Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Financial Statements

For the years ended

31 December 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 "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises". If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay Century Insurance Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. and its subsidiaries as of 31 December, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December, 2016 and 2015, and notes to the consolidated financial statements, including the summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cathy Century Insurance Co., Ltd. and its subsidiaries as of 31 December, 2016 and 2015, and their consolidated financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprise, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Measurement of insurance liabilities

The measurement of Cathay Century Insurance Co., Ltd. and its subsidiaries' insurance liabilities is dependent on the calculations based on assumptions of current period or the assumptions established in the contracts to reflect the best estimates at that time. Nevertheless, these assumptions were set based on the relevant regulations and the professional judgements of internal specialists. With the high complexity, changes in assumptions adopted by Cathy Century Insurance Co., Ltd. and its subsidiaries may affect the results when measuring the insurance liabilities. Therefore, we considered this a key audit matter.

Our audit procedures included but not limited to evaluating and testing the effectiveness of internal controls around insurance liabilities, including management's decision and approval of the methods and assumptions used in setting aside various reserves and controls for changing the methods and assumptions; examining the data of calculating insurance liabilities; assessing the reasonableness of Cathay Century Insurance Co., Ltd. and its subsidiaries' actuarial judgements and actuarial assumptions used in the model with the assistance of our internal specialist performing audit procedures for insurance liabilities. We also considered whether Cathy Century Insurance Co., Ltd.'s disclosures in the financial statements in relation to insurance liabilities are compliant with the relevant regulations and principles.

Please refer to Notes 4, 5.2 and 6.13 for details of Cathay Century Insurance Co., Ltd. and its subsidiaries insurance liabilities.

Valuation of financial instruments - equity instrument investments for which no active market exists

Where the fair value of financial instrument investments for which no active market exists cannot be derived from an active market or a quoted price, it is determined using internal model valuation for fair value, and the assumptions used in the valuation will impact the fair value of the reported financial instruments. Thus we concluded that the valuation of financial instruments- equity instrument investments for which no active market exists is a key audit matter of our audit.

Our audit procedures include but not limited to assessing and testing the effectiveness of internal controls related to financial instruments valuation, including managements' decision and approval of the valuation model and related assumptions, the controls related to the valuation model and change of assumptions, and managements' review process. We use internal valuation specialists to assist in reviewing the valuation techniques adopted by the Cathay Century Insurance Co., Ltd. and its subsidiaries, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable. Meanwhile, we review the disclosures of financial instruments valuations, including the fair value hierarchy of assets, to determine whether they complied with the related regulatory and accounting standards requirements.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Please refer to Notes 4, 5.2 and 7 for information about Cathay Century Insurance Co., Ltd. and its subsidiaries' financial instruments valuation.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprise, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of Cathy Century Insurance Co., Ltd. and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Cathy Century Insurance Co., Ltd. and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of Cathy Century Insurance Co., Ltd. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Cathy Century Insurance Co., Ltd. and its subsidiaries to cease to continue as a going concern.

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Cathy Century Insurance Co., Ltd. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on the parent company only financial statements of Cathy Century Insurance Co., Ltd. as of and for the years ended December 31, 2016 and 2015.

Ernst & Young
Taipei, Taiwan
The Republic of China
7 March 2017

Notice to Readers:

The accompanying parent company only financial statements are intended only to present the financial position, financial performance 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As of 31 December 2016 and 31 December 2015

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2016	31 December 2015
Cash and cash equivalents	4,6(1)	$6,961,855	$12,515,171
Receivables	4,6(2)	1,983,309	2,711,388
Financial assets at fair value through profit or loss	4,6(3)	875,543	1,988,360
Available-for-sale financial assets	4,6(4)	9,201,915	8,100,725
Investments accounted for using the equity method - Net	4,6(5)	1,281,040	-
Debt instrument investments for which no active market exists	4,6(6)	2,520,733	3,686,683
Held-to-maturity financial assets	4,6(7)	6,112,465	4,462,088
Loans	4,6(8)	354,812	366,255
Reinsurance assets	4,6(9)	8,028,287	6,336,731
Property and equipment		91,262	219,213
Intangible assets		34,424	62,703
Deferred tax assets	4,6(22)	132,376	93,269
Other assets	4,6(10)	672,276	1,562,923
Total assets		$38,250,297	$42,105,509

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets - (contiued)

As of 31 December 2016 and 31 December 2015

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	31 December 2016	31 December 2015
Payables	4,6(11)	$2,663,593	$3,084,816
Financial liabilities at fair value through profit or loss	4,6(3)	54,590	192,554
Preferred stock liabilities	4,6(12)	1,000,000	1,000,000
Insurance liabilities	4,6(13)	24,317,028	25,064,274
Provisions	4,6(14)	380,158	381,016
Deferred tax liabilities	4,6(22)	260,485	36,035
Other liabilities		358,462	5,127,715
Total liabilities		29,034,316	34,886,410
Equity attributable to owners of parent			
Capital stock	4,6(15)	2,889,552	2,802,202
Retained earnings	4,6(16)		
Legal capital reserve		1,570,584	1,334,277
Special capital reserve		3,173,384	2,433,579
Undistributed earnings		2,105,688	698,679
Other equity		(523,227)	(375,022)
Non-controlling interests	4,6(17)	-	325,384
Total equity		9,215,981	7,219,099
Total liabilities and equity		$38,250,297	$42,105,509

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income

For the years ended 31 December 2016 and 2015

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

Items	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Operating revenues			
Direct premium income	4,6(18)	$21,787,874	$21,421,537
Reinsurance premium income	4,6(18)	985,887	1,027,575
Premium income		22,773,761	22,449,112
Deduct: Premiums ceded to reinsurers	4,6(18)	(5,384,093)	(5,195,149)
Net changes in unearned premium reserve	4,6(18)	(176,473)	(84,751)
Retained earned premium		17,213,195	17,169,212
Reinsurance commission earned		526,081	517,313
Handling fees earned		44,115	47,672
Net investment profit and loss		2,082,403	972,121
Interest income		568,038	563,942
Gains (losses) on financial asset and financial liabilities at fair value through profit or loss		145,522	(191,814)
Realized gains (losses) on available-for-sale financial assets		358,040	347,244
Realized gains (losses) on debt instruments for which no active market exists		47,012	715
Realized gains (losses) on held-to-maturity financial assets		3,290	1,944
Share of gains (losses) of associates and joint ventures accounted for using the equity method		(123,268)	-
Gains (losses) on foreign exchange		(270,970)	250,090
Gains (losses) from other investments-Net	4,6(24)	1,354,739	-
Other operating revenue		-	14,871
Subtotal		19,865,794	18,721,189
Operating costs			
Insurance claims payments	4,6(19)	(13,002,479)	(11,741,986)
Deduct: Claims recovered from reinsurers	4,6(19)	3,443,385	2,449,598
Retained claim payments		(9,559,094)	(9,292,388)
Net changes in insurance liabilities	4,6(13)	(209,323)	(734,454)
Commission expenses		(1,222,234)	(1,337,028)
Other operating costs		(66,802)	(64,775)
Subtotal		(11,057,453)	(11,428,645)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of comprehensive income - (continued)

For the years ended 31 December 2016 and 2015

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

Items	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Operating expenses			
Business expenses		(4,829,368)	(4,801,903)
Administrative and general expenses		(1,133,519)	(1,383,550)
Employee training expenses		(11,465)	(11,902)
Subtotal		(5,974,352)	(6,197,355)
Operating income		2,833,989	1,095,189
Non-operating income and expenses		(789)	(4,187)
Profit before income tax from continuing operations		2,833,200	1,091,002
Income tax expense	4,6(22)	(491,519)	(287,150)
Profit from continuing operations		2,341,681	803,852
Net income		2,341,681	803,852
Other comprehensive income (loss)	4,6(20)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		1,420	(98,125)
Income taxes relating to the components not to be reclassified to profit or loss in subsequent periods		(241)	16,681
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(143,054)	(13,023)
Unrealized gains (losses) on available-for-sale financial assets		(5,713)	(327,067)
Gains (losses) on effective portions of cash flow hedges		-	(3,747)
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		(14,296)	-
Income taxes relating to the components to be reclassified to profit or loss in subsequent periods		(1,640)	11,824
Other comprehensive income, net of tax		(163,524)	(413,457)
Total comprehensive income		$2,178,157	$390,395
Net income attributable to:			
Owners of parent		$2,470,471	$1,181,537
Non-controlling interests		$(128,790)	$(377,685)
Comprehensive income attributable to:			
Owners of parent		$2,322,266	$769,957
Non-controlling interests		$(144,109)	$(379,562)
Basic earnings per share			
Net income (In dollars)	4,6(23)	$8.55	$4.09

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to equity holders of the parent										
		Retained earnings			Other equity						
Items	Capital stock	Legal capital reserve	Special capital reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Remeasurement of defined benefit plans	Total	Non-controlling interests	Total
Balance on 1 January 2015	$2,721,879	$1,167,902	$1,949,825	$247,594	$1,062	$71,979	$3,747	$(40,230)	$6,123,758	$704,946	$6,828,704
Appropriations and distribution of earnings for the year 2014											
Legal capital reserve	-	166,375	-	(166,375)	-	-	-	-	-	-	-
Stock dividends	80,323	-	-	(80,323)	-	-	-	-	-	-	-
Provision for special reserve	-	-	483,754	(483,754)	-	-	-	-	-	-	-
Net income for the year ended 31 December 2015(Note1)	-	-	-	1,181,537	-	-	-	-	1,181,537	(377,685)	803,852
Other comprehensive income for the year ended 31 December 2015	-	-	-	-	(12,564)	(313,825)	(3,747)	(81,444)	(411,580)	(1,877)	(413,457)
Total comprehensive income for the year ended 31 December 2015	-	-	-	1,181,537	(12,564)	(313,825)	(3,747)	(81,444)	769,957	(379,562)	390,395
Balance on 31 December 2015	$2,802,202	$1,334,277	$2,433,579	$698,679	$(11,502)	$(241,846)	$-	$(121,674)	$6,893,715	$325,384	$7,219,099
Appropriations and distribution of earnings for the year 2015											
Legal capital reserve	-	236,307	-	(236,307)	-	-	-	-	-	-	-
Special capital reserve	-	-	375,022	(375,022)	-	-	-	-	-	-	-
Stock dividends	87,350	-	-	(87,350)	-	-	-	-	-	-	-
Provision for special reserve	-	-	364,783	(364,783)	-	-	-	-	-	-	-
Net income for the year ended 31 December 2016(Note 2)	-	-	-	2,470,471	-	-	-	-	2,470,471	(128,790)	2,341,681
Other comprehensive income for the year ended 31 December 2016	-	-	-	-	(131,568)	(17,816)	-	1,179	(148,205)	(15,319)	(163,524)
Total comprehensive income for the year ended 31 December 2016	-	-	-	2,470,471	(131,568)	(17,816)	-	1,179	2,322,266	(144,109)	2,178,157
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(181,275)	(181,275)
Balance on 31 December 2016	$2,889,552	$1,570,584	$3,173,384	$2,105,688	$(143,070)	$(259,662)	$-	$(120,495)	$9,215,981	$-	$9,215,981

Note: 1.For the year ended 2015, the employees' compensation in the amount of $1,470 thousand have been deducted from the Statement of Comprehensive Income.

2.For the year ended 2016, the employees' compensation in the amount of $2,965 thousand have been deducted from the Statement of Comprehensive Income.

