

**China Life Insurance Co., Ltd.**  
**Financial Statements**  
**For The Three-month Periods Ended**  
**31 March 2018 and 2017**  
**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.

**Address: 5F., No.122, Dunhua N. Rd., Taipei City, Taiwan (R.O.C.)**  
**Telephone: 886-2-2719-6678**

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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.

**Introduction**

We have reviewed the accompanying balance sheets of China Life Insurance Co., Ltd. (the “Company”) as of 31 March 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2018 and 2017 and notes to the financial statements, including the summary of significant accounting policies (together “the financial statements”). Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and become effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these financial statements based on our reviews.

**Scope of Review**

We conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of the Company as at March 31, 2018 and 2017, and their financial performance and cash flows for the three-month periods ended March 31, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

**Emphasis of Matter – Applying for New Accounting Standards**

We draw attention to Note 3 of the financial statements, which describes the Company applied for the International Financial Reporting Standard 9, “Financial Instruments” starting from January 1, 2018, and elected not to restate the financial statements for prior periods. Our conclusion is not modified in respect of this matter.

WEN-FUN, FUH

CHENG-TAO, CHANG

Ernst & Young, Taiwan

26 April 2018

Notice to Readers:

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

Balance sheets

As at 31 March 2018, 31 December 2017, and 31 March 2017

(31 March 2018 and 2017 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	3/31/2018		12/31/2017		3/31/2017	
		Amount	%	Amount	%	Amount	%
Cash and cash equivalents	VI.1	\$51,166,149	3	\$44,717,613	3	\$63,066,907	5
Receivables	VI.2	13,105,112	1	12,998,829	1	17,144,416	1
Current tax assets		-	-	-	-	1,235,429	0
Financial assets at fair value through profit or loss	VI.3	186,284,907	12	4,531,910	0	10,067,282	1
Financial assets at fair value through other comprehensive income	VI.4	267,415,012	18	-	-	-	-
Available-for-sale financial assets	VI.5	-	-	424,694,976	29	366,338,041	27
Financial assets at amortized cost	VI.6	834,636,951	55	-	-	-	-
Debt instrument investments for which no active market exists	VI.7	-	-	632,451,850	43	589,875,106	44
Held-to-maturity financial assets	VI.8	-	-	194,762,878	13	143,701,210	11
Investment property	VI.10	23,127,777	2	23,149,852	2	23,350,354	2
Loans	VI.9	31,495,043	2	31,490,373	2	30,237,906	2
Reinsurance assets	VI.11	418,079	0	302,104	0	393,342	0
Property and equipment	VI.12	9,587,599	1	9,387,145	1	8,240,824	1
Intangible assets		178,854	0	186,275	0	147,266	0
Deferred tax assets	VI.28	9,373,184	1	5,689,044	1	4,770,812	0
Other assets	VI.13	20,514,715	1	19,546,345	1	19,231,778	1
Separate account product assets	VI.30	62,544,045	4	61,824,990	4	65,110,771	5
Total assets		\$1,509,847,427	100	\$1,465,734,184	100	\$1,342,911,444	100

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

## China Life Insurance Co., Ltd.

## Balance sheets - (continued)

As at 31 March 2018, 31 December 2017, and 31 March 2017

(31 March 2018 and 2017 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	3/31/2018		12/31/2017		3/31/2017	
		Amount	%	Amount	%	Amount	%
Payables	VI.14	\$9,087,350	1	\$8,547,929	1	\$12,146,389	1
Current tax liabilities		6,583,177	0	4,934,199	0	3,950,255	0
Financial liabilities at fair value through profit or loss	VI.15	1,039,157	0	535,854	0	83,273	0
Insurance liabilities	VI.16	1,326,488,286	88	1,284,198,018	88	1,171,516,264	87
Foreign exchange valuation reserve	VI.17	2,014,667	0	2,703,763	0	2,543,612	0
Provisions	VI.18	119,426	0	120,084	0	88,956	0
Deferred tax liabilities	VI.28	2,397,749	0	2,553,444	0	3,351,681	0
Other liabilities		8,043,810	1	4,978,156	0	3,858,039	0
Separate account product liabilities	VI.30	62,544,045	4	61,824,990	4	65,110,771	5
<b>Total liabilities</b>		<b>1,418,317,667</b>	<b>94</b>	<b>1,370,396,437</b>	<b>93</b>	<b>1,262,649,240</b>	<b>93</b>
Capital stock	VI.20						
Common stock		37,863,984	2	37,863,984	2	34,737,600	3
Capital surplus	VI.21	2,289,273	0	2,289,273	0	2,289,273	0
Retained earnings	VI.22						
Legal capital reserve		9,811,298	1	9,811,298	1	7,917,627	1
Special capital reserve		23,458,101	2	23,458,101	2	21,473,047	2
Unappropriated retained earnings		14,221,883	1	10,807,840	1	11,569,122	1
Other equity	VI.23	3,885,221	0	11,107,251	1	2,275,535	0
<b>Total equity</b>		<b>91,529,760</b>	<b>6</b>	<b>95,337,747</b>	<b>7</b>	<b>80,262,204</b>	<b>7</b>
<b>Total liabilities and equity</b>		<b>\$1,509,847,427</b>	<b>100</b>	<b>\$1,465,734,184</b>	<b>100</b>	<b>\$1,342,911,444</b>	<b>100</b>

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

English Translation of Financial Statements Originally Issued in Chinese

**China Life Insurance Co., Ltd.**  
**Statements of comprehensive income**  
**For the three-month periods ended 31 March 2018 and 2017**  
**(Reviewed only, not audited in accordance with the generally accepted auditing standards)**  
**(Expressed in Thousands of New Taiwan Dollars)**

Item	Notes	1 January-31 March 2018		1 January-31 March 2017	
		Amount	%	Amount	%
Operating revenue					
Direct premium income		\$59,944,671	82	\$48,022,625	83
Premium income		59,944,671	82	48,022,625	83
Deduct: Premiums ceded to reinsurers		(304,477)	(0)	(290,598)	(0)
Net changes in unearned premium reserve	VI.16	(4,573)	(0)	(51,992)	(0)
Retained premium earned	VI.25	59,635,621	82	47,680,035	83
Reinsurance commission earned		61,583	0	77,089	0
Handling fees earned		225,504	0	209,470	0
Net investment profits and losses					
Interest income		10,750,604	15	9,912,524	17
Gains on financial assets and liabilities at fair value through profit or loss		13,095,015	18	30,932,070	54
Realized gains on available-for-sale financial assets		-	-	2,025,196	4
Realized gains on debt instrument investments for which no active market exists		-	-	1,238,607	2
Realized gains on financial assets at fair value through other comprehensive income		2,538,800	3	-	-
Foreign exchange losses		(16,752,967)	(23)	(40,736,530)	(71)
Net changes in foreign exchange valuation reserve	VI.17	689,096	1	3,839,320	7
Gains on investment property		119,601	0	122,199	0
Expected credit impairment losses and gains on reversal of investments	VI.24	2,216	0	-	-
Gains from adoption of overlay approach		1,937,788	3	-	-
Other operating revenue		2	0	-	-
Separate account product revenue	VI.30	1,007,767	1	2,462,066	4
Subtotal		<u>73,310,630</u>	<u>100</u>	<u>57,762,046</u>	<u>100</u>
Operating costs					
Insurance claim payments		(18,858,069)	(25)	(17,240,066)	(30)
Deduct: Claims recovered from reinsurers		173,531	0	187,336	0
Retained claim payments	VI.26	(18,684,538)	(25)	(17,052,730)	(30)
Net changes in insurance liabilities	VI.16	(46,603,620)	(64)	(34,882,017)	(60)
Brokerage expenses		(1,352)	(0)	(1,426)	(0)
Commission expenses		(2,647,434)	(4)	(2,695,421)	(5)
Finance costs		(19,433)	(0)	(1,588)	(0)
Other operating costs		(113,895)	(0)	(66,345)	(0)
Separate account product expenses	VI.30	(1,007,767)	(1)	(2,462,066)	(4)
Subtotal		<u>(69,078,039)</u>	<u>(94)</u>	<u>(57,161,593)</u>	<u>(99)</u>
Operating expenses	VI.27				
Business expenses		(699,550)	(1)	(644,938)	(1)
Administrative and general expenses		(811,993)	(1)	(281,207)	(1)
Employee training expenses		(4,019)	(0)	(3,252)	(0)
Expected credit impairment losses and gains on reversal of non-investments	VI.24	(106)	(0)	-	-
Subtotal		<u>(1,515,668)</u>	<u>(2)</u>	<u>(929,397)</u>	<u>(2)</u>
Operating income (loss)		2,716,923	4	(328,944)	(1)
Non-operating income and expenses		4,926	0	(5,137)	(0)
Income (loss) from continuing operations before income tax		2,721,849	4	(334,081)	(1)
Income tax benefit	VI.28	956,084	1	368,797	1
Net income from continuing operations		3,677,933	5	34,716	0
Net income		3,677,933	5	34,716	0
Other comprehensive income, net of tax	VI.23				
Items that will not be reclassified subsequently to profit or loss					
Gains (losses) on equity instruments at fair value through other comprehensive income		(1,322,284)	(1)	-	-
Income taxes relating to items that are not be reclassified		187,768	0	-	-
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)
Gains (losses) on debt instruments at fair value through other comprehensive income		(12,539,892)	(17)	-	-
Other comprehensive income from adoption of overlay approach		(1,937,788)	(3)	-	-
Income taxes relating to items that are or may be reclassified subsequently to profit or loss		2,158,439	3	593,022	1
Other comprehensive income, net of tax		<u>(13,453,757)</u>	<u>(18)</u>	<u>(844,609)</u>	<u>(1)</u>
Total comprehensive income		<u>\$ (9,775,824)</u>	<u>(13)</u>	<u>\$ (809,893)</u>	<u>(1)</u>
Earnings per share (In New Taiwan Dollars)	VI.29				
Basic earnings per share		<u>\$0.97</u>		<u>\$0.01</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Statements of changes in equity**

**For the three-month periods ended 31 March 2018 and 2017**

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

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

Summary	Notes	Retained earnings					Other equity				Total
		Common stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Unrealized valuation gains (losses) on financial assets at fair value through other comprehensive income	Unrealized valuation gains (losses) on available-for-sale financial assets	Revaluation surplus	Other comprehensive income from adoption of overlay approach	
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-months period ended 31 March 2017		-	-	-	-	34,716	-	-	-	-	34,716
Other comprehensive income for the three-month period ended 31 March 2017	VI.23	-	-	-	-	-	-	(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
Balance on 1 January 2018		\$37,863,984	\$2,289,273	\$9,811,298	\$23,458,101	\$10,807,840	\$-	\$10,825,857	\$281,394	\$-	\$95,337,747
The effects on retrospective application and retrospective restatement		-	-	-	-	(63,878)	18,913,045	(10,825,857)	-	(2,092,193)	5,931,117
Balance on 1 January 2018 (adjusted)		37,863,984	2,289,273	9,811,298	23,458,101	10,743,962	18,913,045	-	281,394	(2,092,193)	101,268,864
Net income for the three-month period ended 31 March 2018		-	-	-	-	3,677,933	-	-	-	-	3,677,933
Other comprehensive income for the three-month period ended 31 March 2018	VI.23	-	-	-	-	(127)	(12,026,486)	-	(3,215)	(1,423,929)	(13,453,757)
Total comprehensive income for the three-month period ended 31 March 2018		-	-	-	-	3,677,806	(12,026,486)	-	(3,215)	(1,423,929)	(9,775,824)
Disposal of equity instruments at fair value through other comprehensive income	VI.4	-	-	-	-	(236,605)	236,605	-	-	-	-
Net changes in special reserve		-	-	-	-	36,720	-	-	-	-	36,720
Balance on 31 March 2018		\$37,863,984	\$2,289,273	\$9,811,298	\$23,458,101	\$14,221,883	\$7,123,164	\$-	\$278,179	\$(3,516,122)	\$91,529,760

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



English Translation of Financial Statements Originally Issued in Chinese  
**China Life Insurance Co., Ltd.**  
**Statements of cash flows**  
**For the three-month periods ended 31 March 2018 and 2017**  
**(Reviewed only, not audited in accordance with the generally accepted auditing standards)**  
**(Expressed in Thousands of New Taiwan Dollars)**

	1 January-31 March 2018	1 January-31 March 2017
Cash flows from operating activities		
Net income (loss) before tax	\$2,721,849	\$(334,081)
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	38,799	33,694
Amortization expense	22,927	16,160
Provision (reversal of provision) for bad debt expense	-	2,842
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	(13,057,499)	(30,932,070)
Net losses (gains) on available-for-sale financial assets	-	(1,899,785)
Net losses (gains) on financial assets at fair value through other comprehensive income	(2,528,790)	-
Net losses (gains) on debt instrument investments for which no active market exists	-	(1,238,607)
Interest expenses	19,433	1,588
Interest income	(10,750,604)	(9,912,524)
Dividend income	(47,526)	(125,411)
Net changes in insurance liabilities	42,255,416	27,184,743
Net changes in foreign exchange valuation reserve	(689,096)	(3,839,320)
Net changes in provisions	17	(8,454)
Expected credit impairment losses (reversal gains) of investments	(2,216)	-
Expected credit impairment losses of (reversal gains) non-investments	106	-
(Gains) losses from adoption of overlay approach	(1,937,788)	-
(Gains) losses on disposal or scrapping of property and equipment	8	321
(Gains) losses on disposal of investment property	(1,485)	-
Unrealized foreign exchange losses (gains)	19,230,219	46,279,458
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	(5,749,008)	13,283,172
Decrease (increase) in notes receivable	191,332	164,577
Decrease (increase) in other receivables	(1,074,116)	(5,494,516)
Decrease (increase) in prepaid expenses and other prepayments	(718,442)	(13,479)
Decrease (increase) in refundable deposits	957	(21,097)
Decrease (increase) in reinsurance assets	(115,017)	(99,356)
Decrease (increase) in other assets	(5,662)	(2,725)
Increase (decrease) in notes payable	161,615	(17,394)
Increase (decrease) in life insurance proceeds payable	(7,689)	28,499
Increase (decrease) in other payables	406,382	4,135,579
Increase (decrease) in due to reinsurers and ceding companies	154,651	44,242
Increase (decrease) in commissions payable	(90,308)	(575,442)
Increase (decrease) in accounts collected in advance	173,160	(1,551,913)
Increase (decrease) in guarantee deposits received	2,079,104	1,507,851
Increase (decrease) in other liabilities	813,391	(1,485,922)
Increase (decrease) in provision for employee benefits	(674)	(343)
Cash generated from operations activities	31,493,446	35,130,287
Interest received	8,635,258	8,445,708
Dividends received	47,526	65,166
Interest paid	(19,433)	(1,588)
Income taxes refunded (paid)	(164,778)	(167,368)
Net cash provided by (used in) operating activities	39,992,019	43,472,205
Cash flows from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	(32,968,422)	-
Disposal of financial assets at fair value through other comprehensive income	40,854,562	-
Acquisition of financial assets at amortized cost	(51,092,832)	-
Disposal of financial assets at amortized cost	5,542,617	-
Maturity principal from financial assets at amortised cost	4,307,445	-
Acquisition of available-for-sale financial assets	-	(36,487,622)
Disposal of available-for-sale financial assets	-	43,253,983
Acquisition of debt instrument investments for which no active market exists	-	(25,270,787)
Disposal of debt instrument investment for which no active market exists	-	25,839,795
Maturity principal from debt instrument investments for which no active market exists	-	3,126,409
Acquisition of held-to-maturity financial assets	-	(25,530,460)
Acquisition of property and equipment	(196,323)	(187,110)
Acquisition of intangible assets	(7,793)	(4,346)
Decrease (increase) in loans	(6,297)	536,130
Disposal of investment property	23,560	-
Net cash provided by (used in) investing activities	(33,543,483)	(14,724,008)
Increase (decrease) in cash and cash equivalents	6,448,536	28,748,197
Cash and cash equivalents at the beginning of the period	44,717,613	34,318,710
Cash and cash equivalents at the end of the period	\$51,166,149	\$63,066,907

**The accompanying notes are an integral part of these 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 2018 and 2017**

**(31 March 2018 and 2017 reviewed only, not audited in accordance with the generally accepted auditing standards)**

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

**I. Organizations and business scope**

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

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

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

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

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

The financial statements of the Company were authorized to issue in accordance with a resolution of the Company’s board of directors on 26 April 2018.

