or settlement	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			
Assets							
Financial assets at fair value through profit or loss							
Convertible bonds	\$335,329	\$(3,528)	\$-	\$-	\$-	\$-	\$331,801
Available-for-sale financial assets							
Stock	22,332,458	(73,827)	(1,216,628)	13,200	(4,778)	-	21,050,425
Others	553,316	-	(15,062)	79,904	-	-	618,158
Investment property	21,633,633	-	-	-	-	(245,945)	21,387,688

## 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 March 2017 and 2016 is as follows:

	For the three-month periods ended 31 March	
	2017	2016
Total gains and losses		
Recognize in profit or loss	\$70,909	\$(3,528)
Recognized in other comprehensive income	(3,940,194)	(1,231,690)

#### 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:

2017.3.31				
	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss				
Private Convertible bonds	Option	Volatility in stock price for the three-month period	47.313%	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

**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

2016.3.31

	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss				
Private convertible bonds	Option	Volatility in stock price for the three-month period	32.68%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Available-for-sale				
Stock	Market approach	Discount for lack of liquidity	10%~30%	The higher the discount for lack of liquidity, the lower the estimated fair value
Stock	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

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

	2017.3.31			
	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	\$90,813,830	\$50,720,040	\$-	\$141,533,870
Debt instrument investments for which no active market exists				
Bonds	112,738,720	480,321,974	-	593,060,694
Refundable deposits				
Bonds	-	4,188,653	-	4,188,653

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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	2016.12.31			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$56,063,578	\$66,692,328	\$-	\$122,755,906
Debt instrument investments for which no active market exists				
Bonds	65,025,057	557,673,909	-	622,698,966
Refundable deposits				
Bonds	-	4,172,847	-	4,172,847
	2016.3.31			
	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	\$31,470,427	\$17,596,620	\$-	\$49,067,047
Debt instrument investments for which no active market exists				
Bonds	115,893,294	421,538,694	-	537,431,988
Refundable deposits				
Bonds	-	4,080,705	-	4,080,705

**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.

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**Notes to financial statements (Continued)**

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

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

2017.3.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial liabilities recognized on balance sheet assets (a)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$9,799,261	\$-	\$9,799,261	\$(71,854)	\$-	\$9,727,407

2017.3.31						
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial assets recognized on balance sheet liabilities (a)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$83,273	\$-	\$83,273	\$(71,854)	\$-	\$11,419

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 assets (a)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$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 liabilities (a)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)	Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$8,361,215	\$-	\$8,361,215	\$(393,512)	\$-	\$7,967,703



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

**Notes to financial statements (Continued)**

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

2016.3.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of	Net financial	Relevant amount that has not			
Gross amount of recognized financial assets (a)	offset financial liabilities recognized on balance sheet (b)	assets recognized on balance sheet (c)= (a)- (b)	been offset on balance sheet (d)			
			Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)	
Derivative financial instrument	\$7,571,367	\$-	\$7,571,367	\$156,527	\$-	\$7,414,840

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

**IX. Financial risk management**

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

**1. Credit risk analysis**

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

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

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

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

**Notes to financial statements (Continued)**

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

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

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

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

(2) Financial assets credit risk concentration analysis

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

Date: 31 March 2017

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$34,441,253	\$26,668,074	\$1,952,981	\$-	\$-	\$63,062,308
Financial assets at fair value						
through profit or loss	268,021	-	-	-	-	268,021
Available-for-sale financial assets	111,470,392	44,327,472	25,675,961	42,176,148	1,661,635	225,311,608
Debt instrument investments for						
which no active market exists	90,317,466	124,070,878	145,007,045	215,121,157	15,358,560	589,875,106
Held-to-maturity financial assets	6,631,281	21,921,205	26,434,612	88,714,112	-	143,701,210
Refundable deposits - Bonds	5,492,270	-	-	-	-	5,492,270
<b>Total</b>	<b>\$248,620,683</b>	<b>\$216,987,629</b>	<b>\$199,070,599</b>	<b>\$346,011,417</b>	<b>\$17,020,195</b>	<b>\$1,027,710,523</b>
Proportion	24.19%	21.11%	19.37%	33.67%	1.66%	100.00%

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**Notes to financial statements (Continued)**

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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%

Date: 31 March 2016

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

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

Date: 31 March 2017

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$1,029,713	\$543,359	\$492,177	\$2,065,249
Overdue receivables	-	-	-	-
<b>Total</b>	<b>\$1,029,713</b>	<b>\$543,359</b>	<b>\$492,177</b>	<b>\$2,065,249</b>
Proportion	49.86%	26.31%	23.83%	100.00%

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**Notes to financial statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)**

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	-	-	-	-
Total	\$571,339	\$1,121,987	\$524,505	\$2,217,831
Proportion	25.76%	50.59%	23.65%	100.00%