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated statements of cash flows

For the years ended 31 December 2016 and 2015

(Expressed in thousands of New Taiwan Dollars)

Items	1 January - 31 December 2016	1 January - 31 December 2015
Cash flows from operating activities:		
Profit before income tax	$2,833,200	$1,091,002
Adjustments:		
Income and other adjustments with no cash flow effects		
Depreciation expenses	78,784	108,886
Amortization expenses	20,827	20,872
(Reverse) provision for bad debt expense	(576)	191
Net (gains) losses on financial assets or financial liabilities at fair value through profit or loss	(145,522)	191,814
Net gains on available-for-sale financial assets	(358,040)	(347,244)
Net (gains) losses on debt instrument for which with no active market exists	(47,012)	715
Net gains from held-to-maturity financial assets	(3,290)	(1,944)
Interest income	(568,038)	(563,942)
Net changes in insurance liabilities	2,328,597	1,143,315
Share of loss of associates and joint ventures accounted for using the equity method	123,268	-
Loss on disposal and scrapping of property and equipment	6,515	14
Net gains on disposal of investments accounted for using equity method	(1,354,739)	-
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	837,904	(653,231)
(Increase) decrease in available-for-sale financial assets	(1,951,108)	19,389
Decrease (increase) in debt instrument for which no active market exists	1,163,995	(329,305)
Increase in held-to-maturity financial assets	(1,643,141)	(1,816,508)
Decrease (increase) in notes receivable	27,954	(89,018)
Decrease in premiums receivable	194,769	1,269,772
Decrease (increase) in other accounts receivable	238,168	(248,293)
Increase in reinsurance assets	(2,247,800)	(257,226)
Decrease (increase) in other assets	59,042	(9,521)
(Decrease) increase in claims outstanding	(13,197)	1,586
(Decrease) increase in due to reinsurers and ceding companies	(23,651)	117,942
Decrease in commissions payable	(24,487)	(21,888)
Decrease in other payables	(311,531)	(126,800)
Increase (decrease) in provisions	561	(241)
(Decrease) increase in other liabilities	(708,859)	4,447,976
Cash flows (used in) from operating activities	(1,487,407)	3,948,313
Interest received	558,076	572,221
Dividends received	160,773	141,060
Interest paid	(18,881)	(38,307)
Income taxes paid	(22,681)	(21,182)
Net cash flows (used in) from operating activities	(810,120)	4,602,105
Cash flows from investing activities:		
Disposal of subsidiary	(4,609,822)	-
Acquisition of property and equipment	(38,748)	(86,076)
Acquisition of intangible assets	(25,763)	(41,707)
Decrease in loans	11,443	31,058
Net cash used in investing activities	(4,662,890)	(96,725)
Effects of exchange rate changes on cash and cash equivalents	(80,306)	(13,320)
(Decrease) increase in cash and cash equivalents	(5,553,316)	4,492,060
Cash and cash equivalents at the beginning of periods	12,515,171	8,023,111
Cash and cash equivalents at the end of periods	$6,961,855	$12,515,171

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

1. History and organization

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on 19 July 1993, under the provisions of the Company Act of the Republic of China (“R.O.C.”). On 22 April 2002, the Company became a subsidiary of Cathay Financial Holdings Co., Ltd. (“Cathay Financial Holdings”) by adopting the stock conversion method under the R.O.C Financial Holdings Company Act and other pertinent acts of the R.O.C. On 2 August 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. The Company mainly engages in the business of property and casualty insurance. The Company’s registered office and the main business location are at No. 296, Sec. 4, Jen Ai Road, Taipei, Taiwan, R.O.C.

Cathay Financial Holdings Co., Ltd. is the Company’s parent company and ultimate parent company.

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

The consolidated financial statements of the Company and its subsidiaries (the “Consolidated Company”) for the years ended 31 December 2016 and 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 7 March 2017.

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 Consolidated Company at the date of issuance of the Group’s financial statements are listed below.

(a) *IAS 36 “Impairment of Assets” (Amendment)*

This amendments relate to the amendments issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendments are 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 amendments, 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 amendments are effective for annual periods beginning on or after 1 July 2014.

(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 amendments prospectively apply to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 "Business Combinations"

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) 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; (3) 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 judgements 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 "Fair Value Measurement"

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

IAS 16 "Property, Plant and Equipment"

The amendments clarify that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 24 "Related Party Disclosures"

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 38 "Intangible Assets"

The amendments clarify that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendments are 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 amendments clarify 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 amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 "Fair Value Measurement"

The amendments clarify 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 the amendments 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 40 "Investment Property"

The amendments clarify 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 amendments are 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 amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after 1 January 2016.

(i) *IAS 16"Property, Plant and Equipment and IAS 38 "Intangible Assets" — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify 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 amendments also clarify 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 amendments are 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 amendments are 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 amendments remove 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 amendments are effective for annual periods beginning on or after 1 January 2016.

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

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

The amendments clarify 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 amendments also require 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 7 "Financial Instruments: Disclosures"

The amendments clarify 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 amendments also clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 19 "Employee Benefits"

The amendments clarify the requirement under paragraph 83 of IAS 19, 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 34 "Interim Financial Reporting"

The amendments clarify what is meant by "elsewhere in the interim financial report" under IAS 34; the amendments state 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 amendments are effective for annual periods beginning on or after 1 January 2016.

(m) *Disclosure Initiative — Amendment to IAS 1 "Presentation of Financial Statements":*

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments are 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 (1) 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, (2) 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 (3) 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 amendments are effective for annual periods beginning on or after 1 January 2016.

The abovementioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. The remaining standards and interpretations have no material impact on the Consolidated Company.

(2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Consolidated Company's 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 recognises 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: Recognise 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 asset's contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that 'own credit risk' adjustments are not recognized in profit or loss.

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

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

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 gain or loss 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 loss 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 the amendments 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.

(e) *IAS 12"Income Taxes" — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

(f) *Disclosure Initiative — Amendment to IAS 7 "Statement of Cash Flows":*

The amendments relate 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 amendments are effective for annual periods beginning on or after 1 January 2017.

(g) *IFRS 15 "Revenue from Contracts with Customers" — Clarifications to IFRS 15*

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 January 2018.

(h) *IFRS 2 "Shared-Based Payment" — Amendments to IFRS 2*

The amendments contain (1) 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, (2) 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 (3) 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 recognised 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 derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 "Financial Instruments" (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 "Financial Instruments" before the IASB's new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle)*:

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

IAS 28"Investments in Associates and Joint Ventures"

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

(l) IFRIC 22 "*Foreign Currency Transactions and Advance Consideration*"

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

The abovementioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. The remaining standards and interpretations have no material impact on the Consolidated Company.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Consolidated Company for the years ended 31 December 2016 and 2015 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

(2) Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments 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 Consolidated 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 Consolidated Company controls an investee if and only if the Consolidated 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

When the Consolidated Company has less than a majority of the voting or similar rights of an investee, the Consolidated 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 Consolidated Company's voting rights and potential voting rights

The Consolidated 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 parent company, using uniform accounting policies. All intra-company balances, income and expenses, unrealized gains and losses and dividends resulting from intra-company 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 Consolidated 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 Company's share of components previously recognized in other comprehensive income to profit or loss.

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest	
			31 December 2016	31 December 2015
The Company	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	24.50	50.00
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00	100.00

Note: The Company did not participate in the capital increase in Cathay Insurance (China) during July and therefore, the Company's percentage of ownership over Cathay Insurance (China) decreased to 24.5%. The Company lost control of the subsidiary. Please refer to Note 6(24) for related disclosures.

(4) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Consolidated Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

(5) Translation of financial statements in foreign currency

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 following are accounted for as disposals even if an interest in the foreign operation is retained by the Consolidated Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

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 controlled entity 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 on 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 comprises cash on hand, demand deposits and short-term (contract period within one year) 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.

(7) Financial assets and financial liabilities

Initial recognition and subsequent measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, debt instrument investments for which no active market exists, held-to-maturity financial assets, and loans and receivables. Financial liabilities are categorized as financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost.

All regular way purchase or sales of financial assets are recorded using trade date accounting. Financial assets and financial liabilities within scope are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Consolidated Company classifies 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.

Initial recognition and subsequent measurement of each category of financial instruments is listed below:

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

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term, for which there is a recent pattern of short-term profit taking, or as derivative financial instruments. This category comprises financial assets classified as held-for-trading and designated as at fair value through profit or loss on initial recognition.

Financial assets are classified as held-for-trading under one of the following situations:

(a) Assets acquired primarily for the purpose of selling in the short term;

(b) A portion of identified financial instruments at initial recognition and for which there is a pattern of short-term profit taking; or

(c) Derivative financial instruments (excluding financial guarantee contracts and those designated effective hedging instruments).

Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss.

Financial assets measured at fair value through profit or loss and designated as such at the time of initial recognition are classified as “financial assets measured at fair value through profit or loss” in the condensed consolidated balance sheet. Changes in fair value are recognized in profit of loss as “gain or loss on financial assets and liabilities measured at fair value through profit or loss”.

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, debt instrument investments for which no active market exist, held-to-maturity financial assets, or loans and receivables.

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than foreign currency differences on available-for-sale debt instruments, interest income calculated using the effective interest method, and dividend income, are recognized in other comprehensive income. When impairment loss of available-for-sale financial assets is recognized or derecognized, the gain or loss accumulated in the fair value reverse in equity is reclassified to profit or loss. Dividend income is recognized in profit or loss on the date that an entity's right to receive payment is established.

C. Debt instrument investments for which no active market exists

Debt instrument investments for which no active market exists are debt investments with fixed or determinable payments that are not quoted in an active market. At initial recognition, debt instrument investments for which no active market exists quote are recognized at fair value plus any directly attributable transaction costs. Disposal gain or loss is recognized in profit or loss upon derecognition. Subsequent to initial recognition, theses debt instrument investments for which no active market exists are measured at amortized cost using the effective interest rate method.

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 Consolidated Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost amount initially recognized minus principle repayments, plus or minus the cumulative amortization using the effective interest method 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 the 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 Consolidated Company intends 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 Consolidated Company and Subsidiaries upon initial recognition designates 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.

Loans and receivables are separately presented on the balance sheet as loans and receivables. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest 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.

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 held-for-trading or are designated on initial recognition are classified as financial liabilities at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss and those designated as such at the time of initial recognition are recognized as “financial liabilities measured at fair value through profit or loss” in the condensed consolidated balance sheet. The changes in fair value are recognized as “gain or loss on financial assets and liabilities measured at fair value through profit or loss” in the condensed consolidated statement of comprehensive income.

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

Derecognition of financial assets and liabilities

A. Financial assets

The Consolidated Company derecognizes 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. The difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that is recognized in other comprehensive income is recognized in profit or loss.

Securities lending transactions and repurchase agreements do not result in derecognition because the Consolidated Company has nearly retained all such risks and rewards. This accounting treatment is also adopted when the Consolidated Company enters into securitization transaction in which the Consolidated Company keeps portion of the risk and rewards of ownership.

B. Financial liabilities

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

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

Reclassification of financial assets

In accordance with IAS 39:

A. The Consolidated Company shall not reclassify a derivative out of the fair value through profit or loss category while it is held or issued.

B. The Consolidated Company 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 entity as at fair value through profit or loss.

C. If the financial assets at fair value through profit or loss not under one of the above situations 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.

D. The Consolidated Company shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

E. 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 over the remaining life of the asset.

F. 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.

G. If, during the current financial year or during the two preceding financial year, 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 a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if:

A. There is a currently enforceable legal right to offset the recognized amounts; and

B. There is an intention either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Impairment of financial assets

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

Other loss events 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.

A. Financial assets and loans and receivables measured at amortized cost

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

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

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

(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.

The minimum amounts should be recorded within three years starting on January 2014. Pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall increase its allowance for bad debt loans ratio to at least 1.5% when providing mortgage loans, such as house purchasing loans and building loans. The Company will meet the requirement by the end of 2016. Policy loans that started from 1 January 2011 could be excluded from the balance of the mortgage loans. Policy loans are different mortgage loans that insurance enterprises provide by using governmental project fund or self-owned fund to coordinate with government policy.

B. Available-for-sale financial assets

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

C. Investments accounted for using the equity method

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. It 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 dividend 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*.

Derivative financial instruments and hedging transactions

The Consolidated Company engages in derivative financial instrument transactions, such as currency forward contracts, interest rate swaps, cross currency swaps, options and futures, to hedge its risk 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 the fair value of derivatives are taken directly to profit or loss, expect for the effective portion of cash hedges, which are recognized in equity.

Hedging relationships consist of these 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 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 Consolidated Company formally designates and documents hedge relationship to which the Consolidated Company wishes 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 Consolidated Company assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value 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.

Hedges in compliance with hedge accounting requirements as mention 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 gains or losses attributable to the hedged risk. 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 financial instrument measured at amortized cost, 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 directly in other equity, 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 equity 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 equity shall be removed and then be included in the initial cost or other carrying amount of the asset or liability.

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 remain in other equity until the forecast transaction occurs. If the transaction is not expected to occur, the cumulative gain or loss is reclassified from other equity.

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 equity 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 equity 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 Consolidated Company.

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

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.

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

(9) Investments accounted for using the equity method

Investment in the associate of the Consolidated Company 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 Consolidated Company has 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 Consolidated Company's 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 Consolidated Company has 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 Consolidated Company and the associate or joint venture are eliminated to the extent of the Consolidated Company's 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 Consolidated Company's percentage of ownership interests in the associate or joint venture, the Consolidated Company recognizes 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 an associate or joint venture issues new stock and the Consolidated Company's interest in an associate or a joint venture is reduced or increased as the Consolidated Company fails 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 Consolidated Company disposes of the associate or joint venture.

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

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the Consolidated Company determines 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 Consolidated Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes 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". In determining the value in use of the investment, the Consolidated Company estimates:

A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill 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 impairment testing goodwill in "IAS 36 Impairment of Assets".

Upon loss of significant influence over the associate or joint venture, the Consolidated Company measures and recognizes 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.

(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 and 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 Consolidated Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 "Property, plant and equipment". When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

Office equipment	5years
Leased assets	3years
Leasehold improvements	The shorter of lease terms or economic useful lives

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.

(11) Leases

The Consolidated Company as a lessee

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

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

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

(12) 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 accumulated impairment losses, if any. 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 is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

(13) Impairment of non-financial assets

The Consolidated Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Consolidated Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

(14) Separation requirement for specific assets

According to Article 4 of “Regulations for the Reports of Accounting and Financial Information for Compulsory Automobile Liability Insurance” that authority to set from Section 3, Article 47 of “Compulsory Automobile Liability Insurance Act”, the Consolidated Company provides compulsory automobile liability insurance ("this insurance") and transact accounting account of this insurance.