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

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

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

**Notes to financial statements (Continued)**

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

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

As the International Financial Reporting Standards upgraded from version 2017 to version 2018, the summary of impacts arising from the initial adoption on the balance sheets items as at 1 January 2018 is as follows:

	2017.12.31		2018.1.1
	Before adoption	adjustment	After adoption
Balance sheets items			
Assets:			
Financial assets at fair value through profit or loss	\$4,531,910	\$163,376,939	\$167,908,849
Available-for-sale financial assets	424,694,976	(424,694,976)	-
Financial assets at fair value through other comprehensive income	-	289,771,705	289,771,705
Held-to-maturity financial assets	194,762,878	(194,762,878)	-
Debt instrument investments for which no active market exists	632,451,850	(632,451,850)	-
Financial assets measured at amortized cost	-	805,631,800	805,631,800
Receivables	12,998,829	(757)	12,998,072
Deferred tax assets	5,689,044	10,400	5,699,444
Other assets	19,546,345	322,728	19,869,073
Liabilities:			
Insurance liabilities	1,284,198,018	(6,676)	1,284,191,342
Deferred tax liabilities	2,553,444	1,277,535	3,830,979
Current tax liabilities	4,934,199	1,135	4,935,334
Equity:			
Retained earnings	10,807,840	(63,878)	10,743,962
Other equity	11,107,251	5,994,995	17,102,246

(1) IFRS 9 “*Financial Instruments*” (including the adoption of overlay approach of IFRS 9 “*Financial Instruments*” under IFRS 4 “*Insurance Contracts*”) replaces IAS 39 “*Financial Instruments: Recognition and Measurement*”. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Company:

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

**Notes to financial statements (Continued)**

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

A. The Company adopted IFRS 9 since 1 January 2018 and it adopted IAS 39 before 1 January 2018. Please refer to Note IV for more details on accounting policies.

B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 are as follows:

IAS 39	Carrying	IFRS 9	Carrying
Measurement categories	amounts	Measurement categories	amounts
Fair value through profit or loss	\$4,531,910	Fair value through profit or loss	\$167,908,849
Fair value through other comprehensive income		Fair value through other comprehensive income	
		Financial assets at fair value through other comprehensive income	
Available-for-sale financial assets	424,694,976		289,771,705
Refundable deposits	<u>1,695,275</u>	Refundable deposits	<u>6,305,123</u>
Subtotal	<u>426,390,251</u>	Subtotal	<u>296,076,828</u>
At amortized cost		At amortized cost	
		Cash and cash equivalents (Excluding cash on hand and revolving funds)	44,711,809
Held-to-maturity financial assets	194,762,878	Financial assets measured at amortized cost	805,631,800
Loans and Receivables		Loans	31,490,373
Cash and cash equivalents (Excluding cash on hand and revolving funds)	44,711,809	Receivables	12,998,072
Debt instrument investments for which no active market exists	632,451,850	Refundable deposits	<u>85,032</u>
Loans	31,490,373	Subtotal	<u>894,917,086</u>
Receivables	12,998,829		
Refundable deposits	<u>4,372,152</u>		
	<u>726,025,013</u>		
Subtotal	<u>920,787,891</u>		
Total	<u>\$1,351,710,052</u>	Total	<u>\$1,358,902,763</u>

B. The transition adjustments from IAS 39 to IFRS 9 for the classification of financial assets and financial liabilities as at 1 January 2018 are as follows:

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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IAS 39	IFRS 9		Retained	Other		
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Differences	earnings Adjustment	components of equity Adjustment
Financial assets at fair value through profit or loss (Note 1)						
Designated at fair value through profit or loss						
loss	\$244,566	Measured at fair value through profit or loss	\$244,566	\$-	\$-	\$-
Held-for-trading	4,287,344	Measured at fair value through profit or loss	4,287,344	-	-	-
Subtotal	<u>4,531,910</u>					
Available-for-sale financial assets (Note2) (Note4)						
	147,332,987	Measured at fair value through profit or loss	147,332,987	-	-	-
		Measured at fair value through other comprehensive income (equity instruments)	30,614,647	(86,430)	6,460	(92,890)
	30,701,077	Measured at fair value through other comprehensive income (debt instruments)	123,398,184	-	(5,523)	5,523
	123,398,184	Financial assets measured at amortized cost	120,061,734	(3,200,994)	(9,123)	(3,066,830)
Subtotal	<u>424,694,976</u>					
Held-to-maturity financial instrument (Note 3) (Note 4)		Measured at fair value through other comprehensive income (debt instruments)	75,210,285	5,949,676	(5,335)	5,130,929
	69,260,609	Financial assets measured at amortized cost	125,490,645	(11,624)	(9,728)	-
Subtotal	<u>194,762,878</u>					
Loans and receivables (Note 3) (Note 4)						
Cash and cash equivalents (Excluding cash on hand and revolving funds)	44,711,809	Cash and cash equivalents (Excluding cash on hand and revolving funds)	44,711,809	-	-	-
Debt instrument investments for which no active market exists						
	15,518,840	Measured at fair value through profit or loss	16,043,952	525,112	-	525,112
		Measured at fair value through other comprehensive income (debt instruments)	60,548,589	3,742,591	(4,881)	3,170,423
	56,805,998	Financial assets measured at amortized cost	560,079,421	(47,591)	(40,637)	-
Subtotal	<u>632,451,850</u>					
Loans	31,490,373	Loans	31,490,373	-	-	-
Receivables	12,998,829	Receivables	12,998,072	(757)	(652)	-
Refundable deposits	6,067,427	Refundable deposits	6,390,155	322,728	-	322,728
Total	<u>\$1,351,710,052</u>	Total	<u>\$1,358,902,763</u>		<u>\$(69,419)</u>	<u>\$5,994,995</u>

Note :

- For derivatives financial assets classified as held-for-trading measured at fair value through profit or loss and for hybrid instruments classified as designated measured at fair value through profit or loss under IAS 39 were reclassified to financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. No differences on the carrying amounts existed.

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**Notes to financial statements (Continued)**

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

2. In accordance with of IAS 39, the Company's available-for-sale financial assets include investments in funds, stocks and bonds. Adjustment details are described as follows:

a. Funds

As the cash flow characteristics for funds are not solely payments of principal and interest on the principal amount outstanding, funds are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As at 1 January 2018, the Company reclassified available-for-sale financial assets of \$8,935,662 thousand to financial assets mandatorily measured at fair value through profit or loss. No differences in carrying amounts existed from the reclassification. As the Company chose to express profit or loss of the designated financial assets in overlay approach in accordance with IFRS 4 Insurance Contract since the application of IFRS 9. Therefore, the changes in fair value (loss) previously recognized as other equity- unrealized valuation gain (loss) of available-for-sale financial instruments of \$622,015 thousand were reclassified to other equity- other comprehensive income from adoption of overlay approach.

b. Stocks (including listed and unlisted companies)

The Company assessed the facts and circumstances existed as at 1 January 2018, and determined that apart from certain non held-for-trading investments that were elected to be financial assets designated measured at fair value through other comprehensive income, the others were reclassified as financial assets mandatorily measured at fair value through profit or loss.

As at 1 January 2018, available-for-sale financial assets of \$30,701,077 thousand were classified to financial assets measured at fair value through other comprehensive income. Because the stocks are measured at fair value, as at 1 January 2018, they were estimated to have a fair value of \$30,614,647 thousand. Therefore, the Company has reduced the carrying amount of financial assets at fair value through other comprehensive income and other equity by \$86,430 thousand. However, a carrying amount of \$6,460 thousand in stocks had been recognized impaired, and in accordance with IFRS 9, no further impairment loss shall be recognized, thus increasing retained earnings by \$6,460 thousand and reducing other equity by \$6,460 thousand.

As at 1 January 2018, available-for-sale financial assets of \$121,929,133 thousand were classified to financial assets measured at fair value through profit or loss. No differences in the carrying amount existed for stocks measured at fair value because the Company chose to express profit or loss of the designated financial assets in overlay approach in accordance with IFRS 4 "Insurance Contract" since the application of IFRS 9. Therefore, the Company reclassified the changes in fair value (loss) previously recognized as other equity- unrealized valuation gain(loss) of available-for-sale financial instruments of \$1,820,377 thousand to other equity- other comprehensive income from adoption of overlay approach.

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

**Notes to financial statements (Continued)**

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c. Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds of \$123,262,728 thousand were reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 when the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference of \$3,190,426 thousand between fair value and amortized cost previously recognized was adjusted to the carrying amount of the reclassified financial assets, and reducing deferred income tax liabilities of \$123,596 thousand and other equity of \$3,066,830 thousand. In addition, bonds of \$123,398,184 thousand were reclassified from to financial assets measured at fair value through other comprehensive income when the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and for sale. No differences in the carrying amount existed from the reclassification.

Bond investments whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding were reclassified from available-for-sale financial investment of \$16,468,192 thousand to financial assets mandatorily measured at fair value through profit or loss. This reclassification did not result in any difference in the carrying amount. As the Company chose to express profit or loss of the designated financial assets in overlay approach in accordance with IFRS 4 "Insurance Contract" since the application of IFRS 9, it reclassified the changes in fair value (loss) previously recognized as other equity- unrealized valuation gain (loss) of available-for-sale financial instruments of \$174,913 thousand to other equity- other comprehensive income from adoption of overlay approach.

3. Bond investments classified as held-to-maturity financial assets and loans and receivables (recognized as debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as at 1 January 2018, were reclassified from held-to-maturity financial assets of \$125,502,269 thousand and debt instrument investments for which no active market exists to financial assets of \$560,127,012 thousand to financial assets measured at amortized cost of \$685,629,281 thousand in accordance with IFRS 9 when the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No differences in the carrying amount existed from the reclassification. In addition, for bond investments held within a business model whose objective was to hold financial assets in order to collect contractual cash flows and for sale were reduced held-to maturity financial assets of \$69,260,609 thousand and debt instrument investments for which no active market

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exists of \$56,805,998 thousand, respectively and reclassified to financial assets measured at fair value through other comprehensive income. The reclassification has increased the carrying amount of the reclassified financial assets of \$9,692,267 thousand, other assets of \$322,728 thousand, deferred income tax liabilities of \$1,401,131 thousand and other equity of \$8,613,864 thousand, respectively.

Bond investments classified as loans and receivables (recognized as debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding were reclassified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. The reclassification has reduced debt instrument investments for which no active market exists of \$15,518,840 thousand and increased the carrying amount of the reclassified financial assets and other equity- other comprehensive income from adoption of over lay approach of \$525,112 thousand.

#### 4. Impairment assessment of financial assets

The reconciliation of impairment loss allowance from previously recognized with Incurred Loss Model under IAS 39 to with Expected Loss Model under IFRS9 as at 1 January 2018 is as follows:

Measurement Categories	Balance of impairment loss allowance under IAS 39 and the recognized amount under IAS 37	Reclassification	Remeasurement	Balance of impairment loss allowance under IFRS 9
Available-for-sale financial assets (IAS39)				
Classified to financial assets measured at fair value through other comprehensive income (IFRS9)	\$-	\$-	\$5,996	\$5,996
Classified to financial assets measured at amortized cost (IFRS9)	-	-	10,569	10,569
Held-to-maturity financial assets (IAS39)				
Classified to financial assets measured at fair value through other comprehensive income (IFRS9)	-	-	6,345	6,345
Classified to financial assets measured at amortized cost (IFRS9)	-	-	11,624	11,624
Debt instrument investments for which no active market exists (IAS39)				
Classified to financial assets measured at fair value through other comprehensive income (IFRS9)	-	-	5,809	5,809
Classified to financial assets measured at amortized cost (IFRS9)	-	-	47,591	47,591
Loans	41,950	-	-	41,950
Receivables	724	-	757	1,481
Total carrying amount	<u>\$42,674</u>	<u>\$-</u>	<u>\$88,691</u>	<u>\$131,365</u>



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As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. For receivables and contractual assets arose from the transactions within the scope of IFRS 15, credit losses are evaluated by simplified method. The assessments reduced financial assets at amortized cost by \$69,784 thousand, other receivables by \$757 thousand and retained earnings by \$70,338 thousand, and increased deferred tax assets by \$10,400 thousand, current tax liabilities by \$1,135 thousand, other equity by \$15,739 and decreased insurance liabilities by \$6,676 thousand.

**D. Other impact**

Beginning from the year of 2018, the Company chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 “*Insurance Contracts*” since their application of IFRS 9.

E. Please refer to Note IV, Note VI, Note VIII and Note IX for the related disclosures required by IFRS 7 and IFRS 9.

2. Standards or interpretations issued, revised or amended by International Accounting Standards Board (“IASB”) which are endorsed by FSC but not yet adopted by the Company as at the end of the reporting period are listed below:

None.

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

Contents of Standards or interpretations	Adoption Date (Note1)
(1) <i>Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures</i>	To be determined by IASB
(2) <i>IFRS 16 “Leases”</i>	1 January 2019
(3) <i>IFRIC 23 “Uncertainty Over Income Tax Treatments”</i>	1 January 2019
(4) <i>IFRS 17 “Insurance contracts”</i>	1 January 2021
(5) <i>IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28</i>	1 January 2019
(6) <i>Prepayment Features with Negative Compensation (Amendments to IFRS 9)</i>	1 January 2019
(7) <i>Improvements to International Financial Reporting Standards (2015-2017 cycle):</i>	
<i>IFRS 3 “Business Combinations”</i>	1 January 2019
<i>IFRS 11 “Joint Arrangements”</i>	1 January 2019
<i>IAS 12 “Income Taxes”</i>	1 January 2019
<i>IAS 23 “Borrowing Costs”</i>	1 January 2019
(8) <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i>	1 January 2019

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

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 of time. The remaining standards and interpretations have no material impact on the Company.

IFRS 16 "Leases"

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

IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

IFRS 17 "Insurance contracts"

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

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

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

Prepayment Features with Negative Compensation (Amendments to IFRS9)

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

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**Notes to financial statements (Continued)**  
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IAS 12 “Income Taxes”

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

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

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its current service cost and net interest.

IV. Summary of significant accounting policies

1. Statement of compliance

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

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

- (1) The foreign currency items which are applicable to IFRS 9 “Financial Instrument” (IAS 39 “Financial Instruments: Recognition and Measurements” were adopted before 1 January 2018) should be dealt with the accounting policy of financial instruments.

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**Notes to financial statements (Continued)**

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

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

4. Product categories

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

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

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

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

These contractual rights have the following characteristics:

- (1) Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
- (2) In accordance with the contract, the amount and date of additional payments are at the Company's discretion.
- (3) In accordance with the contract, additional payments are handed out based on one of the following matters:

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

- a. Performance of a specific combination of contracts or specific type of contract
- b. The investment return of a specific asset portfolio the Company holds
- c. Profit and loss from the Company, funds, or other entities

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

5. Cash and cash equivalents

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

6. Financial instruments

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

(1) Initial recognition and subsequent measurement

The accounting policy from 1 January 2018 as follows:

The Company accounts for regular way purchase or sales of financial assets measured at fair value on the trade date, and of financial assets measured at amortized cost at the settlement date.