Date: 31 March 2016

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

(3) Financial asset credit quality and overdue impairment analysis

A. Grading of financial instrument credit risk quality

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

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

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

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**Notes to financial statements (Continued)**

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

Date: 31 March 2017

Financial assets	Normal assets		Past due but not impaired		Total
	Investment grade	Non-investment grade	impaired	Impaired	
Cash and cash equivalents	\$63,062,308	\$-	\$-	\$-	\$63,062,308
Financial assets at fair value					
through profit or loss	268,021	-	-	-	268,021
Available-for-sale financial assets	225,311,608	-	-	-	225,311,608
Debt instrument investments for					
which no active market exists	589,875,106	-	-	-	589,875,106
Held-to-maturity financial assets	143,701,210	-	-	-	143,701,210
Refundable deposits	5,492,270	-	-	-	5,492,270
<b>Total</b>	<b>\$1,027,710,523</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,027,710,523</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%

Date: 31 March 2016

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

**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 March 2017

	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Secured loans and Overdue receivables							
Consumer finance	\$2,067,611	\$24,313	\$9,867	\$-	\$-	\$36,542	\$2,065,249
Corporate finance	-	-	-	-	-	-	-
<b>Total</b>	<b>\$2,067,611</b>	<b>\$24,313</b>	<b>\$9,867</b>	<b>\$-</b>	<b>\$-</b>	<b>\$36,542</b>	<b>\$2,065,249</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>

Date :31 March 2016

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

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	
	2017.3.31	\$2,055,579	\$9,670	\$-	
2016.12.31	2,210,654	7,177	-	-	2,217,831
2016.3.31	2,694,845	7,095	-	-	2,701,940

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.

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

**Notes to financial statements (Continued)**

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

The Company regularly monitors market liquidity and formulates plans to use the funds depending on market conditions and funding demand arrangements for liquidity assets portfolio. To deal with possible liquidity risk early, the company reports duration of assets and liabilities quarterly, creates cash flow model and reviews cash flow status regularly.

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

A. Financial assets held for managing liquidity risk

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

B. Maturity analysis of non-derivative financial liabilities

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

Non-derivative financial instruments

	<u>In 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
2017.3.31			
Payables	\$12,146,389	\$-	\$12,146,389
2016.12.31			
Payables	\$8,531,169	\$-	\$8,531,169
2016.3.31			
Payables	\$7,364,353	\$-	\$7,364,353



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

**Notes to financial statements (Continued)**

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C. Maturity analysis of derivative financial liabilities

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

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

Maturity structure of derivative financial liabilities is as follows:

	2017.3.31				
	181 days				
	In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair value through profit or loss	\$47,937	\$35,336	\$-	\$-	\$83,273

	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

	2016.3.31				
	181 days				
	In 90 days	91-180 days	-1 year	Over 1 year	Total
Financial liabilities at fair value through profit or loss	\$148,616	\$50,292	\$6,852	\$-	\$205,760

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

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.

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**(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:

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

**Notes to financial statements (Continued)**

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

**A. Simple Sensitivity**

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

**B. Scenario Analysis**

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

**a. Historical scenario:**

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

**b. Hypothetical scenario:**

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

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. The Company's risk analysis, early warning, and business management are in accordance with the stress testing report.

Summarization of Simple Sensitivity

For the three-month period ended 31 March 2017

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	-	947,170
Interest rate risk (Yield curve)	+1BP	(56)	(310,754)
Exchange risk (Foreign exchange rate)	+1% ( USD for each currency appreciates 1%)	1,007,974	65,634

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)**

For the three-month period ended 31 March 2016

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

**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	2017.3.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$63,066,907	\$-	\$63,066,907
Receivables	17,144,416	-	17,144,416
Current tax assets	1,235,429	-	1,235,429
Financial assets at fair value through profit or loss	9,799,261	268,021	10,067,282
Available-for-sale financial assets	118,044,326	248,293,715	366,338,041
Debt instrument investments for which no active market exists	3,821,710	586,053,396	589,875,106
Held-to-maturity financial assets	17,579	143,683,631	143,701,210
Investment property	-	23,350,354	23,350,354
Loans	14,365	30,223,541	30,237,906
Reinsurance assets	393,342	-	393,342
Property and equipment	-	8,240,824	8,240,824
Intangible assets	-	147,266	147,266
Deferred tax assets	4,770,812	-	4,770,812
Other assets	353,552	18,878,226	19,231,778
Separate account product assets			65,110,771
Total assets	\$218,661,699	\$1,059,138,974	\$1,342,911,444
<b>Liabilities</b>			
Payables	\$12,146,389	\$-	\$12,146,389
Current tax liabilities	3,950,255	-	3,950,255
Financial liabilities at fair value through profit or loss	83,273	-	83,273
Insurance liabilities	19,422,979	1,152,093,285	1,171,516,264
Foreign exchange valuation reserve	-	2,543,612	2,543,612
Provision	-	88,956	88,956
Deferred tax liabilities	-	3,351,681	3,351,681
Other liabilities	2,126,553	1,731,486	3,858,039
Separate account product liabilities			65,110,771
Total liabilities	\$37,729,449	\$1,159,809,020	\$1,262,649,240