According to article 5 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, for the special reserve set aside by the Company for this insurance, the Company shall purchase treasury bills or deposit the reserve with a financial institution as a time deposit. Provided that with the approval of the competent authority, the Company may purchase the following domestic securities:

A. Government bonds, not including exchangeable government bonds.

B. Financial bonds, negotiable certificates of deposit, banker's acceptances, and commercial paper guaranteed by a financial institution, provided that financial bonds shall be limited to ordinary financial bonds only.

The amount of treasury bills purchased or time deposits placed in a financial institution under the preceding paragraph shall not be less than 30 percent of the total amount of the Consolidated Company's retained earned pure premiums for this Insurance in the most recent period. The competent authority may raise that percentage to a level it deems appropriate based on the Consolidated Company's operational status.

If the balance of the Company's special reserve is less than 30 percent of the total amount of the Company's retained earned pure premiums for this Insurance in the most recent period, then the full amount of its special reserve shall be used to purchase treasury bills or be deposited in a financial institution as a time deposit.

According to article 6 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, except for the special reserve set aside as prescribed in the preceding paragraphs, funds held by the Company for this Insurance (reserves, payables, temporary credits and amounts to be carried forward) shall be deposited in a financial institution in the form of demand deposits and time deposits, provided that with the approval of the competent authority, the Company may purchase any of the following domestic securities:

A. Treasury bills.

B. Negotiable certificates of deposit, bankers’ acceptances, and commercial paper guaranteed by a financial institution.

C. Government bonds in a repo transaction.

The amount of demand deposits deposited in financial institutions under the preceding paragraph shall not be less than 60 percent of the balance remaining after subtracting the amount of special reserves from the amount of funds held by the Company due to the operation of this Insurance, or less than 40 percent of the retained earned pure premium for the most recent period as audited or reviewed by a certified public accountant. The competent authority may raise the percentage of demand deposits required by the Company to a level it deems appropriate based on the Company's operational status.

If the total amount of unearned premium reserve and loss reserve of the Company with respect to this Insurance is less than 40 percent of the retained earned pure premiums of this Insurance for the most recent period as audited or reviewed by a certified public accountant, the funds held by the Company through its conduct of this Insurance shall be deposited in full with a financial institution in the form of demand deposits.

According to article 11 of “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”, when the Company suspends business operations or terminates its operation of this Insurance, the various reserves for this Insurance shall be transferred into the various reserves set aside for handling of this Insurance by the other insurer that assumes the business. If no other insurer is to assume the business, and there is no outstanding liability under this Insurance, and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

When the Company has been duly ordered to suspend business and undergo rehabilitation, ordered to dissolve, or its permission to operate this Insurance business has been revoked, and no other insurer is to assume this Insurance business, and there is no outstanding liability under this Insurance and the balance of the special reserve is positive, the assets corresponding to the special reserve shall be transferred to the Motor Vehicle Accident Compensation Fund.

(15) Insurance contract categories

Insurance contract refers to the insurer accepting the insurance policyholder's transfer of significant insurance risk, and agree to the uncertain future of a particular event (insured event) and the contract will compensate the policyholder for any damages occurred. The Company defined that significant insurance risk refers to any insured event that occurs and causes the Company to pay additional significant fees.

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

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

(16) Reinsurance assets

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

The Consolidated Company holds the right over reinsurers 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. For the classification of reinsurance contracts, the Consolidated Company assess whether the transfer of significant insurance risk to the reinsurers has occurred. If the transfer of significant insurance risk is not apparent, then the contract is recognized and evaluated with deposit accounting.

(17) Insurance liabilities

Insurance liabilities are set aside in accordance with "Regulations for the Management of the Various Reserves by Insurance Enterprises", "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance", "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance", "Regulations for the Management of the Various Reserves for Nuclear energy insurance", "Regulations for the Management of the Various Reserves for Commercial Earthquake and Typhoons Flood Insurance by Property and Casualty Insurance Enterprises" and "Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)". Also, the booked reserves shall be validated by the certified actuarial professionals approved by Financial Supervisory Commission.

A. Unearned premium reserve

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

B. Claims reserve

It is mainly for the unpaid claim reserve and incurred but not reported (IBNR) claim reserves, which is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle. The notified but unpaid claim reserve is assessed case by case as well as its relevant information obtained and deposited by each type of insurance.

C. Special reserve

The special reserve is classified into 2 categories, "Special reserve for major incident" and "Special reserve for fluctuation of risks". For the special reserves set aside by the Company before 1 January 2011, they should be shown as a liability item on the balance sheet. Since 1 January 2011, the after-tax addressed amount of the special reserve should be placed in the special reserve under equity. The recovery of special reserve can be charged against the special reserve under liabilities if sufficient. If the recovery amount exceeds the balance of the special reserve under liabilities, the after-tax excess amount can be recovered from the special reserve under equity.

According to the "Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)", the industry that order for these insurance should provision the special reserve from liability to equity when the company priority complement commercial earthquake insurance and typhoons flood insurance into liability (after tax), excluding compulsory automobile liability insurance, nuclear energy insurance, political housing earthquake insurance, commercial earthquake insurance and typhoons flood insurance. The decrease or withdrawing of special reserve for major incident and special reserve for fluctuation of risks of commercial earthquake insurance and typhoons flood insurance should follow the precautions.

a. Special reserve for major incident

All types of insurance should follow the special reserve for major incident rates set by the authorities.

Upon occurrence of the catastrophic events, actual retained claims in excess of $30,000 thousand individually and the aggregate payment of loss of the whole property and casualty insurers in excess of $2,000 million, the fund of the claims can be withdrawn from the special reserve.

If the reserve has been set aside for over 15 years, the Company could has its plan of recovering process of the reserve accessed by certified actuaries and submit the plan to the authority for reference.

b. Special reserve for fluctuation of risks

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is less than the anticipated loss, 15 percent of this difference should be reserved in special reserve for fluctuation of risks.

When the actual claim paid for each insurance product categories minus the offsetting amount from special reserve of major incidents is greater than the anticipated loss, the exceed amount can be used for writing down the special reserve for fluctuation of risks. If the total amount of the special reserve is not enough to be written down, special reserve for fluctuation of risks of other insurance product categories can be used. Additionally, the type of insurance and total dollar amount written-down should be reported to the authority for inspection purpose.

When accumulative dollar amount of the special reserve for fluctuation of risks exceed 60% of its retained earned premium, the excess amount should be recall and recognize as income for the current year.

D. Premiums deficiency reserve

If the probable claims and expenses of the unexpired insurance contracts are greater than the aggregate amount of unearned premium reserves and collectable premiums in the future, the premium deficiency reserve should be set aside based on the difference thereof.

E. Liability reserve

The minimum liability reserve for health insurance that the insurance period is greater than one year is set aside using full preliminary term reserving method. However, the method of setting aside minimum liability reserve for health insurance with special nature should be approved by the competent authority.

(18) Insurance premium revenues and the acquisition costs

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due.

The reserve for unearned premiums represents the portion of premiums written related to the unexpired terms of coverage, which shall be set aside based on each unexpired underlying risk.

The amount of unearned premium reserve for compulsory automobile liability insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance”.

The amount of unearned premium reserve for the residential earthquake insurance is set aside pursuant to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

The amount of unearned premium reserve for the nuclear insurance is set aside pursuant to "Regulations for the Management of the Various Reserves for the Nuclear Insurance".

Calculation of unearned premium reserve is determined by actuaries based on characteristics of insurances and cannot be changed without the authority's approval unless otherwise regulated by law. The amount of unearned premium reserve should be audited by a certified actuary.

Taxes related to the insurance premium revenues are recognized pursuant to "Value-added and Non-value-added Business Tax Act" and "Stamp Tax Act" on an accrual basis.

(19) Insurance claim costs

The insurance claims payment of direct written policies is recognized as the amount of actual payment of incurred and reported case. For those incurred but unpaid claim cases and outstanding claim cases, the gross change of claims reserve is assessed case by case as well as its relevant information obtained and deposited by each type of business line.

The reinsurance claims payments are recognized upon notification. Adjustments are made at balance sheet date, and recognized under the account of gross change of reinsurance claims reserve.

The IBNR of direct written business and ceded in business is calculated and deposited based upon the past indemnity experiences and expenses occurred to meet the actuarial principle.

The claims recovered from reinsurance account for those paid claims would recover from reinsurers according to reinsurance contracts. For those reported but unpaid claims and IBNR claims, are recognized as the gross change of claims reserve.

Claim reserve is not discounted to its present value.

The amount of claim reserve for compulsory automobile liability insurance is set aside pursuant to Regulations for the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance".

The amount of claim reserve for the residential earthquake insurance is set aside pursuant to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance”.

The amount of claim reserve for the nuclear insurance is set aside pursuant to “Regulations for the Management of the Various Reserves for the Nuclear Insurance”.

(20) Liability adequacy test

In alignment with Article 24-1 of “Regulations for the Various Reserves of Insurance Industry”, from 1 January 2011 on, an insurer shall assess at the end of each reporting period whether it’s recognized insurance liabilities are adequate, using current estimates of future cash flows of those insurance contracts that meet the requirements of liability adequacy test under IFRS 4. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, a reserve shall be set aside to cover the entire deficiency based on actuarial principles.

(21) Reinsurance ceded

In order to limit the amount of losses resulting from certain incidents, the Consolidated Company conducts reinsurances based on business needs and pursuant to regulations of insurance laws. The Consolidated Company cannot use reinsurer’s not fulfilling its obligations as a reasonable cause to not fulfill obligations to reinsurers of insurance contracts ceded.

Reinsurance expenses are recognized under reinsurance contracts and its financial reporting including cutoff of reporting periods shall match to insurance premium revenues. Unbilled reinsurance expenses shall be estimated using a reasonable and systematic method at financial closing. Relevant revenues such as reinsurance commission revenues, etc., are recognized in the same period, and relevant reinsurance gains and losses shall not be deferred.

Reinsurance assets include ceded unearned premiums reserve, ceded claims reserve, ceded premiums deficiency reserve, and ceded liability adequacy reserve, and represent rights to reinsurers pursuant to “Regulations for the Various Reserves of Insurance Industry” and reinsurance contracts.

The Consolidated Company regularly assesses whether reinsurance assets, claims recoverable from ceding companies, due from reinsurers and ceding companied prescribed in the previous paragraphs are impaired or unable to collect. When there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract, and that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer, the Consolidated Company recognizes the amount of accumulated impairment losses based on the difference between the recoverable amount and the carrying value of reinsurance assets, and sets aside a fair amount of bad debt allowances on unrecoverable amount of claims recoverable from ceding companies, due from reinsurers and ceding companied.

(22) Co-insurance organization, co-insurance and guarantee fund agreement

The company and all the members approved by the competent authority set the “Co-insurance Contract of Compulsory Automobile Liability Insurance” agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or went out of business, the members shall not withdraw. If the members stop to operate the compulsory automobile liability insurance, it should drop out from the co-insurance organization at the same time and the responsibility of unearned premiums applies natural expiry.

The company, the property insurance company with order for traveling industry performance guarantee insurance and the reinsurance company set the “Co-insurance Contract of Traveling Industry Performance Guarantee Insurance” agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to be inspected by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall notice in writing when going to withdraw from co-insurance before following year began three months ago. The original undertaken responsibility will cease to exist at the end of the year and the member company which drops out from the co-insurance organization will be held responsible for the unfinished part of the responsibility until its natural expiry.

(23) Contribution to the stabilization funds

From 1 January 2014 to 30 June 2014, the Company had made monthly contributions based on 2‰ of the gross premiums to the stabilization funds. Since 1 July 2014, according to the "Interpretations No.10302503181 Financial-Supervisory-Property-Insurance-Corporate" issued by Financial Supervisory Commission, the Company has changed its way of contribution to rate discrimination depositing in "Property Insurance Stabilization Fund Committees". It is reported as "Contribution to the Stabilization funds" in the income statement.

(24) Post-employment benefits plan

All regular employees of the Consolidated Company 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 Consolidated Company. Therefore fund assets are not included in the Company's 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 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 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 and the return on plan assets, excluding net interest and net actuarial gains and losses, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings 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 Consolidated 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.

(25) 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 including in profit or loss for the period, except for the extent that the tax relating to item recognized in other comprehensive income or directly in equity shall be recognized in other comprehensive income or directly in equity.

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, and it 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 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.

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 for financial reporting purposes.

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.

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 Holdings Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it 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.

Effective from 1 January 2006, the Consolidated Company has adopted “Income Basic Tax Act” and “Enforcement Rules of the Income Basic Tax Act” to estimate income basic tax.

5. Main sources of uncertainty of significant accounting judgments, estimates and assumptions

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

(1) Judgments

In the process of applying the Consolidated Company's 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 Consolidated Company's' financial position and performance.

B. The significant degree of risk transform measured by the risk ratio of insurance policy

The risk ratio of insurance policy＝(amount to insurance company's payment when insurance accident occur / amount to insurance company's payment when insurance accident do not occur－1)×100%

The insurance policies which meet one of the following conditions are defined as insurance contracts:

(a) The insurance period is greater than or equal to 5 years, and at least 5 more policy year meet insurance risk ratio is greater than 10% (or 5%);

(b) The insurance period is less than 5 years and more than half of the policy year meet insurance risk ratio is greater than 10% (or 5%).

