

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Six-month Periods Ended
30 June 2016 and 2015
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 and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission. 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
Cathay Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2016, 31 December 2015 and 30 June 2015, the related consolidated statements of comprehensive income for the three-month and six-month periods ended 30 June 2016 and 2015, and the related consolidated statements of changes in equity and cash flows for the six-month periods ended 30 June 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 30 June 2016, 31 December 2015 and 30 June 2015, and the consolidated financial performance for the three-month and six-month periods and cash flows for the six-month periods ended 30 June 2016 and 2015, in conformity with requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise, IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission.

In addition, we have also audited the financial statements of the Company as of and for the six-month periods ended 30 June 2016 and 2015, on which we have expressed an unqualified opinion and a modified unqualified opinion, respectively.

Ernst & Young
Certified Public Accountants
Taipei, Taiwan, R.O.C.
17 August 2016

Notice to Readers:

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As at 30 June 2016, 31 December 2015 and 30 June 2015

(Expressed in thousands of New Taiwan Dollars)

| Assets | Notes | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|--------------------|------------------------|------------------------|------------------------|
| Cash and cash equivalents | 4,6,49,50 | \$187,202,175 | \$140,897,419 | \$285,496,700 |
| Receivables | 4,7,49,50 | 77,178,467 | 60,358,163 | 56,798,153 |
| Financial assets at fair value through profit or loss | 4,5,8,49,50 | 43,862,938 | 35,904,243 | 40,884,962 |
| Available-for-sale financial assets | 4,5,9,49,50,55(4) | 1,319,613,484 | 1,340,363,856 | 1,276,148,655 |
| Derivative financial assets for hedging | 4,5,10,49 | 520,063 | 447,326 | 217,733 |
| Investments accounted for using the equity method – Net | 4,5,11,49 | 24,153,951 | 23,494,040 | 22,164,977 |
| Debt instrument investments for which no active market exists | 4,5,12,49,50,55(4) | 1,964,977,321 | 1,842,960,278 | 1,429,087,379 |
| Held-to-maturity financial assets | 4,5,13,49,55(4) | 24,688,857 | 24,727,582 | 26,242,401 |
| Other financial assets – Net | 4,5,14,49 | 9,500,000 | 18,000,000 | 32,900,000 |
| Investment property | 4,5,15,49,50 | 454,387,735 | 453,296,483 | 450,754,972 |
| Investment property under construction | 4,5,15,49,50 | 4,915,419 | 3,308,553 | 1,841,320 |
| Prepayments for buildings and land – Investments | 4,5,15,49,50 | 293,588 | 2,758,288 | 2,152,421 |
| Loans | 4,16,49,50 | 618,841,123 | 638,302,971 | 663,874,537 |
| Reinsurance assets | 4,17,49,50 | 829,894 | 664,054 | 552,720 |
| Property and equipment | 4,18,49,50 | 29,556,977 | 27,342,746 | 27,326,386 |
| Intangible assets | 4,19,49 | 50,329,869 | 47,605,978 | 156,826 |
| Deferred tax assets | 4,5,38,49 | 5,905,704 | 11,519,847 | 10,281,966 |
| Other assets | 20,21,49,50,51 | 30,932,442 | 27,560,320 | 21,008,327 |
| Separate account product assets | 4,40,49 | 488,475,296 | 480,568,361 | 465,511,867 |
| Total assets | | \$5,336,165,303 | \$5,180,080,508 | \$4,813,402,302 |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated balance sheets - (continued)
As at 30 June 2016, 31 December 2015 and 30 June 2015
(Expressed in thousands of New Taiwan Dollars)

| Liabilities and equity | Notes | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|-------------|-----------------|------------------|-----------------|
| Short-term debts | 49 | \$311,029 | \$61,104 | \$297,118 |
| Payables | 22,49,50 | 67,870,146 | 20,143,339 | 34,312,461 |
| Financial liabilities at fair value through profit or loss | 4,5,23,49 | 1,589,391 | 38,859,128 | 8,608,547 |
| Preferred stock liability | 24,49,50 | 15,000,000 | 15,000,000 | 30,000,000 |
| Insurance liabilities | 4,5,25,49 | 4,338,859,076 | 4,158,087,987 | 3,842,942,500 |
| Reserve for insurance contracts with feature of financial instruments | 4,5,25,49 | 25,580,935 | 54,002,965 | 54,563,773 |
| Foreign exchange volatility reserve | 4,5,25,49 | 13,352,087 | 16,026,449 | 11,635,420 |
| Provisions | 4,5,27,49 | 412,974 | 4,399,449 | 2,150,629 |
| Deferred tax liabilities | 4,5,38,49 | 32,420,321 | 36,980,408 | 28,424,907 |
| Other liabilities | 28,29,49,50 | 5,818,482 | 7,716,565 | 6,514,998 |
| Separate account product liabilities | 4,40,49 | 488,475,296 | 480,568,361 | 465,511,867 |
| Total liabilities | | 4,989,689,737 | 4,831,845,755 | 4,484,962,220 |
| Equity attributable to equity holders of the parent | | | | |
| Capital stock | | | | |
| Common stock | 30 | 53,065,274 | 53,065,274 | 53,065,274 |
| Capital surplus | 31 | 13,028,033 | 13,028,012 | 13,029,142 |
| Retained earnings | 32 | | | |
| Legal capital reserve | | 27,183,187 | 19,560,283 | 19,560,283 |
| Special capital reserve | | 241,036,447 | 227,412,391 | 191,031,629 |
| Unappropriated retained earnings | | 7,610,727 | 36,498,070 | 28,994,232 |
| Other equity | | 2,022,997 | (3,656,933) | 20,568,346 |
| Non-controlling interests | 32 | 2,528,901 | 2,327,656 | 2,191,176 |
| Total equity | | 346,475,566 | 348,234,753 | 328,440,082 |
| Total liabilities and equity | | \$5,336,165,303 | \$5,180,080,508 | \$4,813,402,302 |

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the three-month and six-month periods ended 30 June 2016 and 2015

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

| Items | Notes | 1 April – 30 June 2016 | 1 April – 30 June 2015 | 1 January – 30 June 2016 | 1 January – 30 June 2015 |
|---|---------|------------------------|------------------------|--------------------------|--------------------------|
| Operating revenue | 4,50 | | | | |
| Direct premium income | 33 | \$154,674,363 | \$130,545,999 | \$294,489,621 | \$239,741,125 |
| Reinsurance premium income | 33 | 53,449 | 42,819 | 110,375 | 96,097 |
| Premium income | 33 | 154,727,812 | 130,588,818 | 294,599,996 | 239,837,222 |
| Deduct: Premiums ceded to reinsurers | 33 | (343,077) | (219,043) | (576,777) | (427,835) |
| Changes in unearned premium reserve | 25,33 | (347,811) | (406,676) | (54,697) | (3,551) |
| Retained earned premium | 33 | 154,036,924 | 129,963,099 | 293,968,522 | 239,405,836 |
| Reinsurance commission earned | | 350,027 | 275,720 | 361,698 | 282,202 |
| Handling fees earned | 40 | 1,378,650 | 1,459,747 | 2,726,230 | 3,108,238 |
| Net investment profits and losses | | | | | |
| Interest income | | 32,346,338 | 26,860,848 | 63,703,202 | 53,235,426 |
| (Losses) gains from financial assets and liabilities at fair value through profit or loss | | (31,176) | 4,773,795 | 24,290,499 | 7,501,373 |
| Realized gains from available-for-sale financial assets | | 9,003,975 | 19,815,836 | 18,633,197 | 39,721,105 |
| Realized gains from debt instrument investments for which no active market exists | | 2,581,932 | 2,869,746 | 5,281,860 | 9,089,296 |
| Realized gains from held-to-maturity financial assets | | - | 4 | - | 4 |
| Share of the gains of associates and joint ventures accounted for using the equity method | | 165,900 | 114,354 | 561,536 | 71,419 |
| Foreign exchange losses | | (5,773,708) | (8,834,344) | (36,080,596) | (23,106,960) |
| Changes in foreign exchange volatility reserve | 25 | 1,432,027 | 799,569 | 2,674,362 | 5,210,987 |
| Gains from investment property | | 7,626,814 | 13,499,327 | 10,672,640 | 15,846,375 |
| Impairment losses on investments and gains on reversal of impairment losses | | (62,008) | - | (62,762) | - |
| Gains (losses) from other investments – Net | | 4,855 | - | 439,962 | (49,950) |
| Other operating revenue | | 1,276,338 | 910 | 2,380,103 | 5,964 |
| Separate account product revenue | 4,40 | 12,426,196 | 241,625 | 19,907,630 | 6,156,767 |
| Subtotal | | 216,763,084 | 191,840,236 | 409,458,083 | 356,478,082 |
| Operating costs | 4,50 | | | | |
| Insurance claim payments | 34 | (71,769,332) | (65,655,899) | (142,711,389) | (129,109,103) |
| Deduct: Claims recovered from reinsurers | 34 | 125,262 | 48,439 | 266,135 | 101,646 |
| Retained claim payments | 34 | (71,644,070) | (65,607,460) | (142,445,254) | (129,007,457) |
| Changes in insurance liabilities | 25 | (106,009,316) | (88,688,591) | (200,250,733) | (158,639,239) |
| Changes in reserve for insurance contracts with feature of financial instruments | 25 | 35,727 | (99,534) | 52,524 | (176,175) |
| Brokerage expenses | 35 | (4,356,411) | (4,310,513) | (9,133,812) | (8,240,179) |
| Commission expenses | 35 | (3,474,260) | (4,612,923) | (8,985,222) | (7,876,418) |
| Other operating costs | | (1,538,039) | (1,346,573) | (3,205,511) | (2,458,895) |
| Finance costs | | (149,532) | (160,505) | (164,230) | (437,639) |
| Separate account product expenses | 4,40 | (12,426,196) | (241,625) | (19,907,630) | (6,156,767) |
| Subtotal | | (199,562,097) | (165,067,724) | (384,039,868) | (312,992,769) |
| Operating expenses | 4,35,50 | | | | |
| Business expenses | | (4,433,818) | (2,537,878) | (7,179,325) | (4,341,180) |
| Administrative and general expenses | | (4,249,689) | (2,240,318) | (8,381,533) | (4,406,115) |
| Employee training expenses | | (12,868) | (12,235) | (18,618) | (16,185) |
| Subtotal | | (8,696,375) | (4,790,431) | (15,579,476) | (8,763,480) |
| Operating income | | 8,504,612 | 21,982,081 | 9,838,739 | 34,721,833 |
| Non-operating income and expenses | 4,36,50 | 550,395 | 346,870 | 968,446 | 672,782 |
| Income from continuing operations before income tax | | 9,055,007 | 22,328,951 | 10,807,185 | 35,394,615 |
| Income tax expense | 4,5,38 | (3,916,913) | (5,449,565) | (2,989,607) | (6,014,343) |
| Net income from continuing operations | | 5,138,094 | 16,879,386 | 7,817,578 | 29,380,272 |
| Net income | | 5,138,094 | 16,879,386 | 7,817,578 | 29,380,272 |
| Other comprehensive income | 37 | | | | |
| Not to be reclassified to profit or loss in subsequent periods | | | | | |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods | | (1,734) | 757 | (3,058) | 757 |
| Income taxes relating to not to be reclassified to profit or loss in subsequent periods | | 295 | (129) | 520 | (129) |
| To be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | | (1,876,317) | 871,518 | (4,468,513) | (280,274) |
| Unrealized valuation gains (losses) from available-for-sale financial assets | | 6,408,132 | (26,759,764) | 7,999,738 | (22,868,669) |
| Effective portion of gains (losses) on hedging instruments in cash flow hedges | | 28,579 | 9,883 | 71,331 | 6,615 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods | | (159,581) | (227,922) | (278,252) | (221,578) |
| Income taxes relating to be reclassified to profit or loss in subsequent periods | | (231,761) | 2,839,351 | 2,150,426 | 2,168,673 |
| Other comprehensive income (losses), net of tax | | 4,167,613 | (23,266,306) | 5,472,192 | (21,194,605) |
| Total comprehensive income (losses) | | \$9,305,707 | \$(6,386,920) | \$13,289,770 | \$8,185,667 |
| Net income attributable to: | | | | | |
| Equity holders of the parent | | \$5,040,804 | \$16,759,480 | \$7,610,727 | \$29,122,350 |
| Non-controlling interests | | \$97,290 | \$119,906 | \$206,851 | \$257,922 |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the parent | | \$9,266,521 | \$(6,478,310) | \$13,290,657 | \$7,961,024 |
| Non-controlling interests | | \$39,186 | \$91,390 | \$(887) | \$224,643 |
| Basic earnings per share (in dollars) | 39 | | | | |
| Net income from continuing operations | | \$0.95 | \$3.16 | \$1.43 | \$5.49 |

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the six-month periods ended 30 June 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

| Equity attributable to equity holders of the parent | | | | | | | | | | | | | | |
|--|-------|-------------------|-----------------|-----------------------|-------------------------|----------------------------------|--|---|---|---|---------------|-------------|---------------------------|-------|
| Items | Notes | Retained earnings | | | | | Other equity | | | | | Total | Non-controlling interests | Total |
| | | Capital stock | Capital surplus | Legal capital reserve | Special capital reserve | Unappropriated retained earnings | Exchange differences resulting from translating the financial statements of foreign operations | Unrealized valuation gains from available-for-sale financial assets | Effective portion of gains on hedging instruments in cash flow hedges | Remeasurements of defined benefit plans | | | | |
| Balance on 1 January 2015 | | \$53,065,274 | \$13,029,142 | \$13,038,968 | \$174,704,226 | \$30,848,081 | \$(214,302) | \$40,253,066 | \$176,706 | \$1,514,202 | \$326,415,363 | \$1,966,533 | \$328,381,896 | |
| Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029580 | | - | - | - | (10,000,000) | 10,000,000 | - | - | - | - | - | - | - | |
| Appropriation and distribution of earnings for the year 2014 | 32 | | | | | | | | | | | | | |
| Legal capital reserve | | - | - | 6,521,315 | - | (6,521,315) | - | - | - | - | - | - | - | |
| Special capital reserve | | - | - | - | 26,327,403 | (26,327,403) | - | - | - | - | - | - | - | |
| Cash dividends on common stock | | - | - | - | - | (8,127,481) | - | - | - | - | (8,127,481) | - | (8,127,481) | |
| Net income for the six-month period ended 30 June 2015 | | - | - | - | - | 29,122,350 | - | - | - | - | 29,122,350 | 257,922 | 29,380,272 | |
| Other comprehensive income for the six-month period ended 30 June 2015 | 37 | - | - | - | - | - | (447,205) | (20,720,239) | 5,490 | 628 | (21,161,326) | (33,279) | (21,194,605) | |
| Total comprehensive income for the six-month period ended 30 June 2015 | | - | - | - | - | 29,122,350 | (447,205) | (20,720,239) | 5,490 | 628 | 7,961,024 | 224,643 | 8,185,667 | |
| Balance on 30 June 2015 | | \$53,065,274 | \$13,029,142 | \$19,560,283 | \$191,031,629 | \$28,994,232 | \$(661,507) | \$19,532,827 | \$182,196 | \$1,514,830 | \$326,248,906 | \$2,191,176 | \$328,440,082 | |
| Balance on 1 January 2016 | | \$53,065,274 | \$13,028,012 | \$19,560,283 | \$227,412,391 | \$36,498,070 | \$253,184 | \$(3,883,850) | \$371,523 | \$(397,790) | \$345,907,097 | \$2,327,656 | \$348,234,753 | |
| Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029580 | | - | - | - | (10,000,000) | 10,000,000 | - | - | - | - | - | - | - | |
| Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10502023110 | | - | - | - | (2,700,000) | 2,700,000 | - | - | - | - | - | - | - | |
| Appropriation and distribution of earnings for the year 2015 | 32 | | | | | | | | | | | | | |
| Legal capital reserve | | - | - | 7,622,904 | - | (7,622,904) | - | - | - | - | - | - | - | |
| Special capital reserve | | - | - | - | 26,324,056 | (26,324,056) | - | - | - | - | - | - | - | |
| Cash dividends on common stock | | - | - | - | - | (15,251,110) | - | - | - | - | (15,251,110) | - | (15,251,110) | |
| Changes in other capital surplus | | | | | | | | | | | | | | |
| Changes in amount of associates and joint ventures accounted for using the equity method | | - | 21 | - | - | - | - | - | - | - | 21 | - | 21 | |
| Net income for the six-month period ended 30 June 2016 | | - | - | - | - | 7,610,727 | - | - | - | - | 7,610,727 | 206,851 | 7,817,578 | |
| Other comprehensive income for the six-month period ended 30 June 2016 | 37 | - | - | - | - | - | (4,546,487) | 10,169,750 | 59,205 | (2,538) | 5,679,930 | (207,738) | 5,472,192 | |
| Total comprehensive income for the six-month period ended 30 June 2016 | | - | - | - | - | 7,610,727 | (4,546,487) | 10,169,750 | 59,205 | (2,538) | 13,290,657 | (887) | 13,289,770 | |
| Changes in non-controlling interests | 32 | - | - | - | - | - | - | - | - | - | - | 202,132 | 202,132 | |
| Balance on 30 June 2016 | | \$53,065,274 | \$13,028,033 | \$27,183,187 | \$241,036,447 | \$7,610,727 | \$(4,293,303) | \$6,285,900 | \$430,728 | \$(400,328) | \$343,946,665 | \$2,528,901 | \$346,475,566 | |

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the six-month periods ended 30 June 2016 and 2015
(Expressed in thousands of New Taiwan Dollars)

| Items | Notes | 1 January – 30 June 2016 | 1 January – 30 June 2015 |
|---|-------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Net income, before tax | | \$10,807,185 | \$35,394,615 |
| Adjustments: | | | |
| Revenue and expense items | | | |
| Depreciation | 35 | 369,268 | 330,386 |
| Amortization | 35 | 1,272,065 | 24,798 |
| Provision for bad debt expenses | | 452,297 | 222,516 |
| Net gains from financial assets and liabilities at fair value through profit or loss | | (24,231,455) | (7,448,173) |
| Net gains from available-for-sale financial assets | | (11,665,067) | (33,907,552) |
| Net gains from debt instrument investments for which no active market exists | | (5,281,860) | (9,089,296) |
| Net gains from held-to-maturity financial assets | | - | (4) |
| Interest expenses | | 27,378 | 24,686 |
| Interest income | | (63,703,202) | (53,235,426) |
| Dividend income | | (7,027,174) | (5,866,753) |
| Changes in insurance liabilities | | 180,771,089 | 144,204,843 |
| Changes in reserve for insurance contracts with feature of financial instruments | | (28,422,030) | (530,926) |
| Changes in foreign exchange volatility reserve | | (2,674,362) | (5,210,987) |
| Share of the gains of associates and joint ventures accounted for using the equity method | | (561,536) | (71,419) |
| (Gains) losses on disposal or scrapping of property and equipment | | (242,536) | 135 |
| Gains on disposal of investment property | | (860,045) | (293) |
| Impairment losses on financial assets | | 62,762 | - |
| Gains on valuation of investment property | | (4,247,566) | (11,311,350) |
| Subtotal | | <u>34,038,026</u> | <u>18,135,185</u> |
| Changes in operating assets and liabilities | | | |
| Decrease in financial assets at fair value through profit or loss | | 55,887,048 | 52,396,953 |
| (Increase) decrease in derivative financial assets for hedging | | (1,405) | 1,781 |
| Decrease in available-for-sale financial assets | | 40,352,415 | 40,998,745 |
| Increase in debt instrument investments for which no active market exists | | (116,735,184) | (163,430,535) |
| Decrease (increase) in held-to-maturity financial assets | | 481,159 | (301,768) |
| Decrease (increase) in premiums receivable | | 33,254 | (4,890) |
| Decrease in notes receivable | | 579,605 | 429,901 |
| (Increase) decrease in other accounts receivable | | (11,387,077) | 373,402 |
| (Increase) decrease in prepaid expenses and other prepayments | | (2,419,301) | 187 |
| Increase in guarantee deposits paid | | (2,323,038) | (3,371,043) |
| Increase in reinsurance assets | | (165,840) | (265,079) |
| Decrease in other financial assets | | 8,500,000 | 6,300,000 |
| Decrease (increase) in other assets | | 1,701,303 | (950,893) |
| Decrease in financial liabilities at fair value through profit or loss | | (77,170,946) | (65,128,914) |
| Increase (decrease) in notes payable | | 2,268 | (3) |
| Increase in life insurance proceeds payable | | 44,036 | 36,260 |
| Increase in other payables | | 48,777,686 | 9,533,387 |
| (Decrease) increase in due to reinsurers and ceding companies | | (235,423) | 123,645 |
| (Decrease) increase in commissions payable | | (546,707) | 201,565 |
| Decrease in accounts collected in advance | | (183,862) | (70,543) |
| Increase in guarantee deposits received | | 38,339 | 23,654 |
| Decrease in provisions | | (38,647) | - |
| Decrease in deferred handling fees | | (7,356) | (8,293) |
| Decrease in other liabilities | | (1,803,024) | (2,124,519) |
| (Decrease) increase in provision for employee benefits | | (4,200,353) | 62,191 |
| Subtotal | | <u>(60,821,050)</u> | <u>(125,174,809)</u> |
| Cash used in operating activities | | | |
| Interest received | | 57,835,376 | 47,326,672 |
| Dividends received | | 7,216,454 | 6,111,768 |
| Interest paid | | (44,846) | (42,429) |
| Income taxes received | | 75,467 | 1,758,773 |
| Net cash provided by (used in) operating activities | | <u>49,106,612</u> | <u>(16,490,225)</u> |
| Cash flows from investing activities | | | |
| Acquisition of investments accounted for using the equity method | | (616,752) | (19,501,951) |
| Acquisition of subsidiaries (net of cash received) | 41 | (4,708,708) | - |
| Disinvestment of investments accounted for using the equity method | | 47,811 | - |
| Acquisition of property and equipment | | (2,683,302) | (124,898) |
| Disposal of property and equipment | | 267,228 | 115 |
| Acquisition of intangible assets | | (29,507) | (24,931) |
| Decrease in loans | | 18,945,724 | 28,999,206 |
| Acquisition of investment property | | (1,412,340) | (31,853,177) |
| Disposal of investment property | | 1,068,000 | 3,200 |
| Net cash provided by (used in) investing activities | | <u>10,878,154</u> | <u>(22,502,436)</u> |
| Cash flows from financing activities | | | |
| Increase in notes and bonds with repurchase agreement | | 249,925 | 64,503 |
| Cash dividends paid | | (15,251,110) | (8,127,481) |
| Net cash used in financing activities | | <u>(15,001,185)</u> | <u>(8,062,978)</u> |
| Effects of exchange rate changes on cash and cash equivalents | | | |
| Increase (decrease) in cash and cash equivalents | | 1,321,175 | (560,444) |
| Increase (decrease) in cash and cash equivalents | | 46,304,756 | (47,616,083) |
| Cash and cash equivalents at the beginning of the periods | | 140,897,419 | 333,112,783 |
| Cash and cash equivalents at the end of the periods | | <u>\$187,202,175</u> | <u>\$285,496,700</u> |

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements

For the six-month periods ended 30 June 2016 and 2015

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

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 23 October 1962, under the provisions of the Company Act of the Republic of China (“R.O.C.”). The Company mainly engages in the business of life insurance. On 31 December 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holdings”) by adopting the stock conversion method under the R.O.C. Financial Holding Company Act and other pertinent acts of the R.O.C. in order to benefit from synergistic operation and enhance the Company’s competitiveness in the financial market. The Company’s registered office and the main business location is at No. 296, Jen Ai Road, Section 4, Taipei, Republic of China (R.O.C.).

The Company has participated and won the public auction, which is held by Taiwan Insurance Guaranty Fund, for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. The Company entered into the acquisition contract on 27 March 2015. The Company assumed all assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd., except for their reserved assets and liabilities on 1 July 2015. Upon obtaining approval from the competent authorities, the Company started business on 5 August 2015 following receiving permits and business license for its offshore insurance unit.

The parent company and ultimate parent company of the Company is Cathay Financial Holdings.

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

The consolidated financial statements of the Company and its subsidiaries (“the Company and Subsidiaries”) for the six-month periods ended 30 June 2016 and 2015 were authorized to issue in accordance with resolution of the Company’s board of directors on 17 August 2016.

3. Newly issued or revised standards and interpretations

(1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Company and Subsidiaries at the date of issuance of the Company and Subsidiaries’ financial statements are listed below:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

A. 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. The amendment is effective for annual periods beginning on or after 1 January 2014.

B. 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). The interpretation is effective for annual periods beginning on or after 1 January 2014.

C. 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 novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

D. 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. The amendment is effective for annual periods beginning on or after 1 July 2014.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

E. Improvements to International Financial Reporting Standards (2010–2012 cycle)

IFRS 2 Share-based Payment

The annual improvements amend the definitions of “vesting condition” and “market condition” and add definitions for “performance condition” and “service condition” (which were previously part of the definition of “vesting condition”). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 Business Combinations

The amendments include: a. deleting the reference to “other applicable IFRSs” in the classification requirements; b. deleting the reference to “IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or other IFRSs as appropriate”, other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; c. amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 Operating Segments

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

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.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

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 net carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 24 Related Party Disclosures

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

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 net carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

F. *Improvements to International Financial Reporting Standards (2011–2013 cycle)*

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

IFRS 3 Business Combinations

This amendment clarifies that paragraph 2(a) of IFRS 3 *Business Combinations* excludes the formation of all types of joint arrangements as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

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*. The amendment is effective for annual periods beginning on or after 1 July 2014.

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. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. IFRS 14 Regulatory Deferral Accounts

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

H. IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “*Business Combinations*”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

I. IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – *Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

J. IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* – *Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

K. IAS 27 *Separate Financial Statements* – *Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity's separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions. The amendment is effective for annual periods beginning on or after 1 January 2016.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

L. Improvements to International Financial Reporting Standards (2012–2014 cycle)

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

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*. The amendment is effective for annual periods beginning on or after 1 January 2016.

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. The amendment is effective for annual periods beginning on or after 1 January 2016.

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. The amendment is effective for annual periods beginning on or after 1 January 2016.

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

M. Disclosure Initiative – Amendment to IAS 1 *Presentation of Financial Statements*

The amendments contain a. 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, b. 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, c. 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, d. 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 e. 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. The amendment is effective for annual periods beginning on or after 1 January 2016.

N. 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*

The amendments contain a. clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, b. clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and c. allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

The abovementioned standards and interpretations issued by International Accounting Standards Board (“IASB”) and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. The Company and Subsidiaries are currently determining the potential impact of the standards and interpretations.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

- (2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Company and Subsidiaries' financial statements are listed below:

A. IFRS 15 Revenue from Contracts with Customers

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

B. 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 assets' 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.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

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.

The new standard is effective for annual periods beginning on or after 1 January 2018.

C. 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*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

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

D. IFRS 16 *Leases*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

E. IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after 1 January 2017.

F. Disclosure Initiative – Amendment to IAS 7 *Statement of Cash Flows*

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendment is effective for annual periods beginning on or after 1 January 2017.

G. IFRS 15 *Revenue from Contracts with Customers* – Clarifications to IFRS 15

The amendment clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendment is effective for annual periods beginning on or after 1 January 2018.

H. IFRS 2 *Shared-Based Payment* – Amendments to IFRS 2

The amendment contains a. clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, b. clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and c. clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2018.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Company and Subsidiaries' financial statements, the local effective dates are to be determined by FSC. The Company and Subsidiaries are currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the six-month periods ended 30 June 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and IAS 34 *Interim Financial Reporting* as recognized by the FSC.

(2) Basis of preparation

The consolidated 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 consolidated financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- A. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. Exposure, or rights, to variable returns from its involvement with the investee, and
- C. The ability to use its power over the investee to affect its returns

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. The contractual arrangement with the other vote holders of the investee
- B. Rights arising from other contractual arrangements
- C. The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. Derecognizes the carrying amount of any non-controlling interest;
- C. Recognizes the fair value of the consideration received;
- D. Recognizes the fair value of any investment retained;
- E. Recognizes any surplus or deficit in profit or loss; and
- F. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

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Notes to consolidated financial statements-continued

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The consolidated entities are listed as follows:

| Investors | Investees | Business | Ownership interest | | |
|-----------------------------|---|---------------------------------------|--------------------|------------|-----------|
| | | | 2016.6.30 | 2015.12.31 | 2015.6.30 |
| The Company | Cathay Lujiazui Life Insurance Co., Ltd. (“Cathay Lujiazui Life”) | Life insurance | 50.00 | 50.00 | 50.00 |
| The Company | Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”) | Life insurance | 100.00 | 100.00 | 100.00 |
| The Company | Lin Yuan (Shanghai) Real Estate Co., Ltd. (“Lin Yuan”) | Office equipment leasing | 100.00 | 100.00 | 100.00 |
| The Company | Cathay Woolgate Exchange Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 |
| The Company | Cathay Woolgate Exchange Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 |
| The Company | Cathay Walbrook Holding 1 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 |
| The Company | Cathay Walbrook Holding 2 Limited | Real estate investment and management | 100.00 | 100.00 | 100.00 |
| The Company | Conning Holdings Limited | Holding company | 100.00 | 100.00 | - |
| Conning Holdings Limited | Conning U.S. Holdings, Inc. | Holding company | 100.00 | 100.00 | - |
| Conning Holdings Limited | Conning Asset Management Ltd. | Asset management services | 100.00 | 100.00 | - |
| Conning Holdings Limited | Conning (Germany) GmbH | Risk management software services | 100.00 | 100.00 | - |
| Conning Holdings Limited | Conning Asia Pacific Ltd. (Note 1) | Asset management services | 50.00 | 50.00 | - |
| Conning Holdings Limited | Conning Japan Ltd. | Asset management services | 100.00 | 100.00 | - |
| Conning U.S. Holdings, Inc. | Conning Holdings Corp. | Holding company | 100.00 | 100.00 | - |
| Conning Holdings Corp. | Conning Holdco (UK) Ltd. (Note 2) | Holding company | - | 100.00 | - |
| Conning Holdings Corp. | Conning & Company | Holding company | 100.00 | 100.00 | - |
| Conning & Company | Conning Inc. | Asset management services | 100.00 | 100.00 | - |
| Conning & Company | Goodwin Capital Advisers, Inc. | Asset management services | 100.00 | 100.00 | - |
| Conning & Company | Conning Investment Products, Inc. | Securities services | 100.00 | 100.00 | - |
| Conning & Company | Octagon Credit Investors, LLC | Investment consulting services | 82.06 | - | - |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| Investors | Investees | Business | Ownership interest | | |
|-------------------------------|---|--------------------------|--------------------|------------|-----------|
| | | | 2016.6.30 | 2015.12.31 | 2015.6.30 |
| Octagon Credit Investors, LLC | Octagon Multi-Strategy Corporate Credit GP, LLC | Fund management services | 100.00 | - | - |
| Octagon Credit Investors, LLC | Octagon Funds GP LLC | Fund management services | 100.00 | - | - |
| Octagon Credit Investors, LLC | Octagon Funds GP II LLC | Fund management services | 100.00 | - | - |

Note 1: Cathay Conning Asset Management Ltd. has been renamed as Conning Asia Pacific Ltd. on 18 April 2016.

Note 2: Conning Holdco (UK) Ltd. started its liquidation process on 18 December 2015 and finalized the process on 29 March 2016.

The consolidated financial statements exclude the following:

| Investors | Investees | Business | Ownership interest | | | Notes |
|-------------|---|---|--------------------|------------|-----------|---|
| | | | 2016.6.30 | 2015.12.31 | 2015.6.30 | |
| The Company | Cathay Insurance (Bermuda) Co., Ltd. | Class 3 general business insurers and Class C long-term insurer | 100.00 | 100.00 | 100.00 | The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company. |
| The Company | Cathay Securities Investment Consulting Co., Ltd. | Securities investment consulting services | 100.00 | 100.00 | 100.00 | The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company. |
| The Company | Cathay Insurance Company Limited (China) | Properties insurance | 50.00 | 50.00 | 50.00 | Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. Due to the lack of actual ability of controlling, the Company does not include Cathay Insurance (China) in the consolidated financial statements. |

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Notes to consolidated financial statements-continued

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(4) Foreign currency transactions

The Company and Subsidiaries' consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Company and Subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange prevailing at the reporting date and the resulting exchange differences are recognized in profit or loss for the period. 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 measured. When a gain or loss on the non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss. When a gain or loss on the non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(5) Translation of financial statements in foreign currency

While preparing the Company and Subsidiaries' consolidated financial statements, the assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The partial disposals are accounted for as disposals when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation and when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company and Subsidiaries classify 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.

