China Life Insurance Co., Ltd.
Financial Statements
For The Years Ended
31 December 2014 and 2013
With Independent Auditors' Report

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

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Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

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

We have audited the accompanying balance sheets of China Life Insurance Co., Ltd. (the "Company") as of 31 December 2014, 31 December 2013 and 1 January 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2014 and 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statement by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("R.O.C."). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2014, 31 December 2013 and 1 January 2013, and the results of its operations and its cash flows for the years ended in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

As described in the notes to financial statements, the Company changes the subsequent measurements of investment property from cost model to fair value model since 1 January 2014. The financial statements for the year ended 31 December 2013 and the balance sheets as of 1 January 2013 and 31 December 2013 have been adjusted for the retrospective application of the accounting principle.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan, R.O.C.
26 February 2015

Ernst & Young

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Audited balance sheets

As at 31 December 2014, 31 December 2013 and 1 January 2013

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	2014/12/31 Amount	%	2013/12/31 Amount	%	2013/1/1 Amount	%
Cash and cash equivalents	VI、1	$61,223,512	6	$112,702,457	11	$66,624,945	8
Receivables	VI、2	14,384,897	1	11,169,076	1	12,330,910	1
Current tax assets		1,326,043	0	936,683	0	1,043,835	0
Financial assets at fair value through profit or loss	VI、3	1,605,826	0	1,935,591	0	2,779,636	0
Available-for-sale financial assets	VI、4	435,292,552	39	427,706,046	44	483,045,952	57
Bond investment for which no active market exists	VI、5	440,007,443	40	290,884,414	30	158,118,970	19
Investment property	VI、7	23,553,058	2	22,873,268	2	22,581,222	2
Loans	VI、6	31,083,479	3	32,139,338	3	32,793,971	4
Reinsurance assets	VI、8	264,209	0	296,817	0	240,431	0
Property and equipment	VI、9	6,973,988	1	5,663,139	1	4,848,730	1
Intangible assets		53,806	0	42,350	0	36,205	0
Deferred tax assets	VI、26	3,235,637	0	859,868	0	1,267,508	0
Other assets	VI、10	19,091,114	2	5,592,005	1	3,936,164	0
Separate account product assets	VI、28	69,172,331	6	64,800,681	7	64,895,316	8
Total assets		$1,107,267,895	100	$977,601,733	100	$854,543,795	100

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Audited balance sheets - (continued)

As at 31 December 2014, 31 December 2013 and 1 January 2013

(Expressed in Thousands of New Taiwan Dollars)

		2014/12/31		2013/12/31		2013/1/1	
Liabilities and equity	Notes	Amount	%	Amount	%	Amount	%
Payables	VI、11	$9,999,089	1	$5,628,375	1	$4,443,848	1
Financial liabilities at fair value through profit or loss	VI、12	5,847,792	1	3,008,375	0	470,800	0
Other financial liabilities	VI、13	-	-	11,104	0	21,776	0
Insurance liabilities	VI、14	934,190,724	84	831,031,223	85	701,072,068	82
Reserve for insurance contracts with feature of financial instruments	VI、15	-	-	446,490	0	6,331,469	1
Foreign exchange volatility reserve	VI、16	5,263,545	0	2,773,740	0	1,964,816	0
Provisions	VI、17	266,651	0	237,795	0	226,309	0
Deferred tax liabilities	VI、26	6,738,484	1	1,487,544	0	3,024,895	0
Other liabilities		1,464,786	0	5,686,893	1	1,689,630	0
Separate account product liabilities	VI、28	69,172,331	6	64,800,681	7	64,895,316	8
Total liabilities		1,032,943,402	93	915,112,220	94	784,140,927	92
Capital stock	VI、19						
Common stock		30,364,970	3	27,221,478	3	23,878,482	3
Capital surplus	VI、20	4,414,821	0	6,454,129	1	6,454,129	1
Retained earnings	VI、21						
Legal capital reserve		4,780,855	0	3,835,906	0	2,879,170	0
Special capital reserve		16,777,327	2	6,807,982	1	7,392,385	1
Unappropriated retained earnings		6,167,092	1	12,736,664	1	10,931,701	1
Other equity	VI、22	11,819,428	1	5,433,354	0	18,867,001	2
Total equity		74,324,493	7	62,489,513	6	70,402,868	8
Total liabilities and equity		$1,107,267,895	100	$977,601,733	100	$854,543,795	100

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Audited statements of comprehensive income

For the years ended 31 December 2014 and 2013

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

Item	Notes	2014 Amount	2014 %	2013 Amount	2013 %	Percentage change(%)
Operating revenue						
Direct premium income		$144,674,089	75	$167,592,029	81	(14)
Reinsurance premium income		(34)	0	(1)	0	3,700
Premium income		144,674,055	75	167,592,028	81	(14)
Deduct: Premiums ceded to reinsurers		(1,027,796)	(1)	(987,672)	(1)	4
Net changes in unearned premium reserve	VI、14	(272,173)	0	(232,726)	0	17
Retained earned premium	VI、23	143,374,086	74	166,371,630	80	(14)
Reinsurance commission earned		206,524	0	265,637	0	(22)
Handling fees earned		1,000,458	0	1,032,342	0	(3)
Net investment profits and losses						
Interest income		27,652,402	14	23,429,115	11	18
Losses on financial assets and liabilities at fair value through profit or loss		(17,686,010)	(9)	(4,977,194)	(2)	255
Realized gains on available-for-sale financial assets		9,763,657	5	7,721,768	4	26
Realized gains on bond investments for which no active market exists		2,107,244	1	699,325	0	201
Foreign exchange gains (losses)		18,681,389	10	4,064,131	2	360
Net changes in foreign exchange volatility reserve	VI、16	(2,489,805)	(1)	(808,924)	0	208
Gains on investment property		1,097,790	1	1,878,659	1	(42)
Impairment losses and gains on reversal of impairment losses		(192,329)	0	(6,172)	0	3,016
Other operating revenue		48	0	114	0	100
Separate account product revenue	VI、28	10,115,736	5	8,025,836	4	26
Subtotal		193,631,190	100	207,696,267	100	(7)
Operating costs						
Insurance claim payments		(64,445,890)	(33)	(51,672,767)	(25)	25
Deduct: Claims recovered from reinsures		536,724	0	460,252	0	17
Retained claim payments	VI、24	(63,909,166)	(33)	(51,212,515)	(25)	25
Net changes in insurance liabilities	VI、14	(99,554,389)	(52)	(129,374,285)	(63)	(23)
Net changes in reserve for insurance contracts with feature of financial instruments	VI、15	(606)	0	(102,968)	0	(99)
Brokerage expenses		(8,384)	0	(5,152)	0	63
Commission expenses		(9,503,709)	(5)	(9,062,259)	(3)	5
Finance costs		(18,301)	0	(14,687)	0	25
Other operating costs		(161,265)	0	(510,040)	0	(68)
Separate account product expenses	VI、28	(10,115,736)	(5)	(8,025,836)	(4)	26
Subtotal		(183,271,556)	(95)	(198,307,742)	(95)	(8)
Operating expenses	VI、25					
Business expenses		(2,294,923)	(1)	(2,252,588)	(1)	2
Administrative and general expenses		(1,204,425)	(1)	(813,385)	(1)	48
Employee training expenses		(22,707)	0	(19,560)	0	16
Subtotal		(3,522,055)	(2)	(3,085,533)	(2)	14
Operating income (loss)		6,837,579	3	6,302,992	3	8
Non-operating income and expenses		185,507	0	40,544	0	358
Income (loss) from continuing operations before income tax		7,023,086	3	6,343,536	3	11
Income tax benefit (expense)	VI、26	(511,127)	0	(344,294)	0	48
Net income (loss) from continuing operations		6,511,959	3	5,999,242	3	9
Net income (loss)		6,511,959	3	5,999,242	3	9
Other comprehensive income						
Unrealized valuation gains (losses) on available-for-sale financial assets		8,732,844	5	(14,736,261)	(7)	(159)
Gains on revaluation		48,136	0	35,116	0	37
Actuarial gains (losses) on defined benefit plans		7,244	0	(1,663)	0	(536)
Income taxes relating to components of other comprehensive income	VI、26	(2,361,022)	(1)	1,267,781	1	(286)
Other comprehensive income, net of tax		6,427,202	4	(13,435,027)	(6)	(148)
Total comprehensive income		$12,939,161	7	$(7,435,785)	(3)	(274)
Earnings per share (In New Taiwan Dollars)	VI、27					
Basic earnings per share		$2.15		$2.00		
Diluted earnings per share		$2.14		$1.98		

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

China Life Insurance Co., Ltd.
Audited statements of changes in equity
For the years ended 31 December 2014 and 2013
(Expressed in Thousands of New Taiwan Dollars)

Summary	Notes	Common stock	Capital surplus	Retained earnings: Legal capital reserve	Retained earnings: Special capital reserve	Retained earnings: Unappropriated retained earnings	Other equity: Unrealized valuation gains (losses) from available-for-sale financial assets	Other equity: Revaluation surplus	Total
Balance on 1 January 2013		$23,878,482	$6,454,129	$2,879,170	$7,392,385	$3,846,873	$18,867,001	$-	$63,318,040
Effects on retrospective application and restatement						7,084,828			7,084,828
Balance on 1 January 2013 (Adjusted)	XVII、2	$23,878,482	$6,454,129	$2,879,170	$7,392,385	$10,931,701	$18,867,001	$-	$70,402,868
Appropriation and distribution of earnings for the year 2012	VI、21								
Legal capital reserve				956,736		(956,736)			-
Special capital reserve					2,168,743	(2,168,743)			-
Cash dividends						(477,570)			(477,570)
Stock dividends		3,342,996				(3,342,996)			-
Reversal of special capital reserve					(3,106,274)	3,106,274			-
Net income for the year ended 31 December 2013 (Adjusted)	XVII、2					5,999,242			5,999,242
Other comprehensive income for the year ended 31 December 2013 (Adjusted)	VI、22					(1,380)	(13,468,762)	35,115	(13,435,027)
Total comprehensive income for the year ended 31 December 2013 (Adjusted)		-	-	-	-	5,997,862	(13,468,762)	35,115	(7,435,785)
Net changes in special reserve	VI、21				353,128	(353,128)			-
Balance on 31 December 2013 (Adjusted)		$27,221,478	$6,454,129	$3,835,906	$6,807,982	$12,736,664	$5,398,239	$35,115	$62,489,513
Balance on 1 January 2014 (Adjusted)	XVII、2	$27,221,478	$6,454,129	$3,835,906	$6,807,982	$12,736,664	$5,398,239	$35,115	$62,489,513
Special capital reserve recognized in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402501001	VI、21				8,394,443	(8,359,328)		(35,115)	-
Appropriation and distribution of earnings for the year 2013	VI、21								
Legal capital reserve				944,949	-	(944,949)			-
Special capital reserve					1,188,799	(1,188,799)			-
Cash dividends						(1,104,181)			(1,104,181)
Stock dividends		1,104,184				(1,104,184)			-
Changes in other capital surplus									
Capital surplus used to distribute stock dividends	VI、19	1,656,271	(1,656,271)						-
Net income for the year ended 31 December 2014						6,511,959			6,511,959
Other comprehensive income for the year ended 31 December 2014	VI、22					6,013	6,375,839	45,350	6,427,202
Total comprehensive income for the year ended 31 December 2014		-	-	-	-	6,517,972	6,375,839	45,350	12,939,161
Conversion of convertible bonds	VI、19	383,037	(383,037)						-
Net changes in special reserve	VI、21				386,103	(386,103)			-
Balance on 31 December 2014		$30,364,970	$4,414,821	$4,780,855	$16,777,327	$6,167,092	$11,774,078	$45,350	$74,324,493

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.
Audited statements of cash flows
For the years ended 31 December 2014 and 2013
(Expressed in Thousands of New Taiwan Dollars)

	2014	2013
Cash flows from operating activities		
Net income (loss) before tax	$7,023,086	$6,343,536
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	82,411	70,282
Amortization expense	17,276	13,212
Provision (reversal of provision) for bad debt expense	(64,404)	48,658
Net losses (gains) on financial assets and liabilities at fair value through profit or loss	17,724,690	5,007,921
Net gains on disposal of investment	(8,142,271)	(5,522,454)
Interest expenses	18,301	14,686
Interest income	(27,652,401)	(23,429,115)
Dividend income	(3,767,091)	(2,855,011)
Net changes in insurance liabilities	103,171,715	129,924,919
Net changes in reserve for insurance contracts with feature of financial instruments	(446,490)	(5,884,979)
Net changes in foreign exchange volatility reserve	2,489,805	808,924
Net changes in provisions	5,400	(12,293)
(Gains) losses on disposal or scrapping of property and equipment	299	1,444
(Gains) losses on disposal of investment property	(3,589)	7,926
Impairment losses on financial assets	-	6,424
Reversal of impairment losses on non-financial assets	176,196	(252)
Unrealized foreign exchange losses (gains)	(10,445,002)	(2,452,367)
Gains on valuation of investment property	(648,402)	(1,422,395)
Others	-	(183)
Changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss	(14,577,820)	(1,658,072)
Decrease (increase) in notes receivable	32,513	116,087
Decrease (increase) in other receivables	(2,643,643)	1,371,057
Decrease (increase) in prepaid expenses and other prepayments	(14,169,621)	(59,278)
Decrease (increase) in guarantee deposits paid	1,148,065	(1,142,543)
Decrease (increase) in reinsurance assets	20,393	(22,149)
Decrease (increase) in other assets	2,416	(2,206)
Increase (decrease) in notes payable	177,439	48,081
Increase (decrease) in life insurance proceeds payable	8,617	3,751
Increase (decrease) in other payables	4,289,092	850,750
Increase (decrease) in due to reinsurers and ceding companies	31,153	(26,689)
Increase (decrease) in commissions payable	(146,752)	308,560
Increase (decrease) in accounts collected in advance	(1,038,832)	876,503
Increase (decrease) in guarantee deposits received	7,632	(157)
Increase (decrease) in other liabilities	(3,190,906)	3,120,916
Increase (decrease) in provision for employee benefits	30,699	22,115
Cash generated from operations	49,519,974	104,475,609
Interest received	17,977,639	17,366,755
Dividends received	3,730,334	2,855,011
Interest paid	(18,301)	(14,159)
Income taxes refunded (paid)	(386,275)	(92,680)
Net cash provided by (used in) operating activities	70,823,371	124,590,536
Cash flows from investing activities		
Acquisition of available-for-sale financial assets	(210,915,464)	(87,948,994)
Disposal of available-for-sale financial assets	222,673,401	137,281,688
Proceeds from capital reduction of available-for-sale financial assets	52,849	39,874
Acquisition of bond investment for which no active market exists	(225,807,454)	(153,988,392)
Disposal of bond investment for which no active market exists	93,256,439	25,739,739
Acquisition of property and equipment	(1,412,004)	(24,104)
Acquisition of intangible assets	(28,732)	(19,228)
Decrease in loans	1,120,244	605,849
Acquisition of investment property	(266,127)	(6,001)
Disposal of investment property	128,713	295,315
Net cash provided by (used in) investing activities	(121,198,135)	(78,024,254)
Cash flows from financing activities		
Increase (decrease) in other financial liabilities	-	(11,200)
Cash dividends paid	(1,104,181)	(477,570)
Net cash provided by (used in) financing activities	(1,104,181)	(488,770)
Increase (decrease) in cash and cash equivalents	(51,478,945)	46,077,512
Cash and cash equivalents at the beginning of the year	112,702,457	66,624,945
Cash and cash equivalents at the end of the year	$61,223,512	$112,702,457

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

English Translation of Financial Statements Originally Issued in Chinese

China Life Insurance Co., Ltd.

Notes to financial statements

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

For the years ended 31 December 2014 and 2013

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 was 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 County, Taichung City, Chiayi City, Tainan City, Kaohsiung City, Pintung County, Hualien County and Penghu County.

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

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

The financial statements of the Company for the years ended 31 December 2014 and 2013 were authorized to issue in accordance with a resolution of the Company's board of directors on 26 February 2015.

III. Newly issued or revised standards and interpretations

(1) The influence of International Financial Reporting Standards of version 2013, recognized by Financial Supervisory Commission ("FSC") but not yet adopted by the Company.