According to the calculation formula of insurance risk ratio, insurance policies often obviously satisfy the conditions of significant risk transform. Therefore insurers do not have to calculate the risk ratio and can define property insurance policy as insurance contracts.

C. The significant degree of risk transform measured by the risk ratio of reinsurance policy

The risk ratio of reinsurance policy＝(Σ PV amount to assumed reinsurer occur net loss × the ratio of occurrence / PV of premium that assumed reinsurer expected) × 100%

When risk ratio of reinsurance policy is greater than 1%, the policies can be defined as reinsurance contracts.

(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

When 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 Consolidated Company 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. 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 projections are derived from the budget for the next five years and do not include restructuring activities that the Consolidated Company 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.

C. Post-employment benefit

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6, for more detail on the assumptions to measure pension costs and defined benefit obligation.

D. Insurance contract liabilities

Insurance contract liabilities are based on assumptions of current period or the assumptions established in contract to reflect the best estimate at that time. All contracts were through liability adequacy tests do holistic assessment and assumptions to reflect the current period best estimate of cash flows in the future. The main assumptions are expected ultimate loss ratio, the maintaining cost ratio, persistency rates, discount ratio and reimbursement ratio.

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

E. 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 arising 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 Consolidated Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Consolidated Company's domicile.

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. Contents of significant accounts

(1) Cash and cash equivalents

	31 December 2016	31 December 2015
Petty cash and cash on hand	$13,932	$10,678
Cash in banks	1,068,796	5,892,264
Time deposits	5,024,085	4,765,535
Cash equivalents	855,042	1,846,694
Total	$6,961,855	$12,515,171

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

(2) Receivables

	31 December 2016	31 December 2015
Notes receivable - Net	$294,711	$322,666
Premiums receivable - Net	1,469,842	1,757,676
Other receivable - Net	218,756	631,046
Total	$1,983,309	$2,711,388

(3) Financial assets and liabilities at fair value through profit or loss

	31 December 2016	31 December 2015
Financial assets at fair value through profit or loss		
Held for trading:		
Derivative financial assets		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	$40,000	$440
Non-derivative financial assets		
Stocks	22,280	17,005
Beneficiary certificates	813,263	1,970,915
Total	$875,543	$1,988,360

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

	31 December 2016	31 December 2015
Financial liabilities at fair value through profit or loss		
Held for trading:		
Derivative financial assets		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	$54,590	$192,554

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

Forward foreign exchange contracts

The Consolidated Company entered in to forward foreign exchange contracts to manage the risk exposure position for certain transactions but are not designated as hedging instruments. Details of the derivative financial instruments reported as held for trading not designated as hedging instruments as of 31 December 2016 and 2015, are as follows:

	Nominal Amount	Contract Period
31 December 2016		
Forward foreign exchange contracts	Sell USD 175,600	9 January 2017-20 April 2018
Forward foreign exchange contracts	Sell EUR 7,850	27 January 2017-29 September 2017
31 December 2015		
Forward foreign exchange contracts	Sell USD 174,100	7 January 2016-28 April 2017
Forward foreign exchange contracts	Sell EUR 7,850	13 January 2016-18 February 2016

The counterparties of the derivative financial instruments mentioned above are domestic banks and foreign banks with good credit rating. Consequently, there is no significant credit risk for these counterparties.

(4) Available-for-sale financial assets

	31 December 2016	31 December 2015
Listed stocks	$4,770,129	$2,962,126
Foreign stocks	296,692	268,415
Beneficiary certificates	2,202,140	2,392,475
Corporate bonds	203,213	416,316
Real estate investment trust	66,144	112,549
Financial debentures	608,907	858,517
Government bonds	728,808	747,347
Overseas bonds	325,882	342,980
Total	$9,201,915	$8,100,725

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

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

(5) Investments accounted for using the equity method—Net

A. Investment in associates

Information of material associates was as follows:

Company: Cathay Insurance Company Limited

Relationship with the Consolidated Company: A non-life insurance company that the Consolidated Company established with Cathay Life Insurance Co., LTD. The subsidiary is accounted for using the equity method after capital increase by other investors. Please refer to Note 6(24) for related disclosures.

Main business office/ Country of registry: Mainland China

There was no quoted price for above associates.

The reconciliations of summarized financial information and the carrying amount of the investment are as follows:

	31December 2016
Total Assets	$7,469,114
Total Liabilities	(3,766,311)
Equity	3,702,803
Percentage of ownership	24.50%
Subtotal	907,187
Goodwill	373,853
Carrying value of the investment	$1,281,040

	For the years ended 31December 2016
Operating revenues	$3,107,372
Profit from continuing operations	(770,256)
Other comprehensive income (loss)	(23,983)
Total comprehensive income	(794,239)

The investment in associates held by the Consolidated Company were not pledged as of 31 December 2016.

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

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

	31 December 2016	31 December 2015
Preferred stocks	$-	$400,000
Corporate bonds	650,000	650,000
Bank Debentures	750,000	550,000
Overseas bonds	1,068,267	1,769,173
Time deposits	52,466	317,510
Total	$2,520,733	$3,686,683

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

(7) Held-to-maturity financial assets

	31 December 2016	31 December 2015
Corporate bonds	$799,987	$-
Overseas bonds	5,312,478	4,462,088
Total	$6,112,465	$4,462,088

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

(8) Loans

	31 December 2016	31 December 2015
Loans	$358,925	$370,683
Less: Allowance for bad debts	(4,113)	(4,428)
Total	$354,812	$366,255

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

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

	Individually Impaired	Collectively Impaired	Total
1 January 2016	$324	$4,104	$4,428
Reversal for the current period	(9)	(306)	(315)
Write off	-	-	-
31 December 2016	$315	$3,798	$4,113
1 January 2015	$65,499	$1,677	$67,176
Reversal for the current period	(65,175)	2,427	(62,748)
Write off	-	-	-
31 December 2015	$324	$4,104	$4,428

Individually impaired loss as of 31 December 2016 and 2015 mainly results from the financial difficulties of the obligators. The individually impaired loss is recognized as the difference between the carrying amount and the present value of estimated future recoverable amount. The pledged assets of the loans are properties and equipments.

(9) Reinsurance assets

	31 December 2016	31 December 2015
Claims recoverable from reinsurers	$374,437	$354,825
Due from reinsurers and ceding companies	703,260	627,136
Reinsurance reserve assets		
Ceded unearned premium reserve	2,752,276	2,786,250
Ceded claims reserve	4,198,314	2,575,432
Ceded premium deficiency reserve	-	(6,912)
Subtotal	6,950,590	5,354,770
Total	$8,028,287	$6,336,731

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

(10) Other assets

	31 December 2016	31 December 2015
Prepayment	$13,171	$27,115
Guarantee deposits paid	619,410	1,473,268
Other assets - Other	39,695	62,540
Total	$672,276	$1,562,923

(11) Payables

	31 December 2016	31 December 2015
Claims outstanding	$1,846	$17,166
Commissions payable	123,342	203,185
Due to reinsurers and ceding companies	1,389,107	1,510,574
Other payables	1,149,298	1,353,891
Total	$2,663,593	$3,084,816

(12) Preferred stock liabilities

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 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 Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011. Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

A. Issuance period covers from 11 November 2011, the issue date, to 10 November 2018, seven years in total.

B. Dividend yield is 1.86% per year based on the actual issue price of $32 per share. Unpaid dividends will accumulate and shall be paid in full with priority in the year with earnings.

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

C. The preference shares are not convertible to common stocks. When the shares are mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Law. 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. Preferred shareholders' rights shall not be violated.

D. Preferred shareholders do not have rights to require the Company to redeem the shares. Five years after issuance, the Company can redeem the shares with the approval from the governing authorities.

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

(13) Insurance liabilities

	31 December 2016	31 December 2015
Unearned premium reserve	$11,100,264	$12,064,950
Claims reserve	9,843,664	9,053,721
Special reserve	3,362,525	3,578,316
Premiums deficiency reserve	10,534	367,287
Liability reserve	41	-
Total	$24,317,028	$25,064,274

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

A. Unearned premium reserve

(a) Unearned premium reserve and ceded unearned premium reserve are summarized as follows:

	31 December 2016			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$1,786,006	$82,136	$1,064,889	$803,253
Marine insurance	122,955	8,402	89,553	41,804
Land and air insurance	4,514,514	7,224	282,758	4,238,980
Liability insurance	578,028	700	180,130	398,598
Bonding insurance	36,137	800	22,051	14,886
Other property insurance	631,758	21,985	278,573	375,170
Accident insurance	1,483,727	2,505	59,853	1,426,379
Health insurance	52,128	-	-	52,128
Compulsory automobile liability insurance	1,289,517	481,742	774,469	996,790
Total	$10,494,770	$605,494	$2,752,276	$8,347,988

	31 December 2015			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$1,922,146	$72,493	$1,051,066	$943,573
Marine insurance	100,452	9,482	72,090	37,844
Land and air insurance	4,261,434	15,224	301,559	3,975,099
Liability insurance	598,540	1,570	197,525	402,585
Bonding insurance	44,812	757	28,168	17,401
Other property insurance	1,393,279	26,700	352,242	1,067,737
Accident insurance	1,438,577	2,389	56,036	1,384,930
Health insurance	54,641	-	9	54,632
Compulsory automobile liability insurance	1,658,486	463,968	727,555	1,394,899
Total	$11,472,367	$592,583	$2,786,250	$9,278,700

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

(b) Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

	For the years ended 31 December 2016		For the years ended 31 December 2015	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	$12,064,950	$2,786,250	$11,950,213	$2,750,419
Reserve	12,366,459	2,919,491	12,072,567	2,786,662
Recover	(12,058,201)	(2,787,706)	(11,951,486)	(2,750,332)
Losses (gains) on foreign exchange	(70,227)	(8,475)	(6,344)	(499)
Lose control	(1,202,717)	(157,284)	-	-
Ending balance	$11,100,264	$2,752,276	$12,064,950	$2,786,250

B. Claims reserve

(a) Claims reserve and ceded claims reserve

	31 December 2016			
	Claims reserve		Ceded claims reserve	
	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Reported but not paid claim	$5,932,690	$235,435	$3,260,191	$2,907,934
Unreported claims	3,258,534	417,005	938,123	2,737,416
Total	$9,191,224	$652,440	$4,198,314	$5,645,350

	31 December 2015			
	Claims reserve		Ceded claims reserve	
	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Reported but not paid claim	$4,551,787	$326,287	$1,537,115	$3,340,959
Unreported claims	3,889,745	285,902	1,038,317	3,137,330
Total	$8,441,532	$612,189	$2,575,432	$6,478,289

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

(b) Net change for claims reserve and ceded claims reserve

	For the years ended 31 December 2016							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Reported but not paid claim	$6,830,877	$4,550,048	$235,435	$334,116	$2,182,148	$3,386,015	$1,548,137	$1,837,878
Unreported claims	3,783,984	3,884,922	418,869	285,866	32,065	997,557	1,037,228	(39,671)
Total	$10,614,861	$8,434,970	$654,304	$619,982	$2,214,213	$4,383,572	$2,585,365	$1,798,207

	For the years ended 31 December 2015							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Reported but not paid claim	$4,556,086	$4,066,192	$326,287	$223,378	$592,803	$1,536,911	$1,321,341	$215,570
Unreported claims	3,893,614	3,647,509	285,929	211,057	320,977	1,039,276	920,629	118,647
Total	$8,449,700	$7,713,701	$612,216	$434,435	$913,780	$2,576,187	$2,241,970	$334,217

(c) Reported but not paid claim and unreported claims liabilities for policyholder

	31 December 2016		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$3,051,885	$11,708	$3,063,593
Marine insurance	259,146	1,802	260,948
Land and air insurance	1,315,588	1,177,398	2,492,986
Liability insurance	389,427	455,552	844,979
Bonding insurance	43,266	13,117	56,383
Other property insurance	480,474	28,086	508,560
Accident insurance	125,999	443,176	569,175
Health insurance	7,463	44,110	51,573
Compulsory automobile liability insurance	494,877	1,500,590	1,995,467
Total	$6,168,125	$3,675,539	$9,843,664

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

	31 December 2015		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$1,273,927	$122,200	$1,396,127
Marine insurance	302,768	67,946	370,714
Land and air insurance	948,712	1,000,889	1,949,601
Liability insurance	465,420	439,981	905,401
Bonding insurance	41,204	67,272	108,476
Other property insurance	920,655	359,572	1,280,227
Accident insurance	129,040	433,197	562,237
Health insurance	8,258	50,841	59,099
Compulsory automobile liability insurance	788,090	1,633,749	2,421,839
Total	$4,878,074	$4,175,647	$9,053,721

(d) Reported but not paid claim and unreported claims liabilities of ceded claims reserve for policyholder

	31 December 2016		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$2,387,195	$6,623	$2,393,818
Marine insurance	187,355	339	187,694
Land and air insurance	64,554	63,241	127,795
Liability insurance	222,230	159,847	382,077
Bonding insurance	25,258	12,426	37,684
Other property insurance	175,782	11,257	187,039
Accident insurance	11,295	37,748	49,043
Health insurance	-	773	773
Compulsory automobile liability insurance	186,522	645,869	832,391
Total	$3,260,191	$938,123	$4,198,314