(7) Financial assets and liabilities

Initial recognition and subsequent measurement

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”, “derivative financial assets for hedging”, “held-to-maturity financial assets” and “loans and receivables”. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”.

The Company and Subsidiaries classify the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

All regular way purchases or sales of financial assets are recorded using trade date accounting.

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

A. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value with changes in fair value 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:

- a. Financial asset 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 asset for the foreseeable future or until maturity.
- b. 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.

B. Available-for-sale financial assets

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

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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 in profit or loss over the remaining life of the asset.

C. Derivative financial assets and liabilities for hedging

Derivative financial assets or liabilities that have been designated in hedge accounting and are effective hedging instruments are measured at fair value.

D. Held-to-maturity financial assets

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

E. 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:

- a. Those that the Company and Subsidiaries intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- b. Those that the Company and Subsidiaries upon initial recognition designate as available for sale; or
- c. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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Loans and receivables are separately presented on the balance sheet as receivables or debt instrument 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.

Secured loans shall be measured at amortized cost using the effective interest method; however, they need not be discounted if the effect of discounting is immaterial.

F. Financial liabilities

Financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging, which are measured at fair value.

Derecognition of financial assets and liabilities

A. Financial assets

The Company and Subsidiaries derecognize financial assets when the contractual rights to the cash flows from the assets expire or when it transfers substantially all the risks and rewards of ownership of the asset.

Securities lending transactions and repurchase agreements do not result in derecognition because the Company and Subsidiaries have nearly retained all such risks and rewards.

B. Financial liabilities

The Company and Subsidiaries remove all or part of a financial liability 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.

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Reclassification of financial assets

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*:

- A. The Company and Subsidiaries shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.
- B. The Company and Subsidiaries shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the Company and Subsidiaries as at fair value through profit or loss.
- C. The Company and Subsidiaries shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.
- D. If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.
- E. If, during the current financial year or during the two preceding financial years, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

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.

Impairment of financial assets

The Company and Subsidiaries assess 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 financial asset and that loss event has an impact on the estimated future cash flows of the financial 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.

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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:

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

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

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

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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:

- A. 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, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.
- B. 1% of the ending balance for all the five categories of loan assets excluding life insurance loans, automatic premium loans and holding government debts.
- C. Total unsecured portion of loans overdue and receivable on demand.

Pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall increase its allowance for bad debt to loans ratio to at least 1.5% and therefore enhance its ability against specific loan loss exposure. The Company will meet the requirement by the end of 2016.

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.

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Derivative financial instruments and hedge accounting

The Company and Subsidiaries engage in derivative financial instrument transactions, such as currency forward 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.

Any gains or losses arising from changes in fair value of derivatives that no longer meets the criteria for hedge accounting are taken directly to profit or loss for the period.

Hedging relationships consist of three types:

- A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.
- B. Cash flow hedges: a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.
- C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

At the inception of a hedge relationship, the Company and Subsidiaries formally designate and document hedge relationship to which the Company and Subsidiaries wish to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company and Subsidiaries assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated for the hedge.

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Hedges in compliance with hedge accounting requirements as mentioned above are accounted for as follows:

A. Fair value hedges

Fair value hedges is a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss. The carrying amount of the hedged item is adjusted and gain or loss attributable to the hedged risk is recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with the IAS 21 *The Effects of Changes in Foreign Exchange Rates* (for a non-derivative hedging instrument) is recognized in profit or loss.

For a hedged interest-bearing financial instrument, the adjustment arising from above paragraph to its carrying amount is amortized to profit or loss based on an effective interest rate over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be subject to hedge accounting.

B. Cash flow hedges

Cash flow hedges is a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or with a highly probable forecast transaction and could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses initially recognized in other comprehensive income shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

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If the forecast transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that has been recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, the cumulative gain or loss that was previously recognized in equity remains in other comprehensive income until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

C. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognized in other comprehensive income, while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative gains or losses recognized in other comprehensive income is transferred to profit or loss.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company and Subsidiaries.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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The Company and Subsidiaries use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Investments accounted for using the equity method

Investment in the associate of the Company and Subsidiaries is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company and Subsidiaries have significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company and Subsidiaries' share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company and Subsidiaries have incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and Subsidiaries and the associate or joint venture are eliminated to the extent of the Company and Subsidiaries' related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and are not those recognized in profit or loss or other comprehensive income and do not affect the Company and Subsidiaries' percentage of ownership interests in the associate or joint venture, the Company and Subsidiaries recognize such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock and the Company and Subsidiaries' interest in an associate or a joint venture is reduced or increased as the Company and Subsidiaries fail to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in capital surplus and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company and Subsidiaries dispose of the associate or joint venture.

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The financial statements of the associate or joint venture are prepared for the same reporting period as the Company and Subsidiaries. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company and Subsidiaries.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the Company and Subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognize the amount in the “share of profit or loss of an associate” in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment’s value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

- A. Future cash flows that the Company and Subsidiaries expect to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate or joint venture and from the ultimate disposal of such investment, or
- B. Present value of the future cash flows from dividends expected to be received from the associate or joint venture and from the disposal of the investment.

Because goodwill is included as part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Company and Subsidiaries measure and recognize any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

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(10) 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 and Subsidiaries recognize 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 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 | 5~70 years |
| Computer equipment | 3~5 years |
| Communication and transportation equipment | 3~5 years |
| Other equipment | 3~15 years |
| Leasehold improvements | 5 years or lease term |
| Leased assets | 3 years |

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.

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(11) Investment property

Investment properties are measured initially recognized 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. Subsequent to initial recognition, 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*.

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.

(12) Leases

The Company and Subsidiaries as a lessee

Finance leases which transfer to the Company and Subsidiaries 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 and Subsidiaries 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.

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The Company and Subsidiaries as a lessor

Leases in which the Company and Subsidiaries do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

The depreciation policy for depreciable leased assets is consistent with the Company and Subsidiaries' normal depreciation policy for similar assets, and depreciation is calculated in accordance with IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*.

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(13) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. 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.

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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.

Franchises: the franchises were acquired in business combination. The franchises value is amortized on a straight-line basis over the useful life (6.5 and 20 years).

Customer relationships: customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 14 years).

Computer software: the cost of computer software is amortized on a straight-line basis over the estimated useful life (3 years).

Other intangible assets: other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 8 years).

(14) Impairment of non-financial assets

The Company and Subsidiaries assess 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 and Subsidiaries estimate 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.

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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 and Subsidiaries estimate 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.

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it first reduces the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(15)Guaranteed depository insurance payment

A. The Company

According to Article 141 of the R.O.C. Insurance Act (the "Insurance Act"), an amount equal to 15% of the Company's capital stock must be deposited in the form of a bond with the Central Bank of the Republic of China (the "Central Bank") as the "Guaranteed Depository Insurance".

B. Cathay Lujiazui Life

Per the China Insurance Regulatory Commission, an amount equal to 20% of the capital must be deposited in the form of time deposits as deposit for capital recognizance.

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C. Cathay Life (Vietnam)

Per the Ministry of Finance of the Socialist Republic of Vietnam (“Vietnam”), an amount equal to 2% of the legal capital must be deposited in the form of time deposits as deposit for capital recognizance.

(16) Insurance liabilities, reserve for insurance contracts with feature of financial instruments and foreign exchange volatility reserve

A. The Company

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 FSC. 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.

a. 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.

b. Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid 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.

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c. 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, life insurance reserve is calculated and recognized according to the calculation method provided in Article 12 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, the manual of each insurance product reported to the competent authority and the relevant calculation methods approved by the competent authority.

Starting from policy year 2003, for valid insurance contract whose bonus calculation is stipulated by the regulations established by the competent authorities, the downward adjustments of bonus due to the offset between mortality gain (loss) and gain (loss) from difference of interest rates should be calculated and recognized according to the regulations provided by the competent authorities.

In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102500530 announced on 19 January 2012, life insurance enterprises shall reclassify allowance for doubtful account originally recognized in special reserve to “life insurance reserve – allowance for doubtful account pertinent to 3% of business tax cut” account. The allowance was recognized as a result of the 3% business tax cut. Also, life insurance enterprises shall reclassify the recoverable special reserve for major incidents defined in Article 19 of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” to “life insurance reserve – recover from major incident reserve” account.

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 and decrease retained earnings. 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.

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d. Special reserve

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 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 \$30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

(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% 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 total amount of special reserves for fluctuation of risks is not enough to be written down, special reserve for major incidents for other types of insurance can be used. Also, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose. When accumulative dollar amount of special reserve for fluctuation of risks exceeds 30% of self-retention earned premium within one year, the exceeded amount will be recovered. To promote the sustainable development of insurance industry, the authority may designate or restrict the use of the recovered amount. The post-tax amount of written-down or recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for fluctuation of risks under equity.

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

- (B) 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.
- (C) According to Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, if there are increments after estimating property in fair value, in addition to offsetting adverse effects of the first-time adoption of TIFRS on other accounts, the excess should be recognized as special reserve for revaluation increments of property under liabilities.

According to the regulations established by the authorities on 30 November 2012, the aforementioned special reserve for revaluation increments of property can be transferred to the reserve for life insurance liabilities – fair value of insurance contract liabilities after strengthening the reserve for life insurance liabilities calculated based on the regulations established by the authorities on 27 November 2012. If there is excess, 80% of it can be recovered in the first year or next five years and reserved to special capital reserve under equity. The amount which can be recovered and reserved to special capital reserve under equity each year, is limited to \$10 billion.

e. Premium deficiency reserve

For the contracts over one year of life insurance, health insurance, or annuities contracts 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 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. Also, the premium deficiency reserve of each life insurance category should be calculated and recorded according to the specific method reported to the competent authority.

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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.

f. Other reserve

Pursuant to IFRS 3 *Business Combinations*, the Company and Subsidiaries will recognize other reserve in a business combination to reflect the fair value of life insurance contract assumed as long as the identifiable assets and assumed liabilities acquired from the business combination are recognized at fair value.

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

Reserve for non-separate account insurance product that is also classified as financial products without discretionary participation features follows “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and Depository Accounting.

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is \$4,511,406 thousand which was appropriated 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”. As of 30 June 2016, the amount set aside was \$13,352,087 thousand.

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j. Liability adequacy test

Liability adequacy test is based on integrated insurance contract and related regulations following “ASP of IFRS 4 – *Contract classification and liability adequacy test*”. This test compares reserve for insurance contract net with deferred acquisition cost and related intangible assets and anticipated present value of insurance contract cash flow at each reporting date. If net book value is insufficient, recognize all insufficient amounts as expense and loss at that period is applicable.

B. Cathay Lujiazui Life

In accordance with the Insurance Act of the People’s Republic of China, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

C. Cathay Life (Vietnam)

In accordance with the Insurance Act of Vietnam, the insurance liabilities (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

(17) Insurance premium income and expenses

A. The Company

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”.

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For separate account insurance product that is also classified as financial products without discretionary participation features, the balance of insurance revenue collected less preprocess expense or investment management fee, etc., is fully recognized on the balance sheet as separate account product liabilities. In terms of the investment management related deferred acquisition costs such as commissions and incremental costs directly attributable to the issue of new type of contracts, the amount is recognized on the balance sheet as “deferred acquisition costs” and amortized on a straight-line basis over the service period. The amortization is recognized as an expense under “other operating costs”.

B. Cathay Lujiazui Life

In accordance with “The General Accounting System for Insurance Companies” issued by local government, Cathay Lujiazui Life records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on accrual basis.

C. Cathay Life (Vietnam)

In accordance with the local government’s accounting guidance applicable to insurance companies, Cathay Life (Vietnam) records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on accrual basis.

(18) 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 and Subsidiaries’ definition of a significant insurance risk refers to any insured event that occurs and causes the Company and Subsidiaries 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.

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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 and Subsidiaries, the Company and Subsidiaries 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 and Subsidiaries' 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 and Subsidiaries hold return on investment from a portfolio of specific assets.
 - c. Profit and loss from the Company and Subsidiaries, 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 and Subsidiaries will not need to separately list the embedded derivative product and the insurance contract.

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(19) Reinsurance

The Company and Subsidiaries limit 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 and Subsidiaries may not refuse to fulfill its obligations to the insured because the re-insurer fails to fulfill their responsibility.

The Company and Subsidiaries hold 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 and Subsidiaries 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 and Subsidiaries 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 and Subsidiaries assess 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 and Subsidiaries 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 and Subsidiaries receive (or pay) 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) Provisions

Provisions are recognized when the Company and Subsidiaries have 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 and Subsidiaries expect 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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(21) Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Company and Subsidiaries' consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the projected unit credit method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. The date of the plan amendment or curtailment, and
- B. The date that the Company recognizes restructuring-related costs.

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

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.

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(22) Income taxes

Income tax expense (benefit) is the aggregate amount in respect of current tax and deferred tax. Current and deferred tax shall be recognized as income or an expense and included in profit or loss for the period, except for the extent that 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.

A. Current income tax

Current income tax is the amount of current income tax liabilities (assets) in respect of the taxable profit (tax loss) for the current period and any adjustments recognized in the period for income taxes payable of prior periods.

Current income tax for the current 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.

The 10% surtax on undistributed retained earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved at the shareholders' meeting.

B. 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 liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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. 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.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on undistributed retained earnings since 2002 under the integrated income tax system. If there is any tax effect due to the adoption of the foregoing integrated income tax system, the parent company can proportionately allocate the effects on tax expense (benefit). Such effects on current tax and deferred tax are accounted for as receivables or payables.

(23) Separate account products

The Company and Subsidiaries sell separate account 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. In accordance with the relevant regulations, the value of these specific accounts is determined based on their fair value on the applicable date.

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In accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, assets and liabilities under the dedicated book, whether arising from an insurance contract or insurance policy with features of financial instruments, are to be accounted for separately as “separate account product assets” and “separate account product liabilities”. To record related revenue and expenditures, this method is consistent with the definition of income and expenses of separate account insurance products in IFRS 4 *Insurance Contracts*, separately recognizing as “separate account product revenue” and “separate account product expenses”.

(24) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company and Subsidiaries acquire a business, they assess the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company and Subsidiaries’ cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company and Subsidiaries at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

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Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Company and Subsidiaries' consolidated 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 assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

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

A. Categories of financial assets

The management has to use their judgment to categorize financial assets. Different categories apply different measurements, which could have a significant effect on the Company and Subsidiaries' financial position and performance.

B. Investment property

Certain properties of the Company and Subsidiaries comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Company and Subsidiaries account for the portions separately as investment property and property and equipment. If the portions could not be sold separately, the property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

C. Operating lease commitment – the Company and Subsidiaries as the lessor

The Company and Subsidiaries have entered into commercial property leases on its investment property portfolio. The Company and Subsidiaries have 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.

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(2) 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:

A. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Company and Subsidiaries adopt pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

B. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including earning value method (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.

C. Impairment of non-financial assets

An 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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flow is projected based on reasonable assumptions of the cash-generating unit and do not include restructuring activities that the Company and Subsidiaries are 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.

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D. Post-employment 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 and future salary increases.

E. 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 reflects 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.

Best 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.

F. Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, 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 and Subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which they operate. 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. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

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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.

6. Cash and cash equivalents

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|----------------------------------|----------------------|----------------------|----------------------|
| Cash on hand and revolving funds | \$243,154 | \$212,510 | \$223,445 |
| Cash in banks | 83,013,013 | 81,012,500 | 74,606,160 |
| Time deposits | 69,335,395 | 50,258,153 | 167,527,177 |
| Cash equivalents | 34,610,613 | 9,414,256 | 43,139,918 |
| Total | <u>\$187,202,175</u> | <u>\$140,897,419</u> | <u>\$285,496,700</u> |

7. Receivables

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---------------------------------|---------------------|---------------------|---------------------|
| Notes receivable – Net | \$1,490,986 | \$2,070,591 | \$1,703,273 |
| Premium receivable – Net | 48,137 | 81,392 | 58,621 |
| Other receivable – Net | | | |
| Other receivable | 75,646,215 | 58,212,211 | 55,042,591 |
| Less: Allowance for bad debts – | | | |
| Other receivable | (6,879) | (6,031) | (6,332) |
| Overdue receivable | 9,796 | 74,464 | 71,996 |
| Less: Allowance for bad debts – | | | |
| Overdue receivable | (9,788) | (74,464) | (71,996) |
| Total | <u>\$77,178,467</u> | <u>\$60,358,163</u> | <u>\$56,798,153</u> |

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

| | Individually impaired | Collectively impaired | Total |
|--|--------------------------|--------------------------|-----------------|
| 1 January 2016 | \$78,971 | \$1,524 | \$80,495 |
| Charge (reversal) for the current period | 11,151 | (1,351) | 9,800 |
| Write off | (73,628) | - | (73,628) |
| 30 June 2016 | <u>\$16,494</u> | <u>\$173</u> | <u>\$16,667</u> |

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| | Individually impaired | Collectively impaired | Total |
|-------------------------------|--------------------------|--------------------------|----------|
| 1 January 2015 | \$77,004 | \$229 | \$77,233 |
| Charge for the current period | 8,307 | 598 | 8,905 |
| Write off | (7,810) | - | (7,810) |
| 30 June 2015 | \$77,501 | \$827 | \$78,328 |

8. Financial assets at fair value through profit or loss

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|----------------------------------|--------------|------------------|--------------|
| Held for trading | | | |
| Domestic stocks | \$6,349,722 | \$5,174,833 | \$8,714,529 |
| Beneficiary certificates | 7,382,583 | 12,972,566 | 20,201,465 |
| Exchange traded funds | 433,567 | - | - |
| Overseas bonds | 1,614,311 | 349,821 | 349,073 |
| Corporate bonds | 1,585,904 | 1,969,360 | 2,386,003 |
| Government bonds | 447,539 | 154,478 | - |
| Derivative financial instruments | 23,734,399 | 12,799,700 | 6,932,345 |
| Structured time deposits | 2,314,913 | 2,483,485 | 2,301,547 |
| Total | \$43,862,938 | \$35,904,243 | \$40,884,962 |

The financial assets at fair value through profit or loss held by the Company and Subsidiaries were not pledged.

9. Available-for-sale financial assets

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|-----------------|------------------|-----------------|
| Domestic stocks | \$335,755,894 | \$306,852,065 | \$314,154,542 |
| Overseas stocks | 220,966,547 | 215,475,381 | 188,430,556 |
| Beneficiary certificates | 245,844,371 | 267,380,457 | 187,503,106 |
| Asset-backed securities | - | - | 574,746 |
| Exchange traded funds | 4,046,438 | 2,665,701 | 959,340 |
| Real estate investment trust | 16,523,027 | 12,203,888 | 11,657,562 |
| Financial debentures | 62,860,590 | 67,768,552 | 85,196,492 |
| Corporate bonds | 17,322,316 | 18,419,869 | 27,140,030 |
| Government bonds | 156,915,116 | 173,894,351 | 177,529,936 |
| Overseas bonds | 261,440,452 | 278,198,408 | 285,194,569 |
| Subtotal | 1,321,674,751 | 1,342,858,672 | 1,278,340,879 |
| Less: Litigation deposits | (131,151) | (541,163) | (40,009) |
| Less: Securities serving as deposits paid-bonds | (1,930,116) | (1,953,653) | (2,152,215) |
| Total | \$1,319,613,484 | \$1,340,363,856 | \$1,276,148,655 |

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An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by the Company and Subsidiaries. As of 30 June 2016, 31 December 2015 and 30 June 2015, the Company and Subsidiaries recognized impairment losses amounting to \$202,272 thousand, \$153,884 thousand and \$914,621 thousand, respectively.

The available-for-sale financial assets held by the Company and Subsidiaries were not pledged.

10. Derivative financial assets for hedging

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|-----|--------------|------------------|--------------|
| IRS | \$520,063 | \$447,326 | \$217,733 |

The derivative financial assets for hedging held by the Company and Subsidiaries were not pledged.

11. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

| Investees | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|--------------|------------------|--------------|
| Cathay Insurance (Bermuda) Co., Ltd. | \$125,838 | \$129,945 | \$120,510 |
| Cathay Securities Investment Consulting Co., Ltd. | 195,358 | 225,526 | 178,174 |
| Total | \$321,196 | \$355,471 | \$298,684 |

(2) Investments in associates:

| Investees | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|--|--------------|------------------|--------------|
| WK Technology Fund VI Co., Ltd. | \$163,431 | \$217,290 | \$269,885 |
| IBT Venture Capital Corp. | 3,915 | 4,061 | 3,965 |
| Da Sheng Venture Inc. | 1,437,935 | 1,490,706 | 1,274,866 |
| Symphox Information Co., Ltd. | 430,206 | 455,088 | 431,189 |
| Cathay Insurance Company Limited (China) | 159,303 | 325,384 | 527,794 |
| Rizal Commercial Banking Corporation | 13,873,131 | 13,459,290 | 12,895,582 |
| PT Bank Mayapada Internasional Tbk | 6,033,911 | 5,822,498 | 5,112,894 |
| CMG International One Co., Ltd. | 675,638 | 675,371 | 675,059 |
| CMG International Two Co., Ltd. | 674,987 | 675,381 | 675,059 |
| CM Energy Co., Ltd. | 13,481 | 13,500 | - |
| KHL IV Venture Capital Co. Ltd. | 366,817 | - | - |
| Total | \$23,832,755 | \$23,138,569 | \$21,866,293 |

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The Company and Subsidiaries' investments in associates are not significant. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of investments in associates accounted for using the equity method amounted to \$23,832,755 thousand, \$23,138,569 thousand and \$21,866,293 thousand, respectively. The aggregate amount of the Company and Subsidiaries' share of the investments in associates is as follows:

| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--|--|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net profit from continuing operations | \$137,297 | \$94,724 | \$507,450 | \$28,454 |
| Other comprehensive losses, net of tax | (161,273) | (225,878) | (278,263) | (218,264) |
| Total comprehensive (losses) income | \$(23,976) | \$(131,154) | \$229,187 | \$(189,810) |

The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to \$21,705,269 thousand and \$19,793,748 thousand, as at 30 June 2016 and 2015, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to \$242,522 thousand and \$201,390 thousand for the three-month periods ended 30 June 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(113,611) thousand and \$(217,519) thousand for the three-month periods ended 30 June 2016 and 2015, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to \$687,716 thousand and \$203,864 thousand for the six-month periods ended 30 June 2016 and 2015, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to \$(225,446) thousand and \$(207,731) thousand for the six-month periods ended 30 June 2016 and 2015, respectively. The Company and Subsidiaries believe that no significant influence would arise from the abovementioned unaudited investments accounted for using the equity method.

The investments accounted for using the equity method held by the Company and Subsidiaries were not pledged.

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12. Debt instrument investments for which no active market exists

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|------------------------|-------------------------|------------------------|
| Domestic stocks | \$3,664,644 | \$6,034,287 | \$7,034,287 |
| Overseas stocks | 3,251 | 3,330 | - |
| Corporate bonds | 8,411,740 | 9,514,114 | 6,800,193 |
| Financial debentures | 35,998,523 | 38,015,157 | 33,699,833 |
| Overseas bonds | 1,914,317,739 | 1,783,892,289 | 1,375,870,819 |
| Time deposits | 895,424 | 3,713,528 | 4,096,247 |
| Trust beneficiary right of real estate | 300,000 | 300,000 | 200,000 |
| Asset-backed securities | 1,386,000 | 1,487,573 | 1,386,000 |
| Total | <u>\$1,964,977,321</u> | <u>\$1,842,960,278</u> | <u>\$1,429,087,379</u> |

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 30 June 2016, 31 December 2015 and 30 June 2015, the Company and Subsidiaries recognized impairment losses amounting to \$419,718 thousand, \$429,858 thousand and \$403,910 thousand, respectively.

The debt instrument investments for which no active market exists held by the Company and Subsidiaries were not pledged.

13. Held-to-maturity financial assets

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|---|---------------------|-------------------------|---------------------|
| Corporate bonds | \$2,697,025 | \$2,696,862 | \$2,696,700 |
| Government bonds | 30,869,171 | 30,865,680 | 30,862,193 |
| Overseas bonds | 1,589,512 | 1,248,772 | 1,636,412 |
| Subtotal | 35,155,708 | 34,811,314 | 35,195,305 |
| Less: Litigation deposits | (3,306,397) | (2,924,198) | (1,992,242) |
| Less: Securities serving as deposits paid-bonds | (7,160,454) | (7,159,534) | (6,960,662) |
| Total | <u>\$24,688,857</u> | <u>\$24,727,582</u> | <u>\$26,242,401</u> |

The held-to-maturity financial assets held by the Company and Subsidiaries were not pledged.

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14. Other financial assets

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|--------------------------|--------------|------------------|--------------|
| Structured time deposits | \$9,500,000 | \$18,000,000 | \$32,900,000 |

The other financial assets held by the Company and Subsidiaries were not pledged.

15. Investment property, Investment property under construction and Prepayments for buildings and land – Investments

| | Investment property | | | Investment property under construction | Prepayments for buildings and land - Investments |
|---|---------------------|---------------|---------------|--|--|
| | Land | Buildings | Total | | |
| 1 January 2016 | \$339,220,920 | \$114,075,563 | \$453,296,483 | \$3,308,553 | \$2,758,288 |
| Additions from acquisitions | - | - | - | 1,620,519 | 2,191,596 |
| Additions from subsequent expenditure | - | - | - | 65,406 | - |
| Transfers from (to) investment property under construction and prepayments for buildings and land | 2,191,115 | 79,059 | 2,270,174 | (79,059) | (4,656,296) |
| Gains (losses) generated from fair value adjustments | 4,304,259 | (56,693) | 4,247,566 | - | - |
| Disposals | (207,955) | - | (207,955) | - | - |
| Exchange differences | (1,872,904) | (3,345,629) | (5,218,533) | - | - |
| 30 June 2016 | \$343,635,435 | \$110,752,300 | \$454,387,735 | \$4,915,419 | \$293,588 |

| | Investment property | | | Investment property under construction | Prepayments for buildings and land - Investments |
|---|---------------------|---------------|---------------|--|--|
| | Land | Buildings | Total | | |
| 1 January 2015 | \$311,836,494 | \$85,976,108 | \$397,812,602 | \$12,437,283 | \$1,795,276 |
| Additions from acquisitions | - | 26,033,559 | 26,033,559 | 5,124,284 | 366,027 |
| Additions from subsequent expenditure | - | 200 | 200 | 316,754 | - |
| Transfers from (to) property and equipment | - | (767,112) | (767,112) | - | - |
| Transfers from (to) investment property under construction and prepayments for buildings and land | - | 16,045,883 | 16,045,883 | (16,037,001) | (8,882) |
| Gains (losses) generated from fair value adjustments | 13,730,300 | (2,418,950) | 11,311,350 | - | - |
| Disposals | (1,072) | (1,835) | (2,907) | - | - |
| Exchange differences | (58,269) | 379,666 | 321,397 | - | - |
| 30 June 2015 | \$325,507,453 | \$125,247,519 | \$450,754,972 | \$1,841,320 | \$2,152,421 |

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| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|--|--------------------|--|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Rental income from investment property | \$2,512,669 | \$2,176,852 | \$5,320,070 | \$4,524,612 |
| Less: | | | | |
| Direct operating expenses from investment property generating rental income | (177,784) | (164,993) | (302,768) | (241,596) |
| Direct operating expenses from investment property without generating rental income | (55,979) | (45,783) | (85,346) | (62,696) |
| Total | <u>\$2,278,906</u> | <u>\$1,966,076</u> | <u>\$4,931,956</u> | <u>\$4,220,320</u> |

The investment property are held mainly for lease business. All the lease agreements of the Company and Subsidiaries' lease business are operating leases and the primary terms of lease agreements are the same with general lease agreement. Rents from investment property are received annually, semi-annually, quarterly, monthly or in lump sum. As of 30 June 2016, 31 December 2015 and 30 June 2015, investment property held by the Company and Subsidiaries were not pledged.

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 30 June 2016, 31 December 2015 and 30 June 2015. Please refer to original financial report for detail information of the appraisers and agencies.

The recognized fair value is supported by observable evidence in the market. The main appraisal approaches applied include sales comparison approach, income approach – direct capitalization method, income approach – discounted cash flow method, cost approach and the method of land development analysis. Commercial office buildings and residences are valued by sales comparison approach and income approach mostly because of the market liquidity and comparable sales and rental cases in the neighboring areas. Hotels, department stores and marketplaces are valued by income approach – direct capitalization method and income approach – discounted cash flow method mostly because of the stable rental income in the long run. Industrial plants for lease are valued by sales comparison approach and income approach – direct capitalization method. Wholesale stores located in industrial district are valued by cost approach since the buildings are constructed for specific purposes, thus seldom similar transactions could be referred in the market. Vacant land and buildings under construction of logistics parks located in industrial and commercial integrated district are valued by cost approach. Urban renewal land with permit of construction is valued based on value of real estate right arises from urban renewal program. The real estate right may include but not limited to right for long-held buildings and hotels.

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The inputs used are as follows:

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|----------------------------------|---------------------|-------------------------|---------------------|
| Direct capitalization rate (Net) | 0.45%~5.76% | 0.42%~5.76% | 0.32%~5.76% |
| Discount rate | 3.2%~4.1% | 3.3%~4.2% | 3.3%~4.6% |

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate. In 2013, the land of Cathay Land Mark was recognized at fair value. During the construction period, the land was valued by sales comparison approach and the method of land development analysis. During the six-month period ended 30 June 2015, subsequent to the completion of the building and receipt of operating license, both the land and buildings were valued by sales comparison method and income approach — direct capitalization method. The change of the appraisal approach during the six-month period resulted in an increase of \$13,786,133 thousand net of tax in fair value.

The Company and Subsidiaries recognized their investment property at fair value subsequent to initial recognition and related fair value are categorized as level 3 of fair value hierarchy. The fair value of investment property will decrease as either one of the main input, direct capitalization rate and discount rate, of direct capitalization method increases. On the contrary, the fair value of investment property will increase if either of the main input decreases.

16. Loans

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|-------------------------|----------------------|-------------------------|----------------------|
| Policy loans | \$157,642,298 | \$162,085,507 | \$152,752,749 |
| Automatic premium loans | 10,172,920 | 9,746,986 | 8,195,134 |
| Secured loans | 451,025,905 | 466,470,478 | 502,926,654 |
| Total | <u>\$618,841,123</u> | <u>\$638,302,971</u> | <u>\$663,874,537</u> |

- (1) Policy loans were secured by policies issued by the Company and Subsidiaries.
- (2) Policyholders may state on the application form or issue a written statement prior to end of grace period for premium payment to request the insurer to automatically deduct the premiums due and interest of the premium loan (as well as the principal and interest of the policy loan, if applicable) from the policyholders' policy value reserve after the second installment becomes overdue in order to maintain the insurance policy effective. Policyholders may also inform the insurer in writing to terminate the automatic premium loan option prior to the next due date of premium payment.

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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(3) Secured loans

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|---------------------------------|----------------------|-------------------------|----------------------|
| Secured loans | \$455,173,672 | \$470,139,232 | \$506,252,950 |
| Secured loans – Related parties | 927,114 | 967,009 | 846,757 |
| Less: Allowance for bad debts | <u>(5,335,785)</u> | <u>(4,819,812)</u> | <u>(4,341,754)</u> |
| Subtotal | <u>450,765,001</u> | <u>466,286,429</u> | <u>502,757,953</u> |
| Overdue receivables | 485,714 | 408,708 | 291,589 |
| Less: Allowance for bad debts | <u>(224,810)</u> | <u>(224,659)</u> | <u>(122,888)</u> |
| Subtotal | <u>260,904</u> | <u>184,049</u> | <u>168,701</u> |
| Total | <u>\$451,025,905</u> | <u>\$466,470,478</u> | <u>\$502,926,654</u> |

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

The Company participated in the \$57 billion loan tender of Taiwan Insurance Guaranty Fund and won line of credit \$15 billion in 2013. The loan has been repaid in 2015.