The Company categorized financial assets as financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss based on both of the followings:

- A. the Company's business model for managing the financial assets
- B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is recognized in profit or loss by calculating via the effective interest method (by applying the effective interest rate to the gross carrying amount) or the followings:

- A. For those financial assets that are purchased or originated credit-impaired, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset.
- B. For those financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired, the Company applies the effective interest rate to the amortized cost of the financial asset.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and presented as financial asset at fair value through other comprehensive income on balance sheet as at the reporting date:

- A. the financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and for sale.
- B. the contractual terms of the financial assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The recognition of gain or loss on a financial asset measured at fair value through other comprehensive income is described as below:

- A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

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C. Interest revenue is recognized in profit or loss by calculating via the effective interest method (by applying the effective interest rate to the gross carrying amount) or the followings:

- (a) For those financial assets that are purchased or originated credit-impaired, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset.
- (b) For those financial assets that are not purchased or originated credit-impaired but subsequently have become credit-impaired, the Company applies the effective interest rate to the amortized cost of the financial asset.

In addition, upon initial recognition, for those equity instruments within the scope of IFRS9 but neither categorized as held-for-trading nor applying to contingent consideration recognized by acquirers in IFRS 3 “*Business Combination*”, the Company elects irrevocably to report the subsequent measurement at fair value in other comprehensive income. Amounts reported in other comprehensive income cannot be subsequently transferred to profit or loss (when disposing of such equity instruments, the Company transfers the accumulated amounts in other equity directly into retained earnings) and are presented as financial assets at fair value through other comprehensive income on the balance sheets. Dividends on investments are recognized in profit or loss, except when the dividends clearly represent certain recovery of investment cost.

Financial assets at fair value through profit or loss

Except for those financial assets qualified for aforementioned conditions and classified as financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, the other financial assets are measured at fair value through profit or loss and presented as financial assets at fair value through profit or loss on the balance sheets as at the reporting date.

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.

The accounting policy before 1 January 2018 as follows:

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 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:

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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:

- ① 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.
- ② Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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

Available-for-sale financial assets

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

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



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asset that has been recognized in equity shall be amortized to current profit or loss over the remaining life of the asset.

Held-to-maturity financial assets

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

Loans and receivables

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

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

(2) Impairment of financial assets

The accounting policy from 1 January 2018 as follows:

The Company recognizes expected credit losses and measures loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

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

**Notes to financial statements (Continued)**

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

The Company measures expected credit losses of a financial instrument in a way that reflects:

- A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- B. the time value of money;
- C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- A. at an amount equal to 12-month expected credit losses: including the financial asset whose credit risk has not increased significantly since initial recognition or the financial asset determined to have low credit risk at the reporting date; and, additionally, the financial assets which the Company measured the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- B. at an amount equal to the lifetime expected credit losses: including the financial asset whose credit risk has increased significantly since initial recognition or the financial asset that is purchased or originated credit-impaired.

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

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

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**Notes to financial statements (Continued)**

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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.

As at each reporting date, the Company assesses whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note IX for further details on credit risk.

The accounting policy before 1 January 2018 as follows:

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:

- ① Significant financial difficulty of the issuer or obligor; or
- ② A breach of contract, such as a default or delinquency in interest or principal payments;  
or
- ③ It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- ④ The disappearance of an active market for that financial asset because of financial difficulties of the issuer.

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of

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**Notes to financial statements (Continued)**

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estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

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

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

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

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

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**Notes to financial statements (Continued)**

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

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.

(3) Financial liabilities

Financial liabilities within the scope of IFRS 9 “*Financial Instruments*” (IAS 39 “*Financial Instruments: Recognition and Measurement*” was adopted before 1 January 2018) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held for trading if:

- A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- B. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- C. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- A. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

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**Notes to financial statements (Continued)**  
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Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before 1 January 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on the balance sheets and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

(4) Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

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

**Notes to financial statements (Continued)**

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

(5) 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.

(6) Derivative instruments and hedging transactions

The Company engages in derivatives 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 instruments are initially recognized at fair value on the day a derivatives contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(7) Adoption of overlay approach on financial assets

The Company chose to express profit or loss of the designated financial assets in overlay approach in accordance with IFRS 4 “*Insurance Contract*” since the application of IFRS 9. To those designated financial assets, the Company classifies the amount from profit or loss to other comprehensive income, thus making the profit or loss of the designated financial assets as at the reporting date equal to as if they would have been accounted for under IAS 39. Accordingly, the reclassification amount is the difference of the following items:

- A. The amount of profit or loss of the designated financial assets in accordance with IFRS 9; and
- B. The amount of profit or loss of the designated financial assets as if applied to IAS 39.

A financial asset is eligible for designation under overlay approach if qualifying for the following conditions:

- A. In accordance with IFRS 9, the financial asset is measured at fair value through profit or loss. However, if the Company applies to IAS 39, the financial asset is not measured at fair value through profit or loss collectively; and
- B. The financial asset is not held in respect of activities that is unconnected with contracts within the scope of IFRS 4 “*Insurance Contract*”.

A Financial asset is eligible for the overlay approach if either of the following conditions is met:

- A. The asset is accounted for on initial recognition; or
- B. The asset now meets the criteria of which is held in respect of activities other than contracts within the scope of IFRS 4 “*Insurance Contract*” but previously did not.

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

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The Company shall continuously adopt overlay approach to those designated financial assets until derecognition. However, the Company shall remove the designated status when the financial assets held in respect of activities other than contracts within the scope of IFRS 4 “*Insurance Contract*”. In addition, at the beginning date of any annual reporting year, the Company is permitted to stop applying overlay approach to all designated financial assets; If it does, the change in the accounting policy is accounted for under IFRS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”.

#### 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



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**Notes to financial statements (Continued)**

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which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

9. Property and equipment

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

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

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

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

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

10. Investment property

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

The Company’s investment properties are measured at fair value, and gains or losses are recognized in profit or loss in accordance with the requirements of IAS 40 “*Investment*

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### Notes to financial statements (Continued)

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*Property*”, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 “*Non-current Assets Held for Sale and Discontinued Operations*” and paragraph 53 of IAS 40 “*Investment Property*”.

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

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

#### 11. Leases

##### The Company as a lessee

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

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

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

##### The Company as a lessor

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

#### 12. Intangible assets

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

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**Notes to financial statements (Continued)**

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

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

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

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

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

13. Impairment of non-financial assets

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

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

The cash generating unit or group which belongs to goodwill should periodically make an impairment test whether it has a sign of impairment. If the impairment test result suggests recognizing an impairment loss, then first deducting goodwill and the remaining deficiencies

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**Notes to financial statements (Continued)**

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should be amortized to other assets depending on the relative proportions of the carrying amount of the asset. Impairment losses relating to goodwill cannot be reversed in the future periods for any reason.

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

14. Investment-linked insurance products

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

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

15. Post-employment benefits

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

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

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

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

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

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

16. Provisions

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

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

The Company's reserved funds for insurance contracts and financial instruments whether with or without discretionary participation feature are made in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises." Furthermore,

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**Notes to financial statements (Continued)**

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they have been validated by the certified actuarial professionals approved by Financial Supervisory Commission. The required amount to be reserved for short-term group insurance is based upon the greater of premium received or calculated premium following the regulations established by the authorities. Reserved amount for the rest of other provisions is addressed below:

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

(1) Unearned premium reserve

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

(2) Reserve for claims

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

(3) Reserve for life insurance liabilities

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

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

When an insurer that opts to measure investment property at fair value, the value of its insurance liabilities at the same time must also be measured at fair value. If the results of the measurements indicate that the fair value of the insurance liabilities exceeds book value, the life insurer must set aside the difference to reserve for life insurance liabilities. The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. The value of insurance liabilities at the same time is measured at fair value in accordance with rules issued by

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**Notes to financial statements (Continued)**

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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

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

A. Special catastrophe reserve

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

B. Special reserve for fluctuation of risks

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

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in the special capital reserve under equity.

② 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. Additionally, the effects of the gain or loss from disposal of participating life insurance policy approved as equity instrument investments at fair value through other comprehensive income shall

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

**Notes to financial statements (Continued)**

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

transfer directly into special reserve based on income before tax and dividend. If the special reserve is a negative amount, the Company shall set aside the same amount of special reserve.

- ③ The net impact from first adoption of fair value in subsequent measurement has been appropriated into dividend reserve for participating policy which relates to investment property. That reserve shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contract's fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 17 "*Insurance Contract*" in the future implementation. By the time the related assets dispose, the reserve which comes from the changes of fair value due to the cumulative net value-added benefits can be processed according to the related distribution provision of participating policy.

(5) Premium deficiency reserve

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

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

(6) Liability adequacy reserve

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

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

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

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



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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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 \$1,745,679 thousand which has to recognize special capital 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 capital reserve each year. If the annual earning is not enough for transfer, then replenish in the later year. The related special reserve is only used for capital increase or offset deficit. According to “Directions for Foreign Exchange Valuation Reserve by Life Insurance Enterprises” Article 9, if the Insurance Company has annual net tax earning, then it should appropriate 10% of that earning to special reserve after shareholders' meeting.

19. Insurance premium income and expenses

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

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

20. Reinsurance

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

Premiums ceded to reinsurers and reinsurance commission income generated from ceded reinsurance business and due to reinsurers and ceding companies are recognized in the same period with income or expense of the related insurance contract. As the net right of holding

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

### **Notes to financial statements (Continued)**

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reinsurance contract includes reinsurance reserve assets, claims recoverable from reinsurers and due from reinsurers and ceding companies, they are recognized according to the method of signed reinsurance contract and related insurance contract liabilities. The assets, liabilities, income and expense of reinsurance contract cannot offset with the income and expense of related insurance liabilities and insurance contract.

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

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

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

#### 21. Income taxes

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

##### Current income tax

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

The 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.

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

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.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Company recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

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.

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

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 management has to use its judgment to categorize financial assets. Different categories applied will affect measurements of the financial assets, which could have a significant impact on the Company's financial position and performance.

(2) Categories of insurance contracts

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

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

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

(4) Judgment for interests in structured entities

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

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

**Notes to financial statements (Continued)**

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

2. Estimates and assumptions

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

(1) Fair value of financial instruments

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

(2) Fair value of investment property

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

(3) Impairment of non-financial assets

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

(4) Pension benefits

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

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

## China Life Insurance Co., Ltd.

### Notes to financial statements (Continued)

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

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

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

#### (6) Income taxes

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

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

	2018.3.31	2017.12.31	2017.3.31
Cash on hand	\$736	\$1,827	\$611
Revolving funds	1,253	3,977	3,988
Cash in banks	20,709,719	9,690,106	8,809,525
Time deposits	6,004,900	19,829,084	33,048,702
Cash equivalents — bond with resale agreement	24,449,541	15,192,619	21,204,081
Total	<u>\$51,166,149</u>	<u>\$44,717,613</u>	<u>\$63,066,907</u>

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

2. Receivables

	2018.3.31	2017.12.31	2017.3.31
Notes receivable	\$127,733	\$319,065	\$195,682
Other receivables			
Interest receivable	9,587,196	10,287,642	8,815,253
Financial instruments settlement receivable	1,726,077	640,200	6,423,999
Separate account receivable	1,399,099	1,260,556	1,443,634
Others	265,705	491,366	265,848
Overdue receivable	827	724	986
Less: Allowance for bad debts – Other receivables	(1,525)	(724)	(986)
Subtotal	<u>12,977,379</u>	<u>12,679,764</u>	<u>16,948,734</u>
Total	<u>\$13,105,112</u>	<u>\$12,998,829</u>	<u>\$17,144,416</u>

3. Financial assets at fair value through profit or loss

	2018.3.31	2017.12.31	2017.3.31
		(Note)	(Note)
Mandatorily measured at fair value through profit or loss:			
Derivatives not designated as hedging instruments	\$8,416,810		
Domestic convertible corporate bonds	239,356		
Domestic financial debentures	10,177,139		
Domestic listed stocks	101,129,999		
Domestic unlisted stocks	441,596		
Domestic beneficiary certificates	6,885,459		
Domestic real estate investment trust	1,436,642		
Overseas corporate bonds	13,244,244		
Overseas listed stocks	19,227,899		
Overseas preferred stocks	2,201,472		
Overseas financial debentures	13,225,821		
Overseas beneficiary certificates	9,193,740		
Overseas real estate investment trust	464,730		
Total	<u>\$186,284,907</u>		

**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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	2018.3.31 (Note)	2017.12.31	2017.3.31
Designated financial assets at fair value through profit or loss:			
Convertible corporate bonds		\$244,566	\$268,021
Held for trading:			
Derivatives not designated as hedging instruments			
Swap and forward foreign exchange contracts		4,287,344	9,799,261
<b>Total</b>		<b>\$4,531,910</b>	<b>\$10,067,282</b>

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss were not pledged.

The Company elected to express profit or loss of the designated financial assets in overlay approach under IFRS 4 "Insurance Contracts" since its application of IFRS 9 on 1 January 2018. Financial assets designated to apply overlay approach by the Company for investing activities relating to insurance contracts are as follows:

	2018.3.31
Financial assets at fair value through profit or loss	
Domestic financial debentures	\$10,177,139
Domestic listed stocks	101,129,999
Domestic unlisted stocks	441,596
Domestic beneficiary certificates	6,885,459
Domestic real estate investment trust	1,436,642
Overseas corporate bonds	13,244,244
Overseas listed stocks	19,227,899
Overseas preferred stocks	2,201,472
Overseas financial debentures	13,225,821
Overseas beneficiary certificates	9,193,740
Overseas real estate investment trust	464,730
<b>Total</b>	<b>\$177,628,741</b>

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the three-month period ended 31 March 2018 is as follows:

	31 March 2018
Gains (losses) due to applying IFRS 9 to profit or loss	\$1,627,006
Less: (Gains) losses if applying IAS 39 to profit or loss	(3,564,794)
Gains (losses) from reclassification due to the application of overlay approach	<b>\$(1,937,788)</b>



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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Due to the application of overlay approach, gains from financial assets at fair value through profit or loss increased from \$13,095,015 thousand to \$15,032,803 thousand for the three-month period ended 31 March 2018.

4. Financial assets at fair value through other comprehensive income

	2018.3.31	2017.12.31 (Note)	2017.3.31 (Note)
Debt instrument investments at fair value through other comprehensive income:			
Domestic government bonds	\$97,005,002		
Overseas government bonds	18,709,650		
Overseas corporate bonds	60,569,247		
Overseas financial debentures	66,742,706		
Less: Refundable deposits	(6,278,270)		
Subtotal	<u>236,748,335</u>		
Equity instrument investments at fair value through other comprehensive income:			
Domestic listed stocks	9,338,697		
Domestic unlisted stocks	2,375,727		
Domestic preferred stocks	4,649,055		
Overseas listed stocks	1,999,306		
Overseas unlisted stocks	12,303,892		
Subtotal	<u>30,666,677</u>		
Total	<u><u>\$267,415,012</u></u>		

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company classified certain financial assets as financial assets at fair value through other comprehensive income. Please refer to Note XIII for more details on financial assets at fair value through other comprehensive income under pledge.

Please refer to Note VI.24 for more details on accumulated impairment of debt instrument investments measured at fair value through other comprehensive income. Please refer to Note IX for more details on credit risk.