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

	31 December 2015		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$604,278	$63,437	$667,715
Marine insurance	190,358	35,902	226,260
Land and air insurance	48,285	28,992	77,277
Liability insurance	268,371	117,732	386,103
Bonding insurance	33,553	60,202	93,755
Other property insurance	231,629	83,555	315,184
Accident insurance	9,628	45,716	55,344
Health insurance	-	75	75
Compulsory automobile liability insurance	151,013	602,706	753,719
Total	$1,537,115	$1,038,317	$2,575,432

(e) Reconciliation statement of claims reserve and ceded claims reserve

	For the years ended 31 December 2016		For the years ended 31 December 2015	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	$9,053,721	$2,575,432	$8,154,755	$2,249,673
Reserve	11,269,165	4,383,572	9,061,916	2,576,187
Recover	(9,054,952)	(2,585,365)	(8,148,136)	(2,241,970)
Effects of exchange rate changes	(73,267)	(5,085)	(14,814)	(8,458)
Lose control	(1,351,003)	(170,240)	-	-
Ending balance	$9,843,664	$4,198,314	$9,053,721	$2,575,432

C. Special reserve

(a) Special reserve - Compulsory automobile liability insurance

	For the years ended 31 December 2016	For the years ended 31 December 2015
Beginning balance	$1,487,506	$1,528,545
Reserve	116,070	23,143
Recover	(72,967)	(64,182)
Ending balance	$1,530,609	$1,487,506

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

(b) Special reserve - Non-compulsory automobile liability insurance

	For the years ended 31 December 2016		
	Major incidents	Fluctuation of risks	Total
Beginning balance	$505,626	$1,585,184	$2,090,810
Reserve	-	-	-
Recover	(18,727)	(240,167)	(258,894)
Ending balance	$486,899	$1,345,017	$1,831,916

	For the years ended 31 December 2015		
	Major incidents	Fluctuation of risks	Total
Beginning balance	$524,353	$1,586,240	$2,110,593
Reserve	-	-	-
Recover	(18,727)	(1,056)	(19,783)
Ending balance	$505,626	$1,585,184	$2,090,810

When the Consolidated Company does not apply to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for the nuclear Insurance”, the impact on the Consolidated Company's profit or loss, liabilities and equity are decrease of $258,894 thousand, increase of $1,523,417 thousand and decrease of $670,339 thousand. Earnings per share decreases $0.74 when the Consolidated Company does not apply to the precautions.

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

D. Premium deficiency reserve

(a) Premium deficiency reserve and ceded premium deficiency reserve

	31 December 2016			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$-	$-
Marine insurance	-	-	-	-
Land and air insurance	1,641	8,893	-	10,534
Liability insurance	-	-	-	-
Bonding insurance	-	-	-	-
Other property insurance	-	-	-	-
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	-	-	-	-
Total	$1,641	$8,893	$-	$10,534

	31 December 2015			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$627	$(627)
Marine insurance	-	-	(13,542)	13,542
Land and air insurance	-	13,988	-	13,988
Liability insurance	12,503	(3)	5,962	6,538
Bonding insurance	-	-	4	(4)
Other property insurance	278,729	33	37	278,725
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	62,037	-	-	62,037
Total	$353,269	$14,018	$(6,912)	$374,199

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

(b) Net loss recognized for premium deficiency reserve - Net change for premium deficiency reserve and ceded premium deficiency reserve

For the years ended 31 December 2016

	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$70	$-	$-	$-	$70	$468	$622	$(154)	$224
Marine insurance	-	-	-	-	-	14	43	(29)	29
Land and air insurance	1,640	-	8,893	13,988	(3,455)	-	(13,586)	13,586	(17,041)
Liability insurance	13,661	12,400	5	(3)	1,269	5,273	5,913	(640)	1,909
Bonding insurance	11	-	-	-	11	4	4	-	11
Other property insurance	294,628	276,441	-	32	18,155	82	37	45	18,110
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	67,353	61,528	-	-	5,825	-	-	-	5,825
Total	$377,363	$350,369	$8,898	$14,017	$21,875	$5,841	$(6,967)	$12,808	$9,067

For the years ended 31 December 2015

	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$-	$-	$-	$-	$631	$-	$631	$(631)
Marine insurance	-	-	-	7	(7)	(13,542)	(1,183)	(12,359)	12,352
Land and air insurance	-	-	13,988	1,095	12,893	-	-	-	12,893
Liability insurance	12,580	14,930	(4)	5	(2,359)	5,999	2,075	3,924	(6,283)
Bonding insurance	-	511	-	-	(511)	4	8	(4)	(507)
Other property insurance	280,453	137,272	33	1	143,213	37	38,666	(38,629)	181,842
Accident insurance	-	-	-	-	-	-	-	-	-
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	62,422	46,375	-	-	16,047	-	-	-	16,047
Total	$355,455	$199,088	$14,017	$1,108	$169,276	$(6,871)	$39,566	$(46,437)	$215,713

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

(c) Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

	For the years ended 31 December 2016		For the years ended 31 December 2015	
	Premium deficiency reserve	Ceded premium deficiency reserve	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	$367,287	$(6,912)	$199,764	$39,478
Reserve	386,261	5,841	369,472	(6,871)
Recover	(364,386)	6,967	(200,196)	(39,566)
Effects of exchange rate changes	(20,674)	(331)	(1,753)	47
Lose control	(357,954)	(5,565)	-	-
Ending balance	$10,534	$-	$367,287	$(6,912)

(d) Effects for the change of estimation and assumption

Premium deficiency reserve is a measurement of present value for future expenditure. The expected final loss ratio was referred to the data in the past three years, spectacular compensation case and the trend of loss. The expected operation expense ratio was referred to the insurance expense exhibit in the past three years exclude entertainment expense and membership fee. The actual ratio of return on investment may not be the same as the expected ratio due to the uncertainty of estimation and assumption.

E. Liability reserve

(a) Liability reserve and liability-ceded reserve：

	For the years ended 31 December 2016			
	Liability reserve		Liability-ceded reserve	
	Direct written business (1)	Reinsurance ceded-in (2)	Reinsurance ceded-out (3)	Retention (4)=(1)+(2)-(3)
Health insurance	$41	$-	$-	$41
Total	$41	$-	$-	$41

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

(b) Net change for liability reserve and liability reserve ceded

	For the years ended 31 December 2016							
	Direct written business		Reinsurance ceded-in		Net change for liability reserve	Reinsurance ceded-out		Net change for liability reserve ceded
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2)+(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Health insurance	$43	$2	$-	$-	$41	$-	$-	$-
Total	$43	$2	$-	$-	$41	$-	$-	$-

(14) Post-employment benefits

Defined contribution plan

The Consolidated Company adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Consolidated Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Consolidated Company have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended 31 December 2016 and 2015 are $99,200 thousand and $109,896 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 3.14% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee.

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute $34,212 thousand to its defined benefit plan during the 12 months beginning after 31 December 2016.

The defined benefits plan obligation will expire in 2030 as at 31 December 2016 and 2015.

Pension costs recognized in profit or loss for the years ended 31 December 2016 and 2015:

	For the years ended 31 December 2016	For the years ended 31 December 2015
Current period service costs	$29,617	$22,630
Net interest of liability (asset) of the defined benefit plan	5,099	5,350
Total	$34,716	$27,980

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

	31 December 2016	31 December 2015	1 January 2015
Defined benefit obligation at 1 January	$813,394	$790,914	$687,859
Plan assets at fair value	(433,236)	(409,898)	(404,727)
Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	$380,158	$381,016	$283,132

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

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
1 January 2015	$687,859	$(404,727)	$283,132
Current period service costs	22,630	-	22,630
Net interest expense (income)	13,638	(8,289)	5,349
Subtotal	36,268	(8,289)	27,979
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	75,263	-	75,263
Experience adjustments	22,630	-	22,630
Return on plan assets	-	232	232
Subtotal	97,893	232	98,125
Payments from the plan	(31,106)	31,106	-
Contributions by employer	-	(28,220)	(28,220)
31 December 2015	790,914	(409,898)	381,016
Current period service costs	29,617	-	29,617
Net interest expense (income)	10,811	(5,711)	5,100
Subtotal	40,428	(5,711)	34,717
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(18,543)	-	(18,543)
Experience adjustments	15,302	-	15,302
Return on plan assets	-	1,821	1,821
Subtotal	(3,241)	1,821	(1,420)
Payments from the plan	(14,707)	14,707	-
Contributions by employer	-	(34,155)	(34,155)
31 December 2016	$813,394	$(433,236)	$380,158

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

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

	31 December 2016	31 December 2015
Discount rate	1.56%	1.39%
Expected rate of salary increases	1.50%	1.50%

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is, as shown below:

	For the years ended 31 December 2016		For the years ended 31 December 2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$57,751	$-	$58,528
Discount rate decrease by 0.5%	63,445	-	64,855	-
Future salary increase by 0.5%	61,818	-	62,482	-
Future salary decrease by 0.5%	-	56,938	-	57,737

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

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

(15) Common stock

As of 31 December 2016 and 2015, the total authorized and issued shares were 288,955 thousand and 280,220 thousand at par value of $10, respectively. Each share carries equal rights to vote and to receive dividends.

(16) Retained earnings

A. Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's annual after-tax net income shall be appropriated as legal reserve until the total amount of the legal capital reserve equals the issued share capital. The Company is able to issue new stock or cash dividend from legal reserve if there is no deficit as long as the legal reserve is over 25% of the paid in capital.

On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $236,307 thousand. On 29 April 2015, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $166,375 thousand.

B. Special capital reserve

Special reserve for major incidents and for fluctuation of risks in accordance with Section 8 of "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" is placed in the special capital reserve under retained earnings.

Following the adoption of TIFRS, the "interpretations No. 10102508861 Financial-Supervisory-Property-Insurance-Corporate" issued by Financial Supervisory Commission on 5 June 2012, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. The Consolidated Company doesn't have the above special capital reserve result in it has no unrealized revaluation and cumulative translation adjustment (gain).

On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $858,776 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of $483,754 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.

C. Undistributed earnings

According to the article 35 of the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal 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. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past. From the remainder, there should be appropriations of 2% as bonus to employees.

According to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall distribute employee remuneration based on profit of current year. The Company's board of directors, acting on behalf of the shareholders, passed the resolution of amending the Articles of Incorporation on 27 April 2016, according to the revised Articles of Incorporations, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal 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. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past.

The Company's distribution of 2016 retained earnings has not been approved by the shareholders as of the independent auditors' opinion date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

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 31 December 2016, the reserves amounted to $2,798,362 thousand.

Please refer to Note 6(21) for details of the estimation basis and recognized amount for employee remuneration (bonuses) and remuneration to directors and supervisors.

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

(17) Non-controlling interests

	For the years ended 31 December 2016	For the years ended 31 December 2015
Beginning balance	$325,384	$704,946
Net income (loss) attributable to non-controlling interests	(128,790)	(377,685)
Other comprehensive income attributable to non-controlling interests:		
Exchange differences resulting from translating the financial statements of foreign operations	(11,486)	(1,418)
Unrealized gains (losses) on available-for-sale financial assets	(3,833)	(459)
Others	(181,275)	-
Ending balance	$-	$325,384

(18) Retained earned premium

	For the years ended 31 December 2016					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsures (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$3,083,155	$150,101	$2,187,812	$1,045,444	$(91,594)	$1,137,038
Marine insurance	594,231	18,202	427,076	185,357	9,463	175,894
Land and air insurance	8,271,027	16,404	466,767	7,820,664	263,966	7,556,698
Liability insurance	1,253,048	1,186	451,445	802,789	(2,087)	804,876
Bonding insurance	118,054	1,300	80,758	38,596	(2,064)	40,660
Other property insurance	1,672,912	31,760	269,351	1,435,321	(58,809)	1,494,130
Accident insurance	2,996,461	6,711	242,088	2,761,084	41,478	2,719,606
Health insurance	259,807	-	(5)	259,812	(2,504)	262,316
Compulsory automobile liability insurance	3,539,179	760,223	1,258,801	3,040,601	18,624	3,021,977
Total	$21,787,874	$985,887	$5,384,093	$17,389,668	$176,473	$17,213,195

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

	For the years ended 31 December 2015					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsures (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$2,991,546	$138,087	$2,007,921	$1,121,712	$(156,213)	$1,277,925
Marine insurance	642,424	35,669	466,608	211,485	(3,985)	215,470
Land and air insurance	7,268,324	23,648	474,885	6,817,087	51,533	6,765,554
Liability insurance	1,205,428	7,220	438,020	774,628	38,985	735,643
Bonding insurance	126,713	1,130	94,410	33,433	(2,636)	36,069
Other property insurance	2,514,057	35,207	291,777	2,257,487	211,908	2,045,579
Accident insurance	2,715,579	6,331	216,418	2,505,492	(158,526)	2,664,018
Health insurance	228,561	-	38	228,523	10,524	217,999
Compulsory automobile liability insurance	3,728,905	780,283	1,205,072	3,304,116	93,161	3,210,955
Total	$21,421,537	$1,027,575	$5,195,149	$17,253,963	$84,751	$17,169,212