The movements in the provision for impairment of secured loans and overdue receivables are as follows (please refer to Note 45 for credit risk disclosure):

| | <u>Individually impaired</u> | <u>Collectively impaired</u> | <u>Total</u> |
|--|----------------------------------|----------------------------------|--------------------|
| 1 January 2016 | \$184,533 | \$4,859,938 | \$5,044,471 |
| Charge (reversal) for the current period | 9,759 | (147,781) | (138,022) |
| Write off | - | (2,348) | (2,348) |
| Minimum of statutory reserve | <u>(7,190)</u> | <u>663,684</u> | <u>656,494</u> |
| 30 June 2016 | <u>\$187,102</u> | <u>\$5,373,493</u> | <u>\$5,560,595</u> |
| | <u>Individually impaired</u> | <u>Collectively impaired</u> | <u>Total</u> |
| 1 January 2015 | \$1,049,697 | \$3,193,524 | \$4,243,221 |
| Reversal for the current period | (1,064,581) | (40,380) | (1,104,961) |
| Minimum of statutory reserve | <u>101,011</u> | <u>1,225,371</u> | <u>1,326,382</u> |
| 30 June 2015 | <u>\$86,127</u> | <u>\$4,378,515</u> | <u>\$4,464,642</u> |

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17. Reinsurance assets

(1)

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Claims recoverable from reinsurers | \$5,686 | \$45,612 | \$14,171 |
| Due from reinsurers and ceding companies | 360,796 | 234,533 | 275,784 |
| Reinsurance reserve assets | | | |
| Ceded unearned premium reserve | 192,847 | 182,325 | 114,832 |
| Ceded reserve for claims | 45,095 | 38,633 | 689 |
| Ceded reserve for life insurance liabilities | 225,470 | 162,951 | 147,244 |
| Subtotal | 463,412 | 383,909 | 262,765 |
| Total | <u>\$829,894</u> | <u>\$664,054</u> | <u>\$552,720</u> |

Above reinsurance assets were not impaired.

(2) CNY co-reinsurance business

Authorized by FSC under Order No. Financial-Supervisory-Insurance-Corporate-10302112370, the Company signed a CNY co-reinsurance contract with Central Reinsurance Corporation in the year 2014. The Company discloses the succeeding information following related regulations:

A. Purpose, rationalization and expected benefit

Restricted by CNY investment amount limitation of Taiwan, the Company cedes partial of its CNY insurance through co-reinsurance to increase the Company's liquidity, raise the ability to insure and transfer relevant risk. The Company will transfer 50% of its insurance risk to Central Reinsurance Corporation.

B. Premiums ceded to reinsurers, claims recovered from reinsures and commission

| | <u>For the six-month period ended 30 June 2016</u> |
|---------------------------------|--|
| Premiums ceded to reinsurers | \$73,471 |
| Claims recovered from reinsures | 3,244 |
| Reinsurance commission earned | 4,438 |

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C. Net income or loss from CNY co-reinsurance business

Reinsurance loss of \$10,885 thousand has occurred in the six-month period ended 30 June 2016 from CNY co-reinsurance business. The amount is calculated as follows: Reinsurance commission earned \$4,438 thousand + Claims recovered from reinsurers \$3,244 thousand + Net change of reinsurance reserve assets \$62,519 thousand — Foreign exchange losses \$7,615 thousand — Premiums ceded to reinsurers \$73,471 thousand.

D. Reason and effect to income or loss from change of co-reinsurance business or contract:
None.

E. Accounting treatment for ceded CNY co-reinsurance business

On its balance sheet, the Company recognizes ceded reserve for life insurance liabilities, ceded premium deficiency reserve and related reinsurance reserve assets for asset, while it recognizes direct business reserve for liability. All ceded reserve should be eliminated at the time the co-reinsurance contract ceased.

F. Other notes designated by authorities: None.

18. Property and equipment

| | Land | Buildings and construction | Computer equipment | Communication and transportation equipment | Other equipment | Leasehold improvement | Leased assets | Construction in progress and prepayment for real estate equipment | Total |
|--|--------------|-------------------------------|-----------------------|--|--------------------|--------------------------|---------------|--|--------------|
| Cost: | | | | | | | | | |
| 1 January 2016 | \$15,948,783 | \$21,467,788 | \$2,284,584 | \$12,800 | \$3,548,460 | \$233,695 | \$276,166 | \$8,865 | \$43,781,141 |
| Additions from acquisitions | - | - | 130,839 | - | 30,246 | 52,976 | - | 359 | 214,420 |
| Additions from subsequent expenditure | - | - | - | - | - | - | - | 3,701 | 3,701 |
| Transfers | 1,995,478 | 476,307 | (983) | - | - | 3,594 | - | (6,963) | 2,467,433 |
| Disposals | (15,825) | (15,577) | (3,610) | (800) | (9,190) | - | - | - | (45,002) |
| Exchange differences | - | (67,476) | (13,903) | (190) | (1,684) | (12,841) | 15 | - | (96,079) |
| 30 June 2016 | \$17,928,436 | \$21,861,042 | \$2,396,927 | \$11,810 | \$3,567,832 | \$277,424 | \$276,181 | \$5,962 | \$46,325,614 |

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

| | Land | Buildings and construction | Computer equipment | Communication | | Leasehold improvement | Leased assets | Construction in | Total |
|--|--------------|-------------------------------|-----------------------|---------------------------------|--------------------|--------------------------|---------------|---|--------------|
| | | | | and transportation equipment | Other equipment | | | progress and prepayment for real estate equipment | |
| Cost: | | | | | | | | | |
| 1 January 2015 | \$15,912,593 | \$20,468,172 | \$2,473,388 | \$16,229 | \$3,482,051 | \$156,309 | \$275,652 | \$195,913 | \$42,980,307 |
| Additions from acquisitions | - | - | 60,596 | - | 29,771 | 11,214 | - | - | 101,581 |
| Additions from subsequent expenditure | - | - | - | - | - | - | - | 23,317 | 23,317 |
| Transfers | - | 901,470 | 113 | - | - | - | - | (134,735) | 766,848 |
| Disposals | - | - | (73,868) | - | (8,372) | - | - | - | (82,240) |
| Exchange differences | - | (26,714) | (7,847) | (81) | (280) | (3,300) | - | (10) | (38,232) |
| 30 June 2015 | \$15,912,593 | \$21,342,928 | \$2,452,382 | \$16,148 | \$3,503,170 | \$164,223 | \$275,652 | \$84,485 | \$43,751,581 |

| | Land | Buildings and construction | Computer equipment | Communication | | Leasehold improvement | Leased assets | Construction in | Total |
|------------------------------|-------------|-------------------------------|-----------------------|---------------------------------|--------------------|--------------------------|---------------|---|----------------|
| | | | | and transportation equipment | Other equipment | | | progress and prepayment for real estate equipment | |
| Depreciation and impairment: | | | | | | | | | |
| 1 January 2016 | \$(105,610) | \$(10,914,835) | \$(1,907,775) | \$(7,920) | \$(3,118,624) | \$(148,162) | \$(235,469) | \$- | \$(16,438,395) |
| Transfers | - | (208,036) | (72,032) | (636) | (42,973) | (11,076) | (34,515) | - | (369,268) |
| Depreciation | - | - | 360 | - | - | (3,594) | - | - | (3,234) |
| Disposals | - | 8,539 | 2,733 | 78 | 8,960 | - | - | - | 20,310 |
| Exchange differences | - | 4,557 | 8,964 | 125 | 831 | 7,473 | - | - | 21,950 |
| 30 June 2016 | \$(105,610) | \$(11,109,775) | \$(1,967,750) | \$(8,353) | \$(3,151,806) | \$(155,359) | \$(269,984) | \$- | \$(16,768,637) |

| | Land | Buildings and construction | Computer equipment | Communication | | Leasehold improvement | Leased assets | Construction in | Total |
|------------------------------|-------------|-------------------------------|-----------------------|---------------------------------|--------------------|--------------------------|---------------|---|----------------|
| | | | | and transportation equipment | Other equipment | | | progress and prepayment for real estate equipment | |
| Depreciation and impairment: | | | | | | | | | |
| 1 January 2015 | \$(105,610) | \$(10,498,537) | \$(2,234,413) | \$(12,277) | \$(3,036,149) | \$(133,100) | \$(166,539) | \$- | \$(16,186,625) |
| Depreciation | - | (209,666) | (37,401) | (473) | (43,562) | (4,827) | (34,457) | - | (330,386) |
| Disposals | - | - | 73,807 | - | 8,183 | - | - | - | 81,990 |
| Exchange differences | - | 1,194 | 5,591 | 73 | 234 | 2,734 | - | - | 9,826 |
| 30 June 2015 | \$(105,610) | \$(10,707,009) | \$(2,192,416) | \$(12,677) | \$(3,071,294) | \$(135,193) | \$(200,996) | \$- | \$(16,425,195) |

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| | Land | Buildings and construction | Computer equipment | Communication and transportation equipment | Other equipment | Leasehold improvement | Leased assets | Construction in progress and prepayment for real estate equipment | Total |
|----------------------------|--------------|-------------------------------|-----------------------|--|--------------------|--------------------------|---------------|--|--------------|
| Net carrying amount as at: | | | | | | | | | |
| 30 June 2016 | \$17,822,826 | \$10,751,267 | \$429,177 | \$3,457 | \$416,026 | \$122,065 | \$6,197 | \$5,962 | \$29,556,977 |
| 31 December 2015 | \$15,843,173 | \$10,552,953 | \$376,809 | \$4,880 | \$429,836 | \$85,533 | \$40,697 | \$8,865 | \$27,342,746 |
| 30 June 2015 | \$15,806,983 | \$10,635,919 | \$259,966 | \$3,471 | \$431,876 | \$29,030 | \$74,656 | \$84,485 | \$27,326,386 |

Property and equipment held by the Company and Subsidiaries were not pledged.

Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated over 60 years, 8 years and 15 years, respectively.

19. Intangible assets

| | Franchises | Trademarks | Goodwill | Customer relationships | Computer software | Other intangible assets | Total |
|---|--------------|------------|--------------|---------------------------|----------------------|-------------------------------|--------------|
| Cost: | | | | | | | |
| 1 January 2016 | \$37,659,600 | \$218,864 | \$8,272,925 | \$2,095,194 | \$1,785,122 | \$230,636 | \$50,262,341 |
| Addition – Acquired separately | - | - | - | - | 29,507 | - | 29,507 |
| Acquisitions through business combinations | - | 175,084 | 2,896,265 | 1,465,318 | - | - | 4,536,667 |
| Exchange differences | - | (12,360) | (242,112) | (109,655) | (8,699) | (5,441) | (378,267) |
| Other | - | - | (202,593) | - | - | - | (202,593) |
| 30 June 2016 | \$37,659,600 | \$381,588 | \$10,724,485 | \$3,450,857 | \$1,805,930 | \$225,195 | \$54,247,655 |

| | Franchises | Trademarks | Goodwill | Customer relationships | Computer software | Other intangible assets | Total |
|--------------------------------|------------|------------|----------|---------------------------|----------------------|-------------------------------|-------------|
| Cost: | | | | | | | |
| 1 January 2015 | \$- | \$- | \$- | \$- | \$1,781,423 | \$- | \$1,781,423 |
| Addition – Acquired separately | - | - | - | - | 24,931 | - | 24,931 |
| Transfers | - | - | - | - | 264 | - | 264 |
| Exchange differences | - | - | - | - | (5,354) | - | (5,354) |
| 30 June 2015 | \$- | \$- | \$- | \$- | \$1,801,264 | \$- | \$1,801,264 |

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| | Franchises | Trademarks | Goodwill | Customer relationships | Computer software | Other intangible assets | Total |
|------------------------------|-----------------------|------------|------------|------------------------|-----------------------|-------------------------|-----------------------|
| Amortization and impairment: | | | | | | | |
| 1 January 2016 | \$ (1,039,692) | \$- | \$- | \$ (45,634) | \$ (1,555,189) | \$ (15,848) | \$ (2,656,363) |
| Amortization | (1,039,691) | - | - | (168,322) | (36,298) | (27,754) | (1,272,065) |
| Exchange differences | - | - | - | 3,775 | 6,048 | 819 | 10,642 |
| 30 June 2016 | <u>\$ (2,079,383)</u> | <u>\$-</u> | <u>\$-</u> | <u>\$ (210,181)</u> | <u>\$ (1,585,439)</u> | <u>\$ (42,783)</u> | <u>\$ (3,917,786)</u> |

| | Franchises | Trademarks | Goodwill | Customer relationships | Computer software | Other intangible assets | Total |
|------------------------------|------------|------------|------------|------------------------|-----------------------|-------------------------|-----------------------|
| Amortization and impairment: | | | | | | | |
| 1 January 2015 | \$- | \$- | \$- | \$- | \$ (1,623,804) | \$- | \$ (1,623,804) |
| Amortization | - | - | - | - | (24,798) | - | (24,798) |
| Exchange differences | - | - | - | - | 4,164 | - | 4,164 |
| 30 June 2015 | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$ (1,644,438)</u> | <u>\$-</u> | <u>\$ (1,644,438)</u> |

| | Franchises | Trademarks | Goodwill | Customer relationships | Computer software | Other intangible assets | Total |
|----------------------------|---------------------|------------------|---------------------|------------------------|-------------------|-------------------------|---------------------|
| Net carrying amount as at: | | | | | | | |
| 30 June 2016 | <u>\$35,580,217</u> | <u>\$381,588</u> | <u>\$10,724,485</u> | <u>\$3,240,676</u> | <u>\$220,491</u> | <u>\$182,412</u> | <u>\$50,329,869</u> |
| 31 December 2015 | <u>\$36,619,908</u> | <u>\$218,864</u> | <u>\$8,272,925</u> | <u>\$2,049,560</u> | <u>\$229,933</u> | <u>\$214,788</u> | <u>\$47,605,978</u> |
| 30 June 2015 | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$156,826</u> | <u>\$-</u> | <u>\$156,826</u> |

Amortization expense of intangible assets under the statements of comprehensive income:

| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--|---|----------------|---|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating expenses – Business expenses | <u>\$12,368</u> | <u>\$7,594</u> | <u>\$24,022</u> | <u>\$14,741</u> |
| Operating expenses – Administrative and general expenses | <u>\$634,514</u> | <u>\$5,048</u> | <u>\$1,248,043</u> | <u>\$10,057</u> |

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As of 30 June 2016, the book value of goodwill was \$10,724,485 thousand. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015. The Company and Subsidiaries acquired 100% of Conning Holdings Limited on 18 September 2015 and 82.06% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

An annual impairment test for goodwill is performed regularly. The Company and Subsidiaries estimated the recoverable amount of the cash-generating unit that the goodwill is allocated to for purpose of impairment test. The recoverable amount is calculated by applying a proper discount rate. Considering that the recoverable amount is higher than the book value of the cash-generating unit that the goodwill was allocated to, no impairment recognition is necessary for goodwill.

20. Other assets

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|----------------------------|---------------------|-------------------------|---------------------|
| Prepayment | \$2,996,651 | \$517,204 | \$398,433 |
| Deferred acquisition costs | 29,338 | 33,565 | 37,791 |
| Guarantee deposits paid | 26,183,337 | 23,550,504 | 19,093,501 |
| Other assets – Other | 1,723,116 | 3,459,047 | 1,478,602 |
| Total | <u>\$30,932,442</u> | <u>\$27,560,320</u> | <u>\$21,008,327</u> |

21. Deferred acquisition costs

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred acquisition costs related to investment management services of such contracts are summarized below:

| | <u>For the six-month periods ended 30 June</u> | |
|-------------------|--|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$33,565 | \$36,352 |
| Addition | - | 5,599 |
| Amortization | (4,227) | (4,160) |
| Ending balance | <u>\$29,338</u> | <u>\$37,791</u> |

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22. Payables

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Notes payable | \$4,876 | \$2,609 | \$1,062 |
| Life insurance proceeds payable | 546,750 | 502,714 | 426,546 |
| Commissions payable | 1,582,999 | 2,129,706 | 2,575,780 |
| Due to reinsurers and ceding companies | 391,419 | 626,843 | 374,661 |
| Other payables | 65,344,102 | 16,881,467 | 30,934,412 |
| Total | <u>\$67,870,146</u> | <u>\$20,143,339</u> | <u>\$34,312,461</u> |

23. Financial liabilities at fair value through profit or loss

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|---|---------------------|-------------------------|---------------------|
| Held for trading | | | |
| Derivatives that are not designated hedging | | | |
| Forward | \$329,947 | \$3,475,583 | \$1,761,950 |
| CS | 1,081,024 | 35,203,334 | 6,806,753 |
| IRS | 178,420 | 150,562 | 39,844 |
| Option | - | 29,649 | - |
| Total | <u>\$1,589,391</u> | <u>\$38,859,128</u> | <u>\$8,608,547</u> |

24. Preferred stock liabilities

- (1) In accordance with the resolution made at the board of directors' meeting held on 6 November 2008, acting on behalf of the shareholders, the Company issued 300,000 thousand shares of Class A preferred stocks at par value of \$10 per share through private offerings. The offering was approved by Insurance Bureau of FSC, Executive Yuan ("Insurance Bureau") on 18 November 2008.

Key terms and conditions of the privately offered Class A preferred stocks are listed as follows:

- A. Issuance period covers from 25 December 2008, the issue date, to 25 December 2015, seven years in total.
- B. Dividend yield is 3.50% per year based on the actual issue price of \$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

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- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.
- D. The preference shares are not entitled to be sold back. With the approval from the competent authorities, the Company redeemed all the Class A preferred stocks on 24 December 2015.
- (2) In accordance with the resolution made at the board of directors' meeting held on 29 October 2009, acting on behalf of the shareholders, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of \$10 per share through private offerings. The offering was approved by Insurance Bureau on 14 December 2009.

Key terms and conditions of the privately offered Class B preferred stocks are listed as follows:

- A. Issuance period covers from 16 December 2009, the issue date, to 16 December 2016, seven years in total.
- B. Dividend yield is 2.90% per year based on the actual issue price of \$50 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.
- D. The preference shares are not entitled to be sold back. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

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- (3) In accordance with the resolution made at the board of directors' meeting held on 7 October 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C preferred stocks at par value of \$10 per share through private offerings. The offering was approved by Insurance Bureau on 26 October 2011.

Key terms and conditions of the privately offered Class C preferred stocks are listed as follows:

- A. Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.
- B. Dividend yield is 1.86% per year based on the actual issue price of \$40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.
- C. The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.
- D. The preference shares are not entitled to be sold back. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

According to IAS 32 *Financial Instruments: Presentation*, the above mentioned preferred stocks issued shall be reported as "preferred stock liabilities".

25. Insurance contract and reserve for insurance contract with discretionary participation feature of financial instruments

The details of insurance contract and financial instruments with discretionary participation feature are summarized below:

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(1) The Company

A. Reserve for life insurance liabilities

| | 30 June 2016 | | |
|--|---|-----------------------|-----------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance (Note) | \$3,722,154,469 | \$2,900,908 | \$3,725,055,377 |
| Injury insurance | 7,714,939 | - | 7,714,939 |
| Health insurance | 487,644,859 | - | 487,644,859 |
| Annuity insurance | 1,390,063 | 42,206,374 | 43,596,437 |
| Investment-linked insurance | 744,965 | - | 744,965 |
| Total | 4,219,649,295 | 45,107,282 | 4,264,756,577 |
| Less ceded reserve for life insurance liabilities: | | | |
| Life insurance | 225,470 | - | 225,470 |
| Net | \$4,219,423,825 | \$45,107,282 | \$4,264,531,107 |

| | 31 December 2015 | | |
|--|---|-----------------------|-----------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance (Note) | \$3,559,917,176 | \$5,913,047 | \$3,565,830,223 |
| Injury insurance | 7,781,512 | - | 7,781,512 |
| Health insurance | 459,328,845 | - | 459,328,845 |
| Annuity insurance | 1,375,262 | 47,592,078 | 48,967,340 |
| Investment-linked insurance | 834,571 | - | 834,571 |
| Total | 4,029,237,366 | 53,505,125 | 4,082,742,491 |
| Less ceded reserve for life insurance liabilities: | | | |
| Life insurance | 162,951 | - | 162,951 |
| Net | \$4,029,074,415 | \$53,505,125 | \$4,082,579,540 |

| | 30 June 2015 | | |
|--|---|-----------------------|-----------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance (Note) | \$3,303,918,087 | \$5,920,868 | \$3,309,838,955 |
| Injury insurance | 7,800,742 | - | 7,800,742 |
| Health insurance | 396,551,372 | - | 396,551,372 |
| Annuity insurance | 1,367,450 | 54,250,017 | 55,617,467 |
| Investment-linked insurance | 955,546 | - | 955,546 |
| Total | 3,710,593,197 | 60,170,885 | 3,770,764,082 |
| Less ceded reserve for life insurance liabilities: | | | |
| Life insurance | 147,244 | - | 147,244 |
| Net | \$3,710,445,953 | \$60,170,885 | \$3,770,616,838 |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

Reserve for life insurance liabilities is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|--|---|-----------------------|-----------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$4,029,237,366 | \$53,505,125 | \$4,082,742,491 |
| Reserve | 319,736,428 | 65,397 | 319,801,825 |
| Recover | (110,147,026) | (8,450,487) | (118,597,513) |
| Losses (gains) on foreign exchange | (19,177,473) | (12,753) | (19,190,226) |
| Ending balance | 4,219,649,295 | 45,107,282 | 4,264,756,577 |
| Less ceded reserve for life insurance liabilities: | | | |
| Beginning balance – Net | 162,951 | - | 162,951 |
| Increase | 70,134 | - | 70,134 |
| Gains (losses) on foreign exchange | (7,615) | - | (7,615) |
| Ending balance – Net | 225,470 | - | 225,470 |
| Total | \$4,219,423,825 | \$45,107,282 | \$4,264,531,107 |

| | For the six-month period ended 30 June 2015 | | |
|--|---|-----------------------|-----------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$3,553,210,713 | \$69,956,566 | \$3,623,167,279 |
| Reserve | 268,235,300 | 389,561 | 268,624,861 |
| Recover | (97,223,711) | (9,648,475) | (106,872,186) |
| Losses (gains) on foreign exchange | (13,629,105) | (526,767) | (14,155,872) |
| Ending balance | 3,710,593,197 | 60,170,885 | 3,770,764,082 |
| Less ceded reserve for life insurance liabilities: | | | |
| Beginning balance – Net | 74,461 | - | 74,461 |
| Increase | 73,578 | - | 73,578 |
| Gains (losses) on foreign exchange | (795) | - | (795) |
| Ending balance – Net | 147,244 | - | 147,244 |
| Total | \$3,710,445,953 | \$60,170,885 | \$3,770,616,838 |

Note: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

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B. Unearned premium reserve

| | 30 June 2016 | | |
|--------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual life insurance | \$527,885 | \$- | \$527,885 |
| Individual injury insurance | 5,139,452 | - | 5,139,452 |
| Individual health insurance | 7,374,428 | - | 7,374,428 |
| Group insurance | 1,015,778 | - | 1,015,778 |
| Investment-linked insurance | 107,301 | - | 107,301 |
| Total | 14,164,844 | - | 14,164,844 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 172,752 | - | 172,752 |
| Individual injury insurance | 4,271 | - | 4,271 |
| Group insurance | 1 | - | 1 |
| Total | 177,024 | - | 177,024 |
| Net | \$13,987,820 | \$- | \$13,987,820 |

| | 31 December 2015 | | |
|--------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual life insurance | \$504,234 | \$- | \$504,234 |
| Individual injury insurance | 5,235,287 | - | 5,235,287 |
| Individual health insurance | 7,448,531 | - | 7,448,531 |
| Group insurance | 798,542 | - | 798,542 |
| Investment-linked insurance | 108,783 | - | 108,783 |
| Total | 14,095,377 | - | 14,095,377 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 153,817 | - | 153,817 |
| Individual injury insurance | 6,454 | - | 6,454 |
| Individual health insurance | 1,258 | - | 1,258 |
| Group insurance | 4,165 | - | 4,165 |
| Total | 165,694 | - | 165,694 |
| Net | \$13,929,683 | \$- | \$13,929,683 |

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For the six-month periods ended 30 June 2016 and 2015

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

| | 30 June 2015 | | |
|--------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual life insurance | \$449,853 | \$- | \$449,853 |
| Individual injury insurance | 4,814,003 | - | 4,814,003 |
| Individual health insurance | 6,754,715 | - | 6,754,715 |
| Group insurance | 776,286 | - | 776,286 |
| Investment-linked insurance | 108,332 | - | 108,332 |
| Total | 12,903,189 | - | 12,903,189 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 98,689 | - | 98,689 |
| Individual injury insurance | 5,892 | - | 5,892 |
| Group insurance | 547 | - | 547 |
| Total | 105,128 | - | 105,128 |
| Net | \$12,798,061 | \$- | \$12,798,061 |

Unearned premium reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|--------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$14,095,377 | \$- | \$14,095,377 |
| Reserve | 14,164,844 | - | 14,164,844 |
| Recover | (14,095,377) | - | (14,095,377) |
| Ending balance | 14,164,844 | - | 14,164,844 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance – Net | 165,694 | - | 165,694 |
| Increase | 11,330 | - | 11,330 |
| Ending balance – Net | 177,024 | - | 177,024 |
| Total | \$13,987,820 | \$- | \$13,987,820 |

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

| | For the six-month period ended 30 June 2015 | | |
|--------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$12,930,765 | \$- | \$12,930,765 |
| Reserve | 12,903,190 | - | 12,903,190 |
| Recover | (12,930,765) | - | (12,930,765) |
| Losses (gains) on foreign exchange | (1) | - | (1) |
| Ending balance | 12,903,189 | - | 12,903,189 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance – Net | 130,244 | - | 130,244 |
| Increase | 2,645 | - | 2,645 |
| Decrease | (27,761) | - | (27,761) |
| Ending balance – Net | 105,128 | - | 105,128 |
| Total | \$12,798,061 | \$- | \$12,798,061 |

C. Reserve for claims

| | 30 June 2016 | | |
|--------------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Individual life insurance | | | |
| – Reported but not paid claim | \$202,842 | \$1,056 | \$203,898 |
| – Unreported claim | 99,399 | - | 99,399 |
| Individual injury insurance | | | |
| – Reported but not paid claim | 71,920 | - | 71,920 |
| – Unreported claim | 1,385,372 | - | 1,385,372 |
| Individual health insurance | | | |
| – Reported but not paid claim | 158,878 | - | 158,878 |
| – Unreported claim | 2,282,596 | - | 2,282,596 |
| Group insurance | | | |
| – Reported but not paid claim | 14,517 | - | 14,517 |
| – Unreported claim | 900,499 | - | 900,499 |
| Investment-linked insurance | | | |
| – Reported but not paid claim | 7,030 | - | 7,030 |
| – Unreported claim | 2,646 | - | 2,646 |
| Total | 5,125,699 | 1,056 | 5,126,755 |
| Less ceded reserve for claims: | | | |
| Individual life insurance | 24,419 | - | 24,419 |
| Individual health insurance | 2,631 | - | 2,631 |
| Group insurance | 14,527 | - | 14,527 |
| Total | 41,577 | - | 41,577 |
| Net | \$5,084,122 | \$1,056 | \$5,085,178 |

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

Reserve for claims is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$4,795,257 | \$1,056 | \$4,796,313 |
| Reserve | 5,125,750 | 1,056 | 5,126,806 |
| Recover | (4,795,257) | (1,056) | (4,796,313) |
| Losses (gains) on foreign exchange | (51) | - | (51) |
| Ending balance | 5,125,699 | 1,056 | 5,126,755 |
| Less ceded reserve for claims: | | | |
| Beginning balance – Net | 34,947 | - | 34,947 |
| Increase | 6,630 | - | 6,630 |
| Ending balance – Net | 41,577 | - | 41,577 |
| Total | \$5,084,122 | \$1,056 | \$5,085,178 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$4,301,975 | \$797 | \$4,302,772 |
| Reserve | 4,544,609 | - | 4,544,609 |
| Recover | (4,301,975) | (797) | (4,302,772) |
| Losses (gains) on foreign exchange | (53) | - | (53) |
| Ending balance | \$4,544,556 | \$- | \$4,544,556 |

D. Special reserve

| | 30 June 2016 | | | |
|---|-----------------------|---|--------------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Participating policies dividends reserve | \$(125,431) | \$- | \$- | \$(125,431) |
| Provision for risk of bonus | 126,530 | - | - | 126,530 |
| Special reserve for revaluation increments of property | - | - | 20,436,619 | 20,436,619 |
| Total | \$1,099 | \$- | \$20,436,619 | \$20,437,718 |

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

| | 31 December 2015 | | | |
|--|-----------------------|--|--------------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Participating policies dividends reserve | \$(36,387) | \$- | \$- | \$(36,387) |
| Provision for risk of bonus | 37,741 | - | - | 37,741 |
| Special reserve for revaluation increments of property | - | - | 25,416,619 | 25,416,619 |
| Total | \$1,354 | \$- | \$25,416,619 | \$25,417,973 |

| | 30 June 2015 | | | |
|--|-----------------------|--|--------------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Participating policies dividends reserve | \$1,060 | \$- | \$- | \$1,060 |
| Special reserve for revaluation increments of property | - | - | 30,436,619 | 30,436,619 |
| Total | \$1,060 | \$- | \$30,436,619 | \$30,437,679 |

Special reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | | |
|--|---|--|--------------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Beginning balance | \$1,354 | \$- | \$25,416,619 | \$25,417,973 |
| Reserve for participating policies dividends reserve | (88,146) | - | - | (88,146) |
| Recover from participating policies dividends reserve | (898) | - | - | (898) |
| Reserve for provision for risk of bonus | 88,789 | - | - | 88,789 |
| Recover from special reserve for revaluation increments of property (Note) | - | - | (4,980,000) | (4,980,000) |
| Ending balance | \$1,099 | \$- | \$20,436,619 | \$20,437,718 |

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For the six-month periods ended 30 June 2016 and 2015

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

| | For the six-month period ended 30 June 2015 | | | |
|--|---|--|--------------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Beginning balance | \$1,631 | \$- | \$35,416,619 | \$35,418,250 |
| Reserve for participating policies | | | | |
| dividends reserve | 550 | - | - | 550 |
| Recover from participating policies dividends reserve | (1,121) | - | - | (1,121) |
| Recover from special reserve for revaluation increments of property (Note) | - | - | (4,980,000) | (4,980,000) |
| Ending balance | \$1,060 | \$- | \$30,436,619 | \$30,437,679 |

Note: According to the regulations authorized by the FSC on 30 January 2016 and 2015, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2016 and 2015 are both \$10 billion.

E. Special capital reserve for major incidents and fluctuation of risks

| | 30 June 2016 | | | |
|-----------------------------|-----------------------|--|-------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Individual life insurance | \$140,928 | \$- | \$- | \$140,928 |
| Individual injury insurance | 3,873,019 | - | - | 3,873,019 |
| Individual health insurance | 5,376,802 | - | - | 5,376,802 |
| Group insurance | 3,738,294 | - | - | 3,738,294 |
| Total | \$13,129,043 | \$- | \$- | \$13,129,043 |

| | 31 December 2015 | | | |
|-----------------------------|-----------------------|--|-------|--------------|
| | Financial instruments | | | Total |
| | Insurance contract | with discretionary participation feature | Other | |
| Individual life insurance | \$140,928 | \$- | \$- | \$140,928 |
| Individual injury insurance | 3,873,019 | - | - | 3,873,019 |
| Individual health insurance | 5,376,802 | - | - | 5,376,802 |
| Group insurance | 3,738,294 | - | - | 3,738,294 |
| Total | \$13,129,043 | \$- | \$- | \$13,129,043 |

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

| | 30 June 2015 | | | |
|-----------------------------|---|-----------------------|-------|--------------|
| | Financial instruments with discretionary | | | |
| | Insurance contract | participation feature | Other | Total |
| Individual life insurance | \$135,073 | \$- | \$- | \$135,073 |
| Individual injury insurance | 3,122,127 | - | - | 3,122,127 |
| Individual health insurance | 5,008,929 | - | - | 5,008,929 |
| Group insurance | 3,619,099 | - | - | 3,619,099 |
| Total | \$11,885,228 | \$- | \$- | \$11,885,228 |

F. Premium deficiency reserve

| | 30 June 2016 | | | |
|-----------------------------|---|-----------------------|--|--------------|
| | Financial instruments with discretionary | | | |
| | Insurance contract | participation feature | | Total |
| Individual life insurance | \$23,506,536 | \$- | | \$23,506,536 |
| Individual health insurance | 1,842,486 | - | | 1,842,486 |
| Group insurance | 421 | - | | 421 |
| Total | \$25,349,443 | \$- | | \$25,349,443 |

| | 31 December 2015 | | | |
|-----------------------------|---|-----------------------|--|--------------|
| | Financial instruments with discretionary | | | |
| | Insurance contract | participation feature | | Total |
| Individual life insurance | \$20,333,625 | \$- | | \$20,333,625 |
| Individual health insurance | 1,908,526 | - | | 1,908,526 |
| Group insurance | 426 | - | | 426 |
| Total | \$22,242,577 | \$- | | \$22,242,577 |

| | 30 June 2015 | | | |
|-----------------------------|---|-----------------------|--|--------------|
| | Financial instruments with discretionary | | | |
| | Insurance contract | participation feature | | Total |
| Individual life insurance | \$17,441,689 | \$- | | \$17,441,689 |
| Individual health insurance | 712,978 | - | | 712,978 |
| Group insurance | 645 | - | | 645 |
| Total | \$18,155,312 | \$- | | \$18,155,312 |

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Premium deficiency reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$22,242,577 | \$- | \$22,242,577 |
| Reserve | 3,512,704 | - | 3,512,704 |
| Recover | (240,832) | - | (240,832) |
| Losses (gains) on foreign exchange | (165,006) | - | (165,006) |
| Ending balance | \$25,349,443 | \$- | \$25,349,443 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|--------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$17,294,564 | \$- | \$17,294,564 |
| Reserve | 1,578,013 | - | 1,578,013 |
| Recover | (537,140) | - | (537,140) |
| Losses (gains) on foreign exchange | (180,125) | - | (180,125) |
| Ending balance | \$18,155,312 | \$- | \$18,155,312 |

G. Other reserve

| | 30 June 2016 | | |
|-------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Other | \$1,939,890 | \$- | \$1,939,890 |

| | 31 December 2015 | | |
|-------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Other | \$1,967,824 | \$- | \$1,967,824 |

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

Other reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|-------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$1,967,824 | \$- | \$1,967,824 |
| Recover | (27,934) | - | (27,934) |
| Ending balance | \$1,939,890 | \$- | \$1,939,890 |

Note: Other reserve is generated from acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015.