**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	1,455,392	-	1,455,392
Other assets	289,422	18,902,870	19,192,292
Separate account product assets			64,440,197
Total assets	\$150,129,920	\$1,109,141,431	\$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	-	4,619,185	4,619,185
Other liabilities	2,171,677	3,216,346	5,388,023
Separate account product liabilities			64,440,197
Total liabilities	\$36,896,895	\$1,141,302,269	\$1,242,639,361

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

Item	2016.3.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$55,965,872	\$-	\$55,965,872
Receivables	17,504,502	-	17,504,502
Current tax assets	2,044,157	-	2,044,157
Financial assets at fair value through profit or loss	7,571,367	331,801	7,903,168
Available-for-sale financial assets	104,298,215	311,184,756	415,482,971
Debt instrument investments for which no active market exists	4,713,785	526,931,013	531,644,798
Held-to-maturity financial assets	49,753	48,233,294	48,283,047
Investment property	-	23,882,694	23,882,694
Loans	23,668	30,528,372	30,552,040
Reinsurance assets	390,966	-	390,966
Property and equipment	-	7,426,509	7,426,509
Intangible assets	-	124,351	124,351
Deferred tax assets	3,415,504	-	3,415,504
Other assets	468,189	18,908,947	19,377,136
Separate account product assets			64,479,354
Total assets	\$196,445,978	\$967,551,737	\$1,228,477,069
<b>Liabilities</b>			
Payables	\$7,364,353	\$-	\$7,364,353
Financial liabilities at fair value through profit or loss	205,760	-	205,760
Insurance liabilities	25,271,223	1,022,591,864	1,047,863,087
Foreign exchange valuation reserve	-	6,657,177	6,657,177
Provision	-	122,855	122,855
Deferred tax liabilities	-	7,273,740	7,273,740
Other liabilities	1,085,776	995,766	2,081,542
Separate account product liabilities			64,479,354
Total liabilities	\$33,927,112	\$1,037,641,402	\$1,136,047,868

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

**XI. Capital management**

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

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

**XII. Related party transaction**

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

1. Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Videoland Inc.	Juristic-person director of the Company
Tai li investment Co., Ltd.	Juristic-person director of the Company
Lan wan Investment Corporation	Juristic-person director of the Company
EVER-RICH Co.,Ltd.	Juristic-person director of the Company
Other related parties	Directors with their spouse and dependents, and managers

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

(1) Premium income

Name	For the three-month periods ended 31 March	
	2017	2016
Videoland Inc.	\$660	\$472
Other related parties	10,633	22,041
<b>Total</b>	<b>\$11,293</b>	<b>\$22,513</b>

(2) Insurance claim payments

Name	For the three-month periods ended 31 March	
	2017	2016
Other related parties	\$3,711	\$-



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

2017.3.31				
Name	Maximum amount	Ending balance	Rate	Interest income
Other related parties	\$1,417	\$1,355	1.80%	\$8

2016.12.31				
Name	Maximum amount	Ending balance	Rate	Interest income
Other related parties	\$1,662	\$1,417	1.80%~1.92%	\$30

2016.3.31				
Name	Maximum amount	Ending balance	Rate	Interest income
Other related parties	\$1,662	\$1,601	1.80%~1.92%	\$9

(4) Policy loans

Name	2017.3.31	2016.12.31	2016.3.31
Other related parties	\$311	\$311	\$311

(5) The Company's holding of stock balance issued by related parties is as follow:

Name	2017.3.31	2016.12.31	2016.3.31
Videoland Inc.	\$592,829	\$555,253	\$616,762

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

3. Key management personnel remuneration

	For the three-month periods ended 31 March	
	2017	2016
Short-term employee benefits	\$182,808	\$177,966
Post-employment benefits	502	483
Total	\$183,310	\$178,449

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

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

**XIII. Pledged assets**

1. As of 31 March 2017, 31 December 2016, and 31 March 2016, details of pledged and guaranteed assets are as follows:

Item	2017.3.31	2016.12.31	2016.3.31
Available-for-sale financial assets-domestic government bonds	\$1,547,033	\$1,541,138	\$1,590,733
Debt instrument investments for which no active market exists-domestic government bonds	3,945,237	3,948,947	3,751,293
<b>Total</b>	<b>\$5,492,270</b>	<b>\$5,490,085</b>	<b>\$5,342,026</b>