For equity instrument investments measured at fair value through other comprehensive income, the Company recognized dividends in the amount of \$10,010 thousand for the three-month period ended 31 March 2018, all of which related to investments held at the end of the reporting period.

Given the investment strategy, the Company sold investments in equity instruments at fair value through other comprehensive income for the three-month period ended 31 March

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

**Notes to financial statements (Continued)**

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2018. The fair value was \$1,254,149 thousand at the time of sale, and the cumulative unrealized loss of \$236,605 thousand was transferred from other equity to retained earnings on disposal.

5. Available-for-sale financial assets

	2018.3.31 (Note)	2017.12.31	2017.3.31
Domestic listed stocks		\$112,630,446	\$84,563,336
Domestic beneficiary certificates		748,176	4,855,044
Domestic real estate investment trust		1,356,184	1,426,374
Domestic government bonds		121,129,635	109,734,734
Domestic corporate bonds		10,246,523	2,261,116
Domestic financial debentures		514,391	1,021,575
Domestic preferred stocks		2,600,044	2,563,619
Domestic unlisted stocks		2,959,343	2,684,506
Overseas listed stocks		20,391,024	16,106,028
Overseas beneficiary certificates		6,831,302	8,158,885
Overseas government bonds		9,847,662	7,442,337
Overseas corporate bonds		75,427,178	60,876,802
Overseas financial debentures		47,658,990	45,522,077
Overseas preferred stocks		-	4,010,393
Overseas unlisted stocks		14,049,353	16,658,248
Less: Refundable deposits		(1,695,275)	(1,547,033)
Total		<u>\$424,694,976</u>	<u>\$366,338,041</u>

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before 1 January 2018 and classified certain financial assets as available-for-sale financial assets. Please refer to Note XIII for more details on available-for-sale financial assets under pledge.

6. Financial assets measured at amortized cost

	2018.3.31	2017.12.31 (Note)	2017.3.31 (Note)
Domestic government bonds	\$39,571,100		
Domestic corporate bonds	50,186,253		
Domestic financial debentures	21,000,000		
Overseas real estate investment trust	59,567,281		
Overseas government bonds	34,725,818		
Overseas financial debentures	169,117,866		
Overseas corporate bonds	460,535,623		
Less: Loss allowance	(66,990)		
Total	<u>\$834,636,951</u>		

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

**Notes to financial statements (Continued)**

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Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Financial assets at fair value through profit or loss were not pledged.

The Company classified certain financial assets as financial assets measured at amortized cost. Please refer to Note VI.24 for more details on accumulated impairment. Please refer to Note IX for more details on credit risk.

7. Debt instrument investments for which no active market exists

	<u>2018.3.31(Note)</u>	<u>2017.12.31</u>	<u>2017.3.31</u>
Domestic government bonds		\$9,386,501	\$9,435,092
Domestic corporate bonds		40,306,199	38,304,425
Domestic financial debentures		29,900,000	31,400,957
Overseas government bonds		18,878,309	21,695,357
Overseas corporate bonds		55,387,911	65,242,373
Overseas financial debentures		420,621,473	378,455,046
Overseas real estate mortgage bonds		62,258,577	49,287,093
Less: Refundable deposits		(4,287,120)	(3,945,237)
Total		<u>\$632,451,850</u>	<u>\$589,875,106</u>

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before 1 January 2018 and classified certain financial assets as debt instrument investments for which no active market exists. Please refer to Note XIII for more details on debt instrument investments for which no active market exists under pledge.

8. Held-to-maturity financial assets

	<u>2018.3.31(Note)</u>	<u>2017.12.31</u>	<u>2017.3.31</u>
Domestic government bonds		\$23,460,390	\$6,631,281
Overseas government bonds		27,296,237	17,434,495
Overseas corporate bonds		107,732,750	86,471,289
Overseas financial debentures		36,273,501	33,164,145
Total		<u>\$194,762,878</u>	<u>\$143,701,210</u>

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before 1 January 2018 and classified certain financial assets as held-to-maturity financial assets. The abovementioned financial assets were not pledged.

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

9. Loans

	2018.3.31	2017.12.31	2017.3.31
Policy loans	\$24,337,080	\$24,244,766	\$22,821,681
Automatic premium loans	5,658,274	5,614,425	5,350,976
Secured loans – net	1,499,689	1,631,182	2,065,249
Secured loans	1,543,265	1,673,132	2,101,791
Less: Allowance for bad debts – secured loans	(43,576)	(41,950)	(36,542)
Total	<u>\$31,495,043</u>	<u>\$31,490,373</u>	<u>\$30,237,906</u>

The Company applied IFRS 9 on 1 January 2018 and assessed impairment. Please refer to Note VI.24 for more details on loss allowance for the three-month period ended 31 March 2018. The Company applied IAS 39 prior to 1 January 2018 and assessed impairment. The movements in the provision for impairment of secured loans for the three-month ended 31 March 2017 are as follows:

	For the three-month period ended March 2017
Beginning balance	\$33,846
(Reversal) charge for the current period	2,696
Ending balance	<u>\$36,542</u>

The abovementioned impairment is assessed collectively.

10. 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 2018			
	Land	Buildings	Prepayment for buildings	Total
Beginning balance	\$15,478,427	\$5,150,851	\$-	\$20,629,278
Disposals	(14,307)	(7,768)	-	(22,075)
Ending balance	<u>\$15,464,120</u>	<u>\$5,143,083</u>	<u>\$-</u>	<u>\$20,607,203</u>

	For the three-month period ended 31 March 2017			
	Land	Buildings	Prepayment for buildings	Total
Beginning balance	\$15,364,441	\$5,463,804	\$-	\$20,828,245
Ending balance	<u>\$15,364,441</u>	<u>\$5,463,804</u>	<u>\$-</u>	<u>\$20,828,245</u>

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

**Notes to financial statements (Continued)**

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

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

	For the three-month period ended 31 March 2018			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$3,654,175	\$-	\$-	\$3,654,175
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment:				
Beginning balance	\$1,133,601	\$-	\$-	\$1,133,601
Ending balance	\$1,133,601	\$-	\$-	\$1,133,601
	For the three-month period ended 31 March 2017			
	Land	Buildings	Prepayment for buildings	Total
Costs:				
Beginning balance	\$3,654,175	\$-	\$-	\$3,654,175
Ending balance	\$3,654,175	\$-	\$-	\$3,654,175
Accumulated impairment:				
Beginning balance	\$1,132,066	\$-	\$-	\$1,132,066
Ending balance	\$1,132,066	\$-	\$-	\$1,132,066
Net carrying amount :				
2018.3.31	\$17,984,694	\$5,143,083	\$-	\$23,127,777
2017.12.31	\$17,999,001	\$5,150,851	\$-	\$23,149,852
2017.3.31	\$17,886,550	\$5,463,804	\$-	\$23,350,354

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 reporting period is 31 December 2017 and 2016, and review reports on 31 March 2018 and 2017 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

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

**Notes to financial statements (Continued)**

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

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:

	2018.3.31	2017.12.31	2017.3.31
	Mainly	Mainly	Mainly
Income capitalization rate	0.73%~3.92%	0.73%~3.92%	0.99%~4.47%

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

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 \$118,116 thousand and \$122,199 thousand for the three-month periods ended 31 March 2018 and 2017. Related direct operating expenses were \$18,311 thousand and \$19,649 thousand. The direct operating expenses of investment properties generating no rents were \$1,554 thousand and \$514 thousand.

As at 31 March 2018, 31 December 2017 and 31 March 2017, no investment properties were pledged as collateral.

**11. Reinsurance assets**

	2018.3.31	2017.12.31	2017.3.31
Claims recoverable from reinsurers	\$348,591	\$201,338	\$244,028
Due from reinsurers and ceding companies	6,166	38,403	74,498
Reinsurance reserve assets			
Ceded unearned premium reserve	50,282	49,879	48,231
Ceded reserve for claims	13,040	12,484	26,585
Subtotal	63,322	62,363	74,816
Total	\$418,079	\$302,104	\$393,342

The above reinsurance assets are not impaired.

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

**12. Property and equipment**

For the three-month period ended 31 March 2018								
	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2018	\$6,643,656	\$1,864,393	\$573,182	\$17,664	\$406,094	\$21,174	\$1,702,442	\$11,228,605
Additions	-	-	4,442	6	9,693	-	182,182	196,323
Disposals	-	-	(3,785)	-	(664)	-	-	(4,449)
Transfers	-	-	1,211	-	-	-	41,727	42,938
31 March 2018	\$6,643,656	\$1,864,393	\$575,050	\$17,670	\$415,123	\$21,174	\$1,926,351	\$11,463,417
Accumulated Depreciation:								
1 January 2018	\$-	\$479,196	\$294,119	\$12,901	\$289,767	\$21,121	\$-	\$1,097,104
Depreciation	-	11,244	17,941	434	9,164	16	-	38,799
Disposals	-	-	(3,777)	-	(664)	-	-	(4,441)
31 March 2018	\$-	\$490,440	\$308,283	\$13,335	\$298,267	\$21,137	\$-	\$1,131,462
Accumulated impairment:								
1 January 2018	\$740,783	\$3,573	\$-	\$-	\$-	\$-	\$-	\$744,356
31 March 2018	\$740,783	\$3,573	\$-	\$-	\$-	\$-	\$-	\$744,356
For the three-month period ended 31 March 2017								
	Land	Buildings	Computer equipment	Transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2017	\$6,094,542	\$1,776,212	\$496,510	\$19,581	\$360,895	\$21,174	\$1,052,285	\$9,821,199
Additions	-	-	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
Net carrying amount:								
2018.3.31	\$5,902,873	\$1,370,380	\$266,767	\$4,335	\$116,856	\$37	\$1,926,351	\$9,587,599
2017.12.31	\$5,902,873	\$1,381,624	\$279,063	\$4,763	\$116,327	\$53	\$1,702,442	\$9,387,145
2017.3.31	\$5,353,445	\$1,328,643	\$268,117	\$5,523	\$103,635	\$99	\$1,181,362	\$8,240,824

Property and equipment held by the Company are not pledged.

**13. Other assets**

	2018.3.31	2017.12.31	2017.3.31
Prepayments			
Prepayment — surface rights	\$13,331,576	\$13,382,227	\$13,534,180
Other prepayments	806,206	87,765	150,948
Subtotal	14,137,782	13,469,992	13,685,128

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

**Notes to financial statements (Continued)**

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

	2018.3.31	2017.12.31	2017.3.31
Refundable deposits			
Insurance industry deposits	6,265,688	5,970,541	5,472,481
Lawsuit deposits	12,582	11,854	19,789
Other deposits	84,075	85,032	40,367
Subtotal	6,362,345	6,067,427	5,532,637
Other assets — others	14,588	8,926	14,013
Total	\$20,514,715	\$19,546,345	\$19,231,778

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.

14. Payables

	2018.3.31	2017.12.31	2017.3.31
Notes payable	\$202,505	\$40,890	\$46,229
Life insurance proceeds payable	61,486	155,643	135,834
Commissions payable	1,184,746	1,275,055	1,024,628
Due to reinsurers and ceding companies	437,629	282,978	275,330
Other payables			
Salary payable	562,382	781,963	256,800
Tax payable	83,417	56,677	52,765
Collection payable	36,352	44,288	42,440
Payable on investments	589,760	75,468	4,629,146
Accrued expense and payable on insurance policies	5,758,387	5,744,826	5,629,012
Others	170,686	90,141	54,205
Subtotal	7,200,984	6,793,363	10,664,368
Total	\$9,087,350	\$8,547,929	\$12,146,389

15. Financial liabilities at fair value through profit or loss

Item	2018.3.31	2017.12.31	2017.3.31
Held for trading:			
Derivatives not designated as hedging instruments			
Swaps and forward foreign exchange contracts	\$1,039,157	\$535,854	\$83,273
Total	\$1,039,157	\$535,854	\$83,273



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

**Notes to financial statements (Continued)**

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

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

As at 31 March 2018, 31 December 2017 and 31 March 2017, movement in reserves of insurance contracts and financial instruments with discretionary participation feature is as follows.

(1) Reserve for life insurance liabilities:

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Life insurance	\$981,751,998	\$58,742,394	\$1,040,494,392
Health insurance	107,348,788	-	107,348,788
Annuity insurance	650,905	155,668,900	156,319,805
Investment-linked insurance	1,796,082	-	1,796,082
<b>Total</b>	<b>\$1,091,547,773</b>	<b>\$214,411,294</b>	<b>\$1,305,959,067</b>

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,306,045,535 thousand as of 31 March 2018.

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

	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>

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

Movement in reserve for life insurance liabilities is summarized below:

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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 2018		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$1,048,113,729	\$215,730,420	\$1,263,844,149
Reserve	57,468,069	4,393,006	61,861,075
Recover	(10,345,487)	(5,106,930)	(15,452,417)
Losses (gains) on foreign exchange	(3,688,538)	(605,202)	(4,293,740)
Ending balance	\$1,091,547,773	\$214,411,294	\$1,305,959,067

Note: Total of reserve for life insurance liabilities after including “Reserve for life insurance liabilities – payables for the insured” amounted to \$1,306,045,535 thousand as of 31 March 2018.

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$899,278,683	\$223,965,737	\$1,123,244,420
Reserve	43,068,298	6,455,951	49,524,249
Recover	(5,535,037)	(8,171,498)	(13,706,535)
Losses (gains) on foreign exchange	(6,117,975)	(1,483,563)	(7,601,538)
Ending balance	\$930,693,969	\$220,766,627	\$1,151,460,596

(2) Unearned premium reserve:

	2018.12.31		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Individual life insurance	\$1,182	\$-	\$1,182
Individual injury insurance	1,056,236	-	1,056,236
Individual health insurance	1,782,422	-	1,782,422
Group insurance	495,738	-	495,738
Investment-linked insurance	54,233	-	54,233
Annuity insurance	-	55	55
Total	3,389,811	55	3,389,866
Less ceded unearned premium reserve:			
Individual life insurance	15,085	-	15,085
Individual injury insurance	811	-	811
Individual health insurance	26,749	-	26,749
Group insurance	2,606	-	2,606
Investment-linked insurance	5,031	-	5,031
Total	50,282	-	50,282
Net amount	\$3,339,529	\$55	\$3,339,584



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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Movement in unearned premium reserve is summarized below:

	For the three-month period ended 31 March 2018		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$3,384,833	\$57	\$3,384,890
Reserve	851,186	55	851,241
Recover	(846,208)	(57)	(846,265)
Losses (gains) on foreign exchange	-	-	-
Ending balance	3,389,811	55	3,389,866
Less ceded unearned premium reserve:			
Beginning balance	49,879	-	49,879
Increase	13,419	-	13,419
Decrease	(13,016)	-	(13,016)
Ending balance	50,282	-	50,282
Net amount	\$3,339,529	\$55	\$3,339,584

	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	(1)	(1)	(2)
Ending balance	3,114,977	72	3,115,049
Less ceded unearned premium reserve:			
Beginning balance	43,020	-	43,020
Increase	16,892	-	16,892
Decrease	(11,681)	-	(11,681)
Ending balance	48,231	-	48,231
Net amount	\$3,066,745	\$73	\$3,066,818

(3) Reserve for claims:

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
– Reported but not paid claim	\$260,805	\$82,791	\$343,596
– Unreported claim	560	-	560