H. Liability adequacy reserve

| | Insurance contract and financial instruments with discretionary participation feature | | |
|--|--|------------------|-----------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Reserve for life insurance liabilities | \$4,264,756,577 | \$4,082,742,491 | \$3,770,764,082 |
| Unearned premium reserve | 14,164,844 | 14,095,377 | 12,903,189 |
| Premium deficiency reserve | 25,349,443 | 22,242,577 | 18,155,312 |
| Other reserve | 1,939,890 | 1,967,824 | - |
| Total | \$4,306,210,754 | \$4,121,048,269 | \$3,801,822,583 |
| Book value of insurance liabilities | \$4,306,210,754 | \$4,121,048,269 | \$3,801,822,583 |
| Estimated present value of cash flows | \$3,471,365,310 | \$3,058,199,323 | \$2,994,548,312 |
| Balance of liability adequacy reserve | \$- | \$- | \$- |

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Reserve for claims and special reserve are not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: The Company has settled the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. Thus, the value of acquired business, i.e. other reserve, shall be considered in the book value of insurance liability included in liability adequacy test.

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Liability adequacy testing methodology is listed as follows:

| | 30 June 2016 |
|-------------|--|
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2016. (2) Discount rate: Under assets allocation plan on 31 March 2016, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years. |
| | 31 December 2015 |
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. (2) Discount rate: Under assets allocation plan on 30 September 2015, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years. |
| | 30 June 2015 |
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2015. (2) Discount rate: Under assets allocation plan on 31 March 2015, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years. |

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I. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 30 June 2016, 31 December 2015 and 30 June 2015, reserve for insurance contracts with feature of financial instruments is summarized below:

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|-----------------------------|--------------|------------------|--------------|
| Life insurance | \$20,826,847 | \$49,099,874 | \$49,509,358 |
| Investment-linked insurance | 68,016 | 23,228 | 6,555 |
| Total | \$20,894,863 | \$49,123,102 | \$49,515,913 |

| | For the six-month periods ended 30 June | |
|------------------------------------|---|--------------|
| | 2016 | 2015 |
| Beginning balance | \$49,123,102 | \$50,140,033 |
| Insurance claim payments | (28,544,937) | (1,055,184) |
| Net provision of statutory reserve | 316,824 | 431,101 |
| Losses (gains) on foreign exchange | (126) | (37) |
| Ending balance | \$20,894,863 | \$49,515,913 |

J. Foreign exchange volatility reserve

a. The hedge strategy and risk exposure

Based on the principle of risk control and to maintain the consistent level of foreign exchange volatility reserve, the Company consistently adjusts the hedge ratios and risk exposure position under the risk control.

b. Adjustment in foreign exchange volatility reserve

| | For the six-month periods ended 30 June | |
|--------------------|---|--------------|
| | 2016 | 2015 |
| Beginning balance | \$16,026,449 | \$16,846,406 |
| Reserve | | |
| Compulsory reserve | 2,064,433 | 1,863,861 |
| Extra reserve | 364,986 | 965,356 |
| Subtotal | 2,429,419 | 2,829,217 |
| Recover | (5,103,781) | (8,040,203) |
| Ending balance | \$13,352,087 | \$11,635,420 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

c. Effects due to foreign exchange volatility reserve

| Items | For the six-month period ended 30 June 2016 | | |
|---|---|-----------------------|-------------------|
| | Inapplicable amount (1) | Applicable amount (2) | Effects (2) - (1) |
| Net income attributable to equity holders of the parent | \$5,391,007 | \$7,610,727 | \$2,219,720 |
| Earnings per share | 1.02 | 1.43 | 0.41 |
| Foreign exchange volatility reserve | - | 13,352,087 | 13,352,087 |
| Equity attributable to equity holders of the parent | 351,078,327 | 343,946,665 | (7,131,662) |

| Items | For the six-month period ended 30 June 2015 | | |
|---|---|-----------------------|-------------------|
| | Inapplicable amount (1) | Applicable amount (2) | Effects (2) - (1) |
| Net income attributable to equity holders of the parent | \$24,797,231 | \$29,122,350 | \$4,325,119 |
| Earnings per share | 4.67 | 5.49 | 0.82 |
| Foreign exchange volatility reserve | - | 11,635,420 | 11,635,420 |
| Equity attributable to equity holders of the parent | 332,161,837 | 326,248,906 | (5,912,931) |

(2) Cathay Lujiazui Life

A. Reserve for life insurance liabilities

| | 30 June 2016 | | |
|-----------------------------|--|-----|-------------|
| | Financial instruments with discretionary participation feature | | Total |
| | Insurance contract | | |
| Life insurance | \$5,094,007 | \$- | \$5,094,007 |
| Health insurance | 412,047 | - | 412,047 |
| Investment-linked insurance | 3,967 | - | 3,967 |
| Total | \$5,510,021 | \$- | \$5,510,021 |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| | 31 December 2015 | | |
|-----------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance | \$4,998,271 | \$- | \$4,998,271 |
| Health insurance | 386,105 | - | 386,105 |
| Investment-linked insurance | 4,740 | - | 4,740 |
| Total | \$5,389,116 | \$- | \$5,389,116 |

| | 30 June 2015 | | |
|-----------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance | \$4,544,713 | \$- | \$4,544,713 |
| Health insurance | 315,050 | - | 315,050 |
| Investment-linked insurance | 8,003 | - | 8,003 |
| Total | \$4,867,766 | \$- | \$4,867,766 |

Reserve for life insurance liabilities is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$5,389,116 | \$- | \$5,389,116 |
| Reserve | 1,025,566 | - | 1,025,566 |
| Recover | (645,956) | - | (645,956) |
| Losses (gains) on foreign exchange | (258,705) | - | (258,705) |
| Ending balance | \$5,510,021 | \$- | \$5,510,021 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|-------------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$4,512,083 | \$- | \$4,512,083 |
| Reserve | 728,389 | - | 728,389 |
| Recover | (275,346) | - | (275,346) |
| Losses (gains) on foreign exchange | (97,360) | - | (97,360) |
| Ending balance | \$4,867,766 | \$- | \$4,867,766 |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

B. Unearned premium reserve

| | 30 June 2016 | | |
|--------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$7,755 | \$- | \$7,755 |
| Individual health insurance | 345 | - | 345 |
| Group insurance | 239,884 | - | 239,884 |
| Total | 247,984 | - | 247,984 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 2,297 | - | 2,297 |
| Individual injury insurance | 6,024 | - | 6,024 |
| Individual health insurance | 441 | - | 441 |
| Group insurance | 7,061 | - | 7,061 |
| Total | 15,823 | - | 15,823 |
| Net | \$232,161 | \$- | \$232,161 |

| | 31 December 2015 | | |
|--------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$14,152 | \$- | \$14,152 |
| Individual health insurance | 592 | - | 592 |
| Group insurance | 249,413 | - | 249,413 |
| Total | 264,157 | - | 264,157 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 2,806 | - | 2,806 |
| Individual injury insurance | 243 | - | 243 |
| Individual health insurance | 5,615 | - | 5,615 |
| Group insurance | 7,967 | - | 7,967 |
| Total | 16,631 | - | 16,631 |
| Net | \$247,526 | \$- | \$247,526 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| | 30 June 2015 | | |
|--------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$11,491 | \$- | \$11,491 |
| Individual health insurance | 304 | - | 304 |
| Group insurance | 258,206 | - | 258,206 |
| Total | 270,001 | - | 270,001 |
| Less ceded unearned premium reserve: | | | |
| Individual life insurance | 1,057 | - | 1,057 |
| Individual injury insurance | 4,159 | - | 4,159 |
| Individual health insurance | 4,344 | - | 4,344 |
| Group insurance | 144 | - | 144 |
| Total | 9,704 | - | 9,704 |
| Net | \$260,297 | \$- | \$260,297 |

Unearned premium reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|--------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$264,157 | \$- | \$264,157 |
| Reserve | 256,751 | - | 256,751 |
| Recover | (261,024) | - | (261,024) |
| Losses (gains) on foreign exchange | (11,900) | - | (11,900) |
| Ending balance | 247,984 | - | 247,984 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance – Net | 16,631 | - | 16,631 |
| Decrease | (51) | - | (51) |
| Gains (losses) on foreign exchange | (757) | - | (757) |
| Ending balance – Net | 15,823 | - | 15,823 |
| Total | \$232,161 | \$- | \$232,161 |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| | For the six-month period ended 30 June 2015 | | |
|--------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$268,520 | \$- | \$268,520 |
| Reserve | 177,210 | - | 177,210 |
| Recover | (170,259) | - | (170,259) |
| Losses (gains) on foreign exchange | (5,470) | - | (5,470) |
| Ending balance | 270,001 | - | 270,001 |
| Less ceded unearned premium reserve: | | | |
| Beginning balance – Net | 7,670 | - | 7,670 |
| Increase | 2,223 | - | 2,223 |
| Gains (losses) on foreign exchange | (189) | - | (189) |
| Ending balance – Net | 9,704 | - | 9,704 |
| Total | \$260,297 | \$- | \$260,297 |

C. Reserve for claims

| | 30 June 2016 | | |
|--------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual life insurance | | | |
| — Unreported claim | \$5,830 | \$- | \$5,830 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 201 | - | 201 |
| — Unreported claim | 1,102 | - | 1,102 |
| Individual health insurance | | | |
| — Reported but not paid claim | 3,414 | - | 3,414 |
| — Unreported claim | 15,479 | - | 15,479 |
| Group insurance | | | |
| — Reported but not paid claim | 15,847 | - | 15,847 |
| — Unreported claim | 292,072 | - | 292,072 |
| Total | 333,945 | - | 333,945 |
| Less ceded reserve for claims: | | | |
| Individual health insurance | 3,518 | - | 3,518 |
| Net | \$330,427 | \$- | \$330,427 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| | 31 December 2015 | | |
|--------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Individual life insurance | | | |
| — Reported but not paid claim | \$19 | \$- | \$19 |
| — Unreported claim | 1,919 | - | 1,919 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 29 | - | 29 |
| — Unreported claim | 2,916 | - | 2,916 |
| Individual health insurance | | | |
| — Reported but not paid claim | 6,450 | - | 6,450 |
| — Unreported claim | 10,471 | - | 10,471 |
| Group insurance | | | |
| — Reported but not paid claim | 80,099 | - | 80,099 |
| — Unreported claim | 277,636 | - | 277,636 |
| Total | 379,539 | - | 379,539 |
| Less ceded reserve for claims: | | | |
| Individual health insurance | 3,686 | - | 3,686 |
| Net | \$375,853 | \$- | \$375,853 |
| | | | |
| | 30 June 2015 | | |
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Individual life insurance | | | |
| — Reported but not paid claim | \$145 | \$- | \$145 |
| — Unreported claim | 1,850 | - | 1,850 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 428 | - | 428 |
| — Unreported claim | 3,097 | - | 3,097 |
| Individual health insurance | | | |
| — Reported but not paid claim | 1,488 | - | 1,488 |
| — Unreported claim | 8,388 | - | 8,388 |
| Group insurance | | | |
| — Reported but not paid claim | 44,324 | - | 44,324 |
| — Unreported claim | 300,051 | - | 300,051 |
| Total | 359,771 | - | 359,771 |
| Less ceded reserve for claims: | | | |
| Individual health insurance | 689 | - | 689 |
| Net | \$359,082 | \$- | \$359,082 |

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

Reserve for claims is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$379,539 | \$- | \$379,539 |
| Reserve | 213,906 | - | 213,906 |
| Recover | (243,193) | - | (243,193) |
| Losses (gains) on foreign exchange | (16,307) | - | (16,307) |
| Ending balance | 333,945 | - | 333,945 |
| Less ceded reserve for claims: | | | |
| Beginning balance – Net | 3,686 | - | 3,686 |
| Gains (losses) on foreign exchange | (168) | - | (168) |
| Ending balance – Net | 3,518 | - | 3,518 |
| Total | \$330,427 | \$- | \$330,427 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$387,023 | \$- | \$387,023 |
| Reserve | 186,891 | - | 186,891 |
| Recover | (206,743) | - | (206,743) |
| Losses (gains) on foreign exchange | (7,400) | - | (7,400) |
| Ending balance | 359,771 | - | 359,771 |
| Less ceded reserve for claims: | | | |
| Beginning balance – Net | 17,456 | - | 17,456 |
| Decrease | (16,689) | - | (16,689) |
| Gains (losses) on foreign exchange | (78) | - | (78) |
| Ending balance – Net | 689 | - | 689 |
| Total | \$359,082 | \$- | \$359,082 |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

D. Liability adequacy reserve

| | Insurance contract and financial instruments with discretionary participation feature | | |
|--|--|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Reserve for life insurance liabilities | \$5,510,021 | \$5,389,116 | \$4,867,766 |
| Unearned premium reserve | 247,984 | 264,157 | 270,001 |
| Total | \$5,758,005 | \$5,653,273 | \$5,137,767 |
| Book value of insurance liabilities | \$5,758,005 | \$5,653,273 | \$5,137,767 |
| Estimated present value of cash flows | \$4,606,404 | \$4,522,619 | \$4,110,214 |
| Balance of liability adequacy reserve | \$- | \$- | \$- |

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Reserve for claims is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: There are no instances of merger or transfer of insurance contract for Cathay Lujiazui Life. As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

Liability adequacy testing methodology is listed as follows:

| | 30 June 2016 |
|-----------------|--|
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions (1) | Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2016. |
| (2) | Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015, with neutral assumption for discount rates after 30 years. |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| | <u>31 December 2015</u> |
|-------------|--|
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2015. |
| | (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years. |

| | <u>30 June 2015</u> |
|-------------|--|
| Test method | Gross premium valuation method (GPV) |
| Groups | Integrated testing |
| Assumptions | (1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 30 June 2015. |
| | (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014, with neutral assumption for discount rates after 30 years. |

E. Reserve for insurance contracts with feature of financial instruments

Cathay Lujiazui Life issues financial instruments without discretionary participation feature. As of 30 June 2016, 31 December 2015 and 30 June 2015, reserve for insurance contracts with feature of financial instruments is summarized below:

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|----------------|---------------------|-------------------------|---------------------|
| Life insurance | \$4,686,072 | \$4,879,863 | \$5,047,860 |

| | <u>For the six-month periods ended 30 June</u> | |
|------------------------------------|--|--------------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$4,879,863 | \$4,954,666 |
| Premiums received | 477,883 | 803,762 |
| Insurance claim payments | (78,788) | (182,566) |
| Net recovery of statutory reserve | (369,348) | (425,989) |
| Losses (gains) on foreign exchange | (223,538) | (102,013) |
| Ending balance | <u>\$4,686,072</u> | <u>\$5,047,860</u> |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

| | 30 June 2016 | | |
|----------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance | \$984,512 | \$- | \$984,512 |

| | 31 December 2015 | | |
|----------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance | \$786,995 | \$- | \$786,995 |

| | 30 June 2015 | | |
|----------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Life insurance | \$634,577 | \$- | \$634,577 |

Reserve for life insurance liabilities is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$786,995 | \$- | \$786,995 |
| Reserve | 177,839 | - | 177,839 |
| Losses (gains) on foreign exchange | 19,678 | - | 19,678 |
| Ending balance | \$984,512 | \$- | \$984,512 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|-----------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$447,968 | \$- | \$447,968 |
| Reserve | 208,066 | - | 208,066 |
| Losses (gains) on foreign exchange | (21,457) | - | (21,457) |
| Ending balance | \$634,577 | \$- | \$634,577 |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

B. Unearned premium reserve

| | 30 June 2016 | | |
|-----------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$2,639 | \$- | \$2,639 |
| Individual health insurance | 2,401 | - | 2,401 |
| Total | \$5,040 | \$- | \$5,040 |

| | 31 December 2015 | | |
|-----------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$2,283 | \$- | \$2,283 |
| Individual health insurance | 2,097 | - | 2,097 |
| Total | \$4,380 | \$- | \$4,380 |

| | 30 June 2015 | | |
|-----------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Individual injury insurance | \$1,882 | \$- | \$1,882 |
| Individual health insurance | 1,625 | - | 1,625 |
| Total | \$3,507 | \$- | \$3,507 |

Unearned premium reserve is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | |
| | Insurance contract | participation feature | Total |
| Beginning balance | \$4,380 | \$- | \$4,380 |
| Reserve | 541 | - | 541 |
| Losses (gains) on foreign exchange | 119 | - | 119 |
| Ending balance | \$5,040 | \$- | \$5,040 |

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For the six-month periods ended 30 June 2016 and 2015

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

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Beginning balance | \$3,582 | \$- | \$3,582 |
| Reserve | 64 | - | 64 |
| Losses (gains) on foreign exchange | (139) | - | (139) |
| Ending balance | \$3,507 | \$- | \$3,507 |

C. Reserve for claims

| | 30 June 2016 | | |
|-------------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Individual life insurance | | | |
| — Reported but not paid claim | \$1,322 | \$- | \$1,322 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 362 | - | 362 |
| — Unreported claim | 299 | - | 299 |
| Individual health insurance | | | |
| — Reported but not paid claim | 73 | - | 73 |
| — Unreported claim | 291 | - | 291 |
| Total | \$2,347 | \$- | \$2,347 |

| | 31 December 2015 | | |
|-------------------------------|---|-----------------------|---------|
| | Financial instruments with discretionary | | Total |
| | Insurance contract | participation feature | |
| Individual life insurance | | | |
| — Reported but not paid claim | \$390 | \$- | \$390 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 291 | - | 291 |
| — Unreported claim | 244 | - | 244 |
| Individual health insurance | | | |
| — Reported but not paid claim | 91 | - | 91 |
| — Unreported claim | 229 | - | 229 |
| Total | \$1,245 | \$- | \$1,245 |

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For the six-month periods ended 30 June 2016 and 2015

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

| | 30 June 2015 | | |
|-------------------------------|---|-----|---------|
| | Financial instruments with discretionary | | Total |
| Insurance contract | participation feature | | |
| Individual life insurance | | | |
| — Reported but not paid claim | \$1,195 | \$- | \$1,195 |
| Individual injury insurance | | | |
| — Reported but not paid claim | 411 | - | 411 |
| — Unreported claim | 207 | - | 207 |
| Individual health insurance | | | |
| — Reported but not paid claim | 63 | - | 63 |
| — Unreported claim | 184 | - | 184 |
| Total | \$2,060 | \$- | \$2,060 |

Reserve for claims is summarized below:

| | For the six-month period ended 30 June 2016 | | |
|------------------------------------|---|-----|---------|
| | Financial instruments with discretionary | | Total |
| Insurance contract | participation feature | | |
| Beginning balance | \$1,245 | \$- | \$1,245 |
| Reserve | 1,088 | - | 1,088 |
| Losses (gains) on foreign exchange | 14 | - | 14 |
| Ending balance | \$2,347 | \$- | \$2,347 |

| | For the six-month period ended 30 June 2015 | | |
|------------------------------------|---|-----|---------|
| | Financial instruments with discretionary | | Total |
| Insurance contract | participation feature | | |
| Beginning balance | \$843 | \$- | \$843 |
| Reserve | 1,275 | - | 1,275 |
| Losses (gains) on foreign exchange | (58) | - | (58) |
| Ending balance | \$2,060 | \$- | \$2,060 |

D. Special reserve

| | 30 June 2015 | | |
|--------------------|---|-------|-------|
| | Financial instruments with discretionary | | Total |
| Insurance contract | participation feature | Other | |
| Other | \$- | \$- | \$- |

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For the six-month periods ended 30 June 2016 and 2015

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

Special reserve is summarized below:

| | For the six-month period ended 30 June 2015 | | | |
|---------------------------------------|---|-----------------------|-------|---------|
| | Financial instruments with discretionary | | | |
| | Insurance contract | participation feature | Other | Total |
| Beginning balance | \$4,008 | \$- | \$- | \$4,008 |
| Recover | (3,932) | - | - | (3,932) |
| Losses (gains) on foreign exchange | (76) | - | - | (76) |
| Ending balance | \$- | \$- | \$- | \$- |

Note: Cathay Life (Vietnam) had no special reserve on its books as of 30 June 2016 and 31 December 2015.

E. Liability adequacy reserve

| | Insurance contract and financial instruments with discretionary participation feature | | |
|--|--|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Reserve for life insurance liabilities | \$984,512 | \$786,995 | \$634,577 |
| Unearned premium reserve | 5,040 | 4,380 | 3,507 |
| Total | \$989,552 | \$791,375 | \$638,084 |
| Book value of insurance liabilities | \$989,552 | \$791,375 | \$638,084 |
| Estimated present value of cash flows | \$136,109 | \$99,032 | \$80,749 |
| Balance of liability adequacy reserve | \$- | \$- | \$- |

Note 1: Shown by liability adequacy test range (integrated contract).

Note 2: Outstanding reserve for claims is not included in liability adequacy test. Reserve for claims is determined based on claims incurred before valuation date and therefore not included in the test.

Note 3: There are no instances of merger or transfer of insurance contract for Cathay Life (Vietnam). As such, the book value of related intangible assets shall not be deducted from book value of insurance liability for liability adequacy reserve test.

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26. Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 30 June 2016 and 2015 were \$259,589 thousand and \$237,994 thousand, respectively. Expenses under the defined contribution plan for the six-month periods ended 30 June 2016 and 2015 were \$532,637 thousand and \$471,735 thousand, respectively.

Defined benefit plan

Expenses under the defined benefit plan for the three-month periods ended 30 June 2016 and 2015 were \$83,645 thousand and \$77,447 thousand, respectively. Expenses under the defined benefit plan for the six-month periods ended 30 June 2016 and 2015 were \$167,291 thousand and \$154,893 thousand, respectively.

27. Provisions

| | <u>Litigation liability</u> | <u>Employee benefit liability</u> | <u>Contingent liability</u> | <u>Total</u> |
|--|---------------------------------|---------------------------------------|---------------------------------|------------------|
| 1 January 2016 | \$145,445 | \$4,205,397 | \$48,607 | \$4,399,449 |
| Reversal | - | (4,200,353) | (27,562) | (4,227,915) |
| Reserve – Acquisitions through business combinations | - | - | 252,525 | 252,525 |
| Gains on foreign exchange | - | - | (11,085) | (11,085) |
| 30 June 2016 | <u>\$145,445</u> | <u>\$5,044</u> | <u>\$262,485</u> | <u>\$412,974</u> |

28. Other liabilities

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|-------------------------------|---------------------|-------------------------|---------------------|
| Accounts collected in advance | \$342,164 | \$526,026 | \$139,961 |
| Deferred handling fees | 53,990 | 61,347 | 64,930 |
| Guarantee deposits received | 2,796,072 | 2,757,733 | 2,698,899 |
| Other liabilities – Other | 2,626,256 | 4,371,459 | 3,611,208 |
| Total | <u>\$5,818,482</u> | <u>\$7,716,565</u> | <u>\$6,514,998</u> |

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29. Deferred handling fees

The Company issues investment-linked insurance contracts without discretionary participation feature of financial instruments. Deferred handling fees related to investment management services of such contracts are summarized below:

| | <u>For the six-month periods ended 30 June</u> | |
|------------------------------------|--|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$61,347 | \$73,224 |
| Addition | - | 10,032 |
| Amortization | (7,639) | (7,660) |
| Losses (gains) on foreign exchange | 282 | (10,666) |
| Ending balance | <u>\$53,990</u> | <u>\$64,930</u> |

30. Common stock

As of 30 June 2016, 31 December 2015 and 30 June 2015, the total authorized thousand shares were all 5,306,527 at par value of \$10.

31. Capital surplus

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|---|---------------------|-------------------------|---------------------|
| Additional paid-in capital | \$13,000,000 | \$13,000,000 | \$13,000,000 |
| Differences between share price and book value from acquisition or disposal of subsidiaries | 29,142 | 29,142 | 29,142 |
| Changes in amount of associates and joint ventures accounted for using the equity method | (1,109) | (1,130) | - |
| Total | <u>\$13,028,033</u> | <u>\$13,028,012</u> | <u>\$13,029,142</u> |

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.

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32. 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. Prior to 2007, this legal capital reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. When the Company incurs no loss, it 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 in proportion to the number of shares being held by each of them.

On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$7,622,904 thousand. On 20 May 2015, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of \$6,521,315 thousand.

(2) Special capital reserve

Pursuant to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, the after-tax amount of released provision from the special claim reserves for contingency according to Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises are appropriated as special capital reserve when approved by stockholders' meeting in the following year.

Special reserve for major incidents and for fluctuation of risks in accordance with Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises is placed in the special capital reserve under retained earnings.

According to Article 17 of Regulations Governing the Acquisition and Disposal of Assets by Public Companies, when the company acquires real estates from its related parties, the differences between transaction price and valuation cost shall be recognized as special capital reserve.

After adopting IFRS, the Company followed the rule issued on 5 June 2012 by FSC. The rule indicates that the entity shall recognized additional special capital reserve at the time the entity distributes distributable earnings. The additional special capital reserve shall be recognized at the amount of the balance of special capital reserve recognized when first adopting IFRS less the net of deduction part of other equity recognized when first adopting IFRS. The entity could reverse partial of the recognized distributable retained earnings if the deduction part of other equity reverses.

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The Company has elected to use the fair value of certain investment properties on the transition date to TIFRS as their deemed costs. In accordance with Article 32 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, the incremental value from fair value revaluation can be used to offset the negative impact from transition and shall be set aside an equal amount of retained earnings; the residual amount should be recognized under special reserve. According to Order No. 10202508140 issued by Insurance Bureau, the abovementioned amount \$2,994,565 thousand shall be set aside under special capital reserve in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10102508861.

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 FSC as of 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 \$124,002,466 thousand. The amount could only be used as a surplus to reserve for life insurance liability accessed and approved by authorities as inadequate and the surplus to reserve when the Company applies Phase II of IFRS 4 *Insurance Contract* to stabilize financial structure. On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserve of \$7,937,823 thousand, which is from the gain from fair value change in 2015.

In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029590, the Company recognized special capital reserve amount to \$34,764,311 thousand. The amount was originally recognized in insurance liabilities.

On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of \$27,940,507 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of \$1,616,451 thousand had been recognized at the end of 2015 in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". The rest of the special capital reserve will be recognized in year 2016.

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(3) Undistributed retained earnings

A. According to the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated as legal capital reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting.

B. If there is any surplus earnings of the then current year not distributed by a profit-seeking enterprise, an additional profit-seeking income tax shall be levied at the rate of 10% on such undistributed surplus earnings. Before the year 2004, the term "undistributed surplus earnings" as referred to in the preceding paragraph means the approved income. Beginning from the year 2005, the term shall denote the amount of income after tax as calculated by a profit-seeking enterprise in accordance with the Commercial Accounting Act. The income tax will only be levied on the undistributed surplus earnings once.

C. According to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration". The Company's board of directors, acting on behalf of the shareholders, passed the resolution of amending the Articles of Incorporation on 17 March 2016.

Please refer to Note 35 for details on employees' compensation and remuneration to directors and supervisors.

D. The Company's distribution of 2015 retained earnings has been approved by the Company's board of directors, acting on behalf of the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 30 June 2016, the addition amounted to \$719,909 thousand.