According to the Order No. Financial-Supervisory-Securities-Corporate-1030010325 approved by FSC on 3 April 2014, International Financial Reporting Standards of version 2013 (not including IFRS 9 Financial Instruments), which are recognized and issued by FSC would be applicable for annual periods beginning on or after 1 January 2015. Related standards or interpretations newly issued, revised or amended are listed below:

	Contents of Standards or interpretations	Adoption Date (Note)
(1)	Improvements to International Financial Reporting Standards (issued in 2010):	
	IFRS 1 *First-time Adoption of International Financial Reporting*	1 January 2011

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

	Contents of Standards or interpretations	Adoption Date (Note)
	Standards	
	IFRS 3 *Business Combinations*	1 July 2010
	IFRS 7 *Financial Instruments: Disclosures*	1 January 2011
	IAS 1 *Presentation of Financial Statements*	1 January 2011
	IAS 34 *Interim Financial Reporting*	1 January 2011
	IFRIC 13 *Customer Loyalty Programmes*	1 January 2011
(2)	IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative* IFRS 7 *Disclosures for First-time Adopters*	1 July 2010
(3)	IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 July 2011
(4)	IFRS 7 *Financial Instruments: Disclosures (Amendment)*	1 July 2011
(5)	IAS 12 *Income Taxes — Deferred Taxes: Recovery of Underlying Assets*	1 January 2012
(6)	IFRS 10 *Consolidated Financial Statements*	1 January 2013
(7)	IAS 27 *Separate Financial Statements*	1 January 2013
(8)	IFRS 11 *Joint Arrangements*	1 January 2013
(9)	IAS 28 *Investments in Associates and Joint Ventures*	1 January 2013
(10)	IFRS 12 *Disclosure of Interest in Other Entities*	1 January 2013
(11)	IFRS 13 *Fair Value Measurement*	1 January 2013
(12)	IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*	1 July 2012
(13)	IAS 19 *Employee Benefits (Revised)*	1 January 2013
(14)	IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*	1 January 2013
(15)	IFRS 7 *Financial Instruments: Disclosures — Disclosures — Offsetting Financial Assets and Financial Liabilities*	1 January 2013
(16)	IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*	1 January 2014
(17)	IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
(18)	*Improvements to International Financial Reporting Standards (2009-2011 cycle)*	
	IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2013
	IAS 1 *Presentation of Financial Statements*	1 January 2013
	IAS 16 *Property, Plant and Equipment (Amendment)*	1 January 2013

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

	Contents of Standards or interpretations	Adoption Date (Note)
	IAS 32 *Financial Instruments: Presentation (Amendment)*	1 January 2013
	IAS 34 *Interim Financial Reporting (Amendment)*	1 January 2013
(19)	IFRS 10 *Consolidated Financial Statements (Amendment)*	1 January 2014

Note: The newly issued Standards and interpretations above are effective for annual periods subsequent to the date of issue.

The above mentioned standards and interpretations are issued by IASB and recognized by FSC and would be applicable for annual periods beginning on or after 1 January 2015. Apart from the standards and interpretations mentioned below would affect the presentation of financial statements and increase the level of disclosure in the financial reports, the remaining standards and interpretations have no material impact.

Improvements to International Financial Reporting Standards (issued in 2010):

IFRS 7 *Financial Instruments: Disclosures*

The amendment requires qualitative disclosures in the context of quantitative disclosures to enable users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

IFRS 7 *Financial Instruments: Disclosures (Amendment)*

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognized in their entirety, but the entity has a continuing involvement in them, or when financial assets are not derecognized in their entirety.

IAS 12 *Income Taxes — Deferred Taxes: Recovery of Underlying Assets*

The amendment to IAS 12 introduce a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* has been withdrawn.

IFRS 13 *Fair Value Measurement*

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRS as to when the fair value measurement or related disclosure is required.

IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss in the future would be presented separately from items that will never be reclassified.

IAS 19 *Employee Benefits (Revised)*

The revision includes:

(1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in other comprehensive income.

(2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income or expenses.

(3) New disclosures include quantitative information about the sensitivity analysis of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

(4) Termination benefits are recognized at the earlier when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, etc..

The Company estimated to replace interest cost and the expected return rate assumption of plan assets with net interest determined by net defined benefit liability (asset) multiplied by discount rate. The adjustment reduced net pension cost by NT$847 thousands and increased other comprehensive income by NT$847 thousands in 2014.

Improvements to International Financial Reporting Standards (2009-2011 cycle)

IAS 1 *Presentation of Financial Statements*

The amendment clarifies

(1) The difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

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

(2) An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.

(3) The opening statement of financial position (known as 'the third balance sheet') must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.

(2) The influence of Standards or interpretations issued by IASB but not yet recognized by FSC.

Standards or interpretations issued by IASB but not yet recognized by FSC at the date of issuance of the Company's financial statements are listed below:

	Contents of Standards or interpretations	Adoption Date (Note 1)
(1)	IAS 36 *"Impairment of Assets" (Amendment)*	1 January 2014
(2)	IFRIC 21 *Levies*	1 January 2014
(3)	IAS 39 *Financial Instruments: Recognition and Measurement (Amendment)*	1 January 2014
(4)	IAS 19 *Employee Benefits (Defined benefit plans: employee contributions)*	1 July 2014
(5)	*Improvements to International Financial Reporting Standards (2010-2012 cycle)*:	
	IFRS 2 *Share-based Payment*	Note 2
	IFRS 3 *Business Combinations*	Note 3
	IFRS 8 *Operating Segments*	1 July 2014
	IFRS 13 *Fair Value Measurement*	Note 4
	IAS 16 *Property, Plant and Equipment*	1 July 2014
	IAS 24 *Related Party Disclosures*	1 July 2014
	IAS 38 *Intangible Assets*	1 July 2014
(6)	*Improvements to International Financial Reporting Standards (2011-2013 cycle)*:	
	IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 July 2014
	IFRS 3 *Business Combinations*	1 July 2014
	IFRS 13 *Fair Value Measurement*	1 July 2014

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

Contents of Standards or interpretations	Adoption Date (Note 1)
IAS 40 *Investment Property*	1 July 2014
(7) IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
(8) IFRS 11 *Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)*	1 January 2016
(9) IAS 16 *Property, Plant and Equipment and* IAS 38 *Intangible Assets — Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
(10) IFRS 15 *Revenue from Contracts with Customers*	1 January 2017
(11) IAS 16 *Property, Plant and Equipment and* IAS 41 *Agriculture — Agriculture: Bearer Plants*	1 January 2016
(12) IFRS 9 *Financial Instruments*	1 January 2018
(13) IAS 27 *Separate Financial Statements — Equity Method in Separate Financial Statements*	1 January 2016
(14) 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*	1 January 2016
(15) *Improvements to International Financial Reporting Standards (2012-2014 cycle)*:	
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	1 January 2016
IFRS 7 *Financial Instruments: Disclosures*	1 January 2016
IAS 19 *Employee Benefits*	1 January 2016
IAS 34 *Interim Financial Reporting*	1 January 2016
IAS 1 *Presentation of Financial Statements (Amendment)*:	1 January 2016
IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities, and* IAS 28 *Investments in Associates and Joint Ventures — Investment Entities: Applying the Consolidation Exception*	1 January 2016

Note1: Apart from notes, the newly issued Standards and interpretations above are effective for annual periods subsequent to the date of issue.

Note2: The grant date of Share-based payment happens after 1 July 2014 begins to apply.

Note3: The acquisition date of Business Combinations happens after 1 July 2014 begins to apply.

Note4: Effective after amendment.

The above mentioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Company's financial statements, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed below, it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact.

IAS 36 *Impairment of Assets (Amendment)*

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

IFRIC 21 *Levies*

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

IAS 39 *Financial Instruments: Recognition and Measurement (Amendment)*

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

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

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

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

IFRS 13 *Fair Value Measurement*

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

IAS 16 *Property, Plant and Equipment*
The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

IAS 38 *Intangible Assets*
The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset.

Improvements to International Financial Reporting Standards (2011-2013 cycle)
IFRS 13 *Fair Value Measurement*
The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 *Financial Instruments: Presentation*.

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

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

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

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

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

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

IFRS 7 *Financial Instruments: Disclosures*

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

IAS 19 *Employee Benefits*

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

IAS 34 *Interim Financial Reporting*

The amendment clarifies what is meant by "elsewhere in the interim financial report" under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

IAS 1 *"Presentation of Financial Statements" (Amendment)*

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

IV. Summary of significant accounting policies

1. Statement of compliance

The financial statements of the Company for the years ended 31 December 2014 and 2013 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed 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 NT$, which is also the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the closing rate of exchange at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

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

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

(2) A portion of currency instruments exchange differences arising from the translation of the net investment in foreign operations and designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are proportionately reclassified to 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 refers to the insurer accepting the insurance policyholder's transfer of significant insurance risk, and agrees to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company's definition of a significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

Insurance contract with features of financial instruments are contracts that transfer the financial risk. The definition of a financial risk refers to one or more specific interest rate, prices of financial instruments, product prices, exchange rates, price index, rate index, credit ratings and indicators, and other variables that faces risk of possible future changes. If the above variables are not considered as a financial variable, then the variables exist in both sides under the contract.

When the original judgment meet the criteria of the policy under the insurance contract, before the right of ownership and obligations expired or extinguished, 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 features 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:

A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.

B. In accordance with the contract, the amount and date of payment for additional payments are at the Company's discretion.

C. In accordance with the contract, additional payments are handed out based on one of the following matters:

a. Special combination of contracts or specific type of contractual performance.

b. The Company holds return on investment from a portfolio of specific assets.

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

6. Financial assets and liabilities

(1) Initial recognition and subsequent measurement

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

According 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", and "loans and receivables". Financial liabilities are categorized as "financial liabilities at fair value through profit or loss", and "financial liabilities carried at amortized cost".

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

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

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

j Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

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

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

<u>Available-for-sale financial assets</u>

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

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

Financial liabilities

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

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

(2) Fair value of financial instruments

The fair value of financial instruments in an active market is the quoted price on the end of each reporting period without considering transaction costs.

A financial instrument has a quoted price in an active market if it can readily access to a quoted price which represents actual and frequent fair value transactions between market participants in exchange markets, brokers, underwriters, pricing service agencies, and authorities.

Fair value of the other financial instruments which are not included in an active market transaction is determined using appropriate valuation techniques. The techniques include using current fair value transactions, referring to the current fair value of another instrument that has the same substances, discounted cash flow analysis, and other pricing models.

(3) 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 instruments 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.

(4) Offsetting of 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.

(5) Impairment of financial assets

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

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

Other loss events may include:

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

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

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

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

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

1. Total amount of 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets that should be paid attention, 10% of the ending balance for the third category of loan assets that are expected to recover, 50% of the ending balance for the fourth category of loan assets that are difficult to recover and 100% of the ending balance for the fifth category of loan assets that are not expected to recover are aggregated .

2. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.

3. Total unsecured portion of loans overdue and receivable on demand.

4. If total amount of minimum allowance of uncollectible accounts measured from the categories above are less than the amount in accordance with GAAP, it should refers to the amount in accordance with GAAP as minimum allowance of uncollectible accounts.

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

In the case of debt instruments 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 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.

(6) Derivative financial instruments and hedge accounting

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

7. Loans

Loans include automatic premium loans, policy loans and secured loans. Among them, automatic premium loans deduct the premiums due accordance with the provisions of the insurance contract, policy loans are secured by policies issued by the Company, secured loans are secured by stocks, chattel, real estate and other loans and overdue receivables which are approved by the competent authority.

Loan principal and interest arrears more than three months of the settlement period, which has recourse to the primary and secondary debtor or disposal of the collateral are include in the overdue loans.

Collateral receive from the overdue loans after actively dunning, is recorded at the fair value listed in the related account depending on the nature of the collateral. And measure in the applicable method of that account.

8. 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.

9. 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.

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

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

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

11. Intangible assets

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

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

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

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

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

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

12. Impairment of non-financial assets

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

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

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

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

13. Investment-linked insurance products

The Company sells investment-linked insurance products, of which the applicant pays the premium according to the agreement 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."

14. Post-employment benefits

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

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

For the defined contribution plan, the Company recognizes expenses in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan is recognized based on actuarial assumptions at the end of reporting period. The portion of actuarial gains and losses is recognized in other comprehensive income and immediately recognized in equity when occurs. 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 since that time and for significant curtailments, settlements, or other significant one-off events.

15. 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.

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

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

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

(1) Unearned premium reserve

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

(2) Reserve for claims

It is mainly a reserve for the reported but not paid claims and unreported claims. The reported but not paid claims reserve is assessed upon the basis that the 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 upon the past experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

(3) Reserve for life insurance liabilities

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

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

(4) Special reserve

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

A. Special capital reserve－Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of NT$30,000 thousands 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 capital reserve—Special reserve for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15 percent 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 reserves 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 percent of self-retention earned premium within one year, the exceeded amount will be recovered.

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

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

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

(5) Premium deficiency reserve

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

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

(6) Liability adequacy reserve

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

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

(7) Reserves for insurance contract 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.

17. Foreign exchange volatility reserve

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

18. 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 finished, and subsequent session of collection, 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 contract 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 contract with feature of financial instruments.”

19. Reinsurance

The Company limits exposure to some events that may cause a certain amount of loss and this is done in accordance to sale's needs and the insurance laws and regulations for reinsurance. For reinsurance ceded, the Company may not refuse to fulfill its obligations to the insured because the reinsurer fails to fulfill their responsibility.

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

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

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

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

20. Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

21. Changes in accounting policy

The FSC revised the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises on 10 January 2014, and Article 9, Paragraph 3, subparagraph 13 and Article 32, paragraph 5 of the Regulations were effective as from 1 January 2014. To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Company volunteered to change the subsequent measurements of investment property from cost model to fair value model since year of 2014. The adjustments resulted in increases of retained earnings by NT$8,333,343 thousands as of 1 January 2013 and increases of net income by NT$1,274,500 thousands, other comprehensive income by NT$35,115 thousands, and total comprehensive income by NT$1,309,615 thousands for the year 31 December 2013. Please refer to Note XVII.2 for items and amounts of retrospective adjustments.

V. Significant accounting judgments, estimates and assumptions

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

a. Judgment

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

(1) Categories of financial assets

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

(2) Insurance contract categories

The Company identify the composition of the issued insurance product contract; decide whether it can be measured individually to determine whether the contract should be separately recognized. In addition, the Company examine whether the insurance contract has a significant insurance risk through a review of the effective period of additional payment ratio, to decide the category of insurance product. If the additional payment ratio reach the pre-set significant standard at any policy period, such contract should consider having a significant insurance risk. If a single contract provides payment of multiple different insurance event, additional payment would be calculated by the greatest difference between the payment of the insurance event if occurs and the payment of the 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 an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

b. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty 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 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. As far as possible, models should use observable market data and estimate the volatility and correlation of credit risk by the management. 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 which are used in applying valuation techniques will have impacts 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 cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

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

The liability for insurance contracts and investment contracts with discretionary participation feature of financial instruments is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows. The main assumptions used relate to mortality, morbidity, investment returns, 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 own experiences from target markets.

Estimates of future investment income from the assets backing such contracts are based on current market returns, as well as expectations about future economic developments. Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate. Surrender rates are based on the Company's historical experience.

(6) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The differences between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations 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.