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

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual injury insurance			
– Reported but not paid claim	61,403	-	61,403
– Unreported claim	157,365	-	157,365
Individual health insurance			
– Reported but not paid claim	95,117	-	95,117
– Unreported claim	473,640	-	473,640
Group insurance			
– Reported but not paid claim	69,583	-	69,583
– Unreported claim	317,277	-	317,277
Investment-linked insurance			
– Reported but not paid claim	38,214	-	38,214
– Unreported claim	-	-	-
Annuity insurance			
– Reported but not paid claim	12	20,247	20,259
– Unreported claim	-	55	55
<b>Total</b>	<b>1,473,976</b>	<b>103,093</b>	<b>1,577,069</b>
Less ceded reserve for claims:			
Individual life insurance	2,881	-	2,881
Individual injury insurance	1,987	-	1,987
Individual health insurance	5,412	-	5,412
Group insurance	2,760	-	2,760
<b>Total</b>	<b>13,040</b>	<b>-</b>	<b>13,040</b>
<b>Net amount</b>	<b>\$1,460,936</b>	<b>\$103,093</b>	<b>\$1,564,029</b>

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance			
– Reported but not paid claim	\$244,206	\$80,286	\$324,492
– Unreported claim	-	-	-
Individual injury insurance			
– Reported but not paid claim	42,643	-	42,643
– Unreported claim	174,687	-	174,687
Individual health insurance			
– Reported but not paid claim	113,776	-	113,776
– Unreported claim	460,408	-	460,408
Group insurance			
– Reported but not paid claim	72,290	-	72,290
– Unreported claim	301,794	-	301,794
Investment-linked insurance			
– Reported but not paid claim	28,147	-	28,147
– Unreported claim	-	-	-

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

	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Annuity insurance			
— Reported but not paid claim	-	26,484	26,484
— Unreported claim	-	56	56
Total	1,437,951	106,826	1,544,777
Less ceded reserve for claims:			
Individual life insurance	2,084	-	2,084
Individual injury insurance	107	-	107
Individual health insurance	9,493	-	9,493
Group insurance	800	-	800
Total	12,484	-	12,484
Net amount	\$1,425,467	\$106,826	\$1,532,293
	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
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

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Movement in reserve for claims is summarized below:

	For the three-month period ended 31 March 2018		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$1,437,951	\$106,826	\$1,544,777
Reserve	1,474,405	103,303	1,577,708
Recover	(1,437,951)	(106,826)	(1,544,777)
Losses (gains) on foreign exchange	(429)	(210)	(639)
Ending balance	1,473,976	103,093	1,577,069
Less ceded unearned premium reserve:			
Beginning balance	12,484	-	12,484
Increase	13,040	-	13,040
Decrease	(12,484)	-	(12,484)
Ending balance	13,040	-	13,040
Net amount	\$1,460,936	\$103,093	\$1,564,029

  

	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
Beginning balance	\$1,215,366	\$29,100	\$1,244,466
Reserve	1,288,819	94,294	1,383,113
Recover	(1,215,366)	(29,100)	(1,244,466)
Losses (gains) on foreign exchange	(476)	(436)	(912)
Ending balance	1,288,343	93,858	1,382,201
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	\$1,261,758	\$93,858	\$1,355,616

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

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

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depend on court judgments before the closure. The legal department tracks the development of these claims and reasonably estimates claims reserve. The actuarial department assesses final unreported claims based on past claims experience with consideration of claims development trends for past closed cases, and then develop the final claims based on homogeneous features of each insurance through Bornhuetter-Ferguson Method. Reserve for unreported and unclosed claims changes according to external environment. For example, actual loss rate will lead to fluctuations of claims. The actuarial department will evaluate periodically to make reasonable estimate of claims reserve.

(4) Special reserve:

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$6,702,378	\$-	\$6,702,378
Dividend risk reserve	-	-	-
Total	\$6,702,378	\$-	\$6,702,378
	2017.12.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Participating policies dividend reserve	\$6,259,742	\$-	\$6,259,742
Dividend risk reserve	-	-	-
Total	\$6,259,742	\$-	\$6,259,742
	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
Total	\$4,480,760	\$-	\$4,480,760

Movement in special reserve is summarized below:



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

**Notes to financial statements (Continued)**

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	For the three-month periods ended 31 March	
	2018	2017
	Insurance contract	Insurance contract
Beginning balance	\$6,259,742	\$5,904,689
Reserve for participating policies dividend reserve	495,212	(43,401)
Recover for participating policies dividend reserve	-	(1,195,627)
Reserve for dividend risk reserve	-	(184,901)
Other	(52,576)	-
Ending balance	<u>\$6,702,378</u>	<u>\$4,480,760</u>

(5) Special reserve for catastrophe and fluctuation of risks

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$1,893	\$-	\$1,893
Individual injury insurance	846,176	-	846,176
Individual health insurance	2,286,647	-	2,286,647
Group insurance	2,857,669	-	2,857,669
Annuity insurance	-	593	593
Total	<u>\$5,992,385</u>	<u>\$593</u>	<u>\$5,992,978</u>

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

	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
Total	<u>\$5,414,643</u>	<u>\$419</u>	<u>\$5,415,062</u>

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

	2018.3.31		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Individual life insurance	\$8,648,466	\$-	\$8,648,466
Individual health insurance	124,972	-	124,972
Total	\$8,773,438	\$-	\$8,773,438

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

	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
Total	\$11,077,658	\$-	\$11,077,658

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 2018		
	Financial instruments with discretionary		
	Insurance contract	participation feature	Total
Beginning balance	\$9,164,460	\$-	\$9,164,460
Reserve	278,460	-	278,460
Recover	(611,085)	-	(611,085)
Losses (gains) on foreign exchange	(58,397)	-	(58,397)
Ending balance	\$8,773,438	\$-	\$8,773,438

**China Life Insurance Co., Ltd.**  
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	For the three-month period ended 31 March 2017		
	Financial instruments with discretionary		Total
	Insurance contract	participation feature	
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)
Ending balance	\$11,077,658	\$-	\$11,077,658

(7) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2018.3.31	2017.12.31	2017.3.31
Reserve for life insurance liabilities	\$1,305,959,067	\$1,263,844,149	\$1,151,460,596
Unearned premium reserve	3,389,866	3,384,890	3,115,049
Premium deficiency reserve	8,773,438	9,164,460	11,077,658
Special reserve	6,702,378	6,259,742	4,480,760
Book value of insurance liabilities	\$1,324,824,749	\$1,282,653,241	\$1,170,134,063
Estimated present value of cash flows	\$1,013,973,823	\$974,892,299	\$851,214,189
Balance of liability adequacy reserve	\$-	\$-	\$-

Liability adequacy testing methodology is listed as follows:

	2018.3.31	2017.12.31 & 2017.3.31
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 2017)	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2016), and 2017.12.31 discount rate was evaluated with consideration of current information.

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17. 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	
	2018	2017
Beginning balance	\$2,703,763	\$6,382,932
Reserve		
Compulsory reserve	257,182	233,322
Extra reserve	394,999	-
Subtotal	652,181	233,322
Recover	(1,341,277)	(4,072,642)
Ending balance	<u>\$2,014,667</u>	<u>\$2,543,612</u>

(3) Effects due to foreign exchange valuation reserve:

Item	For the three-month period ended 31 March 2018		
	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	\$3,126,656	\$3,677,933	\$551,277
Earnings per share (dollar)	0.83	0.97	0.14
Foreign exchange valuation reserve	-	2,014,667	2,014,667
Equity	91,798,431	91,529,760	(268,671)

  

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)	(0.83)	0.01	0.84
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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18. Provisions

	2018.3.31	2017.12.31	2017.3.31
Provisions for employee benefits	\$117,448	\$118,123	\$87,045
Litigation liabilities	1,978	1,961	1,911
Total	<u>\$119,426</u>	<u>\$120,084</u>	<u>\$88,956</u>

The Company has an official policy to control and manage litigations. When a professional advice has been made and the loss can be reasonably estimated, the Company will make adjustments to recognize losses and any negative effects arising out of any financial claims. As at 31 March 2018, the Company has 61 unresolved legal suits.

19. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plans for the three-month periods ended 31 March 2018 and 2017 were \$59,429 thousand and \$60,237 thousand, respectively.

Defined benefit plans

Expenses under the defined benefit plans for the three-month periods ended 31 March 2018 and 2017 were \$501 thousand and \$464 thousand, respectively.

20. Common stock

- (1) As of 31 March 2018, 31 December 2017, and 31 March 2017, the Company's authorized and issued capital were \$37,863,984 thousand, \$37,863,984 thousand, and \$34,737,600 thousand, divided into 3,786,398,400, 3,786,398,400, and 3,473,760,000 common shares at \$10 par value.
- (2) On 26 May 2017, the Company decided to appropriate \$3,126,384 thousand from 2016 distributable earnings to increase capital in shareholders' meeting, issuing 312,638,400 common shares at \$10 par value. The capital increase was documented by the authorities on 6 July 2017 and approved to set 20 September 2017 as subscription base date by board of directors.

21. Capital surplus

	2018.3.31	2017.12.31	2017.3.31
Additional paid-in capital	\$2,254,442	\$2,254,442	\$2,254,442
Treasury stock transactions	34,831	34,831	34,831
Total	<u>\$2,289,273</u>	<u>\$2,289,273</u>	<u>\$2,289,273</u>

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**Notes to financial statements (Continued)**

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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.

22. Retained earnings

(1) Legal capital reserve

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

(2) Special capital reserve

Pursuant to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" established by the R.O.C. Financial Supervisory Commission, the after-tax amount of released provision from the special reserves for fluctuation of risks are appropriated as special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-0910074195, after obtaining approval at the stockholders' meeting in the following year. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2016 was \$437,218 thousand, resolved in the stockholders' meeting in 2017. The after-tax amount of released provision from the special reserves for contingency appropriated as special capital reserve for the year ended in 2017 was \$229,707 thousand, expected to be resolved in the stockholders' meeting in 2018.

The Company set aside special reserves for catastrophe and fluctuation of risks for the retained businesses with policy period within 1 year in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". Please refer to Note IV.17 for the set-aside and release calculation. The after-tax amount of reserve and release for the special reserve is converted to special capital reserve at the end of current year. Special capital reserves for the year of 2017 and 2016 were set aside \$943,709 thousand and \$803,298 thousand, respectively, and released \$365,793 thousand and \$463,434 thousand, respectively.

The Company adopts foreign exchange reserve mechanism and hence be required by law to provide special capital reserve. Please refer to Note IV.18. The Company set aside

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**Notes to financial statements (Continued)**

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

\$139,256 thousand and \$946,836 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2016. The abovementioned amounts were resolved in the shareholders' meeting in 2017. The Company set aside \$754,844 thousand and \$908,397 thousand of special capital reserve based on hedging costs saved and 10% of after-tax earnings for 2017, expected to be resolved in the shareholders' meeting in 2018.

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 \$8,394,443 thousand. The special capital reserve shall be used only to cover the insufficiency of life insurance liabilities resulting from valid contracts' fair value approved by the authority and to set aside additional liabilities for the soundness of financial structure when complying with IFRS 17 "*Insurance Contracts*" in the future implementation. The net loss from changes in fair value for 2016 was \$163,436 thousand and the reversal from sale was \$79 thousand. The abovementioned amounts were resolved in the shareholders' meeting in 2017. The net loss from changes in fair value for 2017 was \$32,196 thousand and the reversal from sale was \$1,499 thousand. The abovementioned amounts are expected to be resolved in the shareholders' meeting in 2018.

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 ranges from 0.5% to 1% of after-tax earnings while distributing earnings from 2016 to 2018. The Company set aside special capital reserve \$47,342 thousand based on 0.5% of 2016 after-tax earnings. The abovementioned amounts were resolved in the shareholders' meeting in 2017. The Company set aside special capital reserve \$45,420 thousand based on 0.5% of 2017 after-tax earnings and reversed special capital reserve \$30,622 thousand based on actual payment of related expense. The abovementioned amounts are expected to be resolved in the shareholders' meeting in 2018.

- (3) According to the Articles of Incorporation of the Company, the information about earnings distribution is as follows:

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

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

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

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

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

- (5) Earnings appropriation for the years of 2017 and 2016 is as follows:

	Appropriation of earnings		Dividends per share(NT\$)	
	2017	2016	2017	2016
Legal capital reserve	\$1,816,794	\$1,893,671	\$-	\$-
Special capital reserve	2,451,967	1,747,001	-	-
Common stock-cash dividend	3,029,119	2,779,008	0.80	0.80
Common stock-stock dividend	2,271,839	3,126,384	0.60	0.90

Earnings appropriation for the year of 2016 was resolved by shareholder's meeting on 26 May 2017. Earnings appropriation for the year of 2017 was approved by Board of Director's meeting on 10 April 2018, but not yet resolved by the shareholder's meeting.



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Please refer to Note VI.27 for more details on employees' compensation and remuneration to directors.

23. Components of other comprehensive income

	For the three-month period ended 31 March 2018			
	Arising during the period	Reclassification adjustments during the period	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements on defined benefit plans	\$-	\$-	\$(127)	\$(127)
Property revaluation surplus	-	-	(3,215)	(3,215)
Unrealized valuation gains (losses) on equity instruments investments at fair value through other comprehensive income	(1,322,284)	-	191,110	(1,131,174)
To be reclassified to profit or loss in subsequent periods:				
Unrealized valuation gains (losses) on debt instruments investments at fair value through other comprehensive income	(10,011,102)	(2,528,790)	1,644,580	(10,895,312)
Other comprehensive income from adoption of overlay approach	1,218,946	(3,156,734)	513,859	(1,423,929)
<b>Total</b>	<b>\$(10,114,440)</b>	<b>\$(5,685,524)</b>	<b>\$2,346,207</b>	<b>\$(13,453,757)</b>

	For the three-month period ended 31 March 2017			
	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)
<b>Total</b>	<b>\$462,154</b>	<b>\$(1,899,785)</b>	<b>\$593,022</b>	<b>\$(844,609)</b>

Upon derecognition of the Company' debt instruments investments at fair value through other comprehensive income, the cumulative gains or losses of \$2,528,790 thousand for the three-month period ended 31 March 2018 was reclassified to profit or loss from other comprehensive income.

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24. Expected credit impairment losses and gains on reversal of investments and non-investments

	For the three-month periods ended 31 March	
	2018	2017(Note)
Operating income – Expected credit impairment losses and gains on reversal of investments		
Debt instrument investments at fair value through other comprehensive income	\$(986)	
Financial assets measured at amortized cost	(2,794)	
Other receivables	(62)	
Loans	1,626	
Subtotal	(2,216)	
Operating income – Expected credit impairment losses and gains on reversal of non-investments		
Other receivables	106	
Total	\$(2,110)	

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note IX for more detail on credit risk.

The Company's financial assets measured at fair value through other comprehensive income and measured at amortized cost along with related other receivable are assessed to have low credit risk (the same as the assessment result in the beginning of the period) at 31 March 2018. Therefore, the loss allowance is measured at an amount equal to 12-month expected credit losses (loss ratio of 0.00 % to 0.16 %). Movement of the loss allowances as follows:

	Measured at fair value through other comprehensive income	Measured at amortized cost	Other receivables
1 January 2018	\$18,150	\$69,784	\$757
Financial assets that have been derecognized during the period	(2,285)	(1,068)	(373)
New financial assets originated or purchased	2,519	4,741	350
Changes in models/risk parameters	(957)	(5,257)	(34)
Foreign exchange and other movements	(263)	(1,210)	(5)
31 March 2018	\$17,164	\$66,990	\$695

For the three-month period ended 31 March 2018, the Company has purchased investments measured at amortized cost and increased the debt instrument investments measured at fair value through other comprehensive income, thus raising the relating loss allowance measured at 12-month expected credit losses. However, the improvement of certain issuer credit risk resulted in the decrease of net loss allowance.