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(4) Non-controlling interests

| | For the six-month periods ended 30 June | |
|--|---|--------------------|
| | 2016 | 2015 |
| Beginning balance | \$2,327,656 | \$1,966,533 |
| Net income attributable to non-controlling interests | 206,851 | 257,922 |
| Other comprehensive income attributable to non-controlling interests | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (114,398) | (42,743) |
| Unrealized valuation (losses) gains from available-for-sale financial assets | (93,340) | 9,464 |
| Non-controlling interests from acquisition of subsidiaries | 202,132 | - |
| Ending balance | <u>\$2,528,901</u> | <u>\$2,191,176</u> |

33. Retained earned premium

(1) The Company

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|-------------------------------------|--|--------------------|----------------------|--|--------------------|----------------------|
| | Financial instruments with discretionary participation | Insurance contract | Total | Financial instruments with discretionary participation | Insurance contract | Total |
| Direct premium income | \$153,702,240 | \$29,544 | \$153,731,784 | \$129,844,914 | \$13,411 | \$129,858,325 |
| Reinsurance premium income | 53,449 | - | 53,449 | 42,819 | - | 42,819 |
| Premium income | <u>153,755,689</u> | <u>29,544</u> | <u>153,785,233</u> | <u>129,887,733</u> | <u>13,411</u> | <u>129,901,144</u> |
| Less: | | | | | | |
| Premiums ceded to reinsurers | (342,136) | - | (342,136) | (218,438) | - | (218,438) |
| Changes in unearned premium reserve | (354,670) | - | (354,670) | (414,795) | - | (414,795) |
| Subtotal | <u>(696,806)</u> | <u>-</u> | <u>(696,806)</u> | <u>(633,233)</u> | <u>-</u> | <u>(633,233)</u> |
| Retained earned premium | <u>\$153,058,883</u> | <u>\$29,544</u> | <u>\$153,088,427</u> | <u>\$129,254,500</u> | <u>\$13,411</u> | <u>\$129,267,911</u> |

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| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|-------------------------------------|---|--|---------------|---|--|---------------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct premium income | \$292,361,336 | \$89,870 | \$292,451,206 | \$238,184,631 | \$22,416 | \$238,207,047 |
| Reinsurance premium income | 110,375 | - | 110,375 | 96,097 | - | 96,097 |
| Premium income | 292,471,711 | 89,870 | 292,561,581 | 238,280,728 | 22,416 | 238,303,144 |
| Less: | | | | | | |
| Premiums ceded to reinsurers | (575,836) | - | (575,836) | (415,435) | - | (415,435) |
| Changes in unearned premium reserve | (58,137) | - | (58,137) | 2,459 | - | 2,459 |
| Subtotal | (633,973) | - | (633,973) | (412,976) | - | (412,976) |
| Retained earned premium | \$291,837,738 | \$89,870 | \$291,927,608 | \$237,867,752 | \$22,416 | \$237,890,168 |

(2) Cathay Lujiazui Life

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|-------------------------------------|---|--|-----------|---|--|-----------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct premium income | \$811,352 | \$- | \$811,352 | \$611,303 | \$- | \$611,303 |
| Reinsurance premium income | - | - | - | - | - | - |
| Premium income | 811,352 | - | 811,352 | 611,303 | - | 611,303 |
| Less: | | | | | | |
| Premiums ceded to reinsurers | (941) | - | (941) | (605) | - | (605) |
| Changes in unearned premium reserve | 7,464 | - | 7,464 | 8,345 | - | 8,345 |
| Subtotal | 6,523 | - | 6,523 | 7,740 | - | 7,740 |
| Retained earned premium | \$817,875 | \$- | \$817,875 | \$619,043 | \$- | \$619,043 |

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| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|-------------------------------------|---|--|-------------|---|--|-------------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct premium income | \$1,828,100 | \$- | \$1,828,100 | \$1,404,246 | \$- | \$1,404,246 |
| Reinsurance premium income | - | - | - | - | - | - |
| Premium income | 1,828,100 | - | 1,828,100 | 1,404,246 | - | 1,404,246 |
| Less: | | | | | | |
| Premiums ceded to reinsurers | (941) | - | (941) | (12,400) | - | (12,400) |
| Changes in unearned premium reserve | 3,981 | - | 3,981 | (5,946) | - | (5,946) |
| Subtotal | 3,040 | - | 3,040 | (18,346) | - | (18,346) |
| Retained earned premium | \$1,831,140 | \$- | \$1,831,140 | \$1,385,900 | \$- | \$1,385,900 |

(3) Cathay Life (Vietnam)

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|-------------------------------------|---|--|-----------|---|--|----------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct premium income | \$131,227 | \$- | \$131,227 | \$76,371 | \$- | \$76,371 |
| Reinsurance premium income | - | - | - | - | - | - |
| Premium income | 131,227 | - | 131,227 | 76,371 | - | 76,371 |
| Less: | | | | | | |
| Premiums ceded to reinsurers | - | - | - | - | - | - |
| Changes in unearned premium reserve | (605) | - | (605) | (226) | - | (226) |
| Subtotal | (605) | - | (605) | (226) | - | (226) |
| Retained earned premium | \$130,622 | \$- | \$130,622 | \$76,145 | \$- | \$76,145 |

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| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|-------------------------------------|---|--|-----------|---|--|-----------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct premium income | \$210,315 | \$- | \$210,315 | \$129,832 | \$- | \$129,832 |
| Reinsurance premium income | - | - | - | - | - | - |
| Premium income | 210,315 | - | 210,315 | 129,832 | - | 129,832 |
| Less: | | | | | | |
| Premiums ceded to reinsurers | - | - | - | - | - | - |
| Changes in unearned premium reserve | (541) | - | (541) | (64) | - | (64) |
| Subtotal | (541) | - | (541) | (64) | - | (64) |
| Retained earned premium | \$209,774 | \$- | \$209,774 | \$129,768 | \$- | \$129,768 |

34. Retained claim payments

(1) The Company

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|---------------------------------|---|--|--------------|---|--|--------------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct insurance claim payments | \$68,687,106 | \$2,681,673 | \$71,368,779 | \$60,526,980 | \$4,792,447 | \$65,319,427 |
| Reinsurance claim payments | 60,896 | - | 60,896 | 24,118 | - | 24,118 |
| Insurance claim payments | 68,748,002 | 2,681,673 | 71,429,675 | 60,551,098 | 4,792,447 | 65,343,545 |
| Less: | | | | | | |
| Claims recovered from reinsures | (125,381) | - | (125,381) | (48,453) | - | (48,453) |
| Retained claim payments | \$68,622,621 | \$2,681,673 | \$71,304,294 | \$60,502,645 | \$4,792,447 | \$65,295,092 |

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| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|---------------------------------|---|--|---------------|---|--|---------------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct insurance claim payments | \$135,992,276 | \$5,808,822 | \$141,801,098 | \$118,755,266 | \$9,728,010 | \$128,483,276 |
| Reinsurance claim payments | 92,763 | - | 92,763 | 64,089 | - | 64,089 |
| Insurance claim payments | 136,085,039 | 5,808,822 | 141,893,861 | 118,819,355 | 9,728,010 | 128,547,365 |
| Less: | | | | | | |
| Claims recovered from reinsures | (257,006) | - | (257,006) | (91,376) | - | (91,376) |
| Retained claim payments | \$135,828,033 | \$5,808,822 | \$141,636,855 | \$118,727,979 | \$9,728,010 | \$128,455,989 |

(2) Cathay Lujiazui Life

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|---------------------------------|---|--|-----------|---|--|-----------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct insurance claim payments | \$333,202 | \$- | \$333,202 | \$303,976 | \$- | \$303,976 |
| Reinsurance claim payments | - | - | - | - | - | - |
| Insurance claim payments | 333,202 | - | 333,202 | 303,976 | - | 303,976 |
| Less: | | | | | | |
| Claims recovered from reinsures | 119 | - | 119 | 14 | - | 14 |
| Retained claim payments | \$333,321 | \$- | \$333,321 | \$303,990 | \$- | \$303,990 |

| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|---------------------------------|---|--|-----------|---|--|-----------|
| | Insurance contract | Financial instruments with discretionary participation feature | Total | Insurance contract | Financial instruments with discretionary participation feature | Total |
| Direct insurance claim payments | \$804,718 | \$- | \$804,718 | \$542,962 | \$- | \$542,962 |
| Reinsurance claim payments | - | - | - | - | - | - |
| Insurance claim payments | 804,718 | - | 804,718 | 542,962 | - | 542,962 |
| Less: | | | | | | |
| Claims recovered from reinsures | (9,129) | - | (9,129) | (10,270) | - | (10,270) |
| Retained claim payments | \$795,589 | \$- | \$795,589 | \$532,692 | \$- | \$532,692 |

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(3) Cathay Life (Vietnam)

| | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|---------------------------------|--|---------|---------|--|---------|---------|
| | Financial instruments with discretionary participation | | Total | Financial instruments with discretionary participation | | Total |
| | Insurance contract | feature | | Insurance contract | feature | |
| Direct insurance claim payments | \$6,455 | \$- | \$6,455 | \$8,378 | \$- | \$8,378 |
| Reinsurance claim payments | - | - | - | - | - | - |
| Insurance claim payments | 6,455 | - | 6,455 | 8,378 | - | 8,378 |
| Less: | | | | | | |
| Claims recovered from reinsures | - | - | - | - | - | - |
| Retained claim payments | \$6,455 | \$- | \$6,455 | \$8,378 | \$- | \$8,378 |

| | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|---------------------------------|--|---------|----------|--|---------|----------|
| | Financial instruments with discretionary participation | | Total | Financial instruments with discretionary participation | | Total |
| | Insurance contract | feature | | Insurance contract | feature | |
| Direct insurance claim payments | \$12,810 | \$- | \$12,810 | \$18,776 | \$- | \$18,776 |
| Reinsurance claim payments | - | - | - | - | - | - |
| Insurance claim payments | 12,810 | - | 12,810 | 18,776 | - | 18,776 |
| Less: | | | | | | |
| Claims recovered from reinsures | - | - | - | - | - | - |
| Retained claim payments | \$12,810 | \$- | \$12,810 | \$18,776 | \$- | \$18,776 |

35. Personnel expenses, depreciation and amortization – The Company and Subsidiaries

| Items | For the three-month period ended 30 June 2016 | | | For the three-month period ended 30 June 2015 | | |
|-------------------------------------|---|--------------------|-------------|---|--------------------|-------------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$7,131,487 | \$1,436,095 | \$8,567,582 | \$7,182,708 | \$954,228 | \$8,136,936 |
| Labor and health insurance expenses | 460,245 | 192,292 | 652,537 | 364,757 | 83,209 | 447,966 |
| Pension expenses | 281,702 | 61,532 | 343,234 | 261,595 | 53,846 | 315,441 |
| Other expenses | 370,222 | 640,170 | 1,010,392 | 339,507 | 111,196 | 450,703 |
| Depreciation | 1,366 | 185,897 | 187,263 | 1,278 | 165,102 | 166,380 |
| Amortization | - | 646,882 | 646,882 | - | 12,642 | 12,642 |

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| Items | For the six-month period ended 30 June 2016 | | | For the six-month period ended 30 June 2015 | | |
|-------------------------------------|--|-----------------------|--------------|--|-----------------------|--------------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Personnel expenses | | | | | | |
| Salary and wages | \$15,124,396 | \$3,059,743 | \$18,184,139 | \$13,183,065 | \$1,902,574 | \$15,085,639 |
| Labor and health insurance expenses | 961,894 | 423,734 | 1,385,628 | 892,186 | 200,621 | 1,092,807 |
| Pension expenses | 573,311 | 126,617 | 699,928 | 518,985 | 107,643 | 626,628 |
| Other expenses | 673,385 | 1,235,563 | 1,908,948 | 653,590 | 202,326 | 855,916 |
| Depreciation | 2,473 | 366,795 | 369,268 | 2,255 | 328,131 | 330,386 |
| Amortization | - | 1,272,065 | 1,272,065 | - | 24,798 | 24,798 |

A resolution was passed by the Board of Directors, acting on behalf of the shareholders, on 17 March 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.01% to 0.1% of profit of the current year is distributable as employees' compensation and no more than 0.1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

Based on profit of the three-month period ended 30 June 2016 and the Company's Articles of Incorporation, the Company recognized the employees' compensation and remuneration to directors and supervisors for the three-month period ended 30 June 2016 amounted to \$896 thousand and \$3,189 thousand, respectively, and for the six-month period ended 30 June 2016 amounted to \$1,059 thousand and \$4,822 thousand, respectively. The Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the three-month period ended 30 June 2015 to be \$0 thousand and \$3,660 thousand, respectively, and for the six-month period ended 30 June 2015 to be \$0 thousand and \$3,660 thousand, respectively. The aforementioned employee's compensation and remuneration to directors and supervisors for the three-month and six-month periods ended 30 June 2015 were estimated based on post-tax net income of the period and recognized as salaries expense. If differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended 31 December 2015, the differences are recognized in profit or loss of the subsequent year.

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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A resolution was passed at a Board of Directors meeting held on 17 March 2016 to distribute \$4,373 thousand and \$7,200 thousand in cash as employees' compensation and remuneration to directors and supervisors for 2015, respectively. Both amounts distributed were the same as the amount recognized as expense in 2015.

36. Non-operating income and expenses

| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|--|------------------|--|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| (Losses) gains on disposal of property and equipment | \$(182) | \$(67) | \$242,536 | \$(135) |
| Dividend on preferred stock liabilities | (95,227) | (226,378) | (190,454) | (450,268) |
| Other | 645,804 | 573,315 | 916,364 | 1,123,185 |
| Total | \$550,395 | \$346,870 | \$968,446 | \$672,782 |

37. Components of other comprehensive income

| | For the three-month period ended 30 June 2016 | | | | |
|---|---|--|----------------------------------|-----------------------|--|
| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income | Income tax expense | Other comprehensive income, net of tax |
| Not to be reclassified to profit or loss in subsequent periods | | | | | |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods | \$(1,734) | \$- | \$(1,734) | \$295 | \$(1,439) |
| To be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (1,876,317) | - | (1,876,317) | 31,512 | (1,844,805) |
| Unrealized valuation gains from available-for-sale financial assets | 9,645,207 | (3,237,075) | 6,408,132 | (257,581) | 6,150,551 |
| Effective portion of gains on hedging instruments in cash flow hedges | 72,683 | (44,104) | 28,579 | (4,858) | 23,721 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods | (159,581) | - | (159,581) | (834) | (160,415) |
| Total | \$7,680,258 | \$(3,281,179) | \$4,399,079 | \$(231,466) | \$4,167,613 |

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| | For the three-month period ended 30 June 2015 | | | | |
|---|---|--|----------------------------|--------------------|--|
| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income | Income tax benefit | Other comprehensive income, net of tax |
| Not to be reclassified to profit or loss in subsequent periods | | | | | |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods | \$757 | \$- | \$757 | \$(129) | \$628 |
| To be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | 871,518 | - | 871,518 | - | 871,518 |
| Unrealized valuation losses from available-for-sale financial assets | (11,687,942) | (15,071,822) | (26,759,764) | 2,804,976 | (23,954,788) |
| Effective portion of gains on hedging instruments in cash flow hedges | 46,755 | (36,872) | 9,883 | (1,680) | 8,203 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods | (227,922) | - | (227,922) | 36,055 | (191,867) |
| Total | \$(10,996,834) | \$(15,108,694) | \$(26,105,528) | \$2,839,222 | \$(23,266,306) |

| | For the six-month period ended 30 June 2016 | | | | |
|---|---|--|----------------------------|--------------------|--|
| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income | Income tax benefit | Other comprehensive income, net of tax |
| Not to be reclassified to profit or loss in subsequent periods | | | | | |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods | \$(3,058) | \$- | \$(3,058) | \$520 | \$(2,538) |
| To be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (4,468,513) | - | (4,468,513) | 34,193 | (4,434,320) |
| Unrealized valuation gains from available-for-sale financial assets | 19,500,998 | (11,501,260) | 7,999,738 | 2,122,396 | 10,122,134 |
| Effective portion of gains on hedging instruments in cash flow hedges | 156,348 | (85,017) | 71,331 | (12,126) | 59,205 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods | (278,252) | - | (278,252) | 5,963 | (272,289) |
| Total | \$14,907,523 | \$(11,586,277) | \$3,321,246 | \$2,150,946 | \$5,472,192 |

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| | For the six-month period ended 30 June 2015 | | | | |
|---|---|--|----------------------------|--------------------|--|
| | Arising during the period | Reclassification adjustments during the period | Other comprehensive income | Income tax benefit | Other comprehensive income, net of tax |
| Not to be reclassified to profit or loss in subsequent periods | | | | | |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods | \$757 | \$- | \$757 | \$(129) | \$628 |
| To be reclassified to profit or loss in subsequent periods | | | | | |
| Exchange differences resulting from translating the financial statements of foreign operations | (280,274) | - | (280,274) | - | (280,274) |
| Unrealized valuation losses from available-for-sale financial assets | 10,618,058 | (33,486,727) | (22,868,669) | 2,133,742 | (20,734,927) |
| Effective portion of gains on hedging instruments in cash flow hedges | 83,030 | (76,415) | 6,615 | (1,124) | 5,491 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods | (221,578) | - | (221,578) | 36,055 | (185,523) |
| Total | \$10,199,993 | \$(33,563,142) | \$(23,363,149) | \$2,168,544 | \$(21,194,605) |

38. Income taxes

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

Income tax expense (benefit) recognized in profit or loss

| | For the three-month periods ended 30 June | |
|--|---|--------------------|
| | 2016 | 2015 |
| Current income tax expense (benefit) | | |
| Current income tax charge | \$501,297 | \$297,251 |
| Adjustments in respect of current income tax of prior periods | 27,739 | 12,736 |
| Deferred tax expense (benefit) | | |
| Deferred tax expense relating to origination and reversal of temporary differences | 2,559,508 | 3,084,450 |
| Deferred tax expense relating to origination and reversal of tax loss and tax credit | 806,709 | 1,162,972 |
| Other | | |
| Tax effect under basic tax systems | - | 1,085,188 |
| Tax effect under consolidated income tax systems | 21,660 | (193,032) |
| Total income tax expense | \$3,916,913 | \$5,449,565 |

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| | <u>For the six-month periods ended 30 June</u> | |
|--|--|--------------------|
| | <u>2016</u> | <u>2015</u> |
| Current income tax expense (benefit) | | |
| Current income tax charge | \$660,516 | \$513,508 |
| Adjustments in respect of current income tax of prior periods | 85,508 | 53,538 |
| Deferred tax expense (benefit) | | |
| Deferred tax expense relating to origination and reversal of temporary differences | 4,589,575 | 4,446,979 |
| Deferred tax benefit relating to origination and reversal of tax loss and tax credit | (2,367,903) | (386,680) |
| Other | | |
| Tax effect under basic tax systems | - | 1,341,830 |
| Tax effect under consolidated income tax systems | 21,911 | 45,168 |
| Total income tax expense | <u>\$2,989,607</u> | <u>\$6,014,343</u> |

Income taxes relating to components of other comprehensive income

| | <u>For the three-month periods ended 30 June</u> | |
|--|--|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Deferred tax expense (benefit) | | |
| Unrealized valuation gains (losses) from available-for-sale financial assets | \$257,581 | \$(2,804,976) |
| Effective portion of gains on hedging instruments in cash flow hedges | 4,858 | 1,680 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method | (30,973) | (35,926) |
| Income taxes relating to components of other comprehensive income | <u>\$231,466</u> | <u>\$(2,839,222)</u> |

| | <u>For the six-month periods ended 30 June</u> | |
|--|--|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Deferred tax expense (benefit) | | |
| Unrealized valuation losses from available-for-sale financial assets | \$(2,122,396) | \$(2,133,742) |
| Effective portion of gains on hedging instruments in cash flow hedges | 12,126 | 1,124 |
| Share of the other comprehensive income of associates and joint ventures accounted for using the equity method | (40,676) | (35,926) |
| Income taxes relating to components of other comprehensive income | <u>\$(2,150,946)</u> | <u>\$(2,168,544)</u> |

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Income taxes charged to equity

| | For the three-month periods ended 30 June | |
|---|---|------|
| | 2016 | 2015 |
| Deferred tax expense (benefit) | | |
| Capital surplus | \$4 | \$- |
| Income taxes relating to components of equity | \$4 | \$- |

| | For the six-month periods ended 30 June | |
|---|---|------|
| | 2016 | 2015 |
| Deferred tax expense (benefit) | | |
| Capital surplus | \$4 | \$- |
| Income taxes relating to components of equity | \$4 | \$- |

Imputation credit information

| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---------------------------------------|--------------|------------------|--------------|
| Balances of imputation credit amounts | \$1,633 | \$1,972,883 | \$1,137,717 |

The actual creditable ratio for 2015 and 2014 were 4.50% and 13.99%, respectively.

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

The assessment of income tax returns

As of 30 June 2016, the assessment of the income tax returns of the Company is as follows:

| | <u>The assessment of income tax returns</u> |
|-------------|---|
| The Company | Assessed and approved up to 2010 |

The Company has filed administrative remedial due to disagreements on assessment of premiums on bonds investment amortized to interest revenue and assessment of investment losses for fiscal years 2007 and 2009, respectively. The abovementioned assessment amounts filed for reinvestigation and appeal have no material impact on the Company as the amounts in dispute did not exceed tax losses reported for the years.

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39. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

The Company and Subsidiaries did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

| | For the three-month | | For the six-month | |
|--|-----------------------|--------------|-----------------------|--------------|
| | periods ended 30 June | | periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Basic earnings per share | | | | |
| Profit attributable to ordinary equity holders of the Company | \$5,040,804 | \$16,759,480 | \$7,610,727 | \$29,122,350 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 5,306,527 | 5,306,527 | 5,306,527 | 5,306,527 |
| Basic earnings per share (in dollars) | \$0.95 | \$3.16 | \$1.43 | \$5.49 |

If foreign exchange volatility reserve was not applied, basic earnings per share would be \$0.73 and \$3.03 for the three-month periods ended 30 June 2016 and 2015, respectively. If foreign exchange volatility reserve was not applied, basic earnings per share would be \$1.02 and \$4.67 for the six-month periods ended 30 June 2016 and 2015, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be \$0.48 and \$2.69 for the three-month periods ended 30 June 2016 and 2015, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be \$0.50 and \$4.55 for the six-month periods ended 30 June 2016 and 2015, respectively.

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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40. Separate account insurance products

(1) The Company

A. Separate account insurance products – Assets and liabilities

| Items | Assets | | |
|--------------------------------|----------------------|----------------------|----------------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Cash in bank | \$1,078,885 | \$1,561,053 | \$1,337,200 |
| Financial assets at fair value | | | |
| through profit or loss | 483,451,417 | 474,500,459 | 459,772,431 |
| Other receivables | 3,773,846 | 4,304,610 | 4,079,251 |
| Total | \$488,304,148 | \$480,366,122 | \$465,188,882 |

| Items | Liabilities | | |
|--|----------------------|----------------------|----------------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Other payables | \$985,834 | \$1,084,812 | \$546,327 |
| Reserve for separate account – Insurance contracts | 305,459,428 | 308,374,625 | 332,777,075 |
| Reserve for separate account – Investment contracts | 181,858,886 | 170,906,685 | 131,865,480 |
| Total | \$488,304,148 | \$480,366,122 | \$465,188,882 |

B. Separate account insurance products – Revenue and expenses

| Items | Expenses | | | |
|---|--|------------------|--|--------------------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Insurance claim payments | \$3,021,784 | \$3,918,131 | \$5,820,311 | \$18,729,406 |
| Cash surrender value | 6,989,745 | 8,800,589 | 15,158,610 | 17,975,123 |
| Dividends | 23 | 73 | 110 | 117 |
| Provision for (recovery of) separate account reserve | 1,514,385 | (13,605,722) | (2,914,205) | (32,873,980) |
| Administrative expenses | 950,907 | 1,100,224 | 1,915,653 | 2,219,925 |
| Non-operating income and expenses | (32,605) | (37,052) | (56,581) | (63,226) |
| Total | \$12,444,239 | \$176,243 | \$19,923,898 | \$5,987,365 |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

| Items | Revenue | | | |
|--|---|-------------|---|--------------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Premium income | \$5,336,242 | \$7,180,691 | \$9,121,248 | \$17,412,466 |
| Interest income | 264 | 409 | 484 | 1,192 |
| Gains from financial assets and liabilities at fair value through profit or loss | 6,042,224 | 578,188 | 13,748,527 | 5,247,522 |
| Foreign exchange gains (losses) | 1,065,509 | (7,583,045) | (2,946,361) | (16,673,815) |
| Total | \$12,444,239 | \$176,243 | \$19,923,898 | \$5,987,365 |

C. The commission earned for the sales of separate account insurance products from counterparties for the three-month periods ended 30 June 2016 and 2015 were \$353,141 thousand and \$340,524 thousand, respectively. The commission earned for the sales of separate account insurance products from counterparties for the six-month periods ended 30 June 2016 and 2015 were \$699,502 thousand and \$707,898 thousand, respectively.

(2) Cathay Lujiazui Life

A. Separate account insurance products – Assets and liabilities

| Items | Assets | | |
|---|--------------|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Cash in bank | \$11,290 | \$18,048 | \$14,463 |
| Financial assets at fair value through profit or loss | 159,631 | 183,631 | 305,015 |
| Interest receivable | 77 | 10 | 53 |
| Other | 150 | 550 | 3,454 |
| Total | \$171,148 | \$202,239 | \$322,985 |

| Items | Liabilities | | |
|------------------------------|--------------|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Other payables | \$289 | \$786 | \$3,875 |
| Reserve for separate account | 155,463 | 186,269 | 300,393 |
| Other | 15,396 | 15,184 | 18,717 |
| Total | \$171,148 | \$202,239 | \$322,985 |

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B. Separate account insurance products – Revenue and expenses

| Items | Expenses | | | |
|---|---|------------------|---|-------------------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Cash surrender value | \$709 | \$116,030 | \$6,050 | \$168,286 |
| Administrative expenses | 340 | 1,236 | 1,128 | 2,353 |
| Tax expenses | - | 708 | - | 4,077 |
| Provision for (recovery of) separate account reserve | 1,086 | (52,592) | (23,446) | (5,314) |
| Losses from financial assets and liabilities at fair value through profit or loss | (20,178) | - | - | - |
| Total | <u>\$ (18,043)</u> | <u>\$ 65,382</u> | <u>\$ (16,268)</u> | <u>\$ 169,402</u> |

| Items | Revenue | | | |
|---|---|------------------|---|-------------------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Premium income | \$321 | \$6,448 | \$610 | \$9,172 |
| Interest income | 29 | 40 | 53 | 79 |
| Tax expenses | (415) | - | 1,047 | - |
| (Losses) gains from financial assets and liabilities at fair value through profit or loss | (17,978) | 58,894 | (17,978) | 160,151 |
| Total | <u>\$ (18,043)</u> | <u>\$ 65,382</u> | <u>\$ (16,268)</u> | <u>\$ 169,402</u> |

41. Business combinations

- (1) Approved by the board of directors, the Company has participated and won the public auction for assets, liabilities and operations of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. The public auction holder, Taiwan Insurance Guaranty Fund, provided compensation of \$30,300,000 thousand for the takeover. The price for acquiring the assets, liabilities and operations of the target firms is adjusted based on the effect on the equity resulted from the amount changes in the designated accounts on 1 July 2015. Pursuant to IFRS 3 *Business Combinations*, the Company recognized goodwill at the excess of fair value of the identifiable net assets and the aggregation of the consideration transferred.

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The assumed assets, liabilities and goodwill generated from the business combination on 1 July 2015 are disclosed as follows (reserved assets and liabilities are not assumed and thus are excluded):

| | <u>Fair value recognized on the acquisition date</u> | |
|--|--|----------------|
| Purchase consideration (Compensation received) | | \$(30,300,000) |
| Cash and cash equivalents | \$16,157,186 | |
| Receivables | 1,026,998 | |
| Financial assets at fair value through profit or loss | 463,179 | |
| Available-for-sale financial assets | 8,779,212 | |
| Debt instrument investments for which no active market exists | 54,801,260 | |
| Investment property | 2,609,545 | |
| Loans | 9,795,866 | |
| Reinsurance assets | 130,977 | |
| Property and equipment | 57,038 | |
| Intangible assets (Franchises and computer software) | 37,676,033 | |
| Other assets | 3,032,899 | |
| Separate account product assets | 431,208 | |
| Payables | (503,929) | |
| Financial liabilities at fair value through profit or loss | (126,168) | |
| Insurance liabilities | (166,649,257) | |
| Foreign exchange volatility reserve | (248,318) | |
| Provisions | (5,220) | |
| Other liabilities | (215,691) | |
| Separate account product liabilities | (431,208) | |
| Identifiable net assets acquired at fair value | <u>\$(33,218,390)</u> | |
| Acquisition ratio | 100% | |
| Intangible assets (Goodwill) | | \$2,918,390 |

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(2) Acquisition of subsidiary – Conning Holdings Limited

On 18 September 2015, the Company and Subsidiaries acquired 100% of the equity of Conning Holdings Limited with \$7,839,676 thousand cash and have obtained control of Conning Holdings Limited. The Company and Subsidiaries have acquired Conning Holdings Limited because the acquisition accomplished the Company and Subsidiaries' vision for developing global asset management business to improve the efficiency of insurance fund allocation.

The fair value of the identifiable assets and liabilities of the subsidiaries mentioned above as at the date of acquisition were disclosed as follows:

| | <u>Fair value recognized on the acquisition date</u> | |
|--|--|-------------|
| Purchase consideration | | \$7,839,676 |
| Cash and cash equivalents | \$861,258 | |
| Receivables | 864,136 | |
| Debt instrument investments for which no active market exists | 3,289 | |
| Property and equipment | 131,700 | |
| Intangible assets (Except for goodwill) | 2,550,377 | |
| Other assets | 200,849 | |
| Payables | (869,047) | |
| Provisions | (66,311) | |
| Deferred tax liabilities | (578,523) | |
| Other liabilities | (268,088) | |
| Non-controlling interests | (77,927) | |
| Identifiable net assets acquired at fair value | <u>\$2,751,713</u> | |
| Acquisition ratio | 100% | |
| Intangible assets (Goodwill) | | \$5,087,963 |

- (3) On 1 February 2016, the Company and Subsidiaries acquired 82.06% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with \$4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. The acquisition enabled the Company and Subsidiaries to provide investment solution for clients, maximize the use of various resources and stabilize the investment performance.

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The fair value of the identifiable assets and liabilities of the subsidiaries mentioned above as at the date of acquisition were disclosed as follows:

| | Fair value recognized on the acquisition date |
|---|---|
| Cash and cash equivalents | \$38 |
| Receivables | 277,361 |
| Held-to-maturity financial assets | 442,435 |
| Intangible assets (Except for goodwill) | 1,640,402 |
| Other assets | 44,167 |
| Payables | (41,479) |
| Provisions | (252,525) |
| Other liabilities | (57,820) |
| Identifiable net assets | <u><u>\$2,052,579</u></u> |

Goodwill of Octagon Credit Investors, LLC is as follows:

| | |
|--|---------------------------|
| Purchase consideration | \$4,708,746 |
| Add: Non-controlling interests at fair value | 240,098 |
| Less: Identifiable net assets at fair value | <u>(2,052,579)</u> |
| Goodwill | <u><u>\$2,896,265</u></u> |

At the date of approval and issuance of the consolidated financial statements, the market value and pertinent amount have not yet been determined; therefore, the abovementioned amount are disclosed at managements' best estimate.

42. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

The Company's risk management policy aims to promote operational efficiency, to ensure assets safety, to increase shareholder value, and to comply with any and all applicable laws and regulations for the purpose of steady growth and sustainable management.

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(2) Framework of risk management, organization structure and responsibilities

A. Board of directors

- a. The board of directors should establish appropriate risk management framework and culture, ratify appropriate risk management policy and allocate resources in the most effective manner.
- b. The board of directors together with senior management should promote and execute risk management policies and standards. Furthermore, they should keep the policies and standards in line with the Company's operational objective and strategy.
- c. The board of directors should be aware of the risk arising from daily operations, ensure the effectiveness of risk management and bear the ultimate responsibility for risk management.
- d. The board of directors should delegate authority to risk management department to deal with violation of risk limits by other departments.

B. Risk management committee

- a. The committee should develop the risk management policies, framework and organizational function and establish quantitative and qualitative risk management standards. The committee is also responsible for reporting the results of implementing such policies and standards to the board regularly and making necessary suggestions for improvement.
- b. The committee should execute the risk management decisions made by the board of directors and evaluate the results of developing and executing risk management mechanisms.
- c. The committee should assist and monitor the risk management activities.
- d. The committee should adjust the risk category, risk limits and risk taking tendency according to the change of the environment.
- e. The committee should enhance cross-department interaction and communication.

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C. Chief Risk Officer

- a. The Chief Risk Officer should maintain independence and should not concurrently play a business or financial role nor hold a position in any profit center of the Company.
- b. The Chief Risk Officer should be able to access any and all information which may have an impact on risk overview of the Company.
- c. The Chief Risk Officer should be in charge of overall risk management of the Company.
- d. The Chief Risk Officer should participate in the company's important decision-making process and express opinions from a risk management perspective.

D. Risk management department

- a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.
- b. The department should perform the following functions with regard to different business activities:
 - (A) Propose and execute the risk management policies set by the board of directors.
 - (B) Suggest the risk limits based on risk appetite.
 - (C) Summarize the risk information provided by all departments, facilitate the execution of the policies and discuss the risk limits with departments respectively.
 - (D) Regularly generate risk management related reports.
 - (E) Regularly review all department's risk limits and cope with the violation of such limits.
 - (F) Execute stress testing.
 - (G) Execute back testing if necessary.
 - (H) Manage other risk management related issues.

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E. Business Units

- a. Identify and measure risks and report risk exposure and potential influence against the Company on time.
- b. Regularly review the risk limits and in the event of any excess of such limits, the designated person shall report such excess along with what actions have been taken against it.
- c. Assist to develop the risk model and to ensure that risk measurement, application of the model and the parameter settings are reasonable and consistent.
- d. Ensure that internal control procedures are executed effectively to comply with applicable laws and regulations and the Company's risk management policies.
- e. Assist to collect operational risk related data.
- f. Manager(s) of each business unit shall be responsible for daily risk management and risk reporting of such unit if necessary and take necessary measures in response to such risks.
- g. Manager(s) of each business unit shall procure such unit to disclose risk management related information regularly to the risk management department.

F. Audit department

The department is required to oversee risk management policies execution among all departments pursuant to the applicable laws and regulations and the Company's risk management policies.

Each subsidiary's risk management department or related unit should develop risk management policies based on each subsidiary's operating nature and needs, and should provide risk management report to the Company's risk management department periodically. The Company's risk management department will summarize all subsidiaries' reports and provide them to risk management committee for future reference at regular intervals.

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(3) The range and types of risk assessment and reporting

The Company's procedures for risk management include risk identification, risk measurement, risk control and risk reporting. The Company sets its management standards for a broad variety of risks as specified below, i.e. market risk, credit risk, sovereign risk, liquidity risk, operational risk, insurance risk, and assets/liability management, as well as for capital adequacy. The Company also develop methods of assessment and evaluation, monitors its risks and regularly provides the risk management reports.

A. Market risk

This risk can be defined as the risk of losses in value of the Company's financial assets arising from adverse movements in market prices of financial instruments. The Company applies one-week 95% and 99% value-at-risk (VaR) to measuring market risk. The Company also use back testing regularly to ensure the accuracy of the market risk model. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in value of certain asset groups due to significant domestic and/or international events. In response to the enforcement of foreign exchange volatility reserve, the Company determines the ceiling of foreign exchange risk, implements early warning system and also monitors foreign exchange risk regularly.