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

VI. Description of significant accounting items

1. Cash and cash equivalents

Item	2014.12.31	2013.12.31	2013.1.1
Cash on hand	$1,386	$1,992	$3,789
Revolving funds	4,390	4,420	4,435
Cash in banks	20,309,870	24,126,962	20,132,375
Time deposits	31,258,003	58,178,420	30,171,671
Cash equivalents－bond with resale agreement	9,649,863	30,390,663	16,312,675
Total	$61,223,512	$112,702,457	$66,624,945

2. Receivables

Item	2014.12.31	2013.12.31	2013.1.1
Notes receivable - Net	$480,040	$512,554	$628,641
Other receivables - Net			
Interest receivable	8,571,489	8,000,337	7,675,679
Rent receivable	3,900	6,794	4,529
Financial instruments settlement receivable	2,822,688	193,883	1,944,773
Separate accounts receivable	1,808,044	1,705,563	1,570,645
Other receivables	695,145	746,347	502,974
Less: Allowance for bad debts - Other receivables	-	(2)	(2)
Overdue receivables	7,427	7,454	7,650
Less: Allowance for bad debts - Overdue receivables	(3,836)	(3,854)	(3,979)
Subtotal	13,904,857	10,656,522	11,702,269
Total	$14,384,897	$11,169,076	$12,330,910

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

3. Financial assets at fair value through profit or loss

Item	2014.12.31	2013.12.31	2013.1.1
Held for sale：			
Derivative financial assets			
Forward foreign exchange contracts	$181,840	$183,037	$474,746
IRS contracts	-	3,077	6,562
Subtotal	181,840	186,114	481,308
Non-derivative financial assets			
Government bonds	-	246,906	259,260
Domestic listed stocks	811,755	870,298	1,397,692
Subtotal	811,755	1,117,204	1,656,952
Designated financial assets at fair value through profit or loss：			
Convertible bonds	612,231	632,273	641,376
Total	$1,605,826	$1,935,591	$2,779,636

4. Available-for-sale financial assets

Item	2014.12.31	2013.12.31	2103.1.1
Domestic listed stocks	$80,701,910	$62,823,080	$41,232,280
Domestic beneficiary certificates	-	68,151	958,716
Domestic real estate investment trust	1,535,172	1,479,085	999,306
Domestic government bonds	190,355,494	203,133,361	217,034,495
Domestic corporate bonds	6,012,423	9,927,969	12,388,212
Domestic financial debentures	5,877,480	8,616,975	9,225,159
Domestic structured time deposits	-	-	1,000,437
Overseas listed stocks	7,711,611	3,901,094	2,228,502
Overseas government bonds	2,461,262	3,285,705	5,481,799
Overseas corporate bonds	19,792,198	10,664,364	16,627,045
Overseas financial debentures	88,992,639	102,024,070	157,367,287
Overseas structured notes	-	-	582,720
Overseas preferred stocks	6,591,218	-	54,029
Overseas beneficiary certificates	6,209,172	10,515,180	8,190,187
Domestic unlisted stocks	2,307,657	1,727,450	1,358,655
Overseas unlisted stocks	18,243,697	11,042,188	9,886,016
Less: Refundable deposits	(1,499,381)	(1,502,626)	(1,568,893)
Total	$435,292,552	$427,706,046	$483,045,952

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

5. Bond investments for which no active market exists

Item	2014.12.31	2013.12.31	2013.1.1
Domestic government bonds	$10,179,958	$10,358,909	$10,427,784
Domestic corporate bonds	51,110,209	50,671,574	48,113,514
Domestic financial debentures	29,708,151	17,511,264	18,414,137
Overseas government bonds	7,487,941	9,299,807	4,298,497
Overseas corporate bonds	55,596,390	46,108,884	17,141,206
Overseas financial debentures	264,544,894	150,937,827	59,659,357
Overseas real estate mortgage bonds	21,273,190	7,309,306	859,551
Overseas structured notes	1,903,080	-	-
Domestic time deposits	1,500,000	1,500,000	1,500,000
Less: Refundable deposits	(3,296,370)	(2,813,157)	(2,295,076)
Total	$440,007,443	$290,884,414	$158,118,970

6. Loans

Item	2014.12.31	2013.12.31	2013.1.1
Policy loans	$22,783,741	$22,943,143	$21,704,872
Automatic premium loans	4,462,868	4,097,988	3,989,366
Secured loans－net	3,769,521	4,856,292	6,786,110
Secured loans－non-related parties	3,788,966	4,881,656	6,820,375
Secured loans－related parties	-	-	327
Less: Allowance for bad debts	(19,445)	(25,364)	(34,592)
Overdue receivables－net	67,349	241,915	313,623
Overdue receivables	105,924	338,956	427,757
Less: Allowance for bad debts	(38,575)	(97,041)	(114,134)
Total	$31,083,479	$32,139,338	$32,793,971

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

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

	2014	2013
Beginning balance	$122,405	$148,726
Charge (reversal) for the current period	166,233	48,783
Write off	(230,618)	(75,104)
Ending balance	$58,020	$122,405

Above impairment is assessed collectively.

7. Investment property

Adopt fair value model in subsequent measurement:

	2014			
	Land	Buildings	Prepayments for buildings	Total
Costs：				
Beginning balance	$13,977,456	$5,953,100	$-	$19,930,556
Additions from acquisitions	170,963	95,164	-	266,127
Gains (losses) generated from fair value adjustments	744,786	(96,384)	-	648,402
Disposals	(50,908)	(74,229)	-	(125,137)
Transfers	65,771	16,956	-	82,727
Ending balance	$14,908,068	$ 5,894,607	$-	$20,802,675

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

	2013			
	Land	Buildings	Prepayments for buildings	Total
Costs：				
Beginning balance	$13,185,935	$6,448,578	$3,997	$19,638,510
Additions from acquisitions	-	6,001	-	6,001
Gains (losses) generated from fair value adjustments	1,497,644	(75,250)	-	1,422,394
Disposals	(142,853)	(159,193)	-	(302,046)
Transfers	(563,270)	(267,036)	(3,997)	(834,303)
Ending balance	$13,977,456	$5,953,100	$-	$19,930,556

Adopt cost model in subsequent measurement:

	2014			
	Land	Buildings	Prepayments for buildings	Total
Costs：				
Beginning balance	$4,135,804	$-	$-	$4,135,804
Ending balance	$4,135,804	$-	$-	$4,135,804
Accumulated impairment：				
Beginning balance	$1,193,092	$-	$-	$1,193,092
Current impairment	192,329	-	-	192,329
Ending balance	$1,385,421	$-	$-	$1,385,421

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

	2013			
	Land	Buildings	Prepayments for buildings	Total
Costs：				
Beginning balance	$4,135,804	$-	$-	$4,135,804
Ending balance	$4,135,804	$-	$-	$4,135,804
Accumulated impairment：				
Beginning balance	$1,193,092	$-	$-	$1,193,092
Ending balance	$1,193,092	$-	$-	$1,193,092
Net carrying amount：				
2014.12.31	$17,658,451	$5,894,607	$-	$23,553,058
2013.12.31	$16,920,168	$5,953,100	$-	$22,873,268
2013.1.1	$16,128,647	$6,448,578	$3,997	$22,581,222

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

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2014, 31 December 2013, and 1 January 2013. Please refer to original financial report for detail information of the appraisers and agencies.

Fair value has been supported by observable evidence in the market. The appraisal approaches used are mainly the comparison approach, income approach, cost approach and land development analysis of cost approach. Commercial office buildings and residences are valued using comparison approach and income approach mostly 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 used are as follows:

	2014.12.31	2013.12.31	2013.1.1
Direct capitalization rate (Net)	Mainly 1.23%~4.51%	Mainly 1.39%~4.62%	Mainly 1.29%~4.52%

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

The fair value of investment property with cost model in subsequent measurement were respectively NT$2,750,383 thousands, NT$3,728,236 thousands, and NT$3,728,236 thousands, as at 31 December 2014, 31 December 2013, and 1 January 2013.

The investment property 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 property were respectively NT$445,799 thousands and NT$464,190 thousands in 2014 and 2013. Related direct operating expenses were respectively NT$69,924 thousands and NT$64,491 thousands. The direct operating expenses of investment property with no rents were NT$4,293 thousands and NT$2,690 thousands.

As at 31 December 2014, 31 December 2013, and 1 January 2013, no investments in real estate were pledged as collateral.

8. Reinsurance assets

Item	2014.12.31	2013.12.31	2013.1.1
Claims recoverable from reinsurers	$113,874	$127,625	$177,731
Due from reinsurers and ceding companies	69,283	75,925	3,671
Reinsurance reserve assets			
Ceded unearned premium reserve	42,973	40,494	37,315
Ceded reserve for claims	38,079	52,773	21,714
Subtotal	81,052	93,267	59,029
Total	$264,209	$296,817	$240,431

Above reinsurance assets are not impaired.

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

9. Property and equipment

	2014							
	Land	Buildings	Computer equipment	Communication and transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2014	$ 5,187,963	$ 1,392,860	$301,146	$12,676	$243,322	$20,987	$12,371	$ 7,171,325
Additions	643,247	376,674	20,026	2,192	24,405	-	345,460	1,412,004
Disposals	-	-	(3,654)	(49)	(273)	-	-	(3,976)
Transfers	-	-	-	-	-	-	-	-
Transferred (to) from investment property	(23,339)	(15,134)	-	-	-	-	-	(38,473)
31 December 2014	$5,807,871	$1,754,400	317,518	$14,819	$267,454	$20,987	$357,831	$ 8,540,880
Accumulated Depreciation:								
1 January 2014	$-	$316,517	$183,412	$10,280	$215,108	$19,933	$-	$745,250
Depreciation	-	31,605	34,077	754	15,409	566	-	82,411
Disposals	-	-	(3,356)	(48)	(273)	-	-	(3,677)
Transferred (to) from investment property	-	(3,895)	-	-	-	-	-	(3,895)
31 December 2014	$-	$344,227	$214,133	$10,986	$230,244	$20,499	$-	$ 820,089
Accumulated impairment:								
1 January 2014	$744,753	$18,183	$-	$-	$-	$-	$-	$762,936
Transfers	-	-	-	-	-	-	-	-
Reversal of impairment loss	(3,193)	(12,940)	-	-	-	-	-	(16,133)
31 December 2014	$ 741,560	$ 5,243	$-	$-	$-	$-	$-	$ 746,803

	2013							
	Land	Buildings	Computer equipment	Communication and transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Cost:								
1 January 2013	$4,591,461	$1,085,342	$355,484	$13,689	$236,611	$20,325	$12,494	$6,315,406
Additions	-	-	15,436	-	7,841	662	165	24,104
Disposals	-	-	(69,933)	(1,013)	(1,130)	-	-	(72,076)
Transfers			159	-	-	-	(288)	(129)
Transferred (to) from investment property	596,502	307,518	-	-	-	-	-	904,020
31 December 2013	$ 5,187,963	$ 1,392,860	$301,146	$12,676	$243,322	$20,987	$12,371	$ 7,171,325

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

	2013							
	Land	Buildings	Computer equipment	Communication and transportation equipment	Other equipment	Leased assets	Prepayments for buildings and construction in progress	Total
Accumulated Depreciation:								
1 January 2013	$-	$267,238	$218,087	$10,188	$187,854	$19,404	$-	$702,771
Depreciation	-	6,450	34,040	993	28,270	529	-	70,282
Disposals	-	-	(68,715)	(901)	(1,016)	-	-	(70,632)
Transferred (to) from investment property	-	42,829	-	-	-	-	-	42,829
31 December 2013	$-	$316,517	$183,412	$10,280	$215,108	$19,933	$-	$745,250
Accumulated impairment:								
1 January 2013	$745,150	$18,755	$-	$-	$-	$-	$-	$763,905
Transferred (to) from investment property	(397)	(572)	-	-	-	-	-	(969)
31 December 2013	$744,753	$18,183	$-	$-	$-	$-	$-	$762,936
Net book value：								
2014.12.31	$5,066,311	$1,404,931	$103,385	$3,833	$37,210	$487	$357,831	$6,973,988
2013.12.31	$4,443,210	$1,058,160	$117,734	$2,396	$28,214	$1,054	$12,371	$5,663,139
2013.1.1	$3,846,311	$799,349	$137,397	$3,501	$48,757	$921	$12,494	$4,848,730

Property and equipment held by the Company are not pledged.

10. Other assets

Item	2014.12.31	2013.12.31	2013.1.1
Prepayments			
Prepayment－surface rights	$13,990,040	$-	$-
Other prepayments	273,047	93,465	34,188
Subtotal	14,263,087	93,465	34,188
Guarantee deposits paid			
Insurance industry deposits	4,774,240	4,295,982	3,845,428
Lawsuit deposits	21,511	19,801	18,541
Other deposits	21,289	1,169,354	26,811
Subtotal	4,817,040	5,485,137	3,890,780
Other assets－others	10,987	13,403	11,196
Total	$19,091,114	$5,592,005	$3,936,164

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

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

11. Payables

Item	2014.12.31	2013.12.31	2013.1.1
Notes payable	$257,872	$80,434	$32,353
Life insurance proceeds payable	128,013	119,396	115,646
Commissions payable	1,270,400	1,417,152	1,108,591
Due to reinsurers and ceding companies	207,617	176,464	203,153
Other payables			
Salary payable	523,434	380,523	534,682
Accrued expenses	1,260,495	1,003,457	810,906
Collection payable	37,755	40,114	34,328
Payable on investments	3,999,315	707,901	409,507
Payable on insurance policies	2,213,899	1,621,897	1,126,465
Others	100,289	81,037	68,217
Subtotal	8,135,187	3,834,929	2,984,105
Total	$9,999,089	$5,628,375	$4,443,848

12. Financial liabilities at fair value through profit or loss

Item	2014.12.31	2013.12.31	2013.1.1
Held for trading:			
Derivative financial instruments			
Forward foreign exchange contracts	$5,847,792	$3,008,375	$470,800
Total	$5,847,792	$3,008,375	$470,800

13. Other financial liabilities

Item	2014.12.31	2013.12.31	2013.1.1
First unsecured subordinated mandatory convertible bonds for 2009	$-	$11,104	$21,776

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

(1) In order to strengthen the capital structure, the Company were approved to raise and issue domestic first unsecured convertible bonds following the FSC on 23 March 2009 issued Order No. Financial-Supervisory-Securities-Corporate-09802044820. The convertible bonds were issued privately, amounting to NT$1.3 billion and 4% of coupon rate. The issuing period is five years, from 27 March 2009 to 27 March 2014.

(2) The Company separated the conversion option from liabilities in accordance with IAS 39. As at 31 December 2013 and 1 January 2013, the Company recognized NT$230,140 thousands of paid-in capital－stock option. Because the convertible bonds expired on 27 March 2014 were fully converted to common shares, paid-in capital－stock option were completely wrote off.

Convertible bond liabilities consist of:

Item	2014.12.31	2013.12.31	2013.1.1
Primary debt instruments			
First unsecured subordinated mandatory convertible bonds for 2009	$-	$-	$-
Add：Premium on convertible bonds	-	11,104	21,776
Total	$-	$11,104	$21,776

(3) The convertible bonds are unsecured, subordinated, and have no agreement to buy or sell back. Upon maturity, all outstanding bonds are mandatorily converted to common shares of the Company at current conversion price.

(4) The conversion price of the convertible bonds is adjusted in accordance with the method set in conversion arrangement. As at 31 December 2013, the total amount of bonds converted to common shares was NT$1.02 billion, and all bonds were converted to 118,881,113 common shares. On maturity date of 27 March 2014, the residual bonds with face value of NT$280 million were converted to 38,303,693 common shares at conversion price of NT$7.31.