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The gross carrying amounts of the Company's secured loans under credit risk rating is as follows:

Credit risk rating	Measurement method for expected credit losses	Secured loans
Low credit risk	12-month expected credit losses	\$1,512,423
Credit risk significantly increased	Lifetime expected credit losses	10,432
Credit-impaired	Lifetime expected credit losses	20,410
Gross carrying amount		<u>\$1,543,265</u>

Movement of loss allowance for the three-month period ended 31 March 2018 is summarized below:

	12-month expected credit losses	Lifetime expected credit losses- Collectively assessed	Lifetime expected credit losses- Individually assessed	Subtotal of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	Total
1 January 2018	\$1,012	\$16,815	\$351	\$18,178	\$23,772	\$41,950
Changes due to financial instruments recognized as at 1 January:						
Transfer to lifetime expected credit losses	(4)	-	4	-	-	-
Financial assets that have been derecognized during the period	(79)	-	(13)	(92)	-	(92)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.	-	-	-	-	(1,895)	(1,895)
Changes in models/risk parameters	-	3,538	75	3,613	-	3,613
31 March 2018	<u>\$929</u>	<u>\$20,353</u>	<u>\$417</u>	<u>\$21,699</u>	<u>\$21,877</u>	<u>\$43,576</u>

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For account receivables arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses. The movements of loss allowance of receivables for the three-month period ended 31 March 2018 is as follows:

	Receivables
1 January 2018	\$724
Charge (reversal) for the current period	106
Write off	-
31 March 2018	\$830

25. Retained earned premium

	For the three-month period ended 31 March 2018		
	Investment contracts with discretionary		
	Insurance contract	participation feature	Total
Direct premium income	\$56,596,509	\$3,348,162	\$59,944,671
Reinsurance premium income	-	-	-
Premium income	56,596,509	3,348,162	59,944,671
Less:			
Premiums ceded to reinsurers	304,477	-	304,477
Changes in unearned premium reserve	4,576	(3)	4,573
Subtotal	309,053	(3)	309,050
Retained earned premium	\$56,287,456	\$3,348,165	\$59,635,621
	For the three-month period ended 31 March 2017		
	Investment contracts with discretionary		
	Insurance contract	participation feature	Total
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

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26. Retained claim payments

	For the three-month period ended 31 March 2018		
	Insurance contract	Investment contracts with discretionary	
		participation feature	Total
Direct insurance claim payments	\$13,751,587	\$5,106,482	\$18,858,069
Reinsurance claim payments	-	-	-
Insurance claim payments	13,751,587	5,106,482	18,858,069
Less:			
Claims recovered from reinsures	173,531	-	173,531
Retained claim payments	\$13,578,056	\$5,106,482	\$18,684,538

	For the three-month period ended 31 March 2017		
	Insurance contract	Investment contracts with discretionary	
		participation feature	Total
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

27. Employee benefits, depreciation and amortization

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

	For the three-month periods ended 31 March					
	2018			2017		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense	\$1,125,220	\$920,325	\$2,045,545	\$1,244,360	\$596,592	\$1,840,952
Salaries	1,125,220	654,141	1,779,361	1,244,360	372,150	1,616,510
Labor and health insurance	-	120,898	120,898	-	123,977	123,977
Pension	-	59,930	59,930	-	60,701	60,701
Other employee benefits expense	-	85,356	85,356	-	39,764	39,764
Depreciation	-	38,799	38,799	-	33,694	33,694
Amortization	-	22,927	22,927	-	16,160	16,160

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

The average number of employees for the three-month periods ended 31 March 2018 and 2017 were 12,744 and 13,335, respectively.

- (2) The information regarding employees' compensation and remuneration to directors within the Articles of Incorporation of the Company is as follows:

Where the Company makes profits, it shall allocate no less than 0.5 percent of the profits to be the remuneration of employees, and no more than 3 percent to be the remuneration of directors. But the Company shall reserve the amount of money to be used to cover its losses if it still has accumulated losses, and later it shall allocate the remuneration in proportion for employees and directors.

The preceding remuneration of employees may be given in the form of share certificates or cash. The remuneration of directors shall only be given to non-independent directors.

For related information on employees' compensation and remuneration to directors approved by the Board of Directors meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Based on profits for the three-month period ended 31 March 2018, the Company estimated the amounts of the employees' compensation to be \$27,918 thousand, and remuneration to directors to be \$42,000, recognized as operating expense.

Based on profit for the three-month period ended 31 March 2017, the Company estimated the amounts of the employees' compensation and remuneration to directors to be both \$0 thousand, recognized as operating expense.

On 27 February 2018, the Board of Directors meeting resolved to distribute \$70,000 thousand and \$84,000 thousand of employees' compensation and remuneration to directors for the year ended 31 December 2017. No differences exist between the estimated amount and the actual amount for the year ended 31 December 2017.

28. Income taxes

Amendment of Income Tax Act has been promulgated by the President on 7 February 2018. In accordance with the newly amended Income Tax Act, business income tax rate shall be raised from 17% to 20% and additional surtax on undistributed retained earnings shall be declined from 10% to 5% beginning in 2018.

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(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	
	2018	2017
Current income tax expense (benefit):		
Current income tax payable	\$1,825,371	\$3,621,369
Deferred income tax expense (benefit):		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	(1,924,502)	(3,973,067)
Deferred tax expense (benefit) relating to changes in tax rate	(837,344)	-
Others	(19,609)	(17,099)
Total income tax expense (benefit)	<u><u>\$(956,084)</u></u>	<u><u>\$(368,797)</u></u>

Income tax expense recognized in other comprehensive income

	For the three-month periods ended 31 March	
	2018	2017
Deferred tax expense (benefit):		
Unrealized gains (losses) of equity instrument investments at fair value through other comprehensive income	\$(362,839)	(Note)
Unrealized gains (losses) of debt instrument investments at fair value through other comprehensive income	(1,913,476)	(Note)
Other comprehensive income from adoption of overlay approach	(482,193)	(Note)
Unrealized gains (losses) on available-for-sale financial assets	(Note)	\$(593,022)
Deferred tax expense (benefit) relating to changes in tax rate	412,301	-
Income tax expense (benefit) relating to components of other comprehensive income	<u><u>\$(2,346,207)</u></u>	<u><u>\$(593,022)</u></u>

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Income tax charged directly to equity

	For the three-month periods ended 31 March	
	2018	2017
Current income tax expense (benefit):		
Derecognition of equity instrument investments at fair value through other comprehensive income	\$(22,488)	(Note)
Deferred tax expense (benefit):		
Derecognition of equity instrument investments at fair value through other comprehensive income	22,488	(Note)
Income tax charged directly to equity	\$-	\$-

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(2) The assessment of income tax returns

As of 31 March 2018, the income tax returns of the Company have been assessed and approved up to the year of 2015.

29. 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	
	2018	2017
<u>Basic earnings per share</u>		
Profit attributable to ordinary equity holders of the Company	\$3,677,933	\$34,716
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	3,786,398	3,786,398
Basic earnings per share (in dollars)	\$0.97	\$0.01



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

**Notes to financial statements (Continued)**

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

Weighted average number of ordinary shares have been retroactively adjusted according to proposal for issuance new shares through capitalization of earnings, resolved in the shareholders' meeting in 2017.

30. Separate account insurance products

(1) Separate account insurance products — assets and liabilities

	Assets		
	2018.3.31	2017.12.31	2017.3.31
Cash in bank	\$428,673	\$838,493	\$434,543
Financial assets at fair value through profit or loss	62,057,624	60,904,301	64,608,034
Other receivables	57,748	82,196	68,194
<b>Total</b>	<b>\$62,544,045</b>	<b>\$61,824,990</b>	<b>\$65,110,771</b>

  

	Liabilities		
	2018.3.31	2017.12.31	2017.3.31
Reserve for separate account	\$62,308,590	\$61,371,597	\$64,787,697
Other payables	235,455	453,393	323,074
<b>Total</b>	<b>\$62,544,045</b>	<b>\$61,824,990</b>	<b>\$65,110,771</b>

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

	Revenues	
	For the three-month periods ended 31 March	
	2018	2017
Premium income	\$1,804,651	\$1,451,230
Gains (losses) from financial assets and liabilities at fair value through profit or loss	(477,280)	1,893,297
Interest income	72	8
Other revenues	47,270	48,002
Foreign exchange gains (losses)	(366,946)	(930,471)
<b>Total</b>	<b>\$1,007,767</b>	<b>\$2,462,066</b>

  

	Expenses	
	For the three-month periods ended 31 March	
	2018	2017
Insurance claim payments	\$1,659,156	\$1,310,560
Net change in separate account reserve	(1,204,868)	697,020
Custodian fee	553,479	454,486
<b>Total</b>	<b>\$1,007,767</b>	<b>\$2,462,066</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 2018 and 2017 were \$83,667 thousand and \$76,628 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.

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

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

### **Notes to financial statements (Continued)**

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catastrophe risk based on the sources of risk. In addition, the Company develops management guidelines for various types of risk, standardizes measurement and evaluation methods, and regularly issues risk reports to monitor the various risks.

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

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

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

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

- ① Risk identification related to matching of assets and liabilities
- ② Risk measurement related to matching of assets and liabilities
- ③ Risk responses related to matching of assets and liabilities

## 2. Information of insurance risks

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

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

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

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As at 31 March 2018, 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

① 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.16 for concentration of risk before and after the reinsurance for the Company.

② Furthermore, according to "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", the annual increased special capital reserve, excluding taxes, for catastrophe and fluctuation of risks for abnormal changes in loss ratio and claims of each type of insurance needs to be recognized in special capital reserve under equity in accordance with IAS 12.

(3) Claim development trend

① Direct business loss development trend

Accident year	Development year(NT\$)											Reserve for claims
	1	2	3	4	5	6	7	8	9	10	11	
2008	\$2,170,100	\$2,736,556	\$2,776,542	\$2,781,989	\$2,786,399	\$2,792,187	\$2,798,032	\$2,798,807	\$2,799,546	\$2,800,435	\$2,800,516	
2009	2,243,111	2,870,648	2,924,110	2,934,461	2,936,046	2,939,451	2,940,095	2,940,209	2,940,748	2,940,838		
2010	2,574,879	3,071,401	3,132,443	3,137,874	3,143,299	3,143,963	3,144,299	3,144,902	3,144,912			
2011	2,610,108	3,276,928	3,328,279	3,342,075	3,346,106	3,350,438	3,351,824	3,351,854				
2012	2,345,575	2,953,776	3,029,335	3,045,381	3,048,828	3,051,256	3,054,169					
2013	2,267,213	2,964,954	3,028,400	3,040,442	3,045,355	3,046,856						
2014	3,448,229	4,203,186	4,284,682	4,298,217	4,299,552							
2015	3,518,471	4,403,823	4,479,887	4,483,865								
2016	3,696,639	4,617,098	4,653,770									
2017	4,300,693	5,031,702										
2018	645,845											\$1,001,426

Note: This table does not include long term life insurance

Add : Long term insurance claims 447,419

Claim reserve for discount on no claim 128,224

Reserve for claims balance \$1,577,069

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② Retained business loss development trend

Accident year	Development year(NT\$)											Reserve for claims
	1	2	3	4	5	6	7	8	9	10	11	
2008	\$2,128,556	\$2,682,784	\$2,721,905	\$2,719,002	\$2,723,312	\$2,728,970	\$2,734,682	\$2,735,440	\$2,736,162	\$2,737,031	\$2,737,110	
2009	2,204,858	2,820,114	2,862,350	2,868,022	2,869,572	2,872,900	2,873,529	2,873,640	2,874,167	2,874,255		
2010	2,535,358	3,010,157	3,068,543	3,066,830	3,072,133	3,072,781	3,073,109	3,073,699	3,073,709			
2011	2,561,841	3,214,455	3,260,383	3,266,408	3,270,348	3,274,581	3,275,936	3,275,965				
2012	2,304,504	2,897,464	2,967,538	2,976,431	2,979,800	2,982,173	2,985,020					
2013	2,227,515	2,908,429	2,966,622	2,971,604	2,976,405	2,977,873						
2014	3,387,852	4,123,055	4,197,276	4,200,902	4,202,206							
2015	3,456,864	4,319,866	4,388,499	4,382,347								
2016	3,631,913	4,529,075	4,558,836									
2017	4,225,389	4,935,775										
2018	634,537											\$996,667

Note: This table does not include long term life insurance

Add : Long term insurance claims	439,138
Claim reserve for discount on no claim	128,224
Reserve for claims balance	<u>\$1,564,029</u>

The Company recognizes claim reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in claim reserves. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. The Company was not notified of some claims in time. Also, the expected payment for unreported claims 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.

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(4) Credit risk:

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

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

(5) Liquidity risk:

As at 31 March 2018, 31 December 2017, and 31 March 2017, the maturity analysis of liquidity risk for insurance contract liabilities are as follows:

31 March 2018	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	\$(23,233,409)	\$11,711,355	\$108,422,792	\$481,272,534	\$2,989,437,273
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-
31 December 2017	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Insurance liabilities of investment contracts with discretionary participation features	\$(20,408,694)	\$9,987,603	\$111,026,996	\$457,700,212	\$2,985,206,011
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-
31 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	\$(16,307,335)	\$(7,252,305)	\$72,095,513	\$422,929,198	\$2,769,195,587
Reserve for insurance contracts with feature of financial instruments	-	-	-	-	-

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Note:

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

(6) Market risk:

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

**VIII. Financial instruments**

**1. Categories of financial instruments**

**Financial assets**

	2018.3.31	2017.12.31	2017.3.31
Financial assets at fair value through profit or loss:			
Held for trading	(Note)	\$4,287,344	\$9,799,261
Designated at fair value through profit and loss	-	244,566	268,021
Mandatorily measured at fair value through profit and loss	186,284,907	(Note)	(Note)
Subtotal	186,284,907	4,531,910	10,067,282
Financial assets at fair value through other comprehensive income	267,415,012	(Note)	(Note)
Available-for-sale financial assets	(Note)	424,694,976	366,338,041
Financial assets measured at amortized cost:		(Note)	(Note)
Cash and cash equivalents (Exclude cash on hand and revolving funds)	51,164,160		
Financial assets measured at amortized cost	834,636,951		
Receivables	13,105,112		
Loans	31,495,043		
Refundable deposits	6,362,345		
Subtotal	936,763,611	-	-

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	2018.3.31	2017.12.31	2017.3.31
Held-to-maturity financial assets	(Note)	194,762,878	143,701,210
Loans and receivables :	(Note)		
Cash and cash equivalents (Exclude cash on hand and revolving funds)		44,711,809	63,062,308
Debt instrument investments for which no active market exists		632,451,850	589,875,106
Receivables		12,998,829	17,144,416
Loans		31,490,373	30,237,906
Refundable deposits		6,067,427	5,532,637
Subtotal	-	727,720,288	705,852,373
Total	\$1,390,463,530	\$1,351,710,052	\$1,225,958,906

**Financial liabilities**

	2018.3.31	2017.12.31	2017.3.31
Financial liabilities at fair value through profit or loss :			
Held for trading	\$1,039,157	\$535,854	\$83,273
Financial liabilities measured at amortized cost :			
Payables	9,087,350	8,547,929	12,146,389
Guarantee deposits received	4,490,295	2,411,191	1,644,073
Subtotal	13,577,645	10,959,120	13,790,462
Total	\$14,616,802	\$11,494,974	\$13,873,735

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

**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:

- ① Fair value of cash and cash equivalents, receivables and payables are approximately equal to the carrying amount due to their short maturity.
- ② 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.)
- ③ Fair value of financial instruments with no active market is estimated based on the



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**Notes to financial statements (Continued)**

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valuation methods. The estimates and assumptions used are consistent with those made by market participants during the pricing of financial instruments.