B. Credit risk

This risk refers to the Company's losses due to the default of debtors. The measurements that the Company uses include credit rating, concentration and annual value-at-risk (VaR) under 95% confidence level. Furthermore, the Company applies scenario analysis and stress testing to evaluating the change in value of the asset groups due to significant domestic and/or international events.

C. Sovereign risk

Sovereign risk is the risk that the Company suffers losses from investment in a specific country as a consequence of market price fluctuation or government's default stemming from local political and/or economic situations. The Company measures the risk by certain ratio. The ratio could be calculated as follows: the total investment amount of certain country or specific area divided by total foreign investment amount or net asset. The Company reviews and adjusts the indicator on a regular basis.

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D. Liquidity risk

Liquidity risk includes “Funding liquidity risk” and “Market liquidity risk”. The former is the risk of insufficient funding to meet the Company’s commitment when due. The Company has established risk measurement indicators of capital liquidity risk and reviews the indicators regularly. Also, funding reporting system has been established and the risk management department manages funding liquidity based on the information provided by relevant business units. Furthermore, cash flow analysis model has been applied and monitored regularly. Improvements will be made once unusual events occur. Cash flow analysis model is also applied to set the annual assets allocation plan to better maintain the liquidity of assets. “Market liquidity risk” occurs when drastic change of market price is triggered by market turmoil or lack of market depth. The Company has established a liquidity threshold for investment. All investment departments have evaluated the market trading volumes and adequacy of holding positions based on the characteristics and objectives of current investment portfolio.

E. Operational risk

Operational risk occurs when there are errors caused by internal process, employee(s), system breakdown or external issues such as legal risk; however, strategic risk and reputation risk are excluded. The Company has set the standard operating procedure based on the nature of the operations and established losses reporting system as well to collect and manage information with respect to losses resulting from operational risk. To maintain the Company’s operation and ability to provide customer services while minimizing the losses under emergency events, the Company has established emergency handling mechanism and information system damage preparedness.

F. Insurance risk

The Company assumes that certain risks transfer from policy holders to the Company after collecting premiums from policy holders and, as a result, the Company may bear a loss for paying a claim due to unexpected changes. This risk generally happens because of the policy design, pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk and reserve-related risk.

G. Asset and liability matching risk

It happens when the changes in the value of assets and liabilities are not equal. The Company measures the risk with capital costs, duration, cash flow management and scenario analysis.

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H. Risk-based capital (RBC) ratio

The RBC ratio regulated under the Insurance Act and the Regulations Governing Capital Adequacy of Insurance Companies is the total capital of the Company divided by the Company's risk-based capital. The Company regards such ratio as an indicator for capital adequacy.

(4) The process of assuming, measuring, monitoring and controlling risks and the way to determine a proper risk classification, a premium level and underwriting policies

A. The process of assuming, measuring, monitoring and controlling risks

a. Promulgate the Company's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.

b. Establish methods to evaluate insurance risks.

c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.

d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in the Company and that in the Cathay Financial Holdings.

B. The way to determine a proper risk classification, a premium level and underwriting policies

a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.

b. The Company has an underwriting team dealing with controversial cases with regard to new contracts and changes of the terms and conditions and having the right to interpret relevant underwriting standards.

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c. The Company has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.

(5) The scope of insurance risk assessment and management from a company-wise perspective

A. Insurance risk assessment covers the following topics:

a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.

b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.

c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.

d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company's credit rating and solvency.

e. Claim risk: This risk arises from mishandling claims.

f. Risk of insufficient reserve: It happens when the Company does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

B. The scope of management of insurance risk

a. Build up a top-down framework of the Company's insurance risk management and empower relevant parties to execute risk management.

b. Establish the Company's insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.

c. Develop action plans in consideration of the Company's growth strategy and the global financial environment.

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- d. Determine methods to measure insurance risks.
- e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
- f. Manage other risk management issues.

- (6) The method to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk

The method that the Company mainly uses to limit or transfer insurance risk exposure and to avoid inappropriate concentration risk is the reinsurance management plan which is made considering the Company's risk taking ability, risk profiling and legal issues factors. In order to maintain safety of risk transfer and to control the risk of reinsurance transactions, the Company has established reinsurer selection standards.

- (7) Asset/liability management

A. The Company has an asset/liability management committee to establish management structure, to ensure full application of the management policy, to integrate human capital and resources, to review the strategy and practice regularly and, furthermore, to reduce all types of risks.

B. Authorized departments will review the measurement of asset/liability management regularly and report to the asset/liability management committee regularly; following that, the results will be sent to the risk management committee of the Company. Furthermore, the annual report should be delivered to the risk management committee of the Cathay Financial Holdings.

C. When an exceptional situation occurs, the affected departments should propose possible solutions to the asset/liability management committee, the risk management committee in the Company and that in the Cathay Financial Holdings.

- (8) The procedure to manage, monitor and control a special event which results in extra liability to be taken or extra owner equity to be committed

Pursuant to the applicable laws and regulations, the Company is required to maintain a certain Risk-based capital (RBC) ratio. In order to enhance the Company's capital management and to comply with such RBC ratio, the Company has established a set of capital adequacy management standards as follows:

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A. Capital adequacy management

- a. Regularly provide capital adequacy management reports and analysis to the finance department of the Cathay Financial Holdings.
- b. Regularly provide the risk management committee the capital adequacy management analysis report.
- c. Conduct scenario analysis to figure out how the use of funding, the changes of the financial environment or the amendments of applicable laws and regulations can affect RBC ratio.
- d. Regularly review RBC ratio and related control standards to ensure a solid capital adequacy management.

B. Exception management process

When RBC ratio exceeds the standard given or other exceptions occur, the Company is required to notify the risk management department and finance department of the Cathay Financial Holdings together with the capital adequacy analysis report and possible solution(s).

(9) Risk mitigation and avoidance policies and risk monitoring procedures

- A. The Company enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.
- B. Hedging instrument against business risks and implementation are made preliminarily based on the risk tolerance levels. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

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C. The Company assesses and reviews the effectiveness of the hedge instruments and hedged items regularly. The assessment report is issued and forwarded to the management which is delegated by board of directors; meanwhile, a copy of the assessment report is delivered to the audit department for future reference.

(10) The policies and procedures against the concentration of credit and investment risks

Considering the credit risk factors, the Company has set credit and investment limits by business groups, industries and countries. When such limits has been reached or breached as a result of any increase of the credit line or investment, the Company shall not grant loans or make investment in general. However, if the Company has to undertake the business under certain circumstances, the Company shall follow the internal regulations, including but not limited to “Guidelines for sovereign risk management” and “Guidelines for credit and investment risk management on conglomerate and other juristic person institute”.

43. Information of insurance risk

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

A. The Company

| For the six-month period ended 30 June 2016 | | | |
|---|---------------|---------------------|---------------------|
| Changes in income | | | |
| | Scenarios | before tax | Changes in equity |
| | | Decrease (increase) | Decrease (increase) |
| Mortality/Morbidity | ×1.05 (×0.95) | 1,161,709 | 964,218 |
| | | Decrease (increase) | Decrease (increase) |
| Expense | ×1.05 (×0.95) | 1,645,670 | 1,365,906 |
| | | Increase (decrease) | Increase (decrease) |
| Surrender rates | ×1.05 (×0.95) | 214,461 | 178,002 |
| Rate of return | +0.1% | Increase 2,273,185 | Increase 1,886,743 |
| Rate of return | -0.1% | Decrease 2,274,311 | Decrease 1,887,678 |

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| For the six-month period ended 30 June 2015 | | | |
|---|---------------|---------------------|---------------------|
| | Scenarios | Changes in income | |
| | | before tax | Changes in equity |
| | | Decrease (increase) | Decrease (increase) |
| Mortality/Morbidity | ×1.05 (×0.95) | 1,013,541 | 841,239 |
| | | Decrease (increase) | Decrease (increase) |
| Expense | ×1.05 (×0.95) | 1,311,213 | 1,088,307 |
| | | Increase (decrease) | Increase (decrease) |
| Surrender rates | ×1.05 (×0.95) | 128,101 | 106,324 |
| Rate of return | +0.1% | Increase 2,024,067 | Increase 1,679,976 |
| Rate of return | -0.1% | Decrease 2,025,067 | Decrease 1,680,805 |

B. Cathay Lujiazui Life

| For the six-month period ended 30 June 2016 | | | |
|---|---------------|---------------------|---------------------|
| | Scenarios | Changes in income | |
| | | before tax | Changes in equity |
| | | Decrease (increase) | Decrease (increase) |
| Mortality/Morbidity | ×1.10 (×0.90) | 173,572 | 130,179 |
| | | Decrease (increase) | Decrease (increase) |
| Expense | ×1.05 (×0.95) | 102,271 | 76,704 |
| | | Increase (decrease) | Increase (decrease) |
| Surrender rates | ×1.10 (×0.90) | 89,053 | 66,790 |
| Rate of return | +0.25% | Increase 325,834 | Increase 244,375 |
| Rate of return | -0.25% | Decrease 354,725 | Decrease 266,044 |

| For the six-month period ended 30 June 2015 | | | |
|---|---------------|---------------------|---------------------|
| | Scenarios | Changes in income | |
| | | before tax | Changes in equity |
| | | Decrease (increase) | Decrease (increase) |
| Mortality/Morbidity | ×1.10 (×0.90) | 59,621 | 44,716 |
| | | Decrease (increase) | Decrease (increase) |
| Expense | ×1.05 (×0.95) | 42,126 | 31,595 |
| | | Increase (decrease) | Increase (decrease) |
| Surrender rates | ×1.10 (×0.90) | 18,998 | 14,248 |
| Rate of return | +0.25% | Increase 160,321 | Increase 120,241 |
| Rate of return | -0.25% | Decrease 228,507 | Decrease 171,380 |

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C. Cathay Life (Vietnam)

| For the six-month period ended 30 June 2016 | | | |
|---|-------------------|------------------------------|------------------------------|
| Scenarios | Changes in income | | Changes in equity |
| | before tax | | |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 106 | Decrease (increase) 85 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 7,268 | Decrease (increase) 5,814 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 657 | Increase (decrease) 525 |
| Rate of return | +0.1% | Increase 2,687 | Increase 2,150 |
| Rate of return | -0.1% | Decrease 2,689 | Decrease 2,151 |

| For the six-month period ended 30 June 2015 | | | |
|---|-------------------|------------------------------|------------------------------|
| Scenarios | Changes in income | | Changes in equity |
| | before tax | | |
| Mortality/Morbidity | ×1.05 (×0.95) | Decrease (increase) 62 | Decrease (increase) 48 |
| Expense | ×1.05 (×0.95) | Decrease (increase) 5,126 | Decrease (increase) 3,998 |
| Surrender rates | ×1.05 (×0.95) | Increase (decrease) 378 | Increase (decrease) 295 |
| Rate of return | +0.1% | Increase 1,947 | Increase 1,519 |
| Rate of return | -0.1% | Decrease 1,948 | Decrease 1,519 |

- a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the six-month periods ended 30 June 2016 and 2015. The influence on equities of the Company, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%, 25% and 20% (22% for the six-month period ended 30 June 2015) individually.
- b. An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows the Company's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.

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c. Sensitivity Test

- (A) Mortality/Morbidity test is executed by multiplying mortality, morbidity and the occurrence rate of injury insurance by the changes of assumptions and results in the corresponding changes in income before tax.
- (B) Expense sensitivity is executed by multiplying all expense items listed in statements of comprehensive income (Note 1) by the changes of assumptions and results in the corresponding changes in income before tax.
- (C) Surrender rate sensitivity test is executed by multiplying surrender rate by the changes of assumptions and results in the corresponding changes in income before tax.
- (D) The rate of returns sensitivity test is executed by multiplying the rate of returns (Note 2) increases (decreases) by the changes of assumptions and results in the corresponding changes in income before tax.

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.

Note 2: The rate of returns is measured by $2 \times (\text{net profits or losses on investment} - \text{finance costs}) / (\text{the beginning balance of usable capital} + \text{the ending balance of usable capital} - \text{net profits or losses on investment} + \text{finance costs})$ and it needs to be annualized.

(2) Interpretation of concentration of insurance risks

The Company's insurance business is mainly in Taiwan, Republic of China. All the insurance policies have similar risks of exposure, for example, the exposure of the unexpected changes in trend (ex: mortality, morbidity, and lapse rate), the exposure of multiple insurance contracts caused by single specific event (ex: the simultaneous exposure of life insurance, health insurance, and accidental insurance caused by one earthquake). The Company reduces the risk of exposure not only by monitoring risks consistently, but also by arranging reinsurance contracts.

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The Company reviews the profits and losses on compensation and the capability of assuming risk as a whole periodically. The Company will also evaluate the retention amount according to the risk features and approve by competent authority. For the excess of retention amount, the Company cedes this portion of amounts to reinsurers. At the same time, the Company takes the possibility of unexpected human and natural disasters into account periodically and estimates the reasonable maximum amount of losses from retained risks. The Company determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the range of losses. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

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.

(3) Claim development trend

A. The Company

a. Direct business development trend

| Accident year | Development year | | | | | | | Unreported claim | Reserve for unreported claim |
|---------------|------------------|------------|------------|------------|------------|------------|------------|------------------|------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 2009Q3~2010Q2 | 14,829,634 | 17,959,493 | 18,243,613 | 18,289,784 | 18,363,485 | 18,390,558 | 18,403,084 | - | - |
| 2010Q3~2011Q2 | 15,103,881 | 18,527,032 | 18,833,493 | 18,925,256 | 18,982,721 | 19,010,759 | 19,028,223 | 17,464 | 17,499 |
| 2011Q3~2012Q2 | 15,344,577 | 18,942,860 | 19,280,694 | 19,367,147 | 19,428,157 | 19,455,647 | 19,472,489 | 44,332 | 44,421 |
| 2012Q3~2013Q2 | 14,207,669 | 17,538,363 | 17,859,772 | 17,908,657 | 17,956,033 | 17,977,710 | 17,990,038 | 81,381 | 81,544 |
| 2013Q3~2014Q2 | 14,430,297 | 17,717,754 | 18,042,139 | 18,099,194 | 18,144,367 | 18,165,735 | 18,177,634 | 135,495 | 135,766 |
| 2014Q3~2015Q2 | 14,570,990 | 18,125,403 | 18,421,694 | 18,479,458 | 18,523,145 | 18,544,840 | 18,556,852 | 431,449 | 432,312 |
| 2015Q3~2016Q2 | 15,617,711 | 19,061,242 | 19,368,915 | 19,428,259 | 19,473,388 | 19,495,833 | 19,508,199 | 3,890,488 | 3,898,269 |

| | |
|--|--------------------|
| Expected future payment | \$4,609,811 |
| Add: Assumed reserve for incurred but not reported claim | 60,701 |
| Reserve for unreported claim | 4,670,512 |
| Add: Reported but not paid claim | 456,243 |
| Claims reserve balance | <u>\$5,126,755</u> |

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b. Retained business development trend

| Accident year | Development year | | | | | | | Unreported claim | Reserve for unreported claim |
|---------------|------------------|------------|------------|------------|------------|------------|------------|------------------|------------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 2009Q3~2010Q2 | 14,886,314 | 18,016,329 | 18,299,848 | 18,347,362 | 18,421,392 | 18,448,832 | 18,461,569 | - | - |
| 2010Q3~2011Q2 | 15,151,855 | 18,574,919 | 18,882,559 | 18,974,858 | 19,032,869 | 19,061,268 | 19,078,938 | 17,670 | 17,705 |
| 2011Q3~2012Q2 | 15,388,090 | 18,996,210 | 19,336,003 | 19,423,106 | 19,484,751 | 19,512,647 | 19,529,721 | 44,970 | 45,060 |
| 2012Q3~2013Q2 | 14,354,686 | 17,697,671 | 18,021,468 | 18,071,415 | 18,119,595 | 18,141,862 | 18,154,527 | 83,112 | 83,278 |
| 2013Q3~2014Q2 | 14,483,535 | 17,792,400 | 18,120,683 | 18,178,412 | 18,224,020 | 18,245,713 | 18,257,796 | 137,113 | 137,387 |
| 2014Q3~2015Q2 | 14,655,238 | 18,249,994 | 18,549,519 | 18,608,242 | 18,652,550 | 18,674,698 | 18,686,968 | 436,974 | 437,848 |
| 2015Q3~2016Q2 | 15,731,109 | 19,207,195 | 19,518,842 | 19,579,252 | 19,625,068 | 19,648,011 | 19,660,661 | 3,929,552 | 3,937,412 |

Note: Retained business equals direct business plus assumed reinsurance business less ceded reinsurance business.

| | |
|----------------------------------|--------------------|
| Expected future payment | \$4,658,690 |
| Add: Reported but not paid claim | 449,313 |
| Retained claims reserve balance | <u>\$5,108,003</u> |

In accordance of Order No. Financial-Supervisory-Insurance-Corporate-10402133590 issued on 22 December 2015 by the FSC, the Company recognizes reserve for claims by aggregating reserve for unreported claim and reported but not paid claim. Reserve for unreported claim is determined based on reported claim and adjusted to related expenses; reported but not paid claim is reserved on a case by case basis. 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. 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; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated claim amounts and reported but not paid claim at the end of the year; the dollar amount shown below the diagonal line represents 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.

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B. Cathay Lujiazui Life

a. Direct business development trend

| Accident year | Development year | | | | | | | Expected future payment | |
|---------------|------------------|---------|---------|---------|---------|---------|---------|--|------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | |
| 2009Q3~2010Q2 | 243,209 | 450,087 | 470,127 | 470,127 | 470,192 | 470,192 | 470,192 | - | |
| 2010Q3~2011Q2 | 251,469 | 465,373 | 493,175 | 493,175 | 509,876 | 509,876 | 509,876 | - | |
| 2011Q3~2012Q2 | 267,840 | 523,078 | 565,328 | 569,630 | 573,218 | 573,218 | 573,218 | - | |
| 2012Q3~2013Q2 | 396,010 | 636,611 | 676,523 | 683,946 | 683,946 | 683,946 | 683,946 | - | |
| 2013Q3~2014Q2 | 232,421 | 435,003 | 455,316 | 463,200 | 463,200 | 463,200 | 463,200 | 7,884 | |
| 2014Q3~2015Q2 | 275,797 | 432,503 | 458,403 | 532,111 | 532,111 | 532,111 | 532,111 | 99,608 | |
| 2015Q3~2016Q2 | 187,943 | 331,815 | 351,686 | 409,979 | 409,979 | 409,979 | 409,979 | 222,036 | |
| | | | | | | | | Expected future payment | \$329,528 |
| | | | | | | | | Less: Expected reported but not paid claim | (15,045) |
| | | | | | | | | Add: Assumed reserve for incurred but not reported claim | - |
| | | | | | | | | Reserve for unreported claim | 314,483 |
| | | | | | | | | Add: Reported but not paid claim | 19,462 |
| | | | | | | | | Claims reserve balance | <u>\$333,945</u> |

b. Retained business development trend

| Accident year | Development year | | | | | | | Expected future payment |
|---------------|------------------|---------|---------|---------|---------|---------|---------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 2009Q3~2010Q2 | 238,947 | 449,756 | 470,115 | 470,127 | 470,127 | 470,127 | 470,127 | - |
| 2010Q3~2011Q2 | 247,042 | 464,993 | 493,175 | 493,175 | 500,680 | 500,680 | 500,680 | - |
| 2011Q3~2012Q2 | 261,815 | 521,753 | 565,305 | 569,606 | 573,194 | 573,194 | 573,194 | - |
| 2012Q3~2013Q2 | 336,277 | 627,346 | 667,212 | 674,634 | 674,634 | 674,634 | 674,634 | - |
| 2013Q3~2014Q2 | 208,290 | 410,421 | 430,733 | 438,547 | 438,547 | 438,547 | 438,547 | 7,814 |
| 2014Q3~2015Q2 | 273,015 | 429,721 | 456,166 | 528,440 | 528,440 | 528,440 | 528,440 | 98,719 |
| 2015Q3~2016Q2 | 185,420 | 343,978 | 365,147 | 404,897 | 404,897 | 404,897 | 404,897 | 219,477 |

Note: Retained business equals direct business plus assumed reinsurance less ceded reinsurance business.

| | |
|--|------------------|
| Expected future payment | \$326,010 |
| Less: Expected reported but not paid claim | (15,045) |
| Add: Reported but not paid claim | 19,462 |
| Retained claims reserve balance | <u>\$330,427</u> |

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Cathay Lujiazui Life 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 Cathay Lujiazui Life. 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. 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; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts in the end of the year; the dollar amount shown below the diagonal line represents 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.

C. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend)

| Accident year | Development year | | | | |
|---------------|------------------|-------|-------|-------|-------|
| | 1 | 2 | 3 | 4 | 5 |
| 2011Q3~2012Q2 | 853 | 1,071 | 1,071 | 1,071 | 1,071 |
| 2012Q3~2013Q2 | 1,127 | 1,202 | 1,202 | 1,202 | 1,202 |
| 2013Q3~2014Q2 | 672 | 733 | 733 | 733 | 733 |
| 2014Q3~2015Q2 | 1,177 | 1,302 | 1,302 | 1,302 | 1,302 |
| 2015Q3~2016Q2 | 1,266 | 1,439 | 1,439 | 1,439 | 1,439 |

The chart above has shown the development trend of claim payments. 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; the dollar amount shown above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts has been paid in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts that need to be paid for each event year as time passes.

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Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. 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.

44. Credit risk, liquidity risk, and market risk for insurance contracts

(1) Credit risk

This risk represents the Company's financial loss due to the default of reinsurers; therefore, may cause impairment of reinsurance assets.

Due to the nature of reinsurance market and the regulations on qualified reinsurers, the insurers in Taiwan sustain certain degree of concentration of credit risk in reinsurers. To reduce this risk, the Company chooses the reinsurance counterparty, reviews its credit rating periodically, monitors and controls the risk of reinsurance transactions properly in accordance with the Company's "Reinsurance Risk Management Plan" and "Evaluation Standards for Reinsurers".

The credit ratings of the Company's reinsurers are satisfactory and above certain level, complying with the Company's internal rules and relevant legal requirements in Taiwan. Furthermore, reinsurance assets are relatively immaterial to the Company in terms of assets; therefore, no significant credit risks exist.

(2) Liquidity risk

The chart below is the analysis (undiscounted) of insurance contracts and net cash flows of liabilities of financial instruments with discretionary participation features. The figures shown in this chart are the total insurance payments and expenses of valid insurance contracts at specific times in the future on the balance sheet date. The actual future payment amounts will not be the same as expected due to the difference between the actual and expected experiences.

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Unit: Billion

| | Insurance contracts and financial instruments with discretionary participation features | | |
|------------------|--|--------------|--------------|
| | Within 1 year | 1 to 5 years | Over 5 years |
| 30 June 2016 | \$(165.4) | \$(128.6) | \$16,377.4 |
| 31 December 2015 | (117.0) | 4.6 | 15,446.5 |
| 30 June 2015 | (70.2) | 28.1 | 14,065.1 |

Note: Separate account products are not included.

(3) Market risk

When the Company measures insurance liabilities, the discounted rate required by the regulator is applied. The regulator reviews the discount rate assumption which has been used for reserves periodically. However, the discount rate assumption does not move at the same time in the same direction with the market price and interest rate, and is only applied to new businesses. Thus, those possible variables in market risk to the Company's valid insurance contracts have slight impact on profit and loss or equity. When the regulator changes the discount rate assumption possibly and reasonably, this change will have the impact of different range on profit and loss or equity depending upon the level of change it has been made and the overall company product portfolio. Furthermore, the reasonably possible change on the market risk will probably have impact on the future cash flows of insurance contracts and financial instruments with discretionary participation features, which are estimated based on available information at the balance sheet date and are used for assessing the adequacy of recognized insurance liabilities via adequacy test. Based upon the reasonably possible changes of current market risk, it has little impact on the adequacy of current recognized insurance liabilities.

45. Credit risk, liquidity risk and market risk of financial instrument

(1) Credit risk analysis

A. Sources of credit risk

Credit risks from financial transactions include issuer credit risk, counterparty risk and underlying assets credit risk:

- a. Issuer credit risk represents a risk that the Company may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.

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- b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, the Company will bear financial losses.
- c. Underlying asset credit risk means the risk that the Company may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

B. Concentration risk

Regional distribution of credit risk exposure for financial assets of the Company:

30 June 2016

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|-----------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$120,876,874 | \$53,612 | \$75,606 | \$46,439,251 | \$13,041,963 | \$180,487,306 |
| Financial assets at fair value through profit or loss | 15,324,525 | 805,116 | 8,350,863 | 5,216,562 | - | 29,697,066 |
| Available-for-sale financial assets | 235,036,755 | 15,791,990 | 48,893,701 | 121,144,801 | 68,433,099 | 489,300,346 |
| Derivative financial assets for hedging | 187,055 | - | 14,783 | 318,225 | - | 520,063 |
| Debt instrument investments for which no active market exists | 92,269,533 | 126,236,208 | 391,829,068 | 845,525,386 | 501,177,823 | 1,957,038,018 |
| Held-to-maturity financial assets | 23,099,345 | - | - | - | - | 23,099,345 |
| Other financial assets | 6,000,000 | - | 3,500,000 | - | - | 9,500,000 |
| Total | \$492,794,087 | \$142,886,926 | \$452,664,021 | \$1,018,644,225 | \$582,652,885 | \$2,689,642,144 |
| Proportion | 18.3% | 5.3% | 16.8% | 37.9% | 21.7% | 100.0% |

31 December 2015

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|-----------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$64,853,928 | \$2,147,370 | \$56,256 | \$64,773,482 | \$5,106,030 | \$136,937,066 |
| Financial assets at fair value through profit or loss | 9,495,723 | 414,072 | 4,397,284 | 3,449,765 | - | 17,756,844 |
| Available-for-sale financial assets | 257,587,956 | 25,905,623 | 53,160,015 | 135,352,201 | 58,186,751 | 530,192,546 |
| Derivative financial assets for hedging | 163,545 | - | 21,009 | 262,772 | - | 447,326 |
| Debt instrument investments for which no active market exists | 96,324,443 | 121,222,038 | 351,900,002 | 824,204,673 | 442,381,303 | 1,836,032,459 |
| Held-to-maturity financial assets | 23,478,810 | - | - | - | - | 23,478,810 |
| Other financial assets | 14,500,000 | - | 3,500,000 | - | - | 18,000,000 |
| Total | \$466,404,405 | \$149,689,103 | \$413,034,566 | \$1,028,042,893 | \$505,674,084 | \$2,562,845,051 |
| Proportion | 18.2% | 5.9% | 16.1% | 40.1% | 19.7% | 100.0% |

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30 June 2015

| Financial assets | Taiwan | Asia | Europe | North America | Emerging markets and others | Total |
|---|---------------|---------------|---------------|---------------|-----------------------------|-----------------|
| Cash and cash equivalents | \$151,464,015 | \$2,300,302 | \$10,039,152 | \$59,499,985 | \$58,725,291 | \$282,028,745 |
| Financial assets at fair value through profit or loss | 7,640,192 | 668,706 | 1,703,196 | 1,956,874 | - | 11,968,968 |
| Available-for-sale financial assets | 286,346,449 | 24,519,593 | 70,811,638 | 135,113,904 | 51,126,338 | 567,917,922 |
| Derivative financial assets for hedging | 89,203 | - | 24,201 | 104,329 | - | 217,733 |
| Debt instrument investments for which no active market exists | 81,635,902 | 107,305,545 | 251,667,137 | 622,769,322 | 360,026,792 | 1,423,404,698 |
| Held-to-maturity financial assets | 24,605,989 | - | - | - | - | 24,605,989 |
| Other financial assets | 29,400,000 | - | 3,500,000 | - | - | 32,900,000 |
| Total | \$581,181,750 | \$134,794,146 | \$337,745,324 | \$819,444,414 | \$469,878,421 | \$2,343,044,055 |
| Proportion | 24.8% | 5.8% | 14.4% | 35.0% | 20.0% | 100.0% |

C. Credit Quality

Classification of credit quality for financial assets of the Company:

30 June 2016

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$180,487,306 | \$- | \$- | \$- | \$- | \$180,487,306 |
| Financial assets at fair value through profit or loss | 28,164,187 | 1,532,879 | - | - | - | 29,697,066 |
| Available-for-sale financial assets | 470,463,593 | 18,836,753 | - | - | - | 489,300,346 |
| Derivative financial assets for hedging | 520,063 | - | - | - | - | 520,063 |
| Debt instrument investments for which no active market exists | 1,904,062,374 | 52,975,644 | - | 419,718 | (419,718) | 1,957,038,018 |
| Held-to-maturity financial assets | 23,099,345 | - | - | - | - | 23,099,345 |
| Other financial assets | 9,500,000 | - | - | - | - | 9,500,000 |
| Total | \$2,616,296,868 | \$73,345,276 | \$- | \$419,718 | \$(419,718) | \$2,689,642,144 |
| Proportion | 97.3% | 2.7% | - | - | - | 100.0% |

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31 December 2015

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$136,937,066 | \$- | \$- | \$- | \$- | \$136,937,066 |
| Financial assets at fair value through profit or loss | 16,288,641 | 1,468,203 | - | - | - | 17,756,844 |
| Available-for-sale financial assets | 513,509,125 | 16,683,421 | - | - | - | 530,192,546 |
| Derivative financial assets for hedging | 447,326 | - | - | - | - | 447,326 |
| Debt instrument investments for which no active market exists | 1,790,495,682 | 45,536,777 | - | 429,858 | (429,858) | 1,836,032,459 |
| Held-to-maturity financial assets | 23,478,810 | - | - | - | - | 23,478,810 |
| Other financial assets | 18,000,000 | - | - | - | - | 18,000,000 |
| Total | \$2,499,156,650 | \$63,688,401 | \$- | \$429,858 | \$(429,858) | \$2,562,845,051 |
| Proportion | 97.5% | 2.5% | - | - | - | 100.0% |

30 June 2015

| Financial assets | Normal assets | | Past due but not impaired | Impaired | Provision for impairment | Total |
|---|------------------|---------------------------------|---------------------------|-----------|--------------------------|-----------------|
| | Investment grade | Non-investment grade or unrated | | | | |
| Cash and cash equivalents | \$282,028,745 | \$- | \$- | \$- | \$- | \$282,028,745 |
| Financial assets at fair value through profit or loss | 10,027,397 | 1,941,571 | - | - | - | 11,968,968 |
| Available-for-sale financial assets | 565,469,324 | 2,448,598 | - | - | - | 567,917,922 |
| Derivative financial assets for hedging | 217,733 | - | - | - | - | 217,733 |
| Debt instrument investments for which no active market exists | 1,401,866,923 | 21,537,775 | - | 403,910 | (403,910) | 1,423,404,698 |
| Held-to-maturity financial assets | 24,605,989 | - | - | - | - | 24,605,989 |
| Other financial assets | 32,900,000 | - | - | - | - | 32,900,000 |
| Total | \$2,317,116,111 | \$25,927,944 | \$- | \$403,910 | \$(403,910) | \$2,343,044,055 |
| Proportion | 98.9% | 1.1% | - | - | - | 100.0% |

Note: Investment grade assets refer to those with credit rating of at least BBB- granted by a credit rating agency; non-investment grade assets are those with credit rating lower than BBB- granted by a credit rating agency.