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

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

As at 31 December 2014, 31 December 2013 and 1 January 2013, movement in reserves of insurance contracts and financial instruments with discretionary participation feature is as follows :

(1) Reserve for life insurance liabilities:

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$597,669,901	$100,839,759	$698,509,660
Health insurance	75,257,687	-	75,257,687
Annuity insurance	811,767	142,243,194	143,054,961
Investment-oriented insurance	1,921,524	-	1,921,524
Total	$675,660,879	$243,082,953	$918,743,832

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$519,310,629	$113,071,417	$632,382,046
Health insurance	65,901,664	-	65,901,664
Annuity insurance	884,643	117,577,097	118,461,740
Investment-oriented insurance	1,947,993	-	1,947,993
Total	$588,044,929	$230,648,514	$818,693,443

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$459,373,368	$125,704,558	$585,077,926
Health insurance	55,623,791	-	55,623,791
Annuity insurance	971,842	48,638,740	49,610,582
Investment-oriented insurance	1,897,442	-	1,897,442
Total	$517,866,443	$174,343,298	$692,209,741

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

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

Movement in reserve for life insurance liabilities is summarized below:

	2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$588,044,929	$230,648,514	$818,693,443
Reserve	112,773,291	38,056,355	150,829,646
Recover	(28,395,795)	(25,621,916)	(54,017,711)
Losses (gains) on foreign exchange	3,238,454	-	3,238,454
Ending balance	$675,660,879	$243,082,953	$918,743,832

	2013		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$517,866,443	$174,343,298	$692,209,741
Reserve	89,282,002	78,065,519	167,347,521
Recover	(19,396,282)	(21,760,303)	(41,156,585)
Losses (gains) on foreign exchange	292,766	-	292,766
Ending balance	$588,044,929	$230,648,514	$818,693,443

(2) Unearned premium reserve:

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,546	$-	$1,546
Individual injury insurance	833,000	-	833,000
Individual health insurance	1,646,021	-	1,646,021
Group insurance	356,229	-	356,229
Investment-oriented insurance	49,679	-	49,679
Annuity insurance	-	74	74
Total	$2,886,475	$74	$2,886,549

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

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Less ceded unearned premium reserve:			
Individual life insurance	$13,798	$-	$13,798
Individual injury insurance	1,130	-	1,130
Individual health insurance	21,559	-	21,559
Group insurance	1,419	-	1,419
Investment-oriented insurance	5,067	-	5,067
Total	$42,973	$-	$42,973
Net amount	$2,843,502	$74	$2,843,576

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,531	$-	$1,531
Individual injury insurance	763,792	-	763,792
Individual health insurance	1,467,676	-	1,467,676
Group insurance	330,461	-	330,461
Investment-oriented insurance	48,345	-	48,345
Annuity insurance	-	91	91
Total	$2,611,805	$91	$2,611,896
Less ceded unearned premium reserve:			
Individual life insurance	$13,749	$-	$13,749
Individual injury insurance	923	-	923
Individual health insurance	19,514	-	19,514
Group insurance	1,241	-	1,241
Investment-oriented insurance	5,067	-	5,067
Total	$40,494	$-	$40,494
Net amount	$2,571,311	$91	$2,571,402

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

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,553	$124	$1,677
Individual injury insurance	668,953	-	668,953
Individual health insurance	1,297,115	-	1,297,115
Group insurance	360,976	-	360,976
Investment-oriented insurance	47,270	-	47,270
Annuity insurance	-	-	-
Total	$ 2,375,867	$124	$ 2,375,991
Less ceded unearned premium reserve:			
Individual life insurance	$12,628	$-	$12,628
Individual injury insurance	807	-	807
Individual health insurance	17,749	-	17,749
Group insurance	1,165	-	1,165
Investment-oriented insurance	4,966	-	4,966
Total	$37,315	$-	$37,315
Net amount	$ 2,338,552	$124	$2,338,676

Movement in unearned premium reserve is summarized below:

	2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,611,805	$91	$2,611,896
Reserve	2,886,474	74	2,886,548
Recover	(2,611,805)	(91)	(2,611,896)
Losses (gains) on foreign exchange	1	-	1
Ending balance	$2,886,475	$74	$2,886,549

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

	2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Less ceded unearned premium reserve:			
Beginning balance	$40,494	$-	$40,494
Increase	42,973	-	42,973
Decrease	(40,494)	-	(40,494)
Ending balance	$42,973	$-	$42,973
Net amount	$2,843,502	$74	$2,843,576

	2013		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,375,867	$124	$2,375,991
Reserve	2,611,805	91	2,611,896
Recover	(2,375,867)	(124)	(2,375,991)
Ending balance	$2,611,805	$91	$2,611,896
Less ceded unearned premium reserve:			
Beginning balance	$37,315	$-	$37,315
Increase	40,494	-	40,494
Decrease	(37,315)	-	(37,315)
Ending balance	$40,494	$-	$40,494
Net amount	$2,571,311	$91	$2,571,402

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

(3) Reserve for claims:

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$245,728	$6,900	$252,628
－Unreported claim	585	-	585
Individual injury insurance			
－Reported but not paid claim	83,291	-	83,291
－Unreported claim	101,364	-	101,364
Individual health insurance			
－Reported but not paid claim	155,176	-	155,176
－Unreported claim	322,433	-	322,433
Group insurance			
－Reported but not paid claim	49,404	-	49,404
－Unreported claim	234,041	-	234,041
Investment-oriented insurance			
－Reported but not paid claim	49,309	-	49,309
－Unreported claim	-	-	-
Annuity insurance			
－Reported but not paid claim	-	16,367	16,367
－Unreported claim	-	120	120
Total	$1,241,331	$23,387	$1,264,718
Less ceded reserve for claims:			
Individual life insurance	$456	$-	$456
Individual injury insurance	21,300	-	21,300
Individual health insurance	9,294	-	9,294
Group insurance	1,669	-	1,669
Investment-oriented insurance	5,360	-	5,360
Total	$38,079	$-	$38,079
Net amount	$1,203,252	$23,387	$1,226,639

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

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$291,388	$-	$291,388
－Unreported claim	104	-	104
Individual injury insurance			
－Reported but not paid claim	69,472	-	69,472
－Unreported claim	116,690	-	116,690
Individual health insurance			
－Reported but not paid claim	149,720	-	149,720
－Unreported claim	310,912	-	310,912
Group insurance			
－Reported but not paid claim	80,447	-	80,447
－Unreported claim	199,232	-	199,232
Investment-oriented insurance			
－Reported but not paid claim	28,870	-	28,870
－Unreported claim	-	-	-
Annuity insurance			
－Reported but not paid claim	-	800	800
－Unreported claim	-	30	30
Total	$1,246,835	$830	$1,247,665
Less ceded reserve for claims:			
Individual life insurance	$25,614	$-	$25,614
Individual injury insurance	10,800	-	10,800
Individual health insurance	9,859	-	9,859
Group insurance	3,500	-	3,500
Investment-oriented insurance	3,000	-	3,000
Total	$52,773	$-	$52,773
Net amount	$1,194,062	$830	$1,194,892

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

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
－Reported but not paid claim	$273,991	$-	$273,991
－Unreported claim	-	-	-
Individual injury insurance			
－Reported but not paid claim	87,052	-	87,052
－Unreported claim	92,905	-	92,905
Individual health insurance			
－Reported but not paid claim	170,591	-	170,591
－Unreported claim	239,573	-	239,573
Group insurance			
－Reported but not paid claim	74,417	-	74,417
－Unreported claim	215,153	-	215,153
Investment-oriented insurance			
－Reported but not paid claim	29,002	-	29,002
－Unreported claim	-	-	-
Annuity insurance			
－Reported but not paid claim	-	200	200
－Unreported claim	-	-	-
Total	$1,182,684	$200	$1,182,884
Less ceded reserve for claims:			
Individual life insurance	$2,000	$-	$2,000
Individual injury insurance	2,750	-	2,750
Individual health insurance	9,864	-	9,864
Group insurance	7,100	-	7,100
Investment-oriented insurance	-	-	-
Total	$21,714	$-	$21,714
Net amount	$1,160,970	$200	$1,161,170

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

Movement in reserve for claims is summarized below:

	2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,246,835	$830	$1,247,665
Reserve	1,241,338	23,387	1,264,725
Recover	(1,246,835)	(830)	(1,247,665)
Losses (gains) on foreign exchange	(7)	-	(7)
Ending balance	$1,241,331	$23,387	$1,264,718
Less ceded unearned premium reserve:			
Beginning balance	$52,773	$-	$52,773
Increase	38,079	-	38,079
Decrease	(52,773)	-	(52,773)
Ending balance	$38,079	$-	$38,079
Net amount	$1,203,252	$23,387	$1,226,639

	2013		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,182,684	$200	$1,182,884
Reserve	1,246,835	830	1,247,665
Recover	(1,182,684)	(200)	(1,182,884)
Ending balance	$1,246,835	$830	$1,247,665

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

	2013		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Less ceded unearned premium reserve:			
Beginning balance	$21,714	$-	$21,714
Increase	52,773	-	52,773
Decrease	(21,714)	-	(21,714)
Ending balance	$52,773	$-	$52,773
Net amount	$1,194,062	$830	$1,194,892

Reported but not paid claims are reserved according to insurance type and claims department estimates amount based on actual related information case-by-case by not exceeding promised insurance amount for accidents on policies. Those reported but not paid reserve is reasonably assessed, enough to reflect actual claims paid. In addition, some types of insurance should experience long time to close claims because these claims are closed usually according to judgment of the court. The legal department tracks the development of these claims and reasonably estimates claims reserve. The actuarial department assess 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, which will lead to fluctuations of claims. The actuarial department will evaluate periodically to make reasonable estimate of claims reserve.

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

(4) Special reserve:

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Participating policies dividend reserve	$4,714,736	$-	$4,714,736
Dividend risk reserve	345,255	-	345,255
Total	$5,059,991	$-	$5,059,991

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,306,408	$-	$1,306,408
Participating policies dividend reserve	3,460,733	-	3,460,733
Total	$4,767,141	$-	$4,767,141

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,306,408	$-	$1,306,408
Participating policies dividend reserve	2,553,394	-	2,553,394
Total	$3,859,802	$-	$3,859,802

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

Movement in special reserve is summarized below:

	2014	2013
	Insurance contract	Insurance contract
Beginning balance	$4,767,141	$3,859,802
Reserve for participating policies dividends reserve	3,151,106	2,630,173
Recover from participating policies dividends reserve	(1,897,103)	(1,722,834)
Reserve for dividend risk reserve	345,255	-
Others	(1,306,408)	-
Ending balance	$5,059,991	$4,767,141

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

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$2,674	$-	$2,674
Individual injury insurance	769,533	-	769,533
Individual health insurance	1,832,836	-	1,832,836
Group insurance	2,173,081	-	2,173,081
Annuity insurance	-	272	272
Total	$4,778,124	$272	$4,778,396

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$2,553	$-	$2,553
Individual injury insurance	735,759	-	735,759
Individual health insurance	1,682,064	-	1,682,064
Group insurance	1,971,829	-	1,971,829
Annuity insurance	-	88	88
Total	$4,392,205	$88	$4,392,293

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

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,631	$-	$1,631
Individual injury insurance	513,668	-	513,668
Individual health insurance	1,094,368	-	1,094,368
Group insurance	1,005,322	-	1,005,322
Total	$2,614,989	$-	$2,614,989

(6) Premium deficiency reserve:

	2014.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$6,159,855	$-	$6,159,855
Individual health insurance	75,779	-	75,779
Total	$6,235,634	$-	$6,235,634

	2013.12.31		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$3,655,645	$-	$3,655,645
Individual health insurance	55,433	-	55,433
Total	$3,711,078	$-	$3,711,078

	2013.1.1		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$1,417,421	$-	$1,417,421
Individual health insurance	26,229	-	26,229
Total	$1,443,650	$-	$1,443,650

Note：There is no separation of premium deficiency reserve for above insurance contracts.

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

Movement in premium deficiency reserve is summarized below:

	2014		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$3,711,078	$-	$3,711,078
Reserve	2,827,025	-	2,827,025
Recover	(411,597)	-	(411,597)
Losses (gains) on foreign exchange	109,128	-	109,128
Ending balance	$6,235,634	$-	$6,235,634

	2013		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,443,650	$-	$1,443,650
Reserve	2,510,034	-	2,510,034
Recover	(267,746)	-	(267,746)
Losses (gains) on foreign exchange	25,140	-	25,140
Ending balance	$3,711,078	$-	$3,711,078

(7) Liability adequacy reserve:

	Insurance contract and financial instruments with discretionary participation feature		
	2014.12.31	2013.12.31	2013.1.1
Reserve for life insurance liabilities	$918,743,832	$818,693,443	$692,209,741
Unearned premium reserve	2,886,549	2,611,896	2,375,991
Premium deficiency reserve	6,235,634	3,711,078	1,443,650
Special reserve	5,059,991	4,767,141	3,859,802
Book value of insurance liabilities	$932,926,006	$829,783,558	$699,889,184
Estimated present value of cash flows	$753,795,231	$672,503,239	$584,923,259
Balance of liability adequacy reserve	$-	$-	$-

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

Liability adequacy testing methodology is listed as follows:

	2014.12.31	2013.12.31 and 2013.1.1
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 2013),and discount rates should be evaluated with consideration of current information.	Adopt the best estimated scenario investment return on the most recent actuary report (the actuary report of 2012 and 2011), and discount rates should be evaluated with consideration of current information.

15. Reserve for insurance contracts with feature of financial instruments

The Company issued non-investment insurance policies and financial instruments without discretionary participation feature. Movement in insurance contract reserve with feature of financial instruments for the years ended 31 December 2014, 31 December 2013 and 1 January 2013 is summarized as follows:

	2014.12.31	2013.12.31	2013.1.1
Life insurance	$-	$446,490	$6,331,469

	2014	2013
Beginning balance	$446,490	$6,331,469
Premiums received	-	-
Insurance claim payments	(447,096)	(5,987,947)
Net provision of statutory reserve	606	102,968
Ending balance	$-	$446,490

16. Foreign exchange volatility reserve

(1) The hedge strategy and risk exposure

The Company consistently adjusts the hedge rates to set adequate risk exposure plan based on the new foreign exchange volatility exposure principal by integrating the exchange rate and interest rate trends of domestic and foreign financial markets. However, changes in the hedge and risk exposure rates should follow internal risk control to warn and adjust hedge strategy in advance to meet the optimal hedge consideration.

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

(2) Adjustment in foreign exchange volatility reserve:

	2014	2013
Beginning balance	$2,773,740	$1,964,816
Reserve		
Compulsory reserve	546,672	529,318
Extra reserve	2,774,814	1,745,945
Subtotal	3,321,486	2,275,263
Recover	(831,681)	(1,466,339)
Ending balance	$5,263,545	$2,773,740

(3) Effects due to foreign exchange volatility reserve:

	2014		
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	$8,578,497	$6,511,959	$(2,066,538)
Earnings per share	2.83	2.15	(0.68)
Foreign exchange volatility reserve	-	5,263,545	5,263,545
Equity	77,269,061	74,324,493	(2,944,568)

	2013		
Item	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income	$6,670,649	$5,999,242	$(671,407)
Earnings per share	2.22	2.00	(0.22)
Foreign exchange volatility reserve	-	2,773,740	2,773,740
Equity	63,367,543	62,489,513	(878,030)

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

17. Provisions

Item	2014.12.31	2013.12.31	2013.1.1
Reserve for employee benefit liabilities	$249,028	$225,573	$201,794
Lawsuit liabilities reserve	17,623	12,222	24,515
Total	$266,651	$237,795	$226,309

The Company has an official policy to control and manage litigation. Once professional advice has been made and the loss amount can be reasonably estimated, the Company will adjust to recognize loss and any negative effects because of financial claims. As at 31 December 2014, the Company has 127 unresolved legal suits.

18. Post-employment benefits

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

Defined contribution plan

The contents of the Company's retirement approaches that are set in accordance with Labor Pension Act belong to defined contribution plan. For employees who apply this act, the Company deposits 6% of the monthly allocated wage based on the monthly wage allocation classification schedule to employees' pension accounts in Bureau of Labor Insurance.

Expenses under the defined contribution plans for the years ended 31 December 2014 and 2013 were NT$187,428 thousands and NT$170,485 thousands, respectively.

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

Defined benefit plans

The contents of the Company's retirement approaches that are set in accordance with Labor Standards Act belong to defined benefit plan. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed upper limit. Under the Labor Standards Act, the Company contributes an amount equivalent to certain percentage of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

Pension costs recognized in profit or loss for the years ended 31 December 2014 and 2013:

	2014	2013
Current period service costs	$25,056	$22,680
Interest costs	5,545	4,682
Expected return on plan assets	(385)	(363)
Total	$30,216	$26,999

Expenses under the defined benefit plans for the years ended 31 December 2014 and 2013 were NT$30,216 thousands and NT$26,999 thousands, respectively.

The cumulative amount of actuarial gains and losses recognized in other comprehensive income for the years ended 31 December 2014 and 2013 were NT$5,580 thousands gain and NT$1,663 thousands loss.

Reconciliations of liability (asset) of the defined benefit plan are as follows:

	2014.12.31	2013.12.31	2013.1.1
Defined benefit obligation	$311,771	$288,795	$260,112
Plan assets at fair value	(62,743)	(63,222)	(58,318)
Funded status	249,028	225,573	201,794
Unrecognized past service costs	-	-	-
Accrued pension liabilities	$249,028	$225,573	$201,794

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

Movements in present value of defined benefit liability are as follows:

	2014	2013
Defined benefit obligation at 1 January	$288,795	$260,112
Current service costs	25,056	22,680
Interest costs	5,545	4,682
Benefits paid	-	(312)
Actuarial losses (gains)	(7,625)	1,633
Defined benefit obligation at 31 December	$311,771	$288,795

Movements in fair value of plan assets are as follows:

	2014	2013
Plan assets, at fair value at 1 January	$63,222	$58,318
Expected return on plan assets	385	363
Contributions by employer	1,876	4,583
Benefits paid	(2,358)	(12)
Actuarial gains (losses)	(382)	(30)
Plan assets, at fair value at 31 December	$62,743	$63,222

As at 31 December 2014, the amount of expected contributions for the future 12 months of defined benefit plans was NT$18,925 thousands.