- ④ 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.
- ⑤ 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.
- ⑥ 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, receivables, loans, payables and guarantee deposits received whose carrying amount approximates their fair value, the fair value of financial assets and financial liabilities measured at amortized cost is as follows:

	Carrying amount		
	2018.3.31	2017.12.31	2017.3.31
Financial assets			
Financial assets measured at amortized cost	\$834,636,951	(Note)	(Note)
Held-to-maturity financial assets	(Note)	\$194,762,878	\$143,701,210
Debt instrument investments for which no active market exists	(Note)	632,451,850	589,875,106
Refundable deposits - Bonds	-	4,287,120	3,945,237

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	Fair value		
	2018.3.31	2017.12.31	2017.3.31
Financial assets			
Financial assets measured at amortized cost	\$825,806,105	(Note)	(Note)
Held-to-maturity financial assets	(Note)	\$201,950,348	\$141,533,870
Debt instrument investments for which no active market exists	(Note)	643,868,816	593,060,694
Refundable deposits - Bonds	-	4,609,848	4,188,653

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

3. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for assets or liabilities.

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

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

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

	2018.3.31			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at fair value through profit or loss				

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**Notes to financial statements (Continued)**

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	2018.3.31			
	Total	Level 1	Level 2	Level 3
Stocks	\$123,000,966	\$122,559,370	\$365,566	\$76,030
Bonds	36,886,560	18,288,749	18,358,455	239,356
Swaps and forward foreign exchange contracts	8,416,810	-	8,416,810	-
Others	17,980,571	16,710,070	-	1,270,501
Financial assets at fair value through other comprehensive income				
Equity instruments at fair value through other comprehensive income	30,666,677	15,987,059	15,992	14,663,626
Debt instruments at fair value through other comprehensive income	236,748,335	141,346,361	95,401,974	-
Refundable deposits				
Bonds	6,278,270	-	6,278,270	-
Investment property	20,607,203	-	-	20,607,203
Liabilities measured at fair value:				
Financial liabilities at fair value through profit and loss				
Swaps and forward foreign exchange contracts	(1,039,157)	-	(1,039,157)	-
	2017.12.31			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
Financial assets at fair value through profit or loss				
Bonds	\$244,566	\$-	\$-	\$244,566
Swaps and forward foreign exchange contracts	4,287,344	-	4,287,344	-
Available-for-sale financial assets				
Stocks	152,630,210	135,621,514	427,514	16,581,182
Bonds	263,129,104	77,349,124	185,779,980	-
Others	8,935,662	7,755,664	-	1,179,998
Refundable deposits				
Bonds	1,695,275	-	1,695,275	-
Investment property	20,629,278	-	-	20,629,278
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Swaps and forward foreign exchange contracts	(535,854)	-	(535,854)	-

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	2017.3.31			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value:				
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
Refundable deposits				
Bonds	1,547,033	-	1,547,033	-
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)	-

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

During the three-month period ended 31 March 2018, the Company's debt instruments measured at fair value through other comprehensive income on a recurring basis, amounted to \$12,889,489 thousand, transferred from Level 2 to Level 1 because the Company can access quoted market prices. Debt instrument assets measured at fair value through other comprehensive income amounted to \$376,155 thousand, transferred from Level 1 to Level 2 because the Company cannot access quoted market prices.

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

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For the three-month period ended 31 March 2018:

	<u>Total gains and losses recognized</u>					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
<b>Assets</b>							
Financial assets at fair value through profit or loss							
Stock	\$95,561	\$-	\$(2,067)	\$-	\$(17,464)	\$-	\$76,030
Others	1,199,719	(59)	(24,080)	96,379	(1,458)	-	1,270,501
Convertible bonds	244,566	(5,210)	-	-	-	-	239,356
Financial assets at fair value through other comprehensive income							
Stock	16,399,191	-	(1,735,565)	-	-	-	14,663,626
Investment property	20,629,278	1,485	-	-	(23,560)	-	20,607,203

For the three-month period ended 31 March 2017:

	<u>Total gains and losses recognized</u>					Transfer in (out) of Level 3 (Note 3)	Ending balance
	Beginning balance	Recognized in profit or loss (Note 1)	Recognized in OCI (Note 2)	Acquisition or issue	Disposal or settlement		
<b>Assets</b>							
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

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

Note2: presented in “Gains (losses) from adoption of overlay approach/ Gains (losses) on equity instruments at fair value through other comprehensive income/ Unrealized gains (losses) on available-for-sale financial assets” in the comprehensive income statement.

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

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Total gains (losses) recognized in profit or loss above contains gains (losses) related to assets on hand as of 31 March 2018 and 2017 is as follows:

	For the three-month periods ended 31 March	
	2018	2017
	Total gains and losses	
Recognized in profit or loss	\$(5,210)	\$70,909
Recognized in other comprehensive income	(1,761,712)	(3,940,194)

**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:

2018.3.31				
Item	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	32.259%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Stock	Asset approach	N/A	N/A	N/A
Private Equity Fund	Asset approach	N/A	N/A	N/A
Financial assets at fair value through other comprehensive income				
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	Income approach	Long-term operating profit, long-term average cost of capital	6.51%	The higher the long-term average cost of capital, the lower the estimated fair value
Stock	Asset approach	Discount for liquidity and minor interests	0%~10%	The higher the discount for lack of liquidity, the lower the estimated fair value
Investment property	Please refer to Note VI.10			

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2017.12.31				
Item	Valuation techniques	Significant unobservable inputs	Quantification Information	Relationship between inputs and fair value
Financial assets				
Financial assets at fair value through profit or loss				
Private Convertible bonds	Option	Volatility in stock price for the three-month period	26.727%	The higher the volatility in stock price for the three-month period, the higher the fair value of convertible bonds
Available-for-sale				
Stock	Market approach	Discount for lack of liquidity	10%~30%	The higher the discount for lack of liquidity, the lower the estimated fair value
Stock	Market approach	Control premium	0%~10%	The higher the control premium, the higher the estimated fair value
Stock	Income approach	Long-term operating profit, long-term average cost of capital	6.51%	The higher the long-term average cost of capital, the lower the estimated fair value
Stock	Asset approach	N/A	N/A	N/A
Private Equity Fund	Asset approach	N/A	N/A	N/A
Investment property			Please refer to Note VI.10	

2017.3.31				
Item	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	Income 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	Asset approach	N/A	N/A	N/A
Private Equity Fund	Asset approach	N/A	N/A	N/A
Investment property			Please refer to Note VI.10	

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

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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.

	2018.3.31			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets at measured amortized cost				
Bonds	\$122,403,814	\$703,402,291	-	\$825,806,105
	2017.12.31			
	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Held-to-maturity financial assets				
Bonds	\$120,725,199	\$81,225,149	\$-	\$201,950,348
Debt instrument investments for which no active market exists				
Bonds	74,365,024	569,503,792	-	643,868,816
Refundable deposits				
Bonds	-	4,609,848	-	4,609,848
	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



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4. Offsetting financial assets and financial liabilities

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

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

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

2018.3.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial liabilities recognized on balance sheet financial assets (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)		
				Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$8,416,810	\$-	\$8,416,810	\$1,039,157	\$4,357,808	\$3,019,845
2018.3.31						
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial assets recognized on balance sheet financial liabilities (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial liabilities recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)		
				Financial instruments	Cash collateral pledged	Net amount (e)= (c)- (d)
Derivative financial instrument	\$1,039,157	\$-	\$1,039,157	\$1,039,157	\$-	\$-
2017.12.31						
Financial assets ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of offset financial liabilities recognized on balance sheet financial assets (a)	Gross amount of offset financial liabilities recognized on balance sheet (b)	Net financial assets recognized on balance sheet (c)= (a)- (b)	Relevant amount that has not been offset on balance sheet (d)		
				Financial instruments	Cash collateral received	Net amount (e)= (c)- (d)
Derivative financial instrument	\$4,287,344	\$-	\$4,287,344	\$493,857	\$2,275,612	\$1,517,875

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2017.12.31						
Financial liabilities ruled by offsetting, enforceable master netting arrangement or similar agreement						
	Gross amount of	Net financial	Relevant amount that has not			
Gross amount	offset financial	liabilities	been offset on balance sheet			
of recognized	assets recognized	recognized on	(d)			
financial	on balance sheet	balance sheet	Financial	Cash collateral	Net amount	
liabilities (a)	(b)	(c)= (a)- (b)	instruments	pledged	(e)= (c)- (d)	
Derivative financial instrument	\$535,854	\$-	\$535,854	\$493,857	\$-	\$41,997

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

**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 is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities and financing activities (primarily loans, financial instrument investments and receivables.)

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all issuers or counter parties based on their financial position, rating from credit rating

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### **Notes to financial statements (Continued)**

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agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. To lower certain issuers' or counter parties' credit risk, credit enhancing instruments will be taken at the appropriate time.

For financial instrument investments, low credit risk is the premise of initial purchase, and at each reporting date, the Company shall assess if the financial instruments investments still qualify for conditions of low credit risk in order to determine the measurement method for allowance for losses. The Company disposes investments at the appropriate time (e.g., when credit risk significantly increases) to lower credit loss. In addition, the Company has built a credit risk model to assess the maximum possible loss on credit positions resulting from changes of credit rating or default. Moreover, based on issuer's region, industry and credit ratings within portfolios, the Company evaluates credit risk and concentration risk, respectively.

The Company determines risk-influencing factors based on 5P Principles for loans, and according to the extent of influence, each P is given different weight to calculate each borrower's credit rating. Credit rating evaluates the reasonableness of loan purpose, the region of collateral, loan-to-value, the customer's credit report, the interest-paying history records, financial conditions and debt-paying ability, etc. and the Company approves the credit rating through multiple layers to control loan risk. Once delay of payment occurs, the Company will actively collect as stated in procedure manual to avoid financial loss.

The Company evaluates expected credit loss in accordance with IFRS 9. Except for those receivables arose from the transactions within scope of IFRS 15 whose allowance for loss is measured at lifetime expected credit loss, the Company shall assess whether the credit risk has increased significantly since initial recognition at each reporting date for other debt instrument investments not measured at fair value through profit or loss whose premise of initial purchase is low credit risk and grouped under different classes of credit risk in order to determine the measurement method of allowance for loss and its loss rate. The primary consideration to determine whether the credit risk increases significantly includes objective evidence such as external credit rating and its change of class interval, overdue situations, occurrence of major financial difficulties or company liquidation or reorganization, etc. Besides, the measurement of expected credit losses is to multiply the future 12-month and the lifetime Probability of default (PD), and Loss given default (LGD) and Exposure at default (EAD). The Company also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses respectively.

Default rate is the rate that a default occurs on issuers or counter parties. Loss given default is the loss rate resulted from the default of issuers or counter parties. The Company used the default rate and loss given default published by external credit assessment institutions, and calculated based on adjustments of forward-looking macroeconomics factors.

Exposure at default is measured at the amortized cost of financial assets with accrued interests and receivables. For loans, exposure at default is the total of debtor's outstanding balance at the time of calculation, interest and accrued expense.

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Allowance for losses for receivables arose from the transactions in the scope of IFRS 15 is recognized at lifetime expected credit losses. Past default records and prevailing information are taken into consideration for lifetime expected credit losses. The expected credit loss rate is calculated based on the overdue days of receivables.

(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 2018

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	\$35,413,775	\$9,369,913	\$6,380,472	\$-	\$-	\$51,164,160
Financial assets at fair value						
through profit or loss	18,597,811	7,527,284	9,627,194	1,134,271	-	36,886,560
Financial assets at fair value						
through other comprehensive						
income	90,726,732	51,189,356	43,109,919	51,722,328	-	236,748,335
Financial assets measured at						
amortized cost	122,480,603	195,342,004	181,154,600	319,059,646	16,600,098	834,636,951
Refundable deposits - Bonds	6,278,270	-	-	-	-	6,278,270
<b>Total</b>	<b>\$273,497,191</b>	<b>\$263,428,557</b>	<b>\$240,272,185</b>	<b>\$371,916,245</b>	<b>\$16,600,098</b>	<b>\$1,165,714,276</b>
Proportion	23.46%	22.60%	20.61%	31.91%	1.42%	100.00%

Date: 31 December 2017

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

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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%

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

Date: 31 March 2018

Location	Central area:			Total
	Northern areas: Taipei and eastern counties	Taichung to Changhua and Nantou	Southern area: Counties below Tainan	
Secured loans	\$750,099	\$383,103	\$366,487	\$1,499,689
Overdue receivables	-	-	-	-
<b>Total</b>	<b>\$750,099</b>	<b>\$383,103</b>	<b>\$366,487</b>	<b>\$1,499,689</b>
Proportion	50.02%	25.54%	24.44%	100.00%

Date: 31 December 2017

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

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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%

(3) Financial asset credit quality and overdue impairment analysis

Financial asset credit quality and overdue impairment analysis when the Company applied IAS 39 is as follows:

A. Grading of financial instrument credit risk quality

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

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

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

Date: 31 March 2018

Financial assets	Normal assets	
	Investment grade	Non-investment grade
Cash and cash equivalents	\$51,164,160	\$-
Financial assets at fair value through profit or loss	36,886,560	-
Financial assets at fair value through other comprehensive income	236,748,335	-
Financial assets measured at amortized cost	834,636,951	-
Refundable deposits	6,278,270	-
<b>Total</b>	<b>\$1,165,714,276</b>	<b>\$-</b>
Proportion	100.00%	-

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Date: 31 December 2017

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

Date: 31 March 2017

Financial assets	Normal assets		Past due but not		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%

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

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agreement, preceding compromise, liquidation or debt settlement proceedings, indicating the borrower's capacity to make payment worsens.

- c. Delayed users: the borrower makes monthly payment in 31 to 90 days after the due date. The borrower is lack of contractual capacity since the borrower fails to make payment on time under the terms of the loan contract.
- d. Past due but not impaired: the borrower makes monthly payment over 91 days after the due date. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated future cash flows (including disposal of collateral) is higher than the book value of the loan, indicating the asset is not impaired.
- e. Past due and impaired: the overdue day meets the standard of overdue loans. There is objective evidence indicating impairment and the Company should evaluate the asset for impairment. The present value of estimated future cash flows (including disposal of collateral) is lower than the book value of the loan, indicating the asset is impaired.

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

Date: 31 December 2017

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

Date: 31 March 2017

Secured loans and Overdue receivables	Low risk	Potential risk		Past due but not impaired	Past due and impaired	Provision for impairment	Total
	Normal users	Worsening solvency	Delayed users				
Consumer finance	\$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>



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

	Neither delayed nor impaired	Delayed but not impaired	Past due or impaired		Total
	Within 30 days	31-90 days	91-180 days	Over 181 days	
2017.12.31	\$1,624,021	\$7,161	\$-	\$-	\$1,631,182
2017.3.31	2,055,579	9,670	-	-	2,065,249

## 2. Liquidity risk analysis

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

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric. To decentralize market risk when investment and to maintain investment each aspect (such as asset category, maturity, region, currency and tools) diversification. Planning emergency financing plan in order to assess how the Company in the long term illiquid environment still regularly operate to pay emergency and major funding requirements.