(19) Retained claim payment

	For the years ended 31 December 2016			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(2,313,330)	$(66,045)	$(1,496,657)	$(882,718)
Marine insurance	(291,245)	(24,747)	(202,608)	(113,384)
Land and air insurance	(4,519,350)	(1,449)	(175,071)	(4,345,728)
Liability insurance	(471,594)	(5)	(148,922)	(322,677)
Bonding insurance	(217,811)	(167)	(209,742)	(8,236)
Other property insurance	(868,874)	(13,704)	(137,454)	(745,124)
Accident insurance	(1,152,253)	(116)	(83,305)	(1,069,064)
Health insurance	(108,169)	-	-	(108,169)
Compulsory automobile liability insurance	(2,245,149)	(708,471)	(989,626)	(1,963,994)
Total	$(12,187,775)	$(814,704)	$(3,443,385)	$(9,559,094)

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

	For the years ended 31 December 2015			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(934,468)	$(35,333)	$(388,823)	$(580,978)
Marine insurance	(304,113)	(13,073)	(173,985)	(143,201)
Land and air insurance	(4,379,076)	(84,166)	(446,703)	(4,016,539)
Liability insurance	(514,862)	(507)	(162,355)	(353,014)
Bonding insurance	(35,710)	(205)	(32,615)	(3,300)
Other property insurance	(1,320,966)	(15,187)	(282,257)	(1,053,896)
Accident insurance	(1,019,959)	(134)	(112,550)	(907,543)
Health insurance	(116,847)	-	-	(116,847)
Compulsory automobile liability insurance	(2,513,842)	(453,538)	(850,310)	(2,117,070)
Total	$(11,139,843)	$(602,143)	$(2,449,598)	$(9,292,388)

(20) Components of other comprehensive income

	For the years ended 31 December 2016				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$1,420	$-	$1,420	$(241)	$1,179
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(143,054)	-	(143,054)	-	(143,054)
Unrealized gains (losses) on available-for-sale financial assets	(167,464)	161,751	(5,713)	(1,640)	(7,353)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(14,296)	-	(14,296)	-	(14,296)
Total	$(323,394)	$161,751	$(161,643)	$(1,881)	$(163,524)

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

	For the years ended 31 December 2015				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$(98,125)	$-	$(98,125)	$16,681	$(81,444)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(13,023)	-	(13,023)	-	(13,023)
Unrealized gains (losses) on available-for-sale financial assets	(133,116)	(193,951)	(327,067)	11,824	(315,243)
Gains (losses) on effective portions of cash flow hedges	(3,747)	-	(3,747)	-	(3,747)
Total	$(248,011)	$(193,951)	$(441,962)	$28,505	$(413,457)

(21) Summary statement of employee benefits, depreciation and amortization expenses by function

	For the years ended 31 December 2016			For the years ended 31 December 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salary and wages	$-	$2,316,889	$2,316,889	$-	$2,300,091	$2,300,091
Labor & health insurance	-	222,677	222,677	-	180,755	180,755
Pension expenses	-	133,916	133,916	-	137,876	137,876
Other employee benefits	-	92,699	92,699	-	93,821	93,821
Depreciation	-	78,784	78,784	-	108,886	108,886
Amortization	-	20,827	20,827	-	20,872	20,872

The number of the Consolidated Company's employees was 2,162 and 3,149 as of 31 December 2016 and 2015, respectively.

A resolution was passed at a Board of Directors meeting of the Company held on 16 March 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 1 ‰ to 2 ‰ of profit of the current year is distributable as employees’ compensation. 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” on the website of the TWSE.

Based on profit of the year ended 31 December 2016, the Company estimated the amounts of the employees’ compensation for the year ended 31 December 2016 to be 1 ‰ of profit of the current year recognized as employee benefits expense. As such, employees’ compensation for the year ended 31 December 2016 and 2015 amount to $2,965 thousand and $1,470 thousand, respectively. The aforementioned employees’ compensation were estimated based on post-tax net income of the period and recognized as salaries expense. The number of stocks distributed as employees’ compensation was calculated based on the closing price one day earlier than the date of shareholders’ meeting and considered the impacts of ex-right/ex-dividend. Differences between the estimated amount and the actual distribution of the employee bonuses are recognized in profit or loss of the subsequent year.

A resolution was passed at a Board of Directors meeting held on 16 March 2016 to distribute $1,470 thousand in cash as employees’ compensation of 2015. No material differences exist between the estimated amount and the actual distribution of the employee bonuses for the year ended 31 December 2015.

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

(22) Income tax

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

Income tax expense (income) recognized in profit or loss

	For the years ended 31 December 2016	For the years ended 31 December 2015
Current income tax expense:		
Current income tax charge	$305,606	$275,122
Adjustments in respect of current income tax of prior periods	2,454	6,090
Deferred tax expense (income):		
Deferred tax expense (income) related to origination and reversal of temporary differences	183,459	5,938
Total income tax expense	$491,519	$287,150

Income tax related to components of other comprehensive income

	For the years ended 31 December 2016	For the years ended 31 December 2015
Deferred tax expense (income):		
Unrealized gains (losses) on available-for-sale financial assets	$1,640	$(11,824)
Remeasurements of defined benefit plans	241	(16,681)
Income tax relating to components of other comprehensive income	$1,881	$(28,505)

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

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

	For the years ended 31 December 2016	For the years ended 31 December 2015
Accounting profit before tax from continuing operations	$2,833,200	$1,091,002
Tax at the domestic rates applicable to profits in the country concerned	$503,546	$249,675
Tax effect of expenses not deductible for tax purposes	41,605	68,482
Tax effect of revenues exempt from taxation	(56,037)	(37,103)
Tax effect of deferred tax assets/liabilities	(49)	6
Adjustments in respect of current income tax of prior periods	2,454	6,090
Total income tax expense recognized in profit or loss	$491,519	$287,150

Deferred tax assets (liabilities) relate to the following:

	For the years ended 31 December 2016				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of available-for-sale investments to fair value	$6,702	$-	$(1,640)	$-	$5,062
Revaluations of financial liabilities at fair value through profit or loss	2,633	(32,812)	-	-	(30,179)
Provisions for employee benefits liability	66,831	95	(241)	-	66,685
Bad debt losses	17,075	(3,383)	-	-	13,692
Unrealized exchange gain	(36,035)	82,671	-	(3)	46,633
Gain from disposal of subsidiaries	-	(230,306)	-	-	(230,306)
Other	28	276	-	-	304
Deferred tax income expense		$(183,459)	$(1,881)	$(3)	
Net deferred tax assets/(liabilities)	$57,234				$(128,109)
Reflected in balance sheet as follows:					
Deferred tax assets	$93,269				$132,376
Deferred tax liabilities	$(36,035)				$(260,485)

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

	For the years ended 31 December 2015				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of available-for-sale investments to fair value	$(5,122)	$-	$11,824	$-	$6,702
Revaluations of financial liabilities at fair value through profit or loss	25,206	(22,573)	-	-	2,633
Provisions for employee benefits liability	50,191	(41)	16,681	-	66,831
Bad debt losses	17,749	(674)	-	-	17,075
Unrealized exchange gain	(53,358)	17,322	-	1	(36,035)
Other	-	28	-	-	28
Deferred tax income expense		$(5,938)	$28,505	$1	
Net deferred tax assets/(liabilities)	$34,666				$57,234
Reflected in balance sheet as follows:					
Deferred tax assets	$93,146				$93,269
Deferred tax liabilities	$(58,480)				$(36,035)

Unrecognized deferred tax assets

As of 31 December 2016 and 2015, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to $202,369 thousand and $304,634 thousand, respectively.

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

Imputation credit information

	31 December 2016	31 December 2015
Balances of imputation credit amounts	$15,862	$14,337

The actual creditable ratio for 2016 and 2015 were 1.61% and 1.35%, 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 31 December 2016, the assessment of the income tax returns of the Consolidated Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2010

(23) 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 Consolidated Company did not issue dilutive potential common stock; therefore, the basic earnings per share need not be adjusted.

	For the years ended 31 December 2016	For the years ended 31 December 2015
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	$2,470,471	$1,181,537
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	288,955	288,955
Basic earnings per share (in dollars)	$8.55	$4.09

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

(24) Changes in ownership over the subsidiary

Lose control of the subsidiary

The Company did not participate in the capital increase in Cathay Insurance (China) during July and therefore, the Company's percentage of ownership over Cathay Insurance (China) decreased to 24.5%. The subsidiary is accounted for using the equity method since the Company lost control of the subsidiary but still retained significant influence. The fair value of remaining 24.5% ownership on disposal day was $1,457,612 thousand and therefore, the Company recognized a revaluation gains of $1,354,739 thousand.

Details of carrying value of derecognized assets and liability of Cathay Insurance (China) on 26 July 2016 are as follows:

Cash and cash equivalents	$4,609,822
Receivables	278,491
Financial assets at fair value through profit or loss	264,577
Available-for-sale financial assets	983,769
Debt instrument investments for which no active market exists	48,115
Reinsurance assets	530,468
Property and equipment	51,474
Intangible assets	40,270
Other assets	842,485
Payables	(314,853)
Insurance liabilities	(2,911,675)
Other liabilities	(54,168)
Net assets	$4,368,775

7. Risk management for insurance contracts and financial instruments

(1) The structure, organization, the scope of rights and responsibilities of risk management:

A. Framework of risk management, organization, structure and responsibilities:

(A) Board of directors

a. To recognize various risks associated with insurance business, assure effectiveness of risk management and take ultimate responsibility for risk management as a whole.

b. To establish appropriate mechanism and culture for risk management, ratify appropriate risk management policies and optimize resource allocation.

c. To consider the aggregate effect of various risks from the perspective of the Company as a whole, at the same time take into account the regulatory capital requirements from the competent authority and other related capital allocation regulations regarding finance and business.

(B) Risk management committee

a. To formulate risk management policies, frameworks, and organizations; to build quantitative and qualitative management standards, regularly report to board of directors, reflect timely the execution of risk management and propose necessary steps for improvement.

b. To execute risk management decisions from board of directors and review development, establishment and effectiveness of risk management mechanism for the Company as a whole on a regular basis.

c. To assist and supervise various departments in risk management activities.

d. To adjust risk category, allotment, and attribution in response to changes in the environment.

e. To coordinate the interaction and communication of risk management function across departments.

(C) Chief risk officer

The Chief Risk Officer’s appointment and removal are approved by the Board of directors, which maintain the independence, it could not concurrently play a business and financial role, and has the right to acquire any overview data that may affect the company's risk profile.

a. Overall management of the company's overall risk management related business.

b. Discuss important company decisions and risk management point of view to give appropriate recommendations.

(D) Risk management department

a. Risk management department is established independent of sales function to take charge of tasks such as the supervision and evaluation of various major risks.

b. Responsibility of risk management division:

(a) To assist in drafting risk management policies and the execution when ratified by the board of directors.
(b) To assist in setting up risk limits according to the risk appetite.
(c) To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.
(d) To propose risk management related reports on a regular basis.
(e) To supervise risk limit and its use in each business unit on a regular basis.
(f) To assist in stress tests and conduct back-testing when necessary.
(g) To conduct other risk management related tasks.

(E) Business unit

a. The responsibilities of business's risk management are as follows:

(a) To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
(b) To oversee the sharing of risk management information to risk management on a regular basis.

b. The business unit's responsibilities for risk management are as follows:

(a) To identify risk and report risk exposure.
(b) To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
(c) To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
(d) To oversee risk exposure and report when over-limit occur, including measures taken against it.
(e) To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
(f) To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
(g) To assist in collecting information regarding operation risk.

(F) Audit department

Audit the execution of risk management of each unit in the Company according to the existing relevant regulations.

B. Scope and nature of risk reporting and evaluation system of property insurance

(A) Risks reporting

a. Each business unit within the Company should pass risk information to risk management unit for overseeing purpose, and propose over-limit report and responding measures when risk exposure is over limit.

b. Risk management unit compiles risk information from each department, examine and track the use of major risk limit, submit a monthly risk management report to the general manager, and make quarterly report to the risk management committee and board of director to oversee risks on a regular basis.

(B) Scope and nature of risk evaluation system

The risk management unit of the company and that of its parent company's, Cathay Financial Holdings Limited, collaborate in building market risk management system. The structure will consider functionality, source of information, completeness of uploaded information, and the safety of the environment in which the system operates. Function-wise, risk management system focuses on the need of middle office to quantify risk, and it would only be authorized to risk management personnel.

C. Processes to undertake, evaluate, supervise and control insurance risk of property insurance business. Policy in underwriting to assure proper risk categorization and fee standard.

In the company, risk management department takes responsibilities in monitoring risks, integrate insurance risk of the company as a whole, and set up risk indicators, risk limit, and managing mechanism. Each related department is the execution unit of insurance risk control. They report execution process to risk management department every month based on regulation, internal rules, and professional knowledge and experience of their respective field. Risk management department then propose insurance risk management report to the board of directors each quarter.