The plan assets are primarily composed of deposits and a small part of equity and debt investment instruments.

The actual return on plan assets for 2014 and 2013 were NT$3 thousands and NT$334 thousands, respectively.

The overall expected rate of return on assets is determined based on historical trend and analyst’s expectation on the asset’s return in its market over the obligation period. Furthermore, the utilization of the fund by the labor pension fund supervisory committee and the fact that the minimum earnings are guaranteed to be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks are also taken into consideration in determining the expected rate of return on assets.

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

The principal assumptions listed below are used to determine the Company's defined benefit plan:

	2014.12.31	2013.12.31	2013.1.1
Discount rate	1.92%	1.80%	1.70%
Expected rate of return on plan assets	0.60%	0.60%	0.60%
Expected rate of salary increases	2.00%	2.00%	2.00%

If discount rate changes 0.5%, the effects are as follows:

	2014		2013	
	Discount rate -0.5%	Discount rate +0.5%	Discount rate -0.5%	Discount rate +0.5%
Effect of sum of current service costs and interest costs	742	(583)	791	(586)
Effect of defined benefit obligation	26,766	(24,388)	26,139	(23,724)

The amount of items related to defined benefit plans for 2014 and 2013 are as follows:

	2014	2013
Defined benefit obligation at present value	$311,771	$288,795
Plan assets at fair value	(62,743)	(63,222)
Surplus (deficit) in plan	$249,028	$225,573
Experience adjustments of plan liabilities	18,286	(1,633)
Experience adjustments of plan assets	(382)	(30)

19. Common stock

(1) Paid-in capital for 31 December 2014, 31 December 2013 and 1 January 2013 were NT$30,364,970 thousands, NT$27,221,478 thousands and NT$23,878,482 thousands, and common shares were 3,036,497,000, 2,722,147,800 and 2,387,848,251 respectively at par value of NT$10.

(2) On 14 June 2013, the Company decided to appropriate NT$3,342,996 thousands from distributable earnings in 2012 to increase capital in shareholders' meeting, issuing 334,299,549 common shares at par value of NT$10. The capital increase was documented by the authorities on 17 July 2013 and approved to set 6 October 2013 as subscription base date by board of directors.

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

(3) On 17 June 2014, the Company decided to appropriate NT$1,104,184 thousands and NT$1,656,271 thousands from distributable earnings and additional paid-in capital respectively in 2013 to increase capital in shareholders' meeting, issuing 110,418,417 and 165,627,090 common shares at par value of NT$10. The capital increase was documented by the authorities on 31 July 2014 and approved to set 27 August 2014 as subscription base date by board of directors.

(4) As at 31 December 2013, the first unsecured subordinated mandatory convertible bonds for 2009 the Company issued were converted to 118,881,113 common shares. The convertible bonds expired on 27 March 2014 were fully converted to 38,303,693 common shares. The base date of issuing new shares was 3 April 2014.

20. Capital surplus

Item	2014.12.31	2013.12.31	2013.1.1
Additional paid-in capital	$4,379,990	$6,189,158	$6,189,158
Treasury stock transactions	34,831	34,831	34,831
Stock option	-	230,140	230,140
Total	$4,414,821	$6,454,129	$6,454,129

According 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.

The first unsecured subordinated mandatory convertible bonds for 2009 expired on 27 March 2014 were fully converted to common shares. The conversion wrote off NT$230,140 thousands of paid-in capital－stock options and NT$152,897 thousands of paid-in capital－issuing at a premium.

On 17 June 2014, the Company decided to issue NT$1,656,271 thousands of new shares from additional paid-in capital in shareholders' meeting, issuing 165,627,090 common shares at par value of NT$10.

21. 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 covering 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 claim reserves for contingency are appropriated as special capital reserve in accordance with order no. Financial-Supervisory-Insurance-Corporate-0910074195, after approved by stockholders' meeting in the following year. The after-tax amount of released provision from the special claim reserves for contingency appropriated as special capital reserve for the years ended in 2013 and 2012 were NT$476,818 thousands and NT$187,294 thousands after approved by stockholders' meeting in 2014 and 2013.

The Company set aside special reserves for major incidents and fluctuation of risks for the retained businesses with policy period within 1 year in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". Please refer to Note IV.14 for the calculation. The after-tax amount of reserved and released from the special claims is converted to special capital reserve at the end of current year. Special capital reserve for the years of 2014 and 2013 were set aside NT$758,358 thousands and NT$854,684 thousands and reversed NT$372,255 thousands and NT$501,556 thousands.

When distributing distributable earnings for the year 2012, the Company has to set aside special capital reserve, for other net deductions from shareholders' equity of the period. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed. Following this rule, reversal of special capital reserve determined by shareholders' meeting in 2013 was NT$ 3,106,274 thousands.

After adoption of IFRS, pursuant to Order No. Financial-Supervisory-Securities-Corporate 10102508861 issued by the FSC on 5 June 2012, when appropriating distributable earnings, the company shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed. When the Company firstly adopted IFRS, there is no increase in special capital reserve and no other net deductions from shareholders' equity by application of the exemption under IFRS 1, so there is no need to set aside or reverse special capital reserve

The Company needs to set aside special capital reserve for foreign exchange volatility by law. Please refer to Note IV.16. The Company decided to release original foreign exchange volatility reserve (including the recovered amount from decrease in original amount of transferring special reserve for major incidents and for fluctuation of risks to foreign exchange volatility reserve). The Company set aside NT$1,424,176 thousands of special capital reserve for 2013 and NT$78,905 thousands and NT$478,368 thousands of special capital reserve for saved hedging costs and for 10% of after-tax earnings for 2012 respectively. The Company set aside NT$239,507 thousands and NT$472,474 thousands of special capital reserve for saved hedging costs and for 10% of after-tax earnings for 2013 respectively, approved in the shareholders' meeting in 2014.

The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 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. The amount set aside by the Company is NT$8,394,443 thousands. The special capital reserve should be used to cover insufficiency of life insurance liabilities resulting from valid contracts' fair value approved by the authority and additionally set aside liabilities for soundness of financial structure in the future to converge with IFRS 4 "*Insurance Contracts*" second stage.

(3) The Company's Article of Incorporation of earnings distribution amended by shareholders' meeting on 17 June 2014 is as follows :

To consistently expand scale and increase profitability competence, matching the Company's need of capital and long-term financial plan for substantial operation and stable development, the Company adopts the policy of residual dividend distribution.

As provided by the Company's Articles of Incorporation, annual net income, after paying applicable income taxes, should be used to offset accumulated deficit, to be retained as legal reserve, and to appropriate or reverse special reserve, if any, appropriate 1% as employees' bonus. Any remaining portion plus the beginning balance of unappropriated earnings are distributable earnings and set aside 30% to 100% of distributable earnings. The policy of earnings distribution would be proposed by the board of directors and resolved in the shareholders' meeting. But if distributable earnings are not sufficient to offer NT$0.5 per share, the Company could retain and not to distribute based on principal of economics.

The independent directors' remuneration is authorized to the board of directors to set reasonable award based on participation of the Company's operation, contribution value and consideration of industry standards at home and abroad, without participation of earnings distribution.

According to the plan of the Company's business operation, keep needed funds to appropriate stock dividends as the principal of earnings distribution. However, retain a part of funds to appropriate cash dividends. If there is distribution of cash dividends in the current year, cash dividends could not exceed 10% of total amount of dividends. The ratio of stock dividends and cash dividends is adjusted appropriately based on current profits and funds situation. The most appropriate policy should be proposed by the board of directors and resolved in the shareholders' meeting.

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

(4) The Company's Articles of Incorporation of earnings distribution for the year of 2013 is as follows :

To consistently expand scale and increase profitability competence, matching the Company's need of capital and long-term financial plan for substantial operation and stable development, the Company adopts the policy of residual dividend distribution.

As provided by the Company's Articles of Incorporation, annual net income, after paying applicable income taxes, should be used to offset accumulated deficit, to be retained as legal reserve, and to appropriate or reverse special reserve, if any, appropriate 1% as employees' bonus. Any remaining portion plus the beginning balance of undistributed earnings are distributable earnings. The policy of earnings distribution would be proposed by the board of directors and resolved in the shareholders' meeting.

The independent directors' remuneration is authorized to the board of directors to set reasonable award, without participation of earnings distribution.

According to the plan of the Company's business operation, keep needed funds to appropriate stock dividends as the principal of earnings distribution. However, retain a part of funds to appropriate cash dividends. If there is distribution of cash dividends in the current year, cash dividends could not exceed 10% of total amount of dividends. The ratio of stock dividends and cash dividends is adjusted appropriately based on current profits and funds situation. The most appropriate policy should be proposed by the board of directors and resolved in the shareholders' meeting.

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

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

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

(6) Details of the 2013 and 2012 earnings distribution and dividends per share are as follows :

	Earnings appropriation		Dividends per share(NT$)	
	2013	2012	2013	2012
Appropriate legal capital reserve	$944,949	$956,736	$-	$-
Appropriate (reversal) special capital reserve	1,541,927	(119,971)	-	-
Cash dividends	1,104,181	477,570	0.40	0.20
Stock dividends	1,104,184	3,342,995	0.40	1.40
Directors' remuneration	42,000	42,000	-	-
Employee cash bonus	22,365	39,469	-	-

Earnings appropriation for the years of 2013 and 2012 were approved by shareholder's meeting on 17 June 2014 and 14 June 2013, respectively.

(7) The Company estimated the amounts of the employee bonuses for the years ended 31 December 2014 and 2013 to be NT$42,000 thousands and NT$22,365 thousands, respectively, and remuneration to directors and supervisors for the years ended 31 December 2014 and 2013 to be NT$42,000 thousands and NT$42,000 thousands, respectively. The estimates were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and directors' remuneration are recognized as operating expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. There is no significant difference between the actual employee bonuses and directors' remuneration distributed from the 2013 and 2012's earnings and the estimated amount in the financial statements for the year ended 2013 and 2012.

For related information about employee cash bonus and directors remuneration recommended by the board of directors and approved by shareholders' meeting, please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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

22. Components of other comprehensive income

	2014	2013
Unrealized gains (losses) from available-for-sale financial assets:		
Current valuation adjustment	$14,768,090	$(9,845,201)
Current realized amount	(6,035,246)	(4,891,060)
Income tax expense (benefit)	(2,357,005)	1,267,499
Other comprehensive income, net of tax	$6,375,839	$(13,468,762)
Actuarial gains (losses) from defined benefit plan:		
Arising during the period	$7,244	$(1,663)
Income tax expense (benefit)	(1,231)	283
Other comprehensive income, net of tax	$6,013	$(1,380)
Unrealized revaluation gain:		
Arising during the period	$48,136	$35,116
Income tax expense (benefit)	(2,786)	(1)
Other comprehensive income, net of tax	$45,350	$35,115

23. Retained earned premium

	2014		
	Insurance contract	Investment contracts with discretionary participation feature	Total
Direct premium income	$113,194,441	$31,479,648	$144,674,089
Reinsurance premium income	(34)	-	(34)
Premium income	113,194,407	31,479,648	144,674,055
Less:			
Premiums ceded to reinsurers	1,027,796	-	1,027,796
Changes in unearned premium reserve	272,173	-	272,173
Subtotal	1,299,969	-	1,299,969
Retained earned premium	$111,894,438	$31,479,648	$143,374,086

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

	2013		
	Insurance contract	Investment contracts with discretionary participation feature	Total
Direct premium income	$92,112,034	$75,479,995	$167,592,029
Reinsurance premium income	(1)	-	(1)
Premium income	92,112,033	75,479,995	167,592,028
Less:			
Premiums ceded to reinsurers	987,672	-	987,672
Changes in unearned premium reserve	232,726	-	232,726
Subtotal	1,220,398	-	1,220,398
Retained earned premium	$90,891,635	$75,479,995	$166,371,630

24. Retained claim payments

	2014		
	Insurance contract	Investment contracts with discretionary participation feature	Total
Direct insurance claim payments	$38,825,835	$25,620,002	$64,445,837
Reinsurance claim payments	53	-	53
Insurance claim payments	38,825,888	25,620,002	64,445,890
Less:			
Claims recovered from reinsures	536,724	-	536,724
Retained claim payments	$38,289,164	$25,620,002	$63,909,166

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

	2013		
	Insurance contract	Investment contracts with discretionary participation feature	Total
Direct insurance claim payments	$29,129,938	$22,542,672	$51,672,610
Reinsurance claim payments	157	-	157
Insurance claim payments	29,130,095	22,542,672	51,672,767
Less:			
Claims recovered from reinsures	460,252	-	460,252
Retained claim payments	$28,669,843	$22,542,672	$51,212,515

25. Employee benefits, depreciation and amortization

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

	2014		
	Operating costs	Operating expenses	Total
Employee benefits expenses	$4,840,148	$2,117,483	$6,957,631
Salary and wages	4,840,148	1,405,704	6,245,852
Labor and health insurance	-	364,996	364,996
Pension expense	-	229,805	229,805
Other employee benefits	-	116,978	116,978
Depreciation	-	82,411	82,411
Amortization	-	17,276	17,276

	2013		
	Operating costs	Operating expenses	Total
Employee benefits expenses	$4,733,016	$1,779,487	$6,512,503
Salary and wages	4,733,016	1,124,667	5,857,683
Labor and health insurance	-	334,540	334,540
Pension expense	-	212,949	212,949
Other employee benefits	-	107,331	107,331
Depreciation	-	70,282	70,282
Amortization	-	13,212	13,212

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

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

The number of employees as at 31 December 2014 and 2013 were 11,676 and 11,217 respectively.