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

Item	2017.3.31	2016.12.31	2016.3.31
Insurance deposits	\$5,472,481	\$5,470,290	\$5,323,029
Litigation deposits	19,789	19,795	18,997
<b>Total</b>	<b>\$5,492,270</b>	<b>\$5,490,085</b>	<b>\$5,342,026</b>

**XIV. Commitment and Contingencies**

1. Operating lease commitment—the Company as the lessee

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

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

	2017.3.31	2016.12.31	2016.3.31
Less than one year	\$128,559	\$130,084	\$128,300
More than one year but less than five years	482,590	489,457	509,599
More than five years	7,702,909	7,726,118	7,795,745
<b>Total</b>	<b>\$8,314,058</b>	<b>\$8,345,659</b>	<b>\$8,433,644</b>

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

The minimum lease payments of operating lease for the three-month periods ended 31 March 2017 and 2016 amounted to NT\$16,345 thousand and NT\$17,296 thousand, respectively.

2. Operating lease commitment—the Company as the lessor

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

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

	2017.3.31	2016.12.31	2016.3.31
Less than one year	\$424,203	\$386,004	\$420,229
More than one year but less than five years	1,155,448	968,627	1,011,079
More than five years	265,770	238,667	321,596
Total	<u>\$1,845,421</u>	<u>\$1,593,298</u>	<u>\$1,752,904</u>

3. Finance lease commitment—the Company as the lessee

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

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

	2017.3.31	2016.12.31	2016.3.31
Less than one year	\$53,292	\$53,764	\$59,892
More than one year but less than five years	123,918	136,887	177,210
Total	<u>\$177,210</u>	<u>\$190,651</u>	<u>\$237,102</u>

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

4. Investment commitment for private equity fund

As of 31 March 2017, the maximum remaining capital commitment for the contracted private equity fund of the Company was US\$24,808 thousand.

5. On 16 December 2016, the Company signed the contract with CHUNG-LU Construction Co., Ltd. for the construction of Taipei Academy, and on 31 March 2017 the Company signed the first contract amendment protocol. The amended total amount of the contract is NT\$5,623,913 thousand. As of 31 March 2017, the Company has not paid the funds.
6. On 27 April 2017 the Company signed the real estate sale contract with China Synthetic Rubber Corp. The contract worth NT\$450,000 thousand.

XV. Significant disaster damages

None.

XVI. Significant subsequent events

None.

XVII. Other matters

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

	2017.3.31		
	Foreign currency	Exchange rate (dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 24,628,998	\$30.3360	\$747,147,671
CNH	8,154,562	4.4086	35,950,202
CNY	2,189,257	4.4019	9,636,445
<u>Non-monetary items</u>			
USD	219,377	30.3360	6,655,021
CNH	909,675	4.4086	4,010,393
CNY	6,163,804	4.4019	27,132,450
<u>Financial Liabilities</u>			
<u>Payables</u>			
USD	49,670	30.3360	1,506,789
USD	50,000	30.3810	1,519,050
HKD	119,612	3.8987	466,338

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

	2016.12.31		
	Foreign currency	Exchange rate (dollar)	NTD
<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
2016.3.31			
	Foreign currency	Exchange rate (dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$18,051,143	\$32.2820	\$582,730,725
CNH	7,961,048	4.9876	39,706,523
CNY	1,958,180	4.9913	9,773,861
<u>Non-monetary items</u>			
USD	260,954	32.2820	8,424,126
CNH	888,399	4.9876	4,430,979
CNY	5,872,186	4.9913	29,309,843
<u>Financial Liabilities</u>			
<u>Payables</u>			
CNY	29,963	4.9713	148,955

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

## 2. Participation of unconsolidated structured entities

As of 31 March 2017, 31 December 2016, and 31 March 2016, interests in unconsolidated entities the Company holds are as follows. The Company does not provide any financial or other support for these structured entities. The estimated maximum exposure amount is the interests the Company holds.

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

31 March 2017

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate	Total
Assets held by the Company				
Available-for-sale financial assets	\$886,881	\$1,426,374	\$-	\$2,313,255
Debt instrument investments for which no active market exists	-	-	49,287,093	49,287,093
The maximum exposure amount	886,881	1,426,374	49,287,093	51,600,348
Financial or other support provided	None	None	None	

31 December 2016

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

31 March 2016

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate	Total
Assets held by the Company				
Available-for-sale financial assets	\$618,158	\$1,559,401	\$-	\$2,177,559
Debt instrument investments for which no active market exists	-	-	29,749,267	29,749,267
The maximum exposure amount	618,158	1,559,401	29,749,267	31,926,826
Financial or other support provided	None	None	None	

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

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

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

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

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

CCB Life Insurance Company Ltd. made an announcement to change into a company limited by shares from a limited company on 20 December 2016.

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. After the investment is approved by regulator, the chairman of the Board is authorized to execute the following works.