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D. Regional distribution of credit risk exposure for secured loans and overdue receivables:

30 June 2016

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$325,307,729 | \$51,182,982 | \$79,610,075 | \$14,994,321 | \$471,095,107 |
| Overdue receivables | 277,377 | 113,071 | 95,266 | - | 485,714 |
| Total | \$325,585,106 | \$51,296,053 | \$79,705,341 | \$14,994,321 | \$471,580,821 |
| Proportion | 69% | 11% | 17% | 3% | 100% |

31 December 2015

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$335,318,324 | \$53,377,019 | \$82,410,898 | \$16,920,004 | \$488,026,245 |
| Overdue receivables | 222,445 | 104,417 | 81,846 | - | 408,708 |
| Total | \$335,540,769 | \$53,481,436 | \$82,492,744 | \$16,920,004 | \$488,434,953 |
| Proportion | 69% | 11% | 17% | 3% | 100% |

30 June 2015

| Location | Northern and eastern areas | Central area | Southern area | Overseas | Total |
|---------------------|----------------------------|--------------|---------------|--------------|---------------|
| Secured loans | \$361,955,101 | \$57,223,736 | \$87,920,870 | \$16,836,569 | \$523,936,276 |
| Overdue receivables | 149,365 | 102,426 | 39,798 | - | 291,589 |
| Total | \$362,104,466 | \$57,326,162 | \$87,960,668 | \$16,836,569 | \$524,227,865 |
| Proportion | 69% | 11% | 17% | 3% | 100% |

E. Secured loans and overdue receivables

30 June 2016

| Secured loans and overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|---------------------------------------|-------------------------------|---------------|--------------|---------------------------|-------------|-----------------------|--------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$248,953,562 | \$120,038,730 | \$53,679,291 | \$251,921 | \$3,546,569 | \$426,470,073 | \$5,233,369 | \$421,236,704 |
| Corporate finance | 40,313,704 | 3,866,977 | 700,001 | - | 230,066 | 45,110,748 | 327,226 | 44,783,522 |
| Total | \$289,267,266 | \$123,905,707 | \$54,379,292 | \$251,921 | \$3,776,635 | \$471,580,821 | \$5,560,595 | \$466,020,226 |

31 December 2015

| Secured loans and overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|---------------------------------------|-------------------------------|---------------|--------------|---------------------------|-------------|-----------------------|--------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$230,933,600 | \$160,649,461 | \$44,964,387 | \$153,819 | \$4,685,286 | \$441,386,553 | \$4,717,185 | \$436,669,368 |
| Corporate finance | 41,645,215 | 4,176,027 | 997,061 | - | 230,097 | 47,048,400 | 327,286 | 46,721,114 |
| Total | \$272,578,815 | \$164,825,488 | \$45,961,448 | \$153,819 | \$4,915,383 | \$488,434,953 | \$5,044,471 | \$483,390,482 |

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30 June 2015

| Secured loans and overdue receivables | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total (EIR Principal) | Provision for impairment | Net |
|--|-------------------------------|---------------|--------------|------------------------------|-------------|--------------------------|-----------------------------|---------------|
| | Excellent | Good | Normal | | | | | |
| Consumer finance | \$245,681,651 | \$170,908,975 | \$47,835,936 | \$53,729 | \$3,903,575 | \$468,383,866 | \$4,107,180 | \$464,276,686 |
| Corporate finance | 50,365,232 | 4,179,430 | 1,147,011 | - | 152,326 | 55,843,999 | 357,462 | 55,486,537 |
| Total | \$296,046,883 | \$175,088,405 | \$48,982,947 | \$53,729 | \$4,055,901 | \$524,227,865 | \$4,464,642 | \$519,763,223 |

F. Ageing analysis of past due but not impaired secured loans and overdue receivables:

Based on the historical default rate, the Company believes that provision for loans past due within a month is not necessary unless indicator of impairment exists.

| | Past due but not impaired | | |
|------------------|---------------------------|-------------------|-----------|
| | Due in 1~2 months | Due in 2~3 months | Total |
| 30 June 2016 | \$221,275 | \$30,646 | \$251,921 |
| 31 December 2015 | 114,996 | 38,823 | 153,819 |
| 30 June 2015 | 37,651 | 16,078 | 53,729 |

(2) Liquidity risk analysis

A. Sources of liquidity risk

Liquidity risks of the financial instruments are classified as “funding liquidity risk” and “market liquidity risk”. “Funding liquidity risk” represents the default risk that the Company is unable to turn assets into cash or obtain sufficient funds. “Market liquidity risk” represents the risk of significant changes in fair value that the Company faces when it sells or offsets its assets during market disorder.

B. Liquidity risk management

The Company assesses the characteristics of business, monitors short-term cash flows, and constructs the completed mechanism of liquidity risk management. Furthermore, the Company manages market liquidity risk cautiously by considering market trading volumes and adequacy of holding positions with symmetric.

The Company uses cash flow model and stress testing to assess cash flow risk based on actual management needs or special situation. Also, for abnormal and urgent financing needs, the Company makes an emergency management operating procedure to deal with significant liquidity risks.

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C. Maturity analysis of financial liabilities

The analysis of cash outflows to the Company and Subsidiaries 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 consolidated balance sheet.

a. Maturity analysis of non-derivative financial liabilities:

| 30 June 2016 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|-------------------------|-----------------------|---------------------|---------------------|--------------|------------|
| Short-term debts | \$311,029 | \$- | \$- | \$- | \$- | \$311,029 |
| Payables | 66,885,333 | 896,239 | 53,923 | 34,651 | - | 67,870,146 |
| Preferred stock liability | 10,133,115 | 46,754 | 93,000 | 5,080,005 | - | 15,352,874 |

| 31 December 2015 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|-------------------------|-----------------------|---------------------|---------------------|--------------|------------|
| Short-term debts | \$61,104 | \$- | \$- | \$- | \$- | \$61,104 |
| Payables | 19,720,148 | 383,000 | 40,191 | - | - | 20,143,339 |
| Preferred stock liability | - | 10,277,322 | - | 5,266,005 | - | 15,543,327 |

| 30 June 2015 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|---------------------------|-------------------------|-----------------------|---------------------|---------------------|--------------|------------|
| Short-term debts | \$297,118 | \$- | \$- | \$- | \$- | \$297,118 |
| Payables | 33,862,058 | 450,268 | 135 | - | - | 34,312,461 |
| Preferred stock liability | 15,254,589 | - | 10,563,397 | 5,173,005 | - | 30,990,991 |

b. Maturity analysis of derivative financial liability:

| 30 June 2016 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|--------------|-------------------------|-----------------------|---------------------|---------------------|--------------|-----------|
| IRS | \$28,941 | \$32,153 | \$89,261 | \$30,219 | \$- | \$180,574 |
| Forward | 340,702 | 520 | - | - | - | 341,222 |
| CS | 1,244,350 | - | - | - | - | 1,244,350 |

| 31 December 2015 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|------------------|-------------------------|-----------------------|---------------------|---------------------|--------------|------------|
| IRS | \$25,644 | \$27,691 | \$53,552 | \$45,216 | \$- | \$152,103 |
| Forward | 2,591,911 | 511,500 | - | - | - | 3,103,411 |
| CS | 36,097,075 | - | - | - | - | 36,097,075 |
| Option | 29,649 | - | - | - | - | 29,649 |

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| 30 June 2015 | Less than six months | Due in 6~12 months | Due in 1~2 years | Due in 2~5 years | Over 5 years | Total |
|--------------|-------------------------|-----------------------|---------------------|---------------------|--------------|-----------|
| IRS | \$19,409 | \$17,625 | \$21,095 | \$(16,110) | \$- | \$42,019 |
| Forward | 1,802,352 | 45,950 | - | - | - | 1,848,302 |
| CS | 6,308,912 | 980,883 | - | - | - | 7,289,795 |

(3) Market risk analysis

A. Sources of market risk

Market risk is the risk of losses or decrease in value of portfolio in positions arising from movements in exchange rate, product price, interest rate, credit spread, and stock price.

B. The Company and Subsidiaries assess, monitors, and manages market risks completely and effectively by applying Value at Risk (“VaR”) and stress testing consistently.

a. Value at Risk

Value-at-Risk (“VaR”) is the maximum loss on the portfolio with a given probability defined as the confidence level, over a given period of time. The Company and Subsidiaries use one-week 95% and 99% VaR to measure market risk.

b. Stress testing

The Company and Subsidiaries measure and evaluate potential risks of the occurrence of extreme and abnormal events regularly in addition to Value at Risk models.

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

(A) Simple Sensitivity

Simple Sensitivity 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 possible future events occur. The types of scenario include:

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(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.

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.

Table of Stress Testing

For the six-month period ended 30 June 2016

| Risk Factors | Changes (+/-) | Gain (loss) |
|---------------------------------------|------------------------------------|----------------|
| Equity risk (Price) | Price decreases by 10% | \$(50,548,496) |
| | The main yield curve shifts up by | |
| Interest rate risk (Yield curve) | 100 bps | (34,245,952) |
| | Appreciation of NTD to all foreign | |
| Exchange risk (Foreign exchange rate) | currencies by 1% | (7,207,099) |

Table of Stress Testing

For the six-month period ended 30 June 2015

| Risk Factors | Changes (+/-) | Gain (loss) |
|---------------------------------------|------------------------------------|----------------|
| Equity risk (Price) | Price decreases by 10% | \$(49,910,329) |
| | The main yield curve shifts up by | |
| Interest rate risk (Yield curve) | 100 bps | (38,843,047) |
| | Appreciation of NTD to all foreign | |
| Exchange risk (Foreign exchange rate) | currencies by 1% | (6,171,731) |

Note 1: Impacts of credit spread changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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c. Sensitivity Analysis

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2016

| Risk Factors | Variables (+/-) | Changes in Income | Changes in Equity |
|-----------------------|---|-------------------|-------------------|
| Foreign currency risk | USD appreciates 1% | \$3,161,953 | \$4,378,741 |
| | CNY/CNH appreciates 1% | 1,066,794 | 298,071 |
| | HKD appreciates 1% | (4,789) | 694,389 |
| | EUR appreciates 1% | 2,205 | 110,275 |
| | GBP appreciates 1% | (691) | 21,551 |
| Interest rate risk | Yield curve (USD) parallelly shifts up 1 bp | (210) | (117,532) |
| | Yield curve (AUD) parallelly shifts up 1 bp | - | (22) |
| | Yield curve (EUR) parallelly shifts up 1 bp | - | (3,032) |
| | Yield curve (NTD) parallelly shifts up 1 bp | 2,256 | (211,728) |
| Equity price risk | Equity price increases 1% | 51,223 | 5,032,588 |

Summarization of Sensitivity Analysis

For the six-month period ended 30 June 2015

| Risk Factors | Variables (+/-) | Changes in Income | Changes in Equity |
|-----------------------|---|-------------------|-------------------|
| Foreign currency risk | USD appreciates 1% | \$3,034,338 | \$3,247,574 |
| | CNY/CNH appreciates 1% | 1,995,124 | 223,601 |
| | HKD appreciates 1% | 28,809 | 537,261 |
| | EUR appreciates 1% | 54,391 | 139,135 |
| | GBP appreciates 1% | 122,741 | 38,422 |
| Interest rate risk | Yield curve (USD) parallelly shifts up 1 bp | - | (142,279) |
| | Yield curve (AUD) parallelly shifts up 1 bp | (68) | (136) |
| | Yield curve (EUR) parallelly shifts up 1 bp | - | (6,599) |
| | Yield curve (NTD) parallelly shifts up 1 bp | 2,139 | (228,994) |
| Equity price risk | Equity price increases 1% | 67,399 | 4,923,634 |

Note 1: Impacts of credit changes are not included.

Note 2: Effects of hedging are considered.

Note 3: Impacts of changes in income are not included in the calculation of changes in equity.

Note 4: Profit and loss on the changes in foreign currency risk sensitivity does not consider the impact from reserving or reversing foreign exchange volatility reserve.

Note 5: Information of subsidiaries is excluded considering the insignificant impact from subsidiaries.

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46. Information of financial instruments

(1) Categories of financial instruments

Financial assets

| Items | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|-----------------|------------------|-----------------|
| Financial assets at fair value through profit or loss | | | |
| Held for trading | \$43,862,938 | \$35,904,243 | \$40,884,962 |
| Available-for-sale financial assets | 1,319,613,484 | 1,340,363,856 | 1,276,148,655 |
| Derivative financial assets for hedging | 520,063 | 447,326 | 217,733 |
| Held-to-maturity financial assets | 24,688,857 | 24,727,582 | 26,242,401 |
| Loans and receivables | | | |
| Cash and cash equivalents (Note) | 186,959,021 | 140,684,909 | 285,273,255 |
| Receivables | 77,178,467 | 60,358,163 | 56,798,153 |
| Debt instrument investments for which no active market exists | 1,964,977,321 | 1,842,960,278 | 1,429,087,379 |
| Other financial assets | 9,500,000 | 18,000,000 | 32,900,000 |
| Loans | 618,841,123 | 638,302,971 | 663,874,537 |
| Guarantee deposits paid | 26,183,337 | 23,550,504 | 19,093,501 |
| Subtotal | 2,883,639,269 | 2,723,856,825 | 2,487,026,825 |
| Total | \$4,272,324,611 | \$4,125,299,832 | \$3,830,520,576 |

Note: Exclude cash on hand and revolving funds.

Financial liabilities

| Items | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|--|--------------|------------------|--------------|
| Financial liabilities at fair value through profit or loss | | | |
| Held for trading | \$1,589,391 | \$38,859,128 | \$8,608,547 |
| Financial liabilities at amortized cost | | | |
| Short-term debts | 311,029 | 61,104 | 297,118 |
| Payables | 67,870,146 | 20,143,339 | 34,312,461 |
| Preferred stock liability | 15,000,000 | 15,000,000 | 30,000,000 |
| Guarantee deposits received | 2,796,072 | 2,757,733 | 2,698,899 |
| Subtotal | 85,977,247 | 37,962,176 | 67,308,478 |
| Total | \$87,566,638 | \$76,821,304 | \$75,917,025 |

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(2) Fair value of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments

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

- a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.
- b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).
- e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

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f. The Company evaluates the credit risk of the derivative contract traded over-the-counter through the following calculation. Under the assumption that the Company will not default, the Company determines its credit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its debit value adjustment by multiplying three factors, probability of default, loss given default, and exposure at default, of the Company. The Company decides estimated probability of default by referring to the probability of default announced by external credit rating agencies. The Company sets estimated loss given default at 60% by considering the experience of Jon Gregory, a scholar, and foreign financial institutions. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

B. Financial instruments not measured at fair value

Other than cash and cash equivalents, receivables, loans, guarantee deposits paid, short-term debts, payables, preferred stock liability and guarantee deposits received, the items whose carrying amount approximate their fair value, the fair value of the Company and Subsidiaries' financial instruments which are not measured at fair value are listed in the table below:

| | Carrying amount | | |
|---|-----------------|------------------|-----------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Financial assets | | | |
| Debt instrument investments for which no active market exists | \$1,964,977,321 | \$1,842,960,278 | \$1,429,087,379 |
| Held-to-maturity financial assets (Note) | 35,155,708 | 34,811,314 | 35,195,305 |
| Other financial assets | 9,500,000 | 18,000,000 | 32,900,000 |
| | | | |
| | Fair value | | |
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Financial assets | | | |
| Debt instrument investments for which no active market exists | \$2,041,930,130 | \$1,805,098,708 | \$1,416,421,689 |
| Held-to-maturity financial assets (Note) | 40,370,088 | 38,616,302 | 35,336,427 |
| Other financial assets | 9,470,166 | 17,857,932 | 32,220,483 |

Note: Guarantee deposits paid in bonds are included.

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(3) Hedge accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company and Subsidiaries' interest rate swaps for bonds used as hedging instruments as of 30 June 2016, 31 December 2015 and 30 June 2015:

| 30 June 2016 | | | | |
|---------------------|---------------------------|-------------------|-------------------------------------|---|
| <u>Hedged item</u> | <u>Hedging instrument</u> | <u>Fair Value</u> | <u>Expected period of cash flow</u> | <u>Expected period of profit and loss recognized in the statement of comprehensive income</u> |
| Floating rate bonds | IRS | \$520,063 | 25 July 2016 ~ 26 May 2024 | 25 July 2016 ~ 26 May 2024 |

| 31 December 2015 | | | | |
|---------------------|---------------------------|-------------------|-------------------------------------|---|
| <u>Hedged item</u> | <u>Hedging instrument</u> | <u>Fair Value</u> | <u>Expected period of cash flow</u> | <u>Expected period of profit and loss recognized in the statement of comprehensive income</u> |
| Floating rate bonds | IRS | \$447,326 | 25 January 2016 ~ 26 May 2024 | 25 January 2016 ~ 26 May 2024 |

| 30 June 2015 | | | | |
|---------------------|---------------------------|-------------------|-------------------------------------|---|
| <u>Hedged item</u> | <u>Hedging instrument</u> | <u>Fair Value</u> | <u>Expected period of cash flow</u> | <u>Expected period of profit and loss recognized in the statement of comprehensive income</u> |
| Floating rate bonds | IRS | \$217,733 | 23 July 2015 ~ 26 May 2024 | 23 July 2015 ~ 26 May 2024 |

The terms of interest rate swap agreements are established based on the terms of the bonds hedged.

The Company and Subsidiaries' interest rate swap agreements are considered to be highly effective cash flow hedges. Amount of effective hedging instrument in cash flow hedges is as follows:

| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|---|---------|---|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Amount recognized in other comprehensive income | \$28,579 | \$9,883 | \$71,331 | \$6,615 |
| Amount reclassified from equity to profit or loss | 702 | 924 | 1,405 | (1,781) |

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(4) Offsetting of financial assets and financial liabilities

The Company and Subsidiaries own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting financial assets and financial liabilities is disclosed as follows:

| 30 June 2016 | | | | | | |
|---|---|--|--|---|--------------------------|--------------|
| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$24,216,917 | \$- | \$24,216,917 | \$(1,589,391) | \$- | \$22,627,526 |

| 30 June 2016 | | | | | | |
|--|--|---|---|---|-------------------------|------------|
| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$1,589,391 | \$- | \$1,589,391 | \$(1,589,391) | \$- | \$- |

| 31 December 2015 | | | | | | |
|---|---|--|--|---|--------------------------|------------|
| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$13,206,554 | \$- | \$13,206,554 | \$(13,206,554) | \$- | \$- |

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31 December 2015

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|--------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$38,829,479 | \$- | \$38,829,479 | \$(13,206,554) | \$- | \$25,622,925 |

30 June 2015

| Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|---|---|--|--|---|--------------------------|------------|
| Item | Gross amount of recognized financial assets | Gross amount of offset financial liabilities recognized on balance sheet | Net financial assets recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial instrument | \$7,089,472 | \$- | \$7,089,472 | \$(7,089,472) | \$- | \$- |

30 June 2015

| Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement | | | | | | |
|--|--|---|---|---|-------------------------|-------------|
| Item | Gross amount of recognized financial liabilities | Gross amount of offset financial assets recognized on balance sheet | Net financial liabilities recognized on balance sheet | Relevant amount that has not been offset on balance sheet | | Net amount |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivative financial instrument | \$8,608,547 | \$- | \$8,608,547 | \$(7,089,472) | \$- | \$1,519,075 |

Note: Master netting arrangement and non-cash collateral are included.

47. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

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

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

| Items | 30 June 2016 | | | |
|--|--------------|-------------|-------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Held for trading | | | | |
| Stocks | \$6,349,722 | \$6,349,722 | \$- | \$- |
| Bonds | 3,647,754 | 1,585,904 | 2,061,850 | - |
| Other | 10,131,063 | 7,816,150 | 2,314,913 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 556,722,441 | 545,574,754 | 2,389,139 | 8,758,548 |
| Bonds (Note 1) | 498,538,474 | 1,886,652 | 496,651,822 | - |
| Other | 266,413,836 | 214,622,848 | 15,766,375 | 36,024,613 |
| Investment property (Note 2) | 447,909,170 | - | - | 447,909,170 |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 23,734,399 | 37,545 | 23,696,854 | - |
| Derivative financial assets for hedging | 520,063 | - | 520,063 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 1,589,391 | - | 1,589,391 | - |

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| Items | 31 December 2015 | | | |
|--|------------------|-------------|-------------|-------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Held for trading | | | | |
| Stocks | \$5,174,833 | \$5,174,833 | \$- | \$- |
| Bonds | 2,473,659 | 1,969,360 | 504,299 | - |
| Other | 15,456,051 | 12,972,566 | 2,483,485 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 522,327,446 | 512,403,834 | 2,155,165 | 7,768,447 |
| Bonds (Note 1) | 538,281,180 | 13,227,738 | 525,053,442 | - |
| Other | 282,250,046 | 232,221,537 | 17,077,869 | 32,950,640 |
| Investment property (Note 2) | 448,801,078 | - | - | 448,801,078 |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 12,799,700 | 8,450 | 12,791,250 | - |
| Derivative financial assets for hedging | 447,326 | - | 447,326 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 38,859,128 | 29,649 | 38,829,479 | - |
| | | | | |
| Items | 30 June 2015 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Non-derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Held for trading | | | | |
| Stocks | \$8,714,529 | \$8,714,529 | \$- | \$- |
| Bonds | 2,735,076 | 2,233,858 | 501,218 | - |
| Other | 22,503,012 | 20,201,465 | 2,301,547 | - |
| Available-for-sale financial assets | | | | |
| Stocks | 502,585,098 | 489,005,686 | 2,386,793 | 11,192,619 |
| Bonds (Note 1) | 575,061,027 | 10,323,202 | 564,737,825 | - |
| Other | 200,694,754 | 157,496,961 | 17,278,139 | 25,919,654 |
| Investment property (Note 2) | 447,911,630 | - | - | 447,911,630 |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 6,932,345 | - | 6,932,345 | - |
| Derivative financial assets for hedging | 217,733 | - | 217,733 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 8,608,547 | - | 8,608,547 | - |

Note 1: Guarantee deposits paid in bonds are included.

Note 2: Amount of investment property excludes the parts which were measured at cost.

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For the six-month periods ended 30 June 2016 and 2015

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

A. Transfers between Level 1 and Level 2

For the six-month period ended 30 June 2016, the Company and Subsidiaries transferred stocks which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of \$150,875 thousand was transferred as its market price was obtainable. For the six-month period ended 30 June 2015, the Company and Subsidiaries transferred corporate bonds held for trading which were measured at fair value on a recurring basis, from Level 1 to Level 2. A total of \$152,145 thousand was transferred as its market price was no longer obtainable.

B. Reconciliation for fair value measurements in Level 3 for movements

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

| | <u>Available-for-sale financial assets</u> | <u>Investment property</u> |
|---|--|--------------------------------|
| 1 January 2016 | \$40,719,087 | \$448,801,078 |
| Total gains (losses) recognized | | |
| Amount recognized in profit or loss | | |
| Realized gains from available-for-sale financial assets | 891,442 | - |
| Gains from investment property | - | 4,247,566 |
| Amount recognized in other comprehensive income | | |
| Unrealized valuation losses from available-for-sale financial assets | (786,465) | - |
| Exchange differences resulting from translating the financial statements of foreign operations | - | (5,218,533) |
| Acquisitions or issuances | 7,898,694 | - |
| Transfers from investment property under construction | - | 79,059 |
| Disposals or settlements | (3,574,746) | - |
| Transfers out of Level 3 | (364,851) | - |
| 30 June 2016 | <u>\$44,783,161</u> | <u>\$447,909,170</u> |

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| | Available-for-sale financial assets | Investment property |
|--|--|------------------------|
| 1 January 2015 | \$31,446,249 | \$394,969,260 |
| Total gains (losses) recognized | | |
| Amount recognized in profit or loss | | |
| Realized gains from available-for-sale financial assets | 538,392 | - |
| Gains from investment property | - | 11,311,350 |
| Amount recognized in other comprehensive income | | |
| Unrealized valuation gains from available-for-sale financial assets | 1,772,753 | - |
| Exchange differences resulting from translating the financial statements of foreign operations | - | 321,397 |
| Acquisitions or issuances | 5,520,348 | 26,033,759 |
| Transfers to property and equipment | - | (767,112) |
| Transfers from investment property under construction | - | 16,037,001 |
| Transfers from prepayments for buildings and land – Investments | - | 8,882 |
| Disposals or settlements | (1,801,577) | (2,907) |
| Transfers to Level 3 | 19,440 | - |
| Transfers out of Level 3 | (383,332) | - |
| 30 June 2015 | <u>\$37,112,273</u> | <u>\$447,911,630</u> |

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 30 June 2016 and 2015 in the amount of \$4,247,566 thousand and \$11,311,350 thousand, respectively.

C. Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

| | | 30 June 2016 | | |
|-------------------------------------|---------------------------------|--|--|--|
| Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value | |
| Available-for-sale financial assets | Market approach | Discount for lack of marketability | 12%~35% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Income approach | Discount for lack of marketability | 15%~20% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | | Growth rate of adjusted net profit after tax | -72%~150% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | Dividend payout ratio | 0%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | Refer to Note 15 | | | |

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| 31 December 2015 | | | | |
|-------------------------------------|----------------------|--|-----------------------------|--|
| | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Available-for-sale financial assets | Market approach | Discount for lack of marketability | 11%~30% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Income approach | Discount for lack of marketability | 15%~20% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | | Growth rate of adjusted net profit after tax | -65%~163% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | Dividend payout ratio | 0%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | Refer to Note 15 | | | |

| 30 June 2015 | | | | |
|-------------------------------------|----------------------|--|-----------------------------|--|
| | Valuation techniques | Significant unobservable inputs | Interval (weighted average) | Relationship between inputs and fair value |
| Available-for-sale financial assets | Market approach | Discount for lack of marketability | 12%~35% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | Income approach | Discount for lack of marketability | 16%~20% | The higher the discount for lack of marketability, the lower the fair value of the stocks |
| | | Growth rate of adjusted net profit after tax | -65%~85% | The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks |
| | | Dividend payout ratio | 0%~90% | The higher the dividend payout ratio, the higher the fair value of the stocks |
| Investment property | Refer to Note 15 | | | |

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

The Company and Subsidiaries' Risk Management Department is responsible for validating the fair value measurements of financial assets and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company and Subsidiaries' accounting policies at each reporting date. The fair value of the investment property is measured in accordance with the valuation measurements and input assumptions announced by FSC and is examined by external appraisers.

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

| | 30 June 2016 | | | |
|--|------------------|-------------|-----------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for | | | | |
| which no active market exists | \$2,041,930,130 | \$895,424 | \$2,041,031,455 | \$3,251 |
| Held-to-maturity financial assets (Note) | 40,370,088 | 143,542 | 39,811,053 | 415,493 |
| Other financial assets | 9,470,166 | - | 9,470,166 | - |
| | | | | |
| | 31 December 2015 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for | | | | |
| which no active market exists | \$1,805,098,708 | \$3,713,528 | \$1,801,381,850 | \$3,330 |
| Held-to-maturity financial assets (Note) | 38,616,302 | 151,100 | 38,465,202 | - |
| Other financial assets | 17,857,932 | - | 17,857,932 | - |
| | | | | |
| | 30 June 2015 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Financial assets not measured at fair value for which only the fair value is disclosed | | | | |
| Debt instrument investments for | | | | |
| which no active market exists | \$1,416,421,689 | \$4,096,246 | \$1,412,325,443 | \$- |
| Held-to-maturity financial assets (Note) | 35,336,427 | - | 35,336,427 | - |
| Other financial assets | 32,220,483 | - | 32,220,483 | - |

Note: Guarantee deposits paid in bonds are included.

48. Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

| | 30 June 2016 | | |
|---|------------------|---------------|-----------------|
| | Foreign Currency | Exchange Rate | NTD |
| Financial Assets | | | |
| Monetary Items | | | |
| USD | \$65,092,492 | 32.286000 | \$2,101,576,184 |
| AUD | 1,345,851 | 23.977198 | 32,269,731 |
| GBP | (Note) | (Note) | (Note) |
| CNH | 19,480,630 | 4.847166 | 94,425,836 |
| Non-Monetary Items | | | |
| USD | 9,932,875 | 32.286000 | 320,692,803 |
| HKD | 16,686,864 | 4.161291 | 69,438,896 |
| Investments accounted for using the equity method | | | |
| CNY | \$32,779 | 4.859900 | \$159,303 |
| USD | 3,898 | 32.286000 | 125,838 |
| PHP | 20,220,275 | 0.686100 | 13,873,131 |
| IDR | 2,463,826,460 | 0.002449 | 6,033,911 |

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

| | | 30 June 2016 | | |
|---|--|------------------|---------------|-----------------|
| | | Foreign Currency | Exchange Rate | NTD |
| Financial Liability | | | | |
| Monetary Items | | | | |
| USD | | \$1,649,995 | 32.286000 | \$53,110,302 |
| | | 31 December 2015 | | |
| | | Foreign Currency | Exchange Rate | NTD |
| Financial Assets | | | | |
| Monetary Items | | | | |
| USD | | \$58,713,920 | 33.066000 | \$1,941,434,470 |
| AUD | | 1,342,350 | 24.171246 | 32,446,260 |
| GBP | | (Note) | (Note) | (Note) |
| CNH | | 22,728,479 | 5.032647 | 114,384,408 |
| Non-Monetary Items | | | | |
| USD | | 9,827,120 | 33.066000 | 324,943,549 |
| HKD | | 15,177,855 | 4.266415 | 64,755,035 |
| Investments accounted for using the equity method | | | | |
| CNY | | 63,900 | 5.092100 | 325,384 |
| USD | | 3,930 | 33.066000 | 129,945 |
| PHP | | 19,093,900 | 0.704900 | 13,459,290 |
| IDR | | 2,428,064,220 | 0.002398 | 5,822,498 |
| Financial Liability | | | | |
| Monetary Items | | | | |
| USD | | (Note) | (Note) | (Note) |
| | | 30 June 2015 | | |
| | | Foreign Currency | Exchange Rate | NTD |
| Financial Assets | | | | |
| Monetary Items | | | | |
| USD | | \$48,979,810 | 31.070000 | \$1,521,802,699 |
| AUD | | 1,227,246 | 23.866421 | 29,289,978 |
| GBP | | 592,071 | 48.801649 | 28,894,033 |
| CNH | | 37,118,359 | 5.007050 | 185,853,499 |
| Non-Monetary Items | | | | |
| USD | | 7,372,964 | 31.070000 | 229,077,985 |
| HKD | | 13,405,150 | 4.007869 | 53,726,079 |
| Investments accounted for using the equity method | | | | |
| CNY | | 105,338 | 5.010500 | 527,794 |
| USD | | 3,879 | 31.070000 | 120,510 |
| PHP | | 18,713,658 | 0.689100 | 12,895,582 |
| IDR | | 2,192,493,139 | 0.002332 | 5,112,894 |
| Financial Liability | | | | |
| Monetary Items | | | | |
| USD | | (Note) | (Note) | (Note) |

Note: The amount of foreign currency exchanged to NTD is less than 1% of total foreign investment assets.