D. Evaluate risk from the perspective of enterprise as a whole and the scope in managing insurance risk

Scope of insurance risk management of the company includes product design and pricing, underwriting, reinsurance, risks related to catastrophe, claim, and provision. Proper management mechanisms are set up and execute thoroughly.

E. Methods with which property insurance business limit insurance risk exposure and improper risk concentration

Before a business is introduced, the underwriting personnel will evaluate the quality of the business based on the underwriting guideline of each insurance to decide whether to undertake the business. Risk is properly avoided and controlled to reduce exposure.

In addition, as the company undertakes reinsurance business, risk management mechanism is set up in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” and the ability to undertake risk is taken into account for the establishment of reinsurance risk management plan which execution is based upon. Accumulated risk with the portfolio of direct written premiums and other inward-insurance business is conducted before an individual case of outward/inward reinsurance is executed. When the cumulative insurance amount exceeds contract limit or self-retain limit, risk is diversified through facultative reinsurance.

According to the Company’s risk management mechanism for reinsurance business, the maximum for the retained risk per risk unit is calculated as 10% of the summary amount of stockholder’s equities and special reserves (excluding of Compulsory automobile insurance). The following table summarizes the underlying retention for each risk unit by types of insurance:

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

	For the years ended 31 December 2016	For the years ended 31 December 2015
Fire insurance	NT$898,000	NT$827,000
Marine insurance	NT$898,000	NT$827,000
Engineering insurance	NT$898,000	NT$827,000
Other property insurance	NT$898,000	NT$827,000
Automobile insurance	NT$898,000	NT$827,000
Health and injury insurance	NT$898,000	NT$827,000

F. Methods of asset / liability management

Provisions are evaluated on a regular basis based on the company's business characteristics to insure fund allocation and the liquidity of asset investment is sufficient to meet possible future claims. Cash flow management with comprehensive consideration of the amount of fund required and its timeline of every department is conducted through fund procurement department, which is independent of trading unit.

Operation standards under crisis are set up in accordance with the "Directions for Handling Financial Institute Crisis" issued by Financial Supervision Commission. When tremendous sum of fund is lost or liquidity is severely compromised, the operation crisis team will be set up immediately to evaluate the impact on fund liquidity of the company cautiously and assess the amount, timeline, and benefit of making up the funding gap so as to assure rights of clients and the company.

G. Management, supervision, control process when additional liability or commitment to equity contribution is required for the property insurance business

The Company has established a management mechanism for capital adequacy, which includes capital adequacy indicators for regular review, and every six month a capital adequacy management report will be compiled to implement capital adequacy management.

If capital adequacy ratio exceeds control standard (risk limit) or in the case of unusual events, related departments will meet together to study counter-measures and report to the parent company, Cathay Financial Holdings, to review the impact on the group's capital adequacy ratio.

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

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

	Premiums receivable (Note)	
	31 December 2016	31 December 2015
Fire insurance	$545,610	$760,232
Marine insurance	211,652	243,481
Land and air insurance	208,831	177,558
Liability insurance	173,051	173,119
Bonding insurance	24,476	43,048
Other property insurance	217,992	293,262
Accident insurance	131,391	134,114
Health insurance	10,393	14,718
Compulsory automobile liability insurance	21,643	19,614
Total	1,545,039	1,859,146
Less: Allowance for bad debts	(75,197)	(101,470)
Net	$1,469,842	$1,757,676

Aging analysis of account receivables：

	31 December 2016	31 December 2015
≦ 90 days	$1,292,660	$1,596,096
> 90 days	252,379	263,050
Total	$1,545,039	$1,859,146

Note: As of 31 December 2016 and 2015, the receivables included overdue receivables amounted to $251,988 thousand and $216,525 thousand, respectively. The allowance for bad debts amounted to $62,291 thousand and $65,494, respectively.

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

B. Claims recoverable from reinsurers for policyholder with reported and paid off claims

	Claims reported and paid off	
	31 December 2016	31 December 2015
Fire insurance	$108,058	$45,435
Marine insurance	12,168	22,730
Land and air insurance	42,067	40,360
Liability insurance	34,899	17,874
Bonding insurance	2,143	38,430
Other property insurance	14,724	27,756
Accident insurance	16,645	17,103
Health insurance	-	-
Compulsory automobile liability insurance	143,733	145,137
Total	374,437	354,825
Less: Allowance for bad debts	-	-
Net	$374,437	$354,825

C. Payables of insurance contracts

	31 December 2016		
	Commissions payables	Other payables	Total
Fire insurance	$26,427	$12,410	$38,837
Marine insurance	5,947	10,090	16,037
Land and air insurance	28,784	84,010	112,794
Liability insurance	11,180	17,491	28,671
Bonding insurance	3,500	384	3,884
Other property insurance	4,697	10,279	14,976
Accident insurance	12,549	27,366	39,915
Health insurance	3,314	1,619	4,933
Compulsory automobile liability insurance	26,944	-	26,944
Total	$123,342	$163,649	$286,991

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

	31 December 2015		
	Commissions payables	Other payables	Total
Fire insurance	$37,552	$19,059	$56,611
Marine insurance	11,642	9,764	21,406
Land and air insurance	26,159	160,717	186,876
Liability insurance	17,423	17,082	34,505
Bonding insurance	5,027	1,597	6,624
Other property insurance	29,277	12,039	41,316
Accident insurance	10,159	64,426	74,585
Health insurance	4,159	2,713	6,872
Compulsory automobile liability insurance	61,787	-	61,787
Total	$203,185	$287,397	$490,582

D. Due from (to) reinsurers and ceding companies - reinsurance

	31 December 2016	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$132,069	$345,501
AON	48,647	148,371
Marsh	45,277	179,328
Willis	261,070	71,683
Others	241,255	644,224
Total	728,318	1,389,107
Less: Allowance for bad debts	(25,058)	-
Net	$703,260	$1,389,107

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

	31 December 2015	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$126,360	$323,938
Sompo Japan Re	89,844	38,097
Guy Carpenter	59,628	20,582
Marsh	19,937	255,959
Taian	24,893	3,898
Sompo Japan Nipponkoa Insurance	17,435	24,953
Others	348,862	843,147
Total	686,959	1,510,574
Less: Allowance for bad debts	(59,823)	-
Net	$627,136	$1,510,574

Note: As of 31 December 2016 and 2015, the due from reinsurers and ceding companies included overdue receivables amounted to $19,305 thousand and $29,649 thousand, respectively. The allowance for bad debts amounted to $19,305 thousand and $29,649 thousand, respectively.

(3) Information of management achievements

A. Acquisition cost for insurance contracts

	For the years ended 31 December 2016				
	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	$86,359	$25,804	$17,016	$84,183	$213,362
Marine insurance	11,961	1,828	1,084	34,681	49,554
Land and air insurance	192,552	-	128	1,007,727	1,200,407
Liability insurance	42,236	17,051	122	89,922	149,331
Bonding insurance	10,060	170	58	2,670	12,958
Other property insurance	16,789	278,816	5,126	49,547	350,278
Accident insurance	64,947	-	-	424,411	489,358
Health insurance	20,133	-	-	32,924	53,057
Compulsory automobile liability insurance	-	429,994	-	2	429,996
Total	$445,037	$753,663	$23,534	$1,726,067	$2,948,301

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

	For the years ended 31 December 2015				
	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	$65,603	$41,288	$12,641	$104,619	$224,151
Marine insurance	15,193	6,215	2,560	35,560	59,528
Land and air insurance	146,373	-	681	965,854	1,112,908
Liability insurance	37,607	22,905	781	85,069	146,362
Bonding insurance	10,907	(11)	4	4,258	15,158
Other property insurance	13,905	435,630	6,287	53,974	509,796
Accident insurance	41,994	-	-	436,224	478,218
Health insurance	21,776	-	-	27,453	49,229
Compulsory automobile liability insurance	-	454,689	-	-	454,689
Total	$353,358	$960,716	$22,954	$1,713,011	$3,050,039

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

	For the years ended 31 December 2016					
	Direct premium income	Net change for unearned premium reserve	Acquisition cost for insurance contracts	Insurance claims payments	Net change for claims reserve	Net gain(loss)
Fire insurance	$3,083,155	$22,534	$(196,346)	$(2,313,330)	$(1,815,052)	$(1,219,039)
Marine insurance	594,231	(24,231)	(48,470)	(291,245)	58,778	289,063
Land and air insurance	8,271,027	(253,165)	(1,200,279)	(4,519,350)	(544,070)	1,754,163
Liability insurance	1,253,048	(56,925)	(149,209)	(471,594)	(94,230)	481,090
Bonding insurance	118,054	7,568	(12,900)	(217,811)	50,706	(54,383)
Other property insurance	1,672,912	99,580	(345,152)	(868,874)	99,563	658,029
Accident insurance	2,996,461	(45,180)	(489,358)	(1,152,253)	(7,392)	1,302,278
Health insurance	259,807	2,513	(53,057)	(108,169)	7,526	108,620
Compulsory automobile liability insurance	3,539,179	(47,764)	(429,996)	(2,245,149)	64,280	880,550
Total	$21,787,874	$(295,070)	$(2,924,767)	$(12,187,775)	$(2,179,891)	$4,200,371

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

	For the years ended 31 December 2015					
	Direct premium income	Net change for unearned premium reserve	Acquisition cost for insurance contracts	Insurance claims payments	Net change for claims reserve	Net gain(loss)
Fire insurance	$2,991,546	$102,134	$(211,510)	$(934,468)	$(152,711)	$1,794,991
Marine insurance	642,424	18,050	(56,968)	(304,113)	106,283	405,676
Land and air insurance	7,268,324	(21,776)	(1,112,227)	(4,379,076)	(234,694)	1,520,551
Liability insurance	1,205,428	(80,726)	(145,581)	(514,862)	(116,789)	347,470
Bonding insurance	126,713	(3,518)	(15,154)	(35,710)	(41,180)	31,151
Other property insurance	2,514,057	(7,027)	(503,509)	(1,320,966)	(252,847)	429,708
Accident insurance	2,715,579	176,600	(478,218)	(1,019,959)	(5,768)	1,388,234
Health insurance	228,561	(10,533)	(49,229)	(116,847)	(7,668)	44,284
Compulsory automobile liability insurance	3,728,905	(19,257)	(454,689)	(2,513,842)	(30,625)	710,492
Total	$21,421,537	$153,947	$(3,027,085)	$(11,139,843)	$(735,999)	$6,672,557

b. Cost benefit analysis for assumed reinsurance business

	For the years ended 31 December 2016					
	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	$150,101	$(9,834)	$(17,016)	$(66,045)	$65,471	$122,677
Marine insurance	18,202	1,080	(1,084)	(24,747)	24,856	18,307
Land and air insurance	16,404	8,000	(128)	(1,449)	596	23,423
Liability insurance	1,186	721	(122)	(5)	33	1,813
Bonding insurance	1,300	(43)	(58)	(167)	168	1,200
Other property insurance	31,760	4,777	(5,126)	(13,704)	7,062	24,769
Accident insurance	6,711	(115)	-	(116)	9	6,489
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	760,223	(17,774)	-	(708,471)	(132,517)	(98,539)
Total	$985,887	$(13,188)	$(23,534)	$(814,704)	$(34,322)	$100,139

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

	For the years ended 31 December 2015					
	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	$138,087	$(726)	$(12,641)	$(35,333)	$(15,267)	$74,120
Marine insurance	35,669	585	(2,560)	(13,073)	31,269	51,890
Land and air insurance	23,648	(9,970)	(681)	(84,166)	14,249	(56,920)
Liability insurance	7,220	(577)	(781)	(507)	(161)	5,194
Bonding insurance	1,130	141	(4)	(205)	(65)	997
Other property insurance	35,207	(1,576)	(6,287)	(15,187)	3,388	15,545
Accident insurance	6,331	(12)	-	(134)	125	6,310
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	780,283	(262,893)	-	(453,538)	(211,319)	(147,467)
Total	$1,027,575	$(275,028)	$(22,954)	$(602,143)	$(177,781)	$(50,331)

c. Recognized gain (loss) for reinsurance contracts purchased

	For the years ended 31 December 2016					
	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$2,187,812	$(78,894)	$(146,976)	$(1,496,657)	$(1,774,246)	$(1,308,961)
Marine insurance	427,076	(13,688)	(49,058)	(202,608)	34,738	196,460
Land and air insurance	466,767	18,801	(102,185)	(175,071)	(50,517)	157,795
Liability insurance	451,445	(58,291)	(99,293)	(148,922)	(70,794)	74,145
Bonding insurance	80,758	5,461	(15,033)	(209,742)	55,474	(83,082)
Other property insurance	269,351	45,548	(52,182)	(137,454)	80,207	205,470
Accident insurance	242,088	(3,817)	(61,354)	(83,305)	6,300	99,912
Health insurance	(5)	9	-	-	(697)	(693)
Compulsory automobile liability insurance	1,258,801	(46,914)	-	(989,626)	(78,672)	143,589
Total	$5,384,093	$(131,785)	$(526,081)	$(3,443,385)	$(1,798,207)	$(515,365)

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

	For the years ended 31 December 2015					
	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$2,007,921	$(54,805)	$(153,293)	$(388,823)	$(167,376)	$1,243,624
Marine insurance	466,608	14,650	(55,426)	(173,985)	78,610	330,457
Land and air insurance	474,885	19,787	(88,866)	(446,703)	(3,700)	(44,597)
Liability insurance	438,020	(42,318)	(87,852)	(162,355)	(164,813)	(19,318)
Bonding insurance	94,410	(6,013)	(17,740)	(32,615)	(42,560)	(4,518)
Other property insurance	291,777	203,305	(58,488)	(282,257)	57,731	212,068
Accident insurance	216,418	18,062	(55,644)	(112,550)	4,295	70,581
Health insurance	38	(9)	(4)	-	(390)	(365)
Compulsory automobile liability insurance	1,205,072	(188,989)	-	(850,310)	(96,014)	69,759
Total	$5,195,149	$(36,330)	$(517,313)	$(2,449,598)	$(334,217)	$1,857,691

(4) Sensitivity of insurance risk

The Company

	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%: Before reinsurance	After reinsurance
Fire insurance	$2,776,438	61.65	$138,822	$42,223
Marine insurance	569,148	62.91	28,457	6,055
Land and air insurance	8,193,976	66.21	409,699	254,776
Liability insurance	1,135,473	67.85	56,774	23,534
Bonding insurance	116,846	68.25	5,842	361
Other property insurance	613,778	61.25	30,689	13,850
Accident insurance	2,979,911	78.37	148,996	106,147
Health insurance	259,807	76.20	12,990	9,855
Compulsory automobile liability insurance	3,037,958	NA	NA	NA

Note: Fire insurance does not include long-term fire insurance.