26. Income taxes

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

Income tax expense recognized in profit or loss

	2014	2013
Current income tax expense (benefit):		
Current income tax payable	$2,875	$75
Adjustment of current income tax for prior periods	(5,897)	(8,694)
Deferred tax expense (benefit):		
Deferred tax expense relating to origination and reversal of temporary differences	2,652,054	137,483
Deferred tax benefit relating to origination and reversal of tax loss and tax credit	(2,137,905)	587
Additional income tax under the Alternative Minimun Tax Act	-	208,525
Other	-	6,318
Total income tax expense	$511,127	$344,294

Income tax expense recognized in other comprehensive income

	2014	2013
Deferred tax expense (benefit):		
Unrealized losses (gains) from available-for-sale financial assets	$(2,357,005)	$1,267,499
Actuarial losses (gains) on defined benefit plan	(1,231)	283
Unrealized revaluation gains	(2,786)	(1)
Income tax expense relating to components of other comprehensive income	$(2,361,022)	$1,267,781

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

A reconciliation between tax expense and accounting profit multiplied by applicable tax rate are as follows:

	2014	2013
Income (loss) from continuing operations before income tax	$7,023,086	$6,343,536
Tax calculated by statutory tax rate	1,193,925	1,078,401
Tax effect of tax-exempt income	(1,356,550)	(1,115,989)
Tax effect of no tax deduction for expenses	32,257	4,374
Tax effect of deferred tax asset/ liability	95,812	4,924
10% tax of unappropriated earnings	2,812	-
Additional income tax under the Alternative Minimun Tax Act	-	208,525
Adjustment of current tax expenses for prior periods	(5,897)	(8,694)
Tax effect of tax-exempt income under Tax Act 42	539,478	168,157
Others	9,290	4,596
Total tax expenses recognized in profit or loss	$511,127	$344,294

(2) Related deferred tax asset (liability) balances for the following items:

For the year ended 31 December 2014	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Book-tax deprecation difference	$74,995	$1,773	$-	$76,768
Financial assets valuation at fair value through profit or loss	479,785	483,427	-	963,212
Available-for-sale financial assets valuation	(847,709)	-	(2,357,005)	(3,204,714)
Provisions	2,078	918	-	2,996
Actuarial gains (losses) on defined benefit plan	7,115	-	(1,231)	5,884
Accrued pension liability	36,873	3,987	-	40,860
Compensated absences payable	7,529	483	-	8,012
Unrealized gains (losses) on foreign exchange	251,493	(3,052,072)	-	(2,800,579)

China Life Insurance Co., Ltd.
Notes to financial statements (Continued)
(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)
For the years ended 31 December 2014 and 2013

For the year ended 31 December 2014	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Unused tax loss	$-	$2,137,905	$-	$2,137,905
Land value increment tax	(13,628)	-	-	(13,628)
Fair value adjustment for investment property	(626,207)	(90,570)	(2,786)	(719,563)
Deferred income tax benefit (expense)		$(514,149)	$(2,361,022)	
Deferred income tax asset (liability) －net	$(627,676)			$(3,502,847)
Information expressed in balance sheet is as follows:				
Deferred tax assets	$859,868			$3,235,637
Deferred tax liabilities	$(1,487,544)			$(6,738,484)

For the year ended 31 December 2013	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Book-tax deprecation difference	$74,673	$322	$-	$74,995
Financial assets valuation at fair value through profit or loss	(1,786)	481,571	-	479,785
Available-for-sale financial assets valuation	(2,115,208)	-	1,267,499	(847,709)
Provisions	4,168	(2,090)	-	2,078
Actuarial gains (losses) on defined benefit plan	6,833	-	282	7,115
Accrued pension liability	32,831	4,042	-	36,873
Compensated absences payable	5,904	1,625	-	7,529
Reversal of special claim reserve provided as special reserve	(258,404)	258,404	-	-
Unrealized gains (losses) on foreign exchange	1,142,512	(891,019)	-	251,493

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

For the year ended 31 December 2013	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Unused tax loss	$587	$(587)	$-	$-
Land value increment tax	(13,628)	-	-	(13,628)
Fair value adjustment for investment property	(635,869)	9,662	-	(626,207)
Deferred income tax benefit (expense)		$(138,070)	$1,267,781	
Deferred income tax asset (liability) －net	$(1,757,387)			$(627,676)
Information expressed in balance sheet is as follows:				
Deferred tax assets	$1,267,508			$859,868
Deferred tax liabilities	$(3,024,895)			$(1,487,544)

(3) Information of unused tax loss is summarized below:

	2014.12.31	2013.12.31	2013.1.1
Unused tax loss balance	$2,137,905	$-	$-

(4) Unrecognized deferred tax assets

As at 31 December 2014, 31 December 2013 and 1 January 2013, the total amount of unrecognized deferred tax assets that are not likely taxable was NT$22,696 thousands.

(5) Imputation credit information

	2014.12.31	2013.12.31	2013.1.1
Balance of the Imputation Credit Amount	$101,178	$195,556	$637,131

The actual creditable ratios for distribution of the Company’s earnings of 2012 were 13.71% and 18.51%. And the estimated creditable ratios for distribution of the Company’s earnings of 2013 were 11.50% and 20.56%.

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

(6) The assessment of income tax returns

As at 31 December 2014, the income tax returns of the Company have been assessed and approved up to 2012.

27. Earnings per share

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

Diluted earnings per share are calculated by dividing net income for the year (after adjustment of interests for convertible bonds) by the weighted average number of shares outstanding during the year plus the weighted average number of all potential shares with dilutive effect as if they are probably turned into shares.

	2014	2013
Basic earnings per share		
Net income available to common shareholders	$6,511,959	$5,999,242
Weighted average number of common shares outstanding for basic earnings per share (in thousands)	3,026,921	2,998,193
Basic earnings per share (in dollars)	$2.15	$2.00
Diluted earnings per share		
Net income available to common shareholders	$6,511,959	$5,999,242
Interests for convertible bonds	$80	$438
Net income after adjustment of dilutive effect	$6,512,039	$5,999,680
Weighted average number of common shares outstanding for basic earnings per share (in thousands)		
Dilutive effect:		
Convertible bonds	9,576	38,304
Weighted average number of common shares outstanding after adjustment of dilutive effect (in thousands)	3,036,497	3,036,497
Diluted earnings per share (in dollars)	$2.14	$1.98

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

28. Separate account insurance products

(1) Separate account insurance products - assets and liabilities

	Assets		
Item	2014.12.31	2013.12.31	2013.1.1
Cash in bank	$342,194	$705,465	$216,789
Financial assets at fair value through profit or loss	68,711,462	63,989,881	64,492,401
Other receivables	118,675	105,335	186,126
Total	$69,172,331	$64,800,681	$64,895,316

	Liabilities		
Item	2014.12.31	2013.12.31	2013.1.1
Reserve for separate account	$68,783,359	$64,503,650	$64,338,760
Other payables	388,972	297,031	556,556
Total	$69,172,331	$64,800,681	$64,895,316

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

	Revenues	
Item	2014	2013
Premium income	$6,265,764	$6,661,971
Gains (losses) from financial assets and liabilities at fair value through profit or loss	3,008,984	773,495
Interest income	133	90
Other revenues	158,963	120,137
Foreign exchange gains (losses)	681,892	470,143
Total	$10,115,736	$8,025,836

	Expenses	
Item	2014	2013
Insurance claim payments	$7,004,493	$6,804,068
Net change in separate account reserve	1,242,530	(766,002)
Custodian fee	1,868,634	1,987,730
Handling fee	79	40
Total	$10,115,736	$8,025,836

(3) The commission earned for engaging in investment-linked insurance business from counterparties for the years ended 31 December 2014 and 2013 were NT$317,992 thousands and NT$301,185 thousands, 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 risk management objectives and strategies. “Risk Management Committee” are set under the board of directors and propose risk management report at time of board of directors meeting. Various risk management report and related issues are first report to risk management committee and made the final approved 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 also establish a 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, include monitoring the daily risks, measuring and evaluating related issues, assisting the board to develop Company's risk appetite, executing the risk management policies and regulations approved by risk management committee. Moreover, the business units should be responsible for the risks identification, report the risk exposure conditions, measure the impact of risks, review the various risks and limits regularly, and make sure that the internal control procedures of each unit is implemented effectively in accordance with related regulations and the company's risk management policy.

(2) Risk management policies, procedures and methods

The Company risk management policies have set an effective system that is sufficient to deal with identification, measurement, monitoring, reporting and response to risk. Also, establish clear objectives for risk management, control approach 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.

According 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 assign responsible risk management unit according to the sources of risk in order to manage various risks, including market, credit, operations, liquidity, underwriting, actuarial, insurance product development and asset-liability management risk. In addition, the Company developed management guidelines for various types of risk, standardized measurement and evaluation methods, and regularly issue risk report to monitor the various risks.

(3) Reserve related risk management policies, procedures and methods

The reserve related risk indicate the set aside of various reserve are not sufficient to deal with future obligations due to the underestimated of liabilities. The Company has set and implements the appropriate risk management system for the insurance business reserve related risk.

(4) Matching of assets and liabilities related risk management policies, procedures and methods

Matching of assets and liabilities risk is the risk of inconsistent movement of assets and liabilities. The Company had set appropriate asset-liability management system according to the attribute and complexity of insurance liability risk. The system allows the Company to form, implement, monitor and correct related strategies within the tolerable range and achieve the Company predetermined financial goals. The contents include the following items:

- Risk identification related to matching of assets and liabilities
- Risk measurement related to matching of assets and liabilities.
- Risk responses related to matching of assets and liabilities.

2. Information of insurance risk

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

The insurance company set aside various reserves according to the regulations and makes a timely 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 which underwrote by the Company, the main risks include mortality, morbidity, surrender, expense and investment returns rate. The various actuarial assumptions which were based on available information at assessment point, will include in the liability adequacy test for all insurance contracts and financial instruments with discretionary participation features, to assess whether the insurance liabilities of the Company is adequate. If the test result indicates the insurance liabilities account is not adequate, then set aside the insufficient amount as liabilities adequate reserve according to the provision. The set aside of that reserve will affect current profit and loss.

As at 31 December 2014, the Company assuming a 5% change in assumptions of mortality, morbidity, surrender, expense rates, and a decrease in investment return of 0.1%, the insurance liability on the Company's all insurance contracts and financial instruments with discretionary participation feature will still be adequate.

(2) Interpretation of concentration of insurance risks

j The Company's insurance business is mainly in Taiwan, Republic of China and there is no significant differences in insurance risk between each region. The Company had set tolerable cumulative risk limits for each risk unit and incident. For insurance risk that exceed the limits will be transferred through reinsurance. Concentration of insurance risk circumstances related to the Company, before and after the reinsurance, please refers to Note VI.14 details of various reserves.

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

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

(3) Claim development trend

j Direct business development trend

Accident year	Development year NT$							Reserve for claims
	1	2	3	4	5	6	7	
1998	$2,170,100	$2,736,556	$2,776,542	$2,781,989	$2,786,399	$2,792,187	$2,798,032	
1999	2,243,111	2,870,648	2,924,110	2,934,461	2,936,046	2,939,451		
2000	2,574,879	3,071,401	3,132,443	3,137,874	3,143,299			
2011	2,610,108	3,276,928	3,328,279	3,342,075				
2012	2,345,575	2,953,776	3,029,335					
2013	2,267,213	2,964,954						
2014	3,448,229							$774,652

Note：This table does not include long term life insurance

Add：Long term insurance claims	387,738
Claim reserve for no claim	102,328
Reserve for claims balance	$1,264,718

k Retained business development trend

Accident year	Development year NT$							Reserve for claims
	1		3	4	5	6	7	
1998	$2,128,556	$2,682,784	$2,721,905	$2,719,002	$2,723,312	$2,728,970	$2,734,682	
1999	2,204,858	2,820,114	2,862,350	2,868,022	2,869,572	2,872,900		
2000	2,535,358	3,010,157	3,068,543	3,066,830	3,072,133			
2011	2,561,841	3,214,455	3,260,383	3,266,408				
2012	2,304,504	2,897,464	2,967,538					
2013	2,227,515	2,908,429						
2014	3,387,852							$751,618

Note：This table does not include long term life insurance

Add：Long term insurance claims	372,693
Claim reserve for no claim	102,328
Reserve for claims balance	$1,226,639

The Company recognizes claims 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 reserving for claim. 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. Some claims are delayed in notifying the Company. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments (not include those which payment and time will confirm within a year). The event 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 represent the cumulative amount of compensation for each occurrence event in the end of the year. The occurrence claims include decided and undecided claims which represent the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

(4) Credit risk

For the Company insurance contracts, the credit risk comes from reinsurers which are fail to fulfill their obligations of reinsurance contracts and enable the Company to expose in the risk of financial loss. If the Company dispute with the reinsurers, then may cause impairment of reinsurance assets. In addition, the account receivables of insurance brokers and agents also have credit risk.

The Company highest risk expose for the reinsurance contracts are the carrying value of reinsurance asset. In order to manage that risk and avoid credit losses, the Company decides to deal with reinsurance company which has good credit. The Company set related selection standard, make regular assessment and monitor the reinsurers financial business conditions, credit status and rating. Also, may adjust the business scope and scale according to the situation to prevent over concentrated of credit risk.

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

(5) Liquidity risk

As at 31 December 2014, 31 December 2013, and 1 January 2013, the Company liquidity risk maturity analysis for insurance contracts are as follow:

31 December 2014	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Include insurance liabilities of investment contracts with discretionary participation features	$22,596,344	$70,224,461	$76,787,529	$332,149,174	$1,910,802,565
Reserves for insurance contract with feature of financial instruments	-	-	-	-	-

31 December 2013	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Include insurance liabilities of investment contracts with discretionary participation features	$9,594,719	$75,923,620	$86,230,920	$285,262,634	$1,754,511,355
Reserves for insurance contract with feature of financial instruments	447,089	-	-	-	-

1 January 2013	Within 1 year	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years
Include insurance liabilities of investment contracts with discretionary participation features	$6,853,598	$67,098,695	$61,944,799	$320,742,805	$986,847,462
Reserves for insurance contract with feature of financial instruments	5,972,106	461,748	-	-	-

Note：

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

(6) Market risk

According to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, when the Company measures insurance liabilities, it set aside the reserve by using the discounted rate required by the regulator. Since the discount rate assumption does not move at the same time in the same direction with the interest rate, those variables in market risk to the Company’s valid insurance contacts have no significant impact on profit and loss or equity. However, the change in market risk may have an impact on liabilities adequacy test which estimation was based on available information at the balance sheet date. But, it has little impact on the adequacy of current recognized insurance liabilities.

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

VIII. financial instruments

1. Categories of financial instruments

Financial assets

	2014.12.31	2013.12.31	2013.1.1
Financial assets at fair value through profit or loss：			
Held for trading	$993,595	$1,303,318	$2,138,260
Designated financial assets at fair value through profit or loss	612,231	632,273	641,376
Subtotal	1,605,826	1,935,591	2,779,636
Available-for-sale financial assets	435,292,552	427,706,046	483,045,952
Loans and receivables：			
Cash and cash equivalents (Exclude cash on hand and revolving funds)	61,217,736	112,696,045	66,616,721
Bond investments for which no active market exists	440,007,443	290,884,414	158,118,970
Receivables	14,384,897	11,169,076	12,330,910
Loans	31,083,479	32,139,338	32,793,971
Guarantee deposits paid	4,817,040	5,485,137	3,890,780
Subtotal	551,510,595	452,374,010	273,751,352
Total	$988,408,973	$882,015,647	$759,576,940

Financial liabilities

	2014.12.31	2013.12.31	2013.1.1
Financial liabilities at fair value through profit or loss：			
Held for trading	$5,847,792	$3,008,375	$470,800
Financial liabilities at amortized cost：			
Payables	9,999,089	5,628,375	4,443,848
Guarantee deposits received	129,694	122,062	122,219
Other financial liabilities	-	11,104	21,776
Subtotal	10,128,783	5,761,541	4,587,843
Total	$15,976,575	$8,769,916	$5,058,643

2. Fair value of financial instruments

(1) The fair value of financial assets and financial liabilities means that the instruments has a deal with willingness who (rather than forced or liquidation mode) traded in the amount under the current transaction. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

j Cash and cash equivalents, receivables, payables and other current liabilities at fair value approximately is equal to the carrying amount because the instruments mainly have a short maturity.

k Financial assets and financial liabilities with standard terms and conditions trades in the active market, the fair value of those instruments is decided with reference to the market price (including all listed stocks and funds, etc.).

l If no quoted market prices exist for the non-active market financial instrument, the fair value of those assets is derived based on valuation technique. The Company thus adopts the methods and assumptions that market participants would use in setting prices.

m The assessment base is forward exchange displayed by the the Reuters, the NT of the closing price, and the purchase price of the other currency. Forward exchange on individual maturity date of the forward exchange rate calculate the fair value of each individual contract. Fair value of interest rate swap is the quote data from trade parties who provided.

n The fair value of other financial assets and financial liabilities is decided by the analysis of discounted cash flow. The Interest rate and discount rate assumptions mainly reference similar instruments related information and other information applicable yield curve of duration.

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

Other than those listed in the table below, the carrying amount of the Company's financial instruments measured at amortized cost approximates their fair value:

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

	Carrying amount		
	2014.12.31	2013.12.31	2013.1.1
Financial assets			
Bond investment for which no active market exists	$440,007,443	$290,884,414	$158,118,970
Guarantee deposits paid	4,817,040	5,485,137	3,890,780

	Fair value		
	2014.12.31	2013.12.31	2013.1.1
Financial assets			
Bond investment for which no active market exists	$447,355,742	$287,498,964	$162,600,077
Guarantee deposits paid	4,894,003	5,548,012	4,035,951

(3) The three levels of fair value hierarchy

To provide disclosure of information, the Company uses the three levels of fair value hierarchy to reflect the significance of fair value inputs during measurement. The three levels of fair value hierarchy is shown below:

Level 1 : Quoted (unadjusted) prices in active markets for any identical instruments.

Level 2 : Fair value estimation is based on comprising direct or indirect observable inputs obtained from an active market.

Level 3 : Inputs for the asset or liability that are not based on observable market data.