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49. 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:

| Items | 30 June 2016 | | Total |
|---|---------------------------|------------------------------|-------------------------------|
| | Recovery within 12 months | Recovery more than 12 months | |
| Cash and cash equivalents | \$187,202,175 | \$- | \$187,202,175 |
| Receivables | 76,850,553 | 327,914 | 77,178,467 |
| Financial assets at fair value through profit or loss | 21,209 | 43,841,729 | 43,862,938 |
| Available-for-sale financial assets | 66,894,924 | 1,252,718,560 | 1,319,613,484 |
| Derivative financial assets for hedging | 13,771 | 506,292 | 520,063 |
| Investments accounted for using the equity method – Net | - | 24,153,951 | 24,153,951 |
| Debt instrument investments for which no active market exists | 25,311,118 | 1,939,666,203 | 1,964,977,321 |
| Held-to-maturity financial assets | - | 24,688,857 | 24,688,857 |
| Other financial assets – Net | - | 9,500,000 | 9,500,000 |
| Investment property | - | 454,387,735 | 454,387,735 |
| Investment property under construction | - | 4,915,419 | 4,915,419 |
| Prepayments for buildings and land – Investments | - | 293,588 | 293,588 |
| Loans | 80,612 | 618,760,511 | 618,841,123 |
| Reinsurance assets | - | 829,894 | 829,894 |
| Property and equipment | - | 29,556,977 | 29,556,977 |
| Intangible assets | - | 50,329,869 | 50,329,869 |
| Deferred tax assets | - | 5,905,704 | 5,905,704 |
| Other assets | 3,720,795 | 27,211,647 | 30,932,442 |
| Separate account product assets | 4,864,098 | 483,611,198 | 488,475,296 |
| Total assets | | | <u>\$5,336,165,303</u> |

| Items | 30 June 2016 | | Total |
|---|-----------------------------|--------------------------------|-------------------------------|
| | Settlement within 12 months | Settlement more than 12 months | |
| Short-term debts | \$311,029 | \$- | \$311,029 |
| Payables | 67,781,572 | 88,574 | 67,870,146 |
| Financial liabilities at fair value through profit or loss | 465 | 1,588,926 | 1,589,391 |
| Preferred stock liability | 10,000,000 | 5,000,000 | 15,000,000 |
| Insurance liabilities | - | 4,338,859,076 | 4,338,859,076 |
| Reserve for insurance contracts with feature of financial instruments | - | 25,580,935 | 25,580,935 |
| Foreign exchange volatility reserve | - | 13,352,087 | 13,352,087 |
| Provisions | - | 412,974 | 412,974 |
| Deferred tax liabilities | - | 32,420,321 | 32,420,321 |
| Other liabilities | 301,279 | 5,517,203 | 5,818,482 |
| Separate account product liabilities | 986,123 | 487,489,173 | 488,475,296 |
| Total liabilities | | | <u>\$4,989,689,737</u> |

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| Items | 31 December 2015 | | |
|--|------------------------------|---------------------------------|------------------------|
| | Recovery within 12 months | Recovery more than 12 months | Total |
| Cash and cash equivalents | \$140,897,419 | \$- | \$140,897,419 |
| Receivables | 60,017,517 | 340,646 | 60,358,163 |
| Financial assets at fair value through profit or loss | 1,276,369 | 34,627,874 | 35,904,243 |
| Available-for-sale financial assets | 64,174,516 | 1,276,189,340 | 1,340,363,856 |
| Derivative financial assets for hedging | - | 447,326 | 447,326 |
| Investments accounted for using the equity method – Net | - | 23,494,040 | 23,494,040 |
| Debt instrument investments for which no active market exists | 21,325,924 | 1,821,634,354 | 1,842,960,278 |
| Held-to-maturity financial assets | - | 24,727,582 | 24,727,582 |
| Other financial assets – Net | - | 18,000,000 | 18,000,000 |
| Investment property | - | 453,296,483 | 453,296,483 |
| Investment property under construction | - | 3,308,553 | 3,308,553 |
| Prepayments for buildings and land – Investments | - | 2,758,288 | 2,758,288 |
| Loans | 75,069 | 638,227,902 | 638,302,971 |
| Reinsurance assets | - | 664,054 | 664,054 |
| Property and equipment | - | 27,342,746 | 27,342,746 |
| Intangible assets | - | 47,605,978 | 47,605,978 |
| Deferred tax assets | - | 11,519,847 | 11,519,847 |
| Other assets | 768,101 | 26,792,219 | 27,560,320 |
| Separate account product assets | 5,883,721 | 474,684,640 | 480,568,361 |
| Total assets | | | \$5,180,080,508 |

| Items | 31 December 2015 | | |
|--|--------------------------------|-----------------------------------|------------------------|
| | Settlement within 12 months | Settlement more than 12 months | Total |
| Short-term debts | \$61,104 | \$- | \$61,104 |
| Payables | 20,103,148 | 40,191 | 20,143,339 |
| Financial liabilities at fair value through profit or loss | 2,268 | 38,856,860 | 38,859,128 |
| Preferred stock liability | 10,000,000 | 5,000,000 | 15,000,000 |
| Insurance liabilities | - | 4,158,087,987 | 4,158,087,987 |
| Reserve for insurance contracts with feature of financial instruments | - | 54,002,965 | 54,002,965 |
| Foreign exchange volatility reserve | - | 16,026,449 | 16,026,449 |
| Provisions | 27,776 | 4,371,673 | 4,399,449 |
| Deferred tax liabilities | - | 36,980,408 | 36,980,408 |
| Other liabilities | 330,966 | 7,385,599 | 7,716,565 |
| Separate account product liabilities | 1,085,598 | 479,482,763 | 480,568,361 |
| Total liabilities | | | \$4,831,845,755 |

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| Items | 30 June 2015 | | |
|--|------------------------------|---------------------------------|------------------------|
| | Recovery within 12 months | Recovery more than 12 months | Total |
| Cash and cash equivalents | \$285,496,700 | \$- | \$285,496,700 |
| Receivables | 56,671,395 | 126,758 | 56,798,153 |
| Financial assets at fair value through profit or loss | 1,118,875 | 39,766,087 | 40,884,962 |
| Available-for-sale financial assets | 74,824,411 | 1,201,324,244 | 1,276,148,655 |
| Derivative financial assets for hedging | - | 217,733 | 217,733 |
| Investments accounted for using the equity method – Net | - | 22,164,977 | 22,164,977 |
| Debt instrument investments for which no active market exists | 29,204,214 | 1,399,883,165 | 1,429,087,379 |
| Held-to-maturity financial assets | - | 26,242,401 | 26,242,401 |
| Other financial assets – Net | - | 32,900,000 | 32,900,000 |
| Investment property | - | 450,754,972 | 450,754,972 |
| Investment property under construction | - | 1,841,320 | 1,841,320 |
| Prepayments for buildings and land – Investments | - | 2,152,421 | 2,152,421 |
| Loans | 54,192 | 663,820,345 | 663,874,537 |
| Reinsurance assets | - | 552,720 | 552,720 |
| Property and equipment | - | 27,326,386 | 27,326,386 |
| Intangible assets | - | 156,826 | 156,826 |
| Deferred tax assets | - | 10,281,966 | 10,281,966 |
| Other assets | 1,030,809 | 19,977,518 | 21,008,327 |
| Separate account product assets | 5,430,967 | 460,080,900 | 465,511,867 |
| Total assets | | | <u>\$4,813,402,302</u> |

| Items | 30 June 2015 | | |
|--|--------------------------------|-----------------------------------|------------------------|
| | Settlement within 12 months | Settlement more than 12 months | Total |
| Short-term debts | \$297,118 | \$- | \$297,118 |
| Payables | 34,312,326 | 135 | 34,312,461 |
| Financial liabilities at fair value through profit or loss | 2,316 | 8,606,231 | 8,608,547 |
| Preferred stock liability | 15,000,000 | 15,000,000 | 30,000,000 |
| Insurance liabilities | - | 3,842,942,500 | 3,842,942,500 |
| Reserve for insurance contracts with feature of financial instruments | - | 54,563,773 | 54,563,773 |
| Foreign exchange volatility reserve | - | 11,635,420 | 11,635,420 |
| Provisions | - | 2,150,629 | 2,150,629 |
| Deferred tax liabilities | - | 28,424,907 | 28,424,907 |
| Other liabilities | 19,042 | 6,495,956 | 6,514,998 |
| Separate account product liabilities | 550,202 | 464,961,665 | 465,511,867 |
| Total liabilities | | | <u>\$4,484,962,220</u> |

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50. Related party transactions

Significant transactions with related parties

(1) Property transactions

Property transactions between the Company and Subsidiaries and related parties are in the nature of undertaking contracted projects, trade, and lease transactions. The terms of such transactions are based on market surveys, the contracted terms of both parties and public bidding.

A. Significant transactions of undertaking contracted projects with related parties are listed below:

| Name | For the six-month period ended 30 June 2016 | |
|--|---|--------------------|
| | Items | Amount |
| Other related party | | |
| Lin Yuan Property Management Co., Ltd. | Dunnan Xinyi Building, etc. | \$21,743 |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | 221,376 |
| Cathay Real Estate Development Co., Ltd. | Minsheng Jingguo Building, etc. | 210,246 |
| Ally Logistic Property Co., Ltd. | Jui-Fang Logistic Park, etc. | 644,203 |
| Total | | <u>\$1,097,568</u> |

| Name | For the six-month period ended 30 June 2015 | |
|--|---|--------------------|
| | Items | Amount |
| Other related party | | |
| Lin Yuan Property Management Co., Ltd. | Cathay Cosmos Building, etc. | \$21,306 |
| San Ching Engineering Co., Ltd. | Cathay Land Mark, etc. | 901,499 |
| Cathay Real Estate Development Co., Ltd. | Cathay Land Mark, etc. | 75,882 |
| Ally Logistic Property Co., Ltd. | Jui-Fang Logistic Park, etc. | 838,553 |
| Total | | <u>\$1,837,240</u> |

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015, between the Company and Subsidiaries and Lin Yuan Property Management Co., Ltd. were \$14,921 thousand, \$19,778 thousand and \$32,762 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015, between the Company and Subsidiaries and San Ching Engineering Co., Ltd. were \$1,853,332 thousand, \$8,222,939 thousand and \$5,571,026 thousand, respectively.

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The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015, between the Company and Subsidiaries and Cathay Real Estate Development Co., Ltd. were \$1,742,250 thousand, \$1,728,876 thousand and \$49,306 thousand, respectively.

The total amounts of contracted projects for real estate as of 30 June 2016, 31 December 2015 and 30 June 2015, between the Company and Subsidiaries and Ally Logistic Property Co., Ltd. were \$3,383,783 thousand, \$4,647,704 thousand and \$2,756,476 thousand, respectively.

B. Real-estate rental income (from related parties)

| Name | Rental income | | | |
|---|---|-----------|---|-----------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Parent company | | | | |
| Cathay Financial Holding Co., Ltd. | \$9,385 | \$9,228 | \$18,631 | \$18,400 |
| Subsidiary | | | | |
| Cathay Securities Investment Consulting Co., Ltd. | 2,244 | 2,211 | 4,454 | 4,421 |
| Associate | | | | |
| Symphox Information Co., Ltd. | 8,636 | 8,595 | 17,264 | 17,214 |
| Cathay Insurance Company Limited (China) | 4,861 | 5,112 | 10,007 | 10,283 |
| Subtotal | 13,497 | 13,707 | 27,271 | 27,497 |
| Other related party | | | | |
| Cathay United Bank | 114,534 | 105,730 | 221,267 | 211,369 |
| Cathay Century Insurance Co., Ltd. | 25,594 | 25,324 | 51,416 | 50,385 |
| Cathay Securities Investment Trust Co., Ltd. | 11,314 | 9,993 | 22,541 | 20,238 |
| Cathay Securities Co., Ltd. | 8,311 | 8,023 | 15,972 | 15,306 |
| Cathay Medical Care Corp. | 78,740 | 78,498 | 90,044 | 89,095 |
| Cathay Real Estate Development Co., Ltd. | 4,266 | 3,140 | 8,446 | 7,465 |
| Cathay Healthcare Inc. | 14,038 | 13,134 | 27,555 | 26,280 |
| Cathay Hospitality Management Co., Ltd. | 50,728 | 47,546 | 101,030 | 91,187 |
| Ally Logistic Property Co., Ltd. | 38,430 | 22,060 | 64,625 | 40,249 |
| Subtotal | 345,955 | 313,448 | 602,896 | 551,574 |
| Total | \$371,081 | \$338,594 | \$653,252 | \$601,892 |

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For the six-month periods ended 30 June 2016 and 2015

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

| Name | Guarantee deposits received | | |
|--|-----------------------------|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Parent company | | | |
| Cathay Financial Holding Co., Ltd. | \$8,046 | \$8,046 | \$8,046 |
| Associate | | | |
| Symphox Information Co., Ltd. | 8,870 | 8,343 | 8,343 |
| Cathay Insurance Company Limited (China) | 5,455 | 5,444 | 5,357 |
| Subtotal | 14,325 | 13,787 | 13,700 |
| Other related party | | | |
| Cathay United Bank | 122,609 | 101,838 | 101,764 |
| Cathay Century Insurance Co., Ltd. | 24,244 | 24,014 | 23,872 |
| Cathay Securities Investment Trust Co., Ltd. | 10,093 | 19,123 | 9,551 |
| Cathay Securities Co., Ltd. | 7,727 | 7,157 | 7,485 |
| Cathay Medical Care Corp. | 10,655 | 10,566 | 10,166 |
| Cathay Real Estate Development Co., Ltd. | 3,998 | 3,751 | 4,028 |
| Cathay Healthcare Inc. | 12,775 | 12,289 | 12,192 |
| Cathay Hospitality Management Co., Ltd. | 213,992 | 212,511 | 211,580 |
| Ally Logistic Property Co., Ltd. | 18,749 | 18,650 | 18,650 |
| Subtotal | 424,842 | 409,899 | 399,288 |
| Total | \$447,213 | \$431,732 | \$421,034 |

Lease periods are usually between 2 to 5 years and rental incomes are collected on a monthly basis.

C. Real-estate rental expenses (to related parties)

| Name | Rental expense | | | |
|--|---|----------|---|----------|
| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay Real Estate Development Co., Ltd. | \$1,853 | \$1,963 | \$3,706 | \$3,926 |
| Cathay United Bank | 15,516 | 14,896 | 31,028 | 29,792 |
| Total | \$17,369 | \$16,859 | \$34,734 | \$33,718 |

| Name | Guarantee deposits paid | | |
|---------------------|-------------------------|------------------|--------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2015 |
| Other related party | | | |
| Cathay United Bank | \$15,455 | \$15,910 | \$15,293 |

According to contracts, leasing periods are generally 1 to 2 years, and rentals are usually paid on a monthly basis.

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Notes to consolidated financial statements-continued

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

(2) Cash in banks

| Name | Items | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|-----------------------|--------------|---------------------|---------------------|---------------------|
| Other related party | | | | |
| Cathay United Bank | Time deposit | \$2,004,482 | \$9,961 | \$7,482 |
| | Cash in bank | 19,196,484 | 19,520,322 | 23,423,566 |
| Indovina Bank Limited | Cash in bank | 8,380 | 9,241 | 21,740 |
| Total | | <u>\$21,209,346</u> | <u>\$19,539,524</u> | <u>\$23,452,788</u> |

Interest income from Cathay United Bank for the three-month periods ended 30 June 2016 and 2015 were \$4,998 thousand and \$7,240 thousand, respectively; interest income from Cathay United Bank for the six-month periods ended 30 June 2016 and 2015 were \$10,192 thousand and \$12,904 thousand, respectively.

Interest income from Indovina Bank Limited for the three-month periods ended 30 June 2016 and 2015 were \$57 thousand and \$38 thousand, respectively; interest income from Indovina Bank Limited for the six-month periods ended 30 June 2016 and 2015 were \$167 thousand and \$82 thousand, respectively.

As of 30 June 2016, 31 December 2015 and 30 June 2015, time deposit pledged were \$4,482 thousand, \$4,482 thousand and \$4,482 thousand, respectively.

(3) Debt instrument investments for which no active market exists

| Name | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|------------------------------------|--------------|------------------|--------------|
| Parent company | | | |
| Cathay Financial Holding Co., Ltd. | \$100,000 | \$100,000 | \$- |

(4) Secured loans

| Name | <u>For the six-month period ended 30 June 2016</u> | | |
|---------------------|--|-------------|------------------|
| | Maximum amount | Rate | Ending balance |
| Other related party | | | |
| Other | \$994,053 | 1.15%~3.53% | <u>\$927,114</u> |

| Name | <u>For the six-month period ended 30 June 2015</u> | | |
|---------------------------|--|-------------|------------------|
| | Maximum amount | Rate | Ending balance |
| Other related party | | | |
| Cathay Medical Care Corp. | \$2,634,550 | 2.01%~2.55% | \$- |
| Other | 851,859 | 1.34%~3.78% | <u>846,757</u> |
| Total | | | <u>\$846,757</u> |

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Interest income from Cathay Medical Care Corp. for the three-month periods ended 30 June 2016 and 2015 were \$0 thousand and \$5,493 thousand, respectively; interest income from Cathay Medical Care Corp. for the six-month periods ended 30 June 2016 and 2015 were \$0 thousand and \$19,895 thousand, respectively.

Interest income from Other for the three-month periods ended 30 June 2016 and 2015 were \$3,764 thousand and \$4,163 thousand, respectively; interest income from Other for the six-month periods ended 30 June 2016 and 2015 were \$7,998 thousand and \$8,135 thousand, respectively.

(5) Balance of beneficiary certificates purchased from related parties

| <u>Name</u> | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Other related party | | | |
| Cathay Securities Investment Trust Co., Ltd. managed funds | \$101,457 | \$2,145,725 | \$1,827,978 |
| Market value | | | |
| Cost | \$100,000 | \$2,108,698 | \$1,676,425 |

(6) Discretionary account management balance

| <u>Name</u> | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Other related party | | | |
| Cathay Securities Investment Trust Co., Ltd. | \$184,053,966 | \$174,054,401 | \$213,347,051 |

(7) Other receivables

| <u>Name</u> | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Parent company | | | |
| Cathay Financial Holding Co., Ltd. (Note) | \$7,534,942 | \$7,748,130 | \$5,659,630 |
| Other related party | | | |
| Cathay Century Insurance Co., Ltd. | 262,535 | 240,495 | 262,904 |
| Cathay Securities Investment Trust Co., Ltd. | 33,350 | 28,199 | 24,416 |
| Subtotal | 295,885 | 268,694 | 287,320 |
| Total | \$7,830,827 | \$8,016,824 | \$5,946,950 |

Note: Receivables are refundable tax under the consolidated income tax system.

(8) Reinsurance assets

| <u>Name</u> | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--------------------------------------|---------------------|-------------------------|---------------------|
| Subsidiary | | | |
| Cathay Insurance (Bermuda) Co., Ltd. | \$7,031 | \$1,035 | \$30,135 |

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Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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(9) Guarantee deposits paid

| Name | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|--------------------------|--------------|------------------|--------------|
| Other related party | | | |
| Cathay Futures Co., Ltd. | \$2,503,192 | \$1,180,845 | \$603,105 |

For the three-month periods ended 30 June 2016 and 2015, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were \$503 thousand and \$170 thousand, respectively; for the six-month periods ended 30 June 2016 and 2015, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were \$986 thousand and \$329 thousand, respectively.

(10) Guarantee deposits received

| Name | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|---|--------------|------------------|--------------|
| Other related party | | | |
| Lin Yuan Property Management Co., Ltd. | \$5,000 | \$5,000 | \$5,000 |
| San Ching Engineering Co., Ltd. | 275,286 | 275,286 | 172 |
| Cathay Hospitality Management Co., Ltd. | 120,257 | 120,257 | 120,257 |
| Ally Logistic Property Co., Ltd. | 382,618 | 382,705 | 275,127 |
| Total | \$783,161 | \$783,248 | \$400,556 |

(11) Other payables

| Name | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|--|--------------|------------------|--------------|
| Parent company | | | |
| Cathay Financial Holding Co., Ltd. (Note) | \$15,824,563 | \$383,000 | \$12,944,744 |
| Associate | | | |
| Symphox Information Co., Ltd. | 35,385 | 15,080 | 33,579 |
| Other related party | | | |
| Cathay United Bank | 234,103 | 362,393 | 574,158 |
| Cathay Century Insurance Co., Ltd. | 1,018 | 8,338 | 12,184 |
| Cathay Securities Investment Trust Co., Ltd. | 8,984 | 9,602 | 15,574 |
| Lin Yuan Property Management Co., Ltd. | 38,669 | - | - |
| Cathay Real Estate Development Co., Ltd. | 7,112 | 5,594 | 10,000 |
| Subtotal | 289,886 | 385,927 | 611,916 |
| Total | \$16,149,834 | \$784,007 | \$13,590,239 |

Note: The payables consist of dividends and bonus payables and interest expenses accrued from preferred stock liability.

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(12) Preferred stock liability

| Name | 30 June 2016 | 31 December 2015 | 30 June 2015 |
|------------------------------------|--------------|------------------|--------------|
| Parent company | | | |
| Cathay Financial Holding Co., Ltd. | \$15,000,000 | \$15,000,000 | \$30,000,000 |

(13) Premium income

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|------------------------------------|---|----------|---|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay United Bank | \$17,902 | \$24,988 | \$36,367 | \$43,711 |
| Cathay Century Insurance Co., Ltd. | 4,776 | 4,639 | 7,961 | 7,758 |
| Cathay Securities Co., Ltd. | 1,824 | 1,686 | 3,648 | 2,782 |
| Cathay Medical Care Corp. | 10,581 | 10,384 | 21,289 | 20,898 |
| Other | 50,345 | 26,368 | 86,594 | 63,901 |
| Total | \$85,428 | \$68,065 | \$155,859 | \$139,050 |

(14) Handling fees earned

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--|---|----------|---|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay Securities Investment Trust Co., Ltd. | \$33,571 | \$24,442 | \$61,058 | \$48,314 |

(15) Insurance expenses

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|------------------------------------|---|----------|---|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay Century Insurance Co., Ltd. | \$6,056 | \$23,024 | \$101,895 | \$121,206 |

(16) Indemnity income

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|------------------------------------|---|------|---|------|
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay Century Insurance Co., Ltd. | \$- | \$- | \$4,526 | \$- |

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For the six-month periods ended 30 June 2016 and 2015

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

(17) Reinsurance income

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--------------------------------------|--|----------|--|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) Co., Ltd. | \$30,557 | \$25,871 | \$66,674 | \$60,858 |

On 1 April 2000, Cathay Insurance (Bermuda) Co., Ltd. engaged in the reinsurance business providing reinsurance for RGA Global Reinsurance Company and Central Reinsurance Corporation's accidental insurance. For the six-month periods ended 30 June 2016 and 2015, the Company assumed 90% of the reinsurance business from Cathay Insurance (Bermuda) Co., Ltd.

(18) Reinsurance service expenses

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--------------------------------------|--|---------|--|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) Co., Ltd. | \$3,448 | \$1,472 | \$5,465 | \$3,414 |

(19) Reinsurance claim payments

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|--------------------------------------|--|----------|--|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Subsidiary | | | | |
| Cathay Insurance (Bermuda) Co., Ltd. | \$56,298 | \$19,301 | \$84,218 | \$54,633 |

(20) Other operating costs

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|--|-----------|--|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Other related party | | | | |
| Cathay United Bank | \$182,250 | \$198,498 | \$364,386 | \$300,414 |
| Cathay Securities Investment Trust Co., Ltd. | 26,239 | 46,965 | 51,336 | 92,032 |
| Total | \$208,489 | \$245,463 | \$415,722 | \$392,446 |

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(21) Operating expenses

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|--|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Associate | | | | |
| Symphox Information Co., Ltd. | \$66,882 | \$65,776 | \$204,605 | \$136,613 |
| Other related party | | | | |
| Seaward Card Co., Ltd. | 22,881 | 29,476 | 47,536 | 46,903 |
| Cathay United Bank | 1,999,256 | 1,904,184 | 4,503,328 | 3,042,379 |
| Lin Yuan Property Management Co., Ltd. | 178,038 | 160,741 | 376,349 | 330,638 |
| Cathay Real Estate Development Co., Ltd. | 1,878 | 2,994 | 3,578 | 6,079 |
| Cathay Healthcare Inc. | 4,386 | 2,057 | 6,443 | 3,531 |
| Cathay Medical Care Corp. | 438 | 252 | 6,720 | 514 |
| Cathay Charity Foundation | 403 | - | 5,703 | - |
| Subtotal | 2,207,280 | 2,099,704 | 4,949,657 | 3,430,044 |
| Total | \$2,274,162 | \$2,165,480 | \$5,154,262 | \$3,566,657 |

(22) Non-operating income

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|---|--|-----------|--|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Parent company | | | | |
| Cathay Financial Holding Co., Ltd. | \$2,238 | \$3,104 | \$2,624 | \$3,490 |
| Other related party | | | | |
| Cathay Century Insurance Co., Ltd. | 322,314 | 386,119 | 645,892 | 720,418 |
| Cathay United Bank | 43,370 | 40,573 | 75,421 | 72,691 |
| Cathay Securities Investment Trust Co., Ltd. | 4,815 | 5,868 | 9,202 | 10,851 |
| Subtotal | 370,499 | 432,560 | 730,515 | 803,960 |
| Total | \$372,737 | \$435,664 | \$733,139 | \$807,450 |

Non-operating income is mainly generated from the Company and Subsidiaries' integrated marketing activities.

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(23) Non-operating expense

| Name | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|------------------------------------|--|-----------|--|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Parent company | | | | |
| Cathay Financial Holding Co., Ltd. | \$95,227 | \$226,378 | \$190,454 | \$450,268 |

Non-operating expenses are interest expenses accrued from preferred stock liability.

(24) Other

As of 30 June 2016, 31 December 2015 and 30 June 2015, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below (USD in thousands):

| Item | 30 June 2016 | | 31 December 2015 | | 30 June 2015 | |
|--------------|--------------|-----------|------------------|-----------|--------------|---------|
| CS contracts | USD | 2,965,000 | USD | 2,893,000 | USD | 200,000 |

(25) Key management personnel compensation

| | For the three-month periods ended 30 June | | For the six-month periods ended 30 June | |
|------------------------------|--|---------|--|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Short-term employee benefits | \$12,886 | \$1,194 | \$41,168 | \$42,230 |
| Post-employment benefits | 431 | 442 | 861 | 901 |
| Total | \$13,317 | \$1,636 | \$42,029 | \$43,131 |

The management of the Company includes directors, senior vice general managers and the above.

51. Pledged assets

(1) The Company

The Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the "Guaranteed Depository Insurance". Pledged assets are summarized based on the net carrying amounts. Details are as follows:

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| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|--|---------------------|-------------------------|---------------------|
| Guarantee deposits paid – Government bonds | \$12,528,117 | \$12,578,548 | \$11,145,129 |
| Guarantee deposits paid – Time deposits | 608,582 | 608,582 | 607,482 |
| Guarantee deposits paid – Others | 26,676 | 31,304 | 31,874 |
| Total | <u>\$13,163,375</u> | <u>\$13,218,434</u> | <u>\$11,784,485</u> |

(2) Cathay Lujiazui Life

According to the requirement of the China Insurance Regulatory Commission, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Lujiazui Life are time deposits.

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|-------------------------|---------------------|-------------------------|---------------------|
| Guarantee deposits paid | <u>\$1,555,168</u> | <u>\$1,629,472</u> | <u>\$1,853,885</u> |

(3) Cathay Life (Vietnam)

According to the requirement of the Ministry of Finance of Vietnam, the guaranteed deposit is 2% of the legal capital. The guaranteed deposits of Cathay Life (Vietnam) are time deposits.

| | <u>30 June 2016</u> | <u>31 December 2015</u> | <u>30 June 2015</u> |
|-------------------------|---------------------|-------------------------|---------------------|
| Guarantee deposits paid | <u>\$17,364</u> | <u>\$16,860</u> | <u>\$16,440</u> |

52. Commitment and Contingencies

(1) Legal claim contingency

The Company has its own response policies to legal claims. Once the losses can be reasonable estimated based on professional advices, the Company will recognize the losses and adjust negative impacts on financial affairs resulting from the claims.

(2) Investment commitment for private equity fund

As of 30 June 2016, the maximum remaining capital commitment for the contracted private equity fund of the Company was US\$1,355,454 thousand and EUR\$167,519 thousand.

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53. Significant disaster damages

None.

54. Significant subsequent events

None.

55. Other matters

(1) Discretionary account management

A. As of 30 June 2016, 31 December 2015 and 30 June 2015, the Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

| Items | 30 June 2016 | |
|--------------------------|----------------------|----------------------|
| | Carrying amount | Fair value |
| Domestic stocks | \$112,059,540 | \$112,059,540 |
| Overseas stocks | 44,399,690 | 44,399,690 |
| Reverse repurchase bonds | 12,868,023 | 12,868,023 |
| Cash in banks | 15,225,052 | 15,225,052 |
| Beneficiary certificates | 163,141 | 163,141 |
| Futures and options | 1,150,014 | 1,150,014 |
| Total | <u>\$185,865,460</u> | <u>\$185,865,460</u> |

| Items | 31 December 2015 | |
|--------------------------|----------------------|----------------------|
| | Carrying amount | Fair value |
| Domestic stocks | \$108,750,029 | \$108,750,029 |
| Overseas stocks | 46,578,040 | 46,578,040 |
| Reverse repurchase bonds | 4,348,000 | 4,348,000 |
| Cash in banks | 12,738,482 | 12,738,482 |
| Beneficiary certificates | 2,233,839 | 2,233,839 |
| Futures and options | 1,157,650 | 1,157,650 |
| Total | <u>\$175,806,040</u> | <u>\$175,806,040</u> |

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| Items | 30 June 2015 | |
|--------------------------|----------------------|----------------------|
| | Carrying amount | Fair value |
| Domestic stocks | \$122,763,600 | \$122,763,600 |
| Overseas stocks | 35,300,108 | 35,300,108 |
| Reverse repurchase bonds | 11,223,000 | 11,223,000 |
| Cash in banks | 41,897,821 | 41,897,821 |
| Beneficiary certificates | 2,667,874 | 2,667,874 |
| Futures and options | 1,334,986 | 1,334,986 |
| Total | <u>\$215,187,389</u> | <u>\$215,187,389</u> |

B. As of 30 June 2016, the Company entered into discretionary account management contracts in the amounts of NT\$102,500,000 thousand, US\$1,390,000 thousand and HK\$1,780,000 thousand. As of 31 December 2015, the Company entered into discretionary account management contracts in the amounts of NT\$97,000,000 thousand, US\$1,237,000 thousand and HK\$1,780,000 thousand. As of 30 June 2015, the Company entered into discretionary account management contracts in the amounts of NT\$128,500,000 thousand, US\$1,240,000 thousand and HK\$1,780,000 thousand.

(2) Revenue and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are directly recognized or allocated to the Company and its affiliates by using reasonable allocation method based on the attribution of the transactions.

(3) Capital management

A. Objectives

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policies

In order to assume all types of risks, the Company applies capital adequacy ratio as the indicator for capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

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C. Procedures

a. Periodically

The Company regularly reviews the capital adequacy ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the capital adequacy ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

The Company conducts scenario analysis for capital adequacy ratio focusing on the Company's use of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

(4) Structured entities

A. Consolidated structured entities

The Company owns real estate investment and management organizations as consolidated structured entities. As of 30 June 2016, 31 December 2015 and 30 June 2015, the Company and Subsidiaries provided loans amounting to GBP\$345,000 thousand, GBP\$345,000 thousand and GBP\$345,000 thousand to the consolidated structured entities for operation and investment, respectively.

B. Unconsolidated structured entities

a. The Company and Subsidiaries do not provide financial support or other support to the unconsolidated structured entities. The Company and Subsidiaries' maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets the Company and Subsidiaries recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

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| <u>Types of structured entity</u> | <u>Nature and purpose</u> | <u>Interests owned</u> |
|-----------------------------------|--|--|
| Private equity fund | Investment in private equity funds to receive returns | Investment in shares or limited partnership interests issued by the fund |
| Securitization vehicle | Investment in asset-backed security to receive returns | Investment in securitization vehicles issued by the entity |

- b. As of 30 June 2016, 31 December 2015 and 30 June 2015, the carrying amount of assets recognized by the Company and Subsidiaries relating to their interests in unconsolidated structured entities is disclosed as follows:

| | <u>30 June 2016</u> | |
|---|-----------------------------|--------------------------------|
| | <u>Private equity funds</u> | <u>Asset-backed securities</u> |
| Available-for-sale financial assets | \$36,024,613 | \$108,006,170 |
| Debt instrument investments for which no active market exists | - | 144,145,614 |
| Held-to-maturity financial assets | - | 446,568 |
| Total | <u>\$36,024,613</u> | <u>\$252,598,352</u> |
| | <u>31 December 2015</u> | |
| | <u>Private equity funds</u> | <u>Asset-backed securities</u> |
| Available-for-sale financial assets | \$32,950,640 | \$120,360,084 |
| Debt instrument investments for which no active market exists | - | 185,055,820 |
| Total | <u>\$32,950,640</u> | <u>\$305,415,904</u> |
| | <u>30 June 2015</u> | |
| | <u>Private equity funds</u> | <u>Asset-backed securities</u> |
| Available-for-sale financial assets | \$22,953,776 | \$132,599,913 |
| Debt instrument investments for which no active market exists | - | 192,147,916 |
| Total | <u>\$22,953,776</u> | <u>\$324,747,829</u> |

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

56. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 thousand and US\$27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from US\$50,000 thousand to US\$48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit US\$59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized the Company to remit US\$3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of US\$32,520 thousand of unexecuted project to CNY\$200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was US\$110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. The Company has remitted US\$48,330 thousand to the subsidiary as of 31 December 2009. The Company injected additional US\$29,880 thousand on 29 September 2010 and CNY\$200,000 thousand on 8 May 2014. As of 30 June 2016, the Company's remittances to the subsidiary totaled approximately CNY\$200,000 thousand and US\$78,210 thousand.

On 17 October 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized the Company to increase the remittances from US\$26,390 thousand to US\$28,960 thousand. On 15 August 2008, MOEAIC further authorized the Company to revise the remittance from US\$28,960 thousand to US\$28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY\$200,000 thousand to increase the share capital. As of 30 June 2016, the Company's remittances to this general insurance company totaled approximately CNY\$200,000 thousand and US\$28,140 thousand.

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Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to consolidated financial statements-continued

For the six-month periods ended 30 June 2016 and 2015

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

On 1 November 2011 and 11 April 2012, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit CNY\$300,000 (US\$47,000) thousand and CNY\$500,000 (US\$80,000) thousand, respectively. A total of US\$127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized the Company to remit CNY\$700,000 (US\$111,000) thousand to increase the share capital. As of 30 June 2016, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY\$1,500,000 thousand.

57. Segment information

The Company and Subsidiaries abide by the provisions of insurance law for insurance business operations. In accordance with IFRS 8, the Company and Subsidiaries provide insurance policy products and the overall business decision-makers make decisions based on resource allocation of the Company as a whole, making the entire company one functioning entity.