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

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

### A. Financial assets held for managing liquidity risk

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

**China Life Insurance Co., Ltd.**  
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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>
2018.3.31			
Payables	\$9,087,350	\$-	\$9,087,350
2017.12.31			
Payables	\$8,547,929	\$-	\$8,547,929
2017.3.31			
Payables	\$12,146,389	\$-	\$12,146,389

C. Maturity analysis of derivative financial liabilities

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

The Company has enough operating capital, including cash and cash equivalents, and highly liquid securities, such as government bonds to pay the investment and liabilities at maturity. Therefore, the risk of liquidity is extremely low. The Company enters into forward contracts and swap contracts 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 swap contracts 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:

	<u>2018.3.31</u>				
	181 days				
	<u>In 90 days</u>	<u>91-180 days</u>	<u>-1 year</u>	<u>Over 1 year</u>	<u>Total</u>
Financial liabilities at fair value through profit or loss	\$625,364	\$297,478	\$116,315	\$-	\$1,039,157

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

### 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.

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**Notes to financial statements (Continued)**

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(3) Interest rate risk

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

(4) Equity price risk

The Company holds equity securities of listed and unlisted companies, and OTC-traded and non-OTC-traded companies. The price of such equity securities will be affected by uncertainties about the future value of the underlying investment. The Company diversified its investment and set investment limits for a single equity security to manage price risk of equity securities. Portfolio information of equity securities is required to be regularly reported to senior executives of the Company. The board of directors should authorize the senior executives to review and approve the equity securities of all investment decisions.

(5) Value at Risk

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

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

(6) Stress testing

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

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

A. Simple Sensitivity

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

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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

Date: 31 March 2018

Risk Factors	Changes (+/-)	Changes in income	Changes in equity
Equity risk (Stock index)	+1%	1,126,951	235,721
Interest rate risk (Yield curve)	+1BP	(85,688)	(306,323)
Exchange risk (Foreign exchange rate)	+1% (NTD for each currency appreciates 1%)	(1,183,328)	(325,388)

Date: 31 December 2017

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

Date: 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

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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	2018.3.31		Total
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	
<b>Assets</b>			
Cash and cash equivalents	\$51,166,149	\$-	\$51,166,149
Receivables	13,105,112	-	13,105,112
Financial assets at fair value through profit or loss	145,484,778	40,800,129	186,284,907
Financial assets at fair value through other comprehensive income	1,986,167	265,428,845	267,415,012
Financial assets measured at amortized cost	11,539,627	823,097,324	834,636,951
Investment property	-	23,127,777	23,127,777
Loans	6,645	31,488,398	31,495,043
Reinsurance assets	418,079	-	418,079
Property and equipment	-	9,587,599	9,587,599
Intangible assets	-	178,854	178,854
Deferred tax assets	9,228,445	144,739	9,373,184
Other assets	1,008,811	19,505,904	20,514,715
Separate account product assets			62,544,045
Total assets	\$233,943,813	\$1,213,359,569	\$1,509,847,427
<b>Liabilities</b>			
Payables	\$9,087,350	\$-	\$9,087,350
Current tax liabilities	6,583,177	-	6,583,177
Financial liabilities at fair value through profit or loss	1,039,157	-	1,039,157
Insurance liabilities	39,162,715	1,287,325,571	1,326,488,286
Foreign exchange valuation reserve	-	2,014,667	2,014,667
Provision	-	119,426	119,426
Deferred tax liabilities	1,475,531	922,218	2,397,749
Other liabilities	1,112,785	6,931,025	8,043,810
Separate account product liabilities			62,544,045
Total liabilities	\$58,460,715	\$1,297,312,907	\$1,418,317,667

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

**China Life Insurance Co., Ltd.**  
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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	4,664,657	106,155	4,770,812
Other assets	353,552	18,878,226	19,231,778
Separate account product assets			65,110,771
Total assets	\$218,555,544	\$1,059,245,129	\$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	1,651,718	1,699,963	3,351,681
Other liabilities	2,126,553	1,731,486	3,858,039
Separate account product liabilities			65,110,771
Total liabilities	\$39,381,167	\$1,158,157,302	\$1,262,649,240

**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.



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**XII. Related party transaction**

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

**1. Name and nature of relationship of the related parties**

Name of the related parties	Nature of relationship of the related parties
China Development Financial Holding Corp. (CDF)	Parent company/Juristic-person director of the Company (Parent company)
Tai li Investment Co., Ltd.	Juristic-person director of the Company (Other related party)
EVER-RICH Co.,Ltd.	Juristic-person director of the Company (Other related party)
Videoland Inc.	Juristic-person director of the Company (Other related party)(Note1)
Lan wan Investment Corporation	Juristic-person director of the Company (Other related party)(Note1)
CDIB Capital Group	Brother company (Other related party)
KGI Securities Co., Ltd.	Brother company (Other related party)
China Development Asset Management Corp.	Brother company (Other related party)
KGI Bank	Brother company (Other related party)
CDIB Capital Management Inc.	Equity method investee of subsidiary of parent company (Other related party)
CDIB & Partners Investment Holding Corporation	Equity method investee of subsidiary of parent company (Other related party)
CDIB Innovation Advisors Corporation Limited	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital Growth Partners L.P.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Management Consulting Corporation	Equity method investee of subsidiary of parent company (Other related party)
CDIB CME Fund Ltd.	Equity method investee of subsidiary of parent company (Other related party)
KGI Venture Capital Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Biomedical Venture Capital Corporation	Equity method investee of subsidiary of parent company (Other related party)
KGI Securities Investment Trust Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
KGI Insurance Brokers Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
KGI Futures Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDC Finance & Leasing Corp.	Equity method investee of subsidiary of parent company (Other related party)
KGI Securities Investment Advisory Co., Ltd.	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital Asia Partners Limited	Equity method investee of subsidiary of parent company (Other related party)
CDIB Capital International Corporation	Equity method investee of subsidiary of parent company (Other related party)
Bank of Taiwan Co., Ltd.	Juristic-person director of parent company (Other related party)
GPPC Chemical Corporation	Juristic-person director of parent company (Other related party)
Others	Directors, the key management personnel with their spouse, first- or second-degree relatives and CDIBH's affiliates or actual related parties (Other related party)(Note 2)

Note 1: Videoland Inc. and Lan wan Investment Corporation are no longer related parties of the Company from 1 November 2017.

Note 2: Related parties such as parent company, brother company, equity method investee of subsidiary of parent company, juristic-person directors of parent company become related parties of the Company as the result of the tender offer by CDF.

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

(1) Cash in banks

Name	2018.3.31	2017.12.31	2017.3.31
Other related parties	\$320,076	\$154,175	\$-

(2) Receivables

Name	2018.3.31	2017.12.31	2017.3.31
Other receivables:			
Other related parties	\$509,687	\$104,487	\$-

(3) Derivative financial instruments

Name	Contract type	Period	Notional Amount	Balance Sheets	
			(In thousands of USD dollars)	(2018.3.31)	
				Items	Balance
Other related parties	Swap contracts	2017/12/19- 2018/9/21	USD 215,000	financial assets at fair value through profit or loss	\$55,780
Other related parties	Forward contracts	2018/3/23- 2018/4/19	USD 44,696	financial liabilities at fair value through profit or loss	1,386
Other related parties	Swap contracts	2017/12/19- 2018/9/25	USD 564,000	financial assets at fair value through profit or loss	223,946

Name	Contract type	Period	Notional Amount	Balance Sheets	
			(In thousands of USD dollars)	(2017.12.31)	
				Items	Balance
Other related parties	Swap contracts	2017/2/15- 2018/9/21	USD 235,000	financial assets at fair value through profit or loss	\$61,327
Other related parties	Swap contracts	2017/2/14- 2018/9/25	USD 464,000	financial assets at fair value through profit or loss	65,887

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(4) Financial assets at fair value through profit and loss

Name	2018.3.31 (Note)	2017.12.31	2017.3.31
Stocks:			
Other related parties	\$76,030		
Beneficiary certificates:			
Other related parties	816,005		
Total	<u>\$892,035</u>		

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(5) Financial assets at fair value through other comprehensive income

Name	2018.3.31	2017.12.31 (Note)	2017.3.31 (Note)
Stocks:			
Parent company	\$5,793,423		
Other related parties	242,478		
Total	<u>\$6,035,901</u>		

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(6) Available-for-sale financial assets

Name	2018.3.31 (Note)	2017.12.31	2017.3.31
Stocks:			
Parent company		\$5,709,053	\$-
Other related parties		329,406	592,829
Beneficiary certificates:			
Other related parties		801,453	-
Total		<u>\$6,839,912</u>	<u>\$592,829</u>

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(7) Bond transaction

Purchase of bonds :

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Name	2018.3.31	2017.12.31	2017.3.31
Other related parties	\$874,890	\$-	\$-

(8) Policy loans

Name	2018.3.31	2017.12.31	2017.3.31
Other related parties	\$852	\$2,877	\$-

(9) Payables

Name	2018.3.31	2017.12.31	2017.3.31
Commissions payable:			
Other related parties	\$22,339	\$17,204	\$2
Other payables:			
Other related parties	270,633	52,535	-
Total	\$292,972	\$69,739	\$2

(10) Guarantee deposits received

Name	2018.3.31	2017.12.31	2017.3.31
Other related parties	\$2,421	\$2,421	\$-

(11) Premium income

Name	For the three-month periods ended 31 March	
	2018	2017
Parent company	\$185	\$-
Other related parties	55,555	11,767
Total	\$55,740	\$11,767

(12) Handling fees earned

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$13,044	\$-

(13) Gains on Investment property - rental income

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$2,425	\$-

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

(14) Insurance claim payments

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$130	\$-

(15) Commission expenses

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$143,673	\$22

(16) Professional service fees (recognized in operating expenses)

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$11,058	\$-

(17) Handling fees earned (recognized in net investment profits and losses or in adjustment for investment cost)

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$17,768	\$-

Other handling fees earned (recognized in operating expenses)

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$6,011	\$-

(18) Finance costs

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$6	\$-

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(19) Non-operating income and expenses

Name	For the three-month periods ended 31 March	
	2018	2017
Other related parties	\$210	\$-

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

3. Key management personnel remuneration

Item	For the three-month periods ended 31 March	
	2018	2017
Short-term employee benefits	\$97,773	\$63,641
Post-employment benefits	853	1,061
Total	\$98,626	\$64,702

XIII. Pledged assets

Details of pledged and guaranteed assets are as follows:

Item	2018.3.31	2017.12.31	2017.3.31
Government bonds-Insurance deposits (Recognized as refundable deposits)	\$6,265,688	\$5,970,541	\$5,472,481
Government bonds-Litigation deposits (Recognized as refundable deposits)	12,582	11,854	19,789
Total	\$6,278,270	\$5,982,395	\$5,492,270

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 2018, 31 December 2017 and 31 March 2017 are as follows:

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	2018.3.31	2017.12.31	2107.3.31
Less than one year	\$113,320	\$121,955	\$128,559
More than one year but less than five years	418,507	451,549	482,590
More than five years	4,892,107	5,250,407	7,702,909
<b>Total</b>	<b>\$5,423,934</b>	<b>\$5,823,911</b>	<b>\$8,314,058</b>

The minimum lease payments of operating lease for the three-month periods ended 31 March 2018 and 2017 amounted to \$15,582 thousand and \$16,345 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 2018, 31 December 2017 and 31 March 2017 are as follows:

	2018.3.31	2017.12.31	2017.3.31
Less than one year	\$403,062	\$401,125	\$424,203
More than one year but less than five years	974,006	1,000,913	1,155,448
More than five years	217,375	232,402	265,770
<b>Total</b>	<b>\$1,594,443</b>	<b>\$1,634,440</b>	<b>\$1,845,421</b>

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 2018, 31 December 2017 and 31 March 2017 are as follows:

	2018.3.31	2017.12.31	2017.3.31
Less than one year	\$49,028	\$51,874	\$53,292
More than one year but less than five years	73,304	85,012	123,918
<b>Total</b>	<b>\$122,332</b>	<b>\$136,886</b>	<b>\$177,210</b>

4. Investment commitment for private equity fund

As of 31 March 2018, the maximum remaining capital commitment for the contracted private equity fund of the Company was US\$61,156 thousand.

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

5. On 16 December 2016, the Company signed the contract with CHUNG-LU Construction Co., Ltd. for the construction of Taipei Academy. On 1 March 2017, the Company signed the first contract amendment protocol, amending the total amount of contract to be \$5,623,913 thousand. As of 31 March 2018, the actual accumulated payment of construction is \$459,579 thousand after deducting 5% of construction reserve, leaving \$5,164,334 thousand unpaid.
6. On 19 October 2017, the Board has resolved to pay \$1 to acquire the traditional policies and riders spun off from Allianz Taiwan Life. As per the financial figures of Allianz Taiwan Life as of 31 December 2016, the Company can assume statutory reserves of \$27.6 billion and corresponding assets of \$49.8 billion. The actual amount of the transaction will be subject to the valuation on the completion date. The transaction is approved by Financial Supervisory Commission (FSC) on 27 February 2018.

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 2018, 31 December 2017 and 31 March 2017 are as follows:

	2018.3.31		
	Foreign currency	Exchange rate (in dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$28,419,808	\$29.1200	\$827,584,812
<u>Non-monetary items</u>			
USD	409,659	29.1200	11,929,282
<u>Financial Liabilities</u>			
<u>Payables</u>			
USD	149,650	29.1200	4,357,808



**China Life Insurance Co., Ltd.**  
**Notes to financial statements (Continued)**  
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	2017.12.31		
	Foreign currency	Exchange rate (in dollar)	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$27,567,151	\$29.8480	\$822,824,310
<u>Non-monetary items</u>			
USD	211,293	29.8480	6,306,678
<u>Financial Liabilities</u>			
<u>Monetary items</u>			
USD	76,240	29.8480	2,275,612
2017.3.31			
	Foreign currency	Exchange rate (in 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

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 2018, 31 December 2017 and 31 March 2017, 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)**

Date: 31 March 2018

	Private Equity Fund	Real estate investment trust	Real estate beneficiary certificate	Total
Assets held by the Company				
Financial assets at fair value through profit and loss	\$1,270,501	\$1,901,372	\$-	\$3,171,873
Financial assets measured at amortized cost	-	-	59,567,281	59,567,281
The maximum exposure amount	1,270,501	1,901,372	59,567,281	62,739,154
Financial or other support provided	None	None	None	

Date: 31 December 2017

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

Date: 31 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	

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

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

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

**Notes to financial statements (Continued)**

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Investment Commission of the Ministry of Economic Affairs (MOEAIC) on 28 January 2011, and by the China Insurance Regulatory Commission on 6 April 2011. The Company remitted US\$58,775 thousand on 24 June 2011, completed settlement on 29 June 2011 and obtained 19.9% ownership. The Company shared 100% equity of Pacific-Antna Life Insurance Company Ltd. with China Construction Bank and other financial investors and used the channel and customer resources of China Construction Bank to develop bank insurance business which is to ensure the Company successfully enters the mainland market and increases the Company's long-term value and shareholders' interests. Pacific-Antna Life Insurance Company Ltd. was renamed to CCB Life Insurance Company Ltd. authorized by the China Insurance Regulatory Commission on 7 June 2011. And CCB Life Insurance Company Ltd. made an announcement to change into a company limited by shares from a limited company on 20 December 2016.

The Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to increase capital of US\$216,000 CCB Life Insurance Company Ltd. on 29 August 2011 and to remit US\$11,844 thousand on 30 August 2011. The increased share capital case was approved by China Insurance Regulatory Commission on 28 September 2011 and by Shanghai Administration for Industry and Commerce on 13 December 2011. Moreover, the Company remitted US\$179,070 thousand to increase share capital in June 2012, and this increased share capital case was approved by China Insurance Regulatory Commission on 27 July 2012 and by Shanghai Administration for Industry and Commerce on 5 November 2012. MOEAIC authorized the Company to revoke the approved case on 29 August 2011 of US\$25,086 thousand not implemented on 2 October 2017.

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