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

j Fair value hierarchy

	2014.12.31			
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ 1,423,986	$ 811,755	$ 612,231	$-
Held for trading	811,755	811,755	-	-
Stocks	811,755	811,755	-	-
Financial assets designated upon initial recognition as at fair value through profit or loss	612,231	-	612,231	-
Available-for-sale financial assets	435,292,552	173,435,973	261,447,387	409,192
Stocks	115,556,093	95,004,739	20,142,162	409,192
Bonds	311,992,115	70,686,890	241,305,225	-
Other	7,744,344	7,744,344	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$181,840	$-	$181,840	$-
Forward foreign exchange contracts	181,840	-	181,840	-
Liabilities				-
Financial liabilities at fair value through profit or loss	(5,847,792)	-	(5,847,792)	-
Forward foreign exchange contracts	(5,847,792)	-	(5,847,792)	-
Total	$431,050,586	$174,247,728	$256,393,666	$409,192

	2013.12.31			
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$1,749,477	$975,565	$773,912	$-
Held for trading	1,117,204	870,298	246,906	-
Stocks	870,298	870,298	-	-
Bonds	246,906	-	246,906	-
Financial assets designated upon initial recognition as at fair value through profit or loss	632,273	105,267	527,006	-

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

	2013.12.31			
Item	Total	Level 1	Level 2	Level 3
Available-for-sale financial assets	$427,706,046	$135,441,035	$292,093,087	$171,924
Stocks	79,493,812	66,724,174	12,597,714	171,924
Bonds	336,149,818	56,654,445	279,495,373	-
Other	12,062,416	12,062,416	-	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$186,114	$-	$186,114	$-
Forward foreign exchange contracts	183,037	-	183,037	-
IRS contracts	3,077	-	3,077	-
Liabilities				
Financial liabilities at fair value through profit or loss	(3,008,375)	-	(3,008,375)	-
Forward foreign exchange contracts	(3,008,375)	-	(3,008,375)	-
Total	$426,633,262	$136,416,600	$290,044,738	$171,924

	2013.1.1			
Item	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$2,298,328	$1,501,608	$796,720	$-
Held for trading	1,656,952	1,397,692	259,260	-
Stocks	1,397,692	1,397,692	-	-
Bonds	259,260	-	259,260	-
Financial assets designated upon initial recognition as at fair value through profit or loss	641,376	103,916	537,460	-
Available-for-sale financial assets	483,045,952	142,162,628	340,686,131	197,193
Stocks	54,759,482	43,514,811	11,047,478	197,193
Bonds	417,137,824	88,499,608	328,638,216	-
Other	11,148,646	10,148,209	1,000,437	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$481,308	$-	$481,308	$-

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

Item	2013.1.1 Total	Level 1	Level 2	Level 3
Forward foreign exchange contracts	$474,746	$-	$474,746	$-
IRS contracts	6,562	-	6,562	-
Liabilities				
Financial liabilities at fair value through profit or loss	(470,800)	-	(470,800)	-
Forward foreign exchange contracts	(470,800)	-	(470,800)	-
Total	$485,354,788	$143,664,236	$341,493,359	$197,193

k Reconciliation for fair value measurements in Level 3 of the fair value hierarchy

A. Financial assets

For the year ended 31 December 2014

Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	$171,924	$-	$11,218	$226,050	$-	$-	$-	$409,192

For the year ended 31 December 2013

Item	Beginning balance	Total gains and losses recognized		Increase		Decrease		Ending balance
		Amount recognized in profit or loss	Amount recognized in OCI	Acquisition or issues	Transfer into Level 3	Disposal or settlements	Transfer out of Level 3	
Available-for-sale financial assets	$197,193	$-	$(25,269)	$-	$-	$-	$-	$171,924

B. Financial liabilities

During the years ended 31 December 2014 and 2013, there were no financial liabilities transfers to Level 3 fair value measurements.

C. Transfers between Level 1 and Level 2：

During the years ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

IX. Financial risk management

The objective of financial risk management is to manage risk derived from financial asset holding. According to the Company's risk management policies, the main financial risks are market risk, credit risk and liquidity risk. The Company has established guidelines and measurement of the risk. The following is the definition, source, and management procedures of the risk as well as methods used to measure the risk.

1. Credit risk analysis

(1) Credit risk refers to the result of the issuer, the counterparty and the debtor fails to fulfill responsibilities (obligations), or because of changes in credit quality, resulting in default or value loss of financial asset holding. Credit risks include issuer credit risk and counterparty risk.

Issuer credit risk represents default risk that bond issuer, debtor and the guarantor does not pay its debts or unable to fulfill payment obligation as well as comply with the issue terms due to bankruptcy, break the law and changes of tax law and accounting standards.

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

The Company periodically evaluates and analyzes the credit and financials of counterparty and issuer, then assess their internal credit rating based on financials and business performance. The relative credit limits are assigned to counterparty and issuer according to their internal credit rating to control and manage credit risk.

The credit limit consists of: (1) counterparty credit limit, including pre-settlement limit and settlement limit; (2) issuer credit limit, including short term and long term limit.

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

With respect to credit risk assessment, the Company has established credit VaR model. The model is to calculate credit risk value and estimate expected and unexpected credit loss respectively, assessing the credit positions maximum loss due to changes of credit rating or default. Besides, the Company also assesses credit risk and concentration risk based on the issuer's portfolio of region, industry and credit rating.

(2) Financial instruments concentration risk

A. Financial debt instruments held by the Company or deposit in the bank of the largest credit risks exposure in accordance with the regional distribution are as follows：

Date :31 December 2014

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	$43,287,295	$13,257,920	$ 4,672,521	$-	$-	$ 61,217,736
Financial assets at fair value through profit or loss	612,231	-	-	-	-	612,231
Available-for-sale financial assets	200,746,015	39,756,615	37,131,966	31,472,382	2,885,137	311,992,115
Bond investments for which no active market exists	109,254,692	97,263,938	122,739,566	107,221,109	3,528,138	440,007,443
Guarantee deposits paid	4,795,751	-	-	-	-	4,795,751
Total	$358,695,984	$150,278,473	$164,544,053	$138,693,491	$6,413,275	$818,625,276
Proportion	43.82%	18.36%	20.10%	16.94%	0.78%	100.00%

Date :31 December 2013

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	$103,652,035	$6,792,538	$2,251,472	$-	$-	$112,696,045
Financial assets at fair value through profit or loss	879,179	-	-	-	-	879,179
Available-for-sale financial assets	220,175,679	31,168,010	51,311,168	20,658,457	12,836,504	336,149,818
Bond investments for which no active market exists	77,228,590	64,487,479	78,296,313	67,661,836	3,210,196	290,884,414
Guarantee deposits paid	4,315,783	-	-	-	-	4,315,783
Total	$406,251,266	$102,448,027	$131,858,953	$88,320,293	$16,046,700	$744,925,239
Proportion	54.54%	13.75%	17.70%	11.86%	2.15%	100.00%

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

Date :1 January 2013

Financial assets	Taiwan	Asia	Europe	America	Global	Total
Cash and cash equivalents	$38,996,299	$23,126,856	$4,493,566	$-	$-	$66,616,721
Financial assets at fair value through profit or loss	900,636	-	-	-	-	900,636
Available-for-sale financial assets	238,079,410	37,679,931	84,626,725	36,179,234	21,626,990	418,192,290
Bond investments for which no active market exists	76,160,361	31,105,750	25,854,270	24,901,310	97,281	158,118,972
Guarantee deposits paid	3,863,969	-	-	-	-	3,863,969
Total	$358,000,675	$91,912,537	$114,974,561	$61,080,544	$21,724,271	$647,692,588
Proportion	55.27%	14.19%	17.75%	9.43%	3.36%	100.00%

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

Date :31 December 2014

Location	Northern areas：Taipei and eastern counties	Central area：Taichung to Changhua and Nantou	Southern area：Counties below Tainan	Total
Secured loans	$1,906,713	$939,962	$922,846	$3,769,521
Overdue receivables	67,349	-	-	67,349
Total	$1,974,062	$939,962	$922,846	$3,836,870
Proportion	51.45%	24.50%	24.05%	100.00%

Date :31 December 2013

Location	Northern areas：Taipei and eastern counties	Central area：Taichung to Changhua and Nantou	Southern area：Counties below Tainan	Total
Secured loans	$2,451,025	$1,209,930	$1,195,337	$4,856,292
Overdue receivables	239,831	-	2,084	241,915
Total	$2,690,856	$1,209,930	$1,197,421	$5,098,207
Proportion	52.78%	23.73%	23.49%	100.00%

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

Date :1 January 2013

Location	Northern areas：Taipei and eastern counties	Central area：Taichung to Changhua and Nantou	Southern area：Counties below Tainan	Total
Secured loans	$3,439,350	$1,676,497	$1,670,263	$6,786,110
Overdue receivables	299,608	3,070	10,945	313,623
Total	$3,738,958	$1,679,567	$1,681,208	$7,099,733
Proportion	52.66%	23.66%	23.68%	100.00%

(3) financial assets credit quality and past due impaired analysis

A. financial instrument credit risk quality grading

The Company's internal credit risk rating divided into investment and non-investment grade rating, and it's mainly based on the credit rating agency's grading：

a. Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency.
b. Non-investment grade assets are those with no credit rating or credit rating lower than BBB- granted by a credit rating agency.
c. Impaired means the company or the object failed to perform its obligations. The Company has reached the impairment criteria in accordance estimated potential losses.

Classification of credit quality for financial assets of the Company including normal assets, past due but not impaired, impaired are as follows：

Date :31 December 2014

	Normal assets				
Financial assets	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$61,217,736	$-	$-	$-	$61,217,736
Financial assets at fair value through profit or loss	612,231	-	-	-	612,231

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

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade	Past due but not impaired	Impaired	Total
Available-for-sale financial assets	$311,992,115	$-	$-	$-	$311,992,115
Bond investments for which no active market exists	440,007,443	-	-	-	440,007,443
Guarantee deposits paid	4,795,751	-	-	-	4,795,751
Total	$818,625,276	$-	$-	$-	$818,625,276
Proportion	100.00%	-	-	-	100.00%

Date :31 December 2013

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$112,696,045	$-	$-	$-	$112,696,045
Financial assets at fair value through profit or loss	773,912	105,267	-	-	879,179
Available-for-sale financial assets	332,352,678	3,797,140	-	-	336,149,818
Bond investments for which no active market exists	290,884,414	-	-	-	290,884,414
Guarantee deposits paid	4,315,783	-	-	-	4,315,783
Total	$741,022,832	$3,902,407	$-	$-	$744,925,239
Proportion	99.48%	0.52%	-	-	100.00%

Date :1 January 2013

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$66,616,721	$-	$-	$-	$66,616,721
Financial assets at fair value through profit or loss	796,720	103,916	-	-	900,636
Available-for-sale financial assets	413,466,039	4,726,252	-	-	418,192,291

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

	Normal assets				
Financial assets	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Bond investments for which no active market exists	$158,118,972	$-	$-	$-	$158,118,972
Guarantee deposits paid	3,863,969	-	-	-	3,863,969
Total	$642,862,421	$4,830,168	$-	$-	$647,692,589
Proportion	99.25%	0.75%	-	-	100.00%

B. The Company rates the credit risk of secured loans determined by whether there is objective evidence indicating impairment and whether there is observable information indicating credit deterioration of the borrower. The credit ratings are defined as follows:

a. Normal users：The borrower makes monthly payments that are 30 days are less past due. Furthermore, there is no sign of credit deterioration, indicating that the borrower can makes normal payments continuously.

b. Worsening liquidity：There is no objective evidence indicating impairment. However, the borrower is having financial difficulty and credit deterioration. The borrower enters financial reorganization such as conducting a repayment agreement, preceding compromise, liquidation or debt settlement proceedings, indicating the borrower is having worsening contractual capacity.

c. Delayed notification users：The borrower makes monthly payments that are 31 to 90 days past due. The borrower is lack of contractual capacity since the borrower fails to make a payment when due under the terms of the loan contract.

d. Past due but not impaired：The borrower makes monthly payments that are 91 days or more past due. There is existing objective evidence indicating impairment and the Company should assess the assets for impairment. The present value of the estimated future cash flows (including disposal of collateral) is higher than the book value of the loan, indicating the loan assets is not impaired.

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

e. Impaired：Past due days meet the standard of loans overdue. There is existing objective evidence indicating impairment and the Company should assess the assets for impairment. The present value of the estimated future cash flows (including disposal of collateral) is lower than the book value of the loan, indicating the loan assets is impaired.

According to the respective level of secured loans listed below：

Date :31 December 2014

Secured loans and Overdue receivables	Low risk	Potential risk user		Past due but not impaired	Impaired	Provision for impairment	Total
	Normal users	Worsening liquidity	delayed notification users				
Consumer finance	$3,711,978	$43,626	$16,791	$-	$-	$19,114	$3,753,281
Corporate finance	-	16,571	-	105,924	-	38,906	83,589
Total	$3,711,978	$60,197	$16,791	$105,924	$-	$58,020	$3,836,870

Date :31 December 2013

Secured loans and Overdue receivables	Low risk	Potential risk user		Past due but not impaired	Impaired	Provision for impairment	Total
	Normal users	Worsening liquidity	delayed notification users				
Consumer finance	$4,717,326	$60,641	$28,821	$4,040	$-	$24,732	$4,786,096
Corporate finance	40,000	33,143	-	336,641	-	97,673	312,111
Total	$4,757,326	$93,784	$28,821	$340,681	$-	$122,405	$5,098,207

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

Date :1 January 2013

Secured loans and Overdue receivables	Low risk	Potential risk user		Past due but not impaired	Impaired	Provision for impairment	Total
	Normal users	Worsening liquidity	delayed notification users				
Consumer finance	$6,575,061	$78,090	$30,662	$12,807	$4,817	$35,590	$6,665,847
Corporate finance	88,000	46,952	-	412,070	-	113,136	433,886
Total	$6,663,061	$125,042	$30,662	$424,877	$4,817	$148,726	$7,099,733

Aging analysis of the net secured lending as follows：

	Neither past due nor impaired	Past due but not impaired	Past due or Impaired		
	In 30 days	31-90 days	91-180 days	Over 181 days	Total
2014.12.31	$ 3,753,066	$ 16,455	$-	$ 67,349	$ 3,836,870
2013.12.31	4,826,358	28,244	1,690	241,915	5,098,207
2013.1.1	6,754,163	30,049	1,898	313,623	7,099,733

As of December 31, 2014, 2013, and January 1, 2013, the fair value of collateral held by past due but not impaired discounted and lending of financial assets were NT$371,747 thousands, NT$958,746 thousands and NT$1,290,456 thousands, respectively.

2. Liquidity risk analysis

(1) Liquidity risks of the financial instruments include “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 or liquidate asset to meet the demands within reasonable time. “Market liquidity risk” represents the risk that the company sells assets at loss due to a disordered or shallow market.

The Company attentively monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management based on the characteristics of business. Furthermore, the Company manages market liquidity risk cautiously by considering proper holding positions according with market trading volumes and diversifying investment by various asset categories, maturities, regions, currencies and tools. By establishing emergency financing plan, the Company is well prepared to operate normally and meet emergency and major funding requirement under the long term illiquid environment.

The Company regularly monitors market liquidity and arranges the maturity of liquidity assets as well as daily cash management depending on market condition and funding needs. Furthermore, it prepares quarterly duration report of asset and liability, and estimates the time and the amount of liability cash outflow in the future quarterly. In order to prevent liquidity risk, the Company adopts strategies such as re-marketing of policies to retain cash from matured policy or asset portfolio adjustment to meet cash flow needs of matured policy. Model will also be utilized to measure liquidity risk if it is necessary.

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

A. Financial assets for managing liquidity risk

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

B. Maturity analysis of non-derivative financial liabilities

The analysis of cash outflows to the Company is listed below and based on the residual term to maturity on balance sheet date. The disclosed amounts are in conformity of contract cash flows and the results of the differences from the disclosed amounts on balance sheet.

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

Non-derivative financial instruments

	In 1 years	Over 1 years	Total
2014.12.31			
Payables	$9,999,089	$-	$9,999,089
2013.12.31			
Payables	$5,628,375	$-	$5,628,375
Convertible bonds	10,773	-	10,773
2013.1.1			
Payables	$4,443,848	$-	$4,443,848
Convertible bonds	-	21,128	21,128

C. Maturity analysis of derivative financial liability

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

Operating assets fully held by the Company are cash and cash equivalents, government bonds current investment enough to pay the investment and liabilities at maturity. Therefore to face the risk of liquidating is very low. And the Company enters into forward contracts, cross currency swaps and interest rate swaps derivative financial instruments were the currency of higher liquidity which the possibility of selling out and the risk of market liquidity are low. The forward contracts at maturity, cross currency swaps will enter into continually for enough to pay the assets of settlements and the risk of liquidity will to be low.

The Company's due date structure of financial liabilities as follows：

	2014.12.31				
	In 90 days	91-180 days	181 days -1 year	Over 1 year	Total
Financial liabilities at fair value through profit or loss	$ 5,847,792	$-	$-	$-	$ 5,847,792

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

	2013.12.31				
	In 90 days	91-180 days	181 days - 1 year	Over 1 year	Total
Financial liabilities at fair value through profit or loss	$2,361,728	$511,246	$135,401	$-	$3,008,375

	2013.1.1				
	In 90 days	91-180 days	181 days - 1 year	Over 1 year	Total
Financial liabilities at fair value through profit or loss	$470,800	$-	$-	$-	$470,800

3. Market risk analysis

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

The Company has built value at risk model. All financial assets bearing market risks are regularly monitored by the risk model and calculated the risk value. The risk limit is controlled by notional amount, price sensitivity and VaR, respectively. It issues risk reports periodically and executes daily risk management as well as over limit control. The risk report, including VaR of various asset limit usage and control as well as sensitivity / stress testing analysis, will be regularly reported to Risk Management Committee and Board Meeting.

(2) Exchange Rate Risk

The Company continues to execute swap and forward exchange derivative transaction to hedge the foreign exchange risk of foreign investment. In accordance with relevant laws and internal control requirements, it also uses the correlation model and control mechanism to control this risk effectively.

The Company exchange rate risk primarily is related to operating activities (monetary using in income or expense is not the same with the functional currency of the Company) .

Parts of overseas accounts receivable and accounts payable of the Company is denominated in the same currency. Thus, it will generate the natural hedging effect. Partial foreign assets are hedged by forward exchange contracts to manage foreign exchange risk. Because the method does not meet the requirements of hedge accounting, the Company does not apply hedge accounting.

(3) Interest rate risk

Interest rate risk is changes in market interest rates resulted in fluctuations in the fair value of financial instruments. The Company manages interest rate risk by combination of fixed and floating interest rates. Because they do not meet the requirements for hedge accounting, the hedge accounting is not applicable.

(4) Equity price risk

The Company holds listed and unlisted equities. The price of such equity securities will be affected by uncertainty about their future value. Listed and unlisted equities will be classified either trading or available-for-sale category. Unlisted equities belong to available-for-sale category. The Company manages price risk of equities by setting up investment limits of single equity security for investment diversification. Information of equity securities portfolio is required to regularly provide to senior executives of the Company. The senior executives authorized by the Board of Directive should review and approve the equity investment.

(5) Value at Risk

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

VaR model must be able to appropriately measure the maximum potential risk of financial instruments and investment portfolio. VaR model using in managing risk must be continuously verified its capability and effectiveness in measuring the maximum potential risks of financial instruments or investment portfolio.

(6) Stress testing

The Company measures and evaluates potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models. Stress testing measures the potential impact to the value of investment portfolio caused by the extreme changes of a series of financial variables.

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

A. Simple sensitivity

Simple sensitivity is to measure the dollar amount change for the portfolio value from the movement of specific risk factors.

B. Scenario analysis

Scenario analysis is to measure the dollar amount changes for the total value of investment positions if assumed events occur. The types of scenario include:

a. Historical scenario：

In consideration of the fluctuation of risk factors when a specific historical event happened, 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.

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

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.

Summary of Simple Sensitivity

For the year ended 31 December 2014

Risk Factors	Changes (+/-)	Change in Income	Change in Equity
Equity risk (Stock index)	+1%	7,899	879,094
Interest rate risk (Yield curve)	+1BP	(250)	(335,125)
Exchange risk (Foreign exchange rate)	+1% (USD for each currency appreciates 1%)	633,385	48,232

Summary of Simple Sensitivity

For the year ended 31 December 2013

Risk Factors	Changes (+/-)	Change in Income	Change in Equity
Equity risk (Stock index)	+1%	9,620	639,571
Interest rate risk (Yield curve)	+1bp	(406)	(323,024)
Exchange risk (Foreign exchange rate)	+1% (USD for each currency appreciates 1%)	535,659	38,606

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

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

	2014.12.31		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Assets			
Cash and cash equivalents	$61,223,512	$-	$61,223,512
Receivables	14,384,897	-	14,384,897
Current tax assets	1,326,043	-	1,326,043
Financial assets at fair value through profit or loss	993,595	612,231	1,605,826
Available-for-sale financial assets	104,060,058	331,232,494	435,292,552
Bond investments for which no active market exists	1,850,179	438,157,264	440,007,443
Investment property	-	23,553,058	23,553,058
Loans	-	31,083,479	31,083,479
Reinsurance assets	264,209	-	264,209
Property and equipment	-	6,973,988	6,973,988
Intangible assets	-	53,806	53,806
Deferred tax assets	3,235,637	-	3,235,637
Other assets	475,651	18,615,463	19,091,114
Separate account product assets			69,172,331
Total assets	$187,813,781	$850,281,783	$1,107,267,895
Liabilities			
Payables	$9,999,089	$-	$9,999,089
Financial liabilities at fair value through profit or loss	5,847,792	-	5,847,792
Insurance liabilities	31,772,979	902,417,745	934,190,724
Foreign exchange volatility reserve	-	5,263,545	5,263,545
Provisions	-	266,651	266,651
Deferred tax liabilities	-	6,738,484	6,738,484
Other liabilities	402,667	1,062,120	1,464,787
Separate account product liabilities			69,172,331
Total liabilities	$48,022,527	$915,748,545	$1,032,943,403

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

Item	2013.12.31 Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Assets			
Cash and cash equivalents	$112,702,457	$-	$112,702,457
Receivables	11,169,076	-	11,169,076
Current tax assets	936,683	-	936,683
Financial assets at fair value through profit or loss	1,408,585	527,006	1,935,591
Available-for-sale financial assets	81,864,065	345,841,981	427,706,046
Bond investments for which no active market exists	6,785,563	284,098,851	290,884,414
Investment property	-	22,873,268	22,873,268
Loans	-	32,139,338	32,139,338
Reinsurance assets	296,817	-	296,817
Property and equipment	-	5,663,139	5,663,139
Intangible assets	-	42,350	42,350
Deferred tax assets	859,868	-	859,868
Other assets	93,465	5,498,540	5,592,005
Separate account product assets			64,800,681
Total assets	$216,116,579	$696,684,473	$977,601,733
Liabilities			
Payables	$5,628,375	$-	$5,628,375
Financial liabilities at fair value through profit or loss	3,008,375	-	3,008,375
Other financial liabilities	11,104	-	11,104
Insurance liabilities	16,820,592	814,210,631	831,031,223
Reserve for insurance contracts with feature of financial instruments	446,490	-	446,490
Foreign exchange volatility reserve	-	2,773,740	2,773,740
Provisions	-	237,795	237,795
Deferred tax liabilities	-	1,487,544	1,487,544
Other liabilities	1,441,499	4,245,394	5,686,893
Separate account product liabilities			64,800,681
Total liabilities	$27,356,435	$822,955,104	$915,112,220

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

	2013.1.1		
Item	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Assets			
Cash and cash equivalents	$66,624,945	$-	$66,624,945
Receivables	12,321,107	9,803	12,330,910
Current tax assets	1,043,835	-	1,043,835
Financial assets at fair value through profit or loss	2,242,176	537,460	2,779,636
Available-for-sale financial assets	69,635,955	413,409,997	483,045,952
Bond investments for which no active market exists	13,365,133	144,753,837	158,118,970
Investment property	-	22,581,222	22,581,222
Loans	-	32,793,971	32,793,971
Reinsurance assets	240,431	-	240,431
Property and equipment	-	4,848,730	4,848,730
Intangible assets	-	36,205	36,205
Deferred tax assets	1,267,508	-	1,267,508
Other assets	34,188	3,901,976	3,936,164
Separate account product assets			64,895,316
Total assets	$166,775,278	$622,873,201	$854,543,795
Liabilities			
Payables	$4,443,848	$-	$4,443,848
Financial liabilities at fair value through profit or loss	470,800	-	470,800
Other financial liabilities	-	21,776	21,776
Insurance liabilities	11,322,347	689,749,721	701,072,068
Reserve for insurance contracts with feature of financial instruments	5,964,316	367,153	6,331,469
Foreign exchange volatility reserve	-	1,964,816	1,964,816
Provisions	-	226,309	226,309
Deferred tax liabilities	-	3,024,895	3,024,895
Other liabilities	564,995	1,124,635	1,689,630
Separate account product liabilities			64,895,316
Total liabilities	$22,766,306	$696,479,305	$784,140,927

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

XI. Capital management

The Company's main objectives of capital management are that the Risk-based capital (RBC) ratio in accordance with Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies complies with Article 143 of the Insurance Act and that maintaining sound capital structure to protect customers' and stockholders' rights and interests.

The Company mainly implements capital management through monitoring the consequence of RBC report in order to ensure the it's solvency.

XII. Related party transaction

Significant transactions with related party as below:

1. Secured loans and interest revenue

Name	2014.12.31	2013.12.31	2013.1.1
Other related party－secured loans	$-	$-	$327

Name	2014	2013
Other related party－interest revenue	$-	$1

The loan rate to other party for the year of 2013 was 2.42%, and the highest balance was NT$327 thousands.

2. Key management personnel compensation

	2014	2013
Short-term employee benefits	$237,736	$211,760
Post-employment benefits	1,842	1,717
Total	$239,578	$213,477

For more information about the payment of key management personnel compensation, please refer to the shareholders' annual report.

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

XIII. Pledged assets

1. As of 31 December 2014, 31 December 2013, and 1 January 2013, details of pledged and guaranteed assets are as follows:

Item	2014.12.31	2013.12.31	2013.1.1
Available-for-sale financial assets	$ 1,499,381	$1,502,626	$1,568,893
Bond investment for which no active market exists	3,296,370	2,813,157	2,295,076
Total	$ 4,795,751	$4,315,783	$3,863,969

2. Guarantee for the content of government bond from above is as follows:

Item	2014.12.31	2013.12.31	2013.1.1
Insurance business guarantee	$ 4,774,240	$4,295,982	$3,845,428
Litigation guarantee	21,511	19,801	18,541
Total	$ 4,795,751	$4,315,783	$3,863,969

XIV. Commitments and Contingencies

1. Operating lease commitment－the Company as the lessee

The commercial lease contracts of office places, vehicles and machinery equipment the Company signed are within one to three years at average and are without bargain renewed option. There is no limited provision toward the Company in those contracts. Furthermore, the Company leases the land for 70 years due to surface rights setting which is non-cancellable operating lease commitment as well.

In accordance with non-cancellable operating lease, the total amount of the minimum lease payments as at 31 December 2014, 31 December 2013, 1 January 2013 are as follows:

	2014.12.31	2013.12.31	2013.1.1
Less than one year	$80,187	$52,719	$43,518
More than one year, less than five years	200,101	43,256	34,769
More than five years	6,878,440	-	-
Total	$7,158,728	$95,975	$78,287

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

The minimum lease payments of operating lease for the year ended 31 December 2014 and 2013 amounted to NT$64,390 thousands and NT$84,105 thousands, respectively.

2. Operating lease commitment－the Company as the lessor

The residual maturity of commercial property lease contract the Company signed is within one year to thirteen years, and most of the lease contracts contain provisions which can adjust rent according to market environment annually.

In accordance with non-cancellable operating lease, the total amount of the minimum lease payments as at 31 December 2014, 31 December 2013, 1 January 2013 are as follows:

	2014.12.31	2013.12.31	2013.1.1
Less than one year	$414,508	$430,217	$383,790
More than one year, less than five years	929,204	956,444	967,414
More than five years	353,180	482,053	559,833
Total	$1,696,892	$1,868,714	$1,911,037

XV. Significant disaster damages

None.

XVI. Significant subsequent events

None.

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

XVII. Other matters

1. Foreign currency financial assets and liabilities with significant influences as of 31 December 2014, 31 December 2013, 1 January 2013 are as follows:

	2014.12.31		
	Foreign currency	Exchange rate (dollar)	NTD
Financial assets			
Monetary items			
USD	$13,203,438	$31.7180	$418,783,937
AUD	785,588	25.9517	20,387,333
NZD	324,542	24.8479	8,064,193
CNH	8,090,203	5.1038	41,290,780
Non-monetary items			
USD	274,759	31.7180	8,714,820
CNH	4,737,107	5.1125	24,218,461
Financial Liabilities			
Payables			
USD	50,650	31.9501	1,618,275
HKD	29,843	4.0869	121,964

	2013.12.31		
	Foreign currency	Exchange rate (dollar)	NTD
Financial assets			
Monetary items			
USD	$9,043,492	$29.9500	$270,852,576
AUD	741,917	26.7094	19,816,161
NZD	784,454	24.5979	19,295,927
CNH	4,924,215	4.9440	24,345,320

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

	2013.12.31		
	Foreign currency	Exchange rate (dollar)	NTD
Non-monetary items			
USD	$357,529	$29.9500	$10,707,981
CNH	2,932,943	4.9472	14,509,857

	2013.1.1		
	Foreign currency	Exchange rate (dollar)	NTD
Financial assets			
Monetary items			
USD	$7,121,400	$29.1360	$207,489,123
AUD	962,220	30.2636	29,120,233
NZD	699,859	23.9265	16,745,174
CNH	4,436,262	4.6809	20,765,699
Non-monetary items			
USD	298,460	29.1360	8,695,941
CNH	2,114,833	4.6746	9,886,016

2. Changes in accounting policy

To improve the reliability and relevance of financial reporting, enhance financial disclosure transparency, be in line with the international conventions, and increase net value and risk tolerance, the Company volunteered to change the subsequent measurements of investment property from cost model to fair value model since 2014. Items and amounts of retrospective adjustments are summarized below:

	2014.12.31	2013.12.31	2013.1.1
Effects on the balance sheet items			
Increase in investment property	$10,215,850	$9,437,990	$8,333,343
Increase in property and equipment	378,848	383,709	-
Increase in insurance liabilities - participating policies dividend reserve	858,474	801,049	612,646

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

	2014.12.31	2013.12.31	2013.1.1
Increase in deferred tax liabilities	$719,563	$626,207	$635,869
Increase in retained earnings	8,936,197	8,359,328	7,084,828
Increase in other equity	80,465	35,115	-

	2014	2013
Effects on the income statement items		
Increase in investment property profit or loss	$616,907	$1,324,639
Increase in net changes of insurance liabilities	57,425	188,403
Decrease in operating expenses	107,957	134,920
Decrease(Increase) in income tax expenses	(90,570)	3,344
Increase in current net income	576,869	1,274,500
Increase in other comprehensive income	45,350	35,115
Increase in total amount of current comprehensive income	622,219	1,309,615
Increase in earnings per share	0.19	0.43

XVIII. Information regarding investment in Mainland China

1. The Company set up China Life Insurance Co., Ltd. (Taiwan) Beijing Representative Office approved by FSC on November 2004 in Mainland China. Approved by the China Insurance Regulatory Commission in July 2005, Beijing representative office was officially established in August 2005.

2. The Company participated equity investment of Pacific-Antna Life Insurance Company Ltd. in mainland China authorized by FSC on 30 December 2010, by the Investment Commission of the Ministry of Economic Affairs (MOEAIC) on 28 January 2011, and by China Insurance Regulatory Commission on 6 April 2011.

   The Company remitted US$ 58,775 thousands on 24 June 2011, finished settlement, and obtained 19.9% equity. 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 advanced to mainland China and to increase the company’s long-term value and shareholders’ dividend. Pacific-Antna Life Insurance Company Ltd. was renamed to CCB Life Insurance Company Limited authorized by China Insurance Regulatory Commission on 7 June 2011.

The Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to increase capital of CCB Life Insurance Company Limited on 29 August 2011 and to remit US$11,844 thousands on 30 August 2011. The increased share capital case was approved by China Insurance Regulatory Commission on 28 September 2011and by Shanghai Administration for Industry and Commerce on 13 December 2011. Moreover, the Company remitted another US$179,070 thousands 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.