The chart above shows that with every 5% increase of the expected loss ratio of every insurance contract of the Company, certain influence will be imposed upon revenue; however, the influence has been mitigated through the arrangement of reinsurance to obtain the effect of risk diversification.

(5) Interpretation of concentration of insurance risk

The Company

a. Situations that might cause concentration of insurance risk:

I. Single insurance contract or few related contracts

For the years ended 31 December 2016, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

II. Exposure to unanticipated change in trend

For the years ended 31 December 2016, the loss rates of the rest insurance categories are still within reasonable range.

III. Material lawsuit or legal risks that could lead to huge losses in a single contract or have a broad effect on several contracts.

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the years ended 31 December 2016, no material lawsuit or legal risks has taken place.

IV. Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the Company being severely endangered by these derived risks, the Company has established "Operation standards under crisis" that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to guard financial order. For the years ended 31 December 2016, there is no catastrophe has taken place.

V. When a certain key variable has approached a significantly non-linear relationship with future cash flow which could dramatically influence its performance

Since the 3rd stage of liberalization of property insurance fee took into effect, the Company has conducted regular fee reviews on car insurance, fire insurance, and residential fire insurance in accordance with regulation. Fee will be raised when actual loss rate exceeds expected loss rate by a certain percentage to avoid worsening of further losses. In addition, from time to time related departments would observe the change in trend for loss rates of different product categories and adjust pricing and coverage in a timely manner to effectively lower insurance risk.

In addition, investment in financial instruments in part, on a regular basis to monitor changes in the value of the site and the risk of cash flow analysis, and supplemented by stress testing, to control and management affecting fluctuations of major risk factors.

In addition, the implementation of stress tests for overall business every year, the impact assessment of the assets and the insurance risk of extreme financial position of the Company's situation, understand the major risk factors to adjust the response in advance.

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

VI. Concentration risks in geographic regions and operating segments

The Company's catastrophe insurance for earthquakes and floods are centralized in the areas of Taipei, Taoyuan, Hsinchu, Chiayi, Tainan, Kaohsiung and Pingtung.

b. Following table summarizes the concentration risk of the Company before and after reinsurance by types of insurance:

	For the years ended 31 December 2016				
Insurance type	Direct premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income	%
Fire insurance	$2,774,921	$148,503	$1,931,685	$991,739	6.34%
Marine insurance	569,148	18,260	415,585	171,823	1.10%
Land and air insurance	8,193,976	16,248	466,718	7,743,506	49.51%
Liability insurance	1,135,473	1,216	370,187	766,502	4.90%
Bonding insurance	116,846	1,299	80,082	38,063	0.24%
Other property insurance	613,778	31,768	260,445	385,101	2.46%
Accident insurance	2,979,911	6,711	242,088	2,744,534	17.55%
Health insurance	259,807	-	(5)	259,812	1.66%
Compulsory automobile liability insurance	3,037,958	760,223	1,258,801	2,539,380	16.24%
Total	$19,681,818	$984,228	$5,025,586	$15,640,460	100.00%

c. Disclosure the prior management performance in the risk, which had huge effect but relative low occurrence frequency, to help financial statement user to evaluate the uncertainty of this risk related cash flow.

Catastrophes such as earthquake, typhoon, and flood, will bring tremendous insurance risk to property insurance business.

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To control infrequent risk that impacts significantly, the Company assess risk of natural disasters and specially covered item (e.g., independent power producer and abutment project). The Company also holds loss prevention seminars regularly to help customers reduce the incidence rate of disasters.

(6) Claim development trend

A. The Company

	-31 December 2010	1 January2011-31 December 2011	1 January2012-31 December 2012	1 January2013-31 December 2013	1 January2014-31 December 2014	1 January2015-31 December 2015	1 January2016-31 December 2016	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	$10,316,711	$5,408,275	$4,851,463	$5,773,901	$7,066,945	$7,559,012	$12,235,424	
One year later	12,992,396	5,667,748	5,687,982	6,109,827	7,217,836	7,418,704		
Two year later	13,221,749	5,171,294	5,742,806	6,169,858	7,156,309			
Three year later	14,453,815	5,223,218	5,780,856	6,103,460				
Four year later	14,362,029	5,284,693	5,667,019					
Five year later	15,094,730	5,212,502						
Six year later	14,498,065							
Estimate of cumulative claims incurred	14,498,065	5,212,502	5,667,019	6,103,460	7,156,309	7,418,704	12,235,424	$58,291,483
Cumulative payment to date	14,730,018	5,240,472	5,674,582	5,972,725	6,670,534	6,860,640	5,693,067	50,842,038
Subtotal	(231,953)	(27,970)	(7,563)	130,735	485,775	558,064	6,542,357	7,449,445
Reconciliation	-	-	-	-	-	-	116,314	116,314
Recorded in balance sheet	$(231,953)	$(27,970)	$(7,563)	$130,735	$485,775	$558,064	$6,658,671	$7,565,759

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time. The lower part of this chart is to reconcile the estimate amount of cumulative claims to the amount recorded in balance sheet.

The upper table excluding direct claim reserve of compulsory automobile liability insurance $1,409,126 thousand direct claims reserve of residential earthquake insurance were $1,700 thousand and assumed reinsurance $652,439 thousand.

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

B. Cathay Insurance (Vietnam)

As Cathay Century (Vietnam) is still in initial stage, there is no historical data for loss trends. Cathay Century (Vietnam) has adopted the suggestion from Vietnamese Ministry of Finance 2842/BTC/QLBH for loss reserving method with incurred but not reported claims, which is calculated at a rate of 5% of its annual retained premium.

(7) Financial instruments

Financial instruments	31 December 2016	31 December 2015
Financial assets		
Financial assets at fair value through profit or loss:		
Held for trading	$875,543	$1,988,360
Available-for-sale financial assets	9,201,915	8,100,725
Held-to-maturity financial assets	6,112,465	4,462,088
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	6,947,923	12,504,493
Debt instrument investments for which no active market exists	2,520,733	3,686,683
Receivables	1,983,309	2,711,388
Loans	354,812	366,255
Guarantee deposits paid	619,410	1,473,268
Subtotal	12,426,187	20,742,087
Total	$28,616,110	$35,293,260
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Held for trading	$54,590	$192,554
Financial liabilities measured at amortized cost:		
Payables	2,663,593	3,084,816
Preferred stock liabilities	1,000,000	1,000,000
Total	$3,718,183	$4,277,370

(8) Financial risk management objectives and policies

The Consolidated Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Consolidated Company identifies, measures and manages the aforementioned risks based on the Consolidated Company's policy and risk appetite.

The Consolidated Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Consolidated Company complies with its financial risk management policies at all times.

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

(A) Foreign currency risk

The Consolidated Company is exposed to foreign exchange risk from US and NT dollars exchanges for investing in foreign special purpose money trust. Since the amount of investment is significant, the Consolidate Company engage in forward foreign exchange contracts for hedging purposes.

The Consolidated Company is further exposed to exchange rate risk for engaging in reinsurance business involving transactions denominated in non-functional currency. Because this type of transaction usually has a relatively shorter collection period, the exchange rate fluctuations are not significant. The Consolidated Company does not engage in hedging in relation to this type of transaction.

The Consolidated Company's self-evaluation showed that the terms of the hedging instrument and the hedged items are the same, so as to maximize the effectiveness of the hedge.

(B) Interest rate risk

Interest rate risk results from changes in the market interest rates which cause the fair value of financial instruments or the future cash flow to fluctuate. The Consolidated Company's interest rate risk primarily results from floating rate investments classified as available-for-sale financial assets and fixed rate preferred shares liabilities.

(C) Equity price risk

The Consolidated Company hold equity securities of local and foreign listed companies. Their prices are affected by uncertainties about the future values of the investment securities. Equity securities of listed companies held by the Consolidated Company are classified under held for trading financial assets or available-for-sale financial assets. The Consolidated Company manage the equity price risk through diversification and placing limits on individual and total equity instruments.

B. Credit risk

(A) Credit risk management policies

The Consolidated Company trades only with established and creditworthy third parties. The Consolidated Company's policy is that all customers who trade on credit terms are subject to credit verification procedures, and that premiums receivable and notes receivable collections are monitored on an ongoing basis. Therefore, the Consolidated Company' bad debt is insignificant. On the other hand, in the event a counterparty's creditworthiness deteriorates, the Consolidated Company will suspend the related contracts and resume exercising relevant rights and obligations when transaction status is restored.

The Consolidated Company's secured lending operations must be approved and verified by performing credit verification procedures, and obtain real property security provided by the counterparty. In the event the counterparty’s creditworthiness deteriorate, the Consolidated Company may exercise under their own discretion the relevant security rights upon presentation, to protect the Consolidated Company’ interests.

The Consolidated Company's credit risk exposure of financial transactions include: issuer risk, counterparty risk and the credit risk of underlying assets.

I. Issuer risk is the risk that the issuer of the debt instrument held by the Consolidated Company or banks with which the Consolidated Company maintain deposits fail to deliver in accordance with the agreement due to default, bankruptcy or settlement, and the Consolidated Company incur financial losses as a result.

II. Counterparty risk is the risk that a counterparty of the Consolidated Company fail to deliver as obligated before the settlement date which then causes losses to the Consolidated Company.

III. Credit risk of the underlying assets is the risk of loss due to weakened credit quality, increase in credit premium, credit rating downgrade or default of underling assets linked to a financial instrument.

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

(B) Credit concentration risk analysis

I. The amounts of credit risk exposure of the Consolidated Company's financial assets are as follows:

	31 December 2016					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$5,569,029	$97	$62,267	$296,291	$1,020,239	$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	-	875,543
Available-for-sale financial assets	7,272,630	-	367,936	310,979	720,706	8,672,251
Debt instrument investments for which no active market exists	1,400,000	-	347,116	332,006	432,934	2,512,056
Held-to-maturity financial assets	799,987	-	1,025,896	2,919,855	1,366,727	6,112,465
Other financial assets	529,664	-	-	-	8,677	538,341
Total	$16,446,853	$97	$1,803,215	$3,859,131	$3,549,283	$25,658,579
Proportion	64.10%	0.00%	7.03%	15.04%	13.83%	100.00%

	31 December 2015					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$5,485,530	$-	$58,273	$841,130	$6,119,560	$12,504,493
Financial assets at fair value through profit or loss	1,408,854	-	-	-	579,506	1,988,360
Available-for-sale financial assets	5,257,855	-	398,491	247,748	1,655,216	7,559,310
Debt instrument investments for which no active market exists	1,600,000	-	355,325	672,062	1,050,698	3,678,085
Held-to-maturity financial assets	207,094	-	852,253	2,208,347	1,194,394	4,462,088
Other financial assets	541,415	-	-	-	8,598	550,013
Total	$14,500,748	$-	$1,664,342	$3,969,287	$10,607,972	$30,742,349
Proportion	47.17%	0.00%	5.41%	12.91%	34.51%	100.00%

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

(C) Credit risk quality analysis

I. Credit quality classifications of the Consolidated Company's financial assets are as follows:

Financial assets	Credit quality of financial assets				
	31 December 2016				
	Normal assets				
	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$6,947,923	$-	$-	$-	$6,947,923
Financial assets at fair value through profit or loss	875,543	-	-	-	875,543
Available-for-sale financial assets	8,672,251	-	-	-	8,672,251
Debt instrument investments for which no active market exists	2,512,056	-	-	-	2,512,056
Held-to-maturity financial assets	6,112,465	-	-	-	6,112,465
Other financial assets	538,341	-	-	-	538,341
Total	$25,658,579	$-	$-	$-	$25,658,579

Financial assets	Credit quality of financial assets				
	31 December 2015				
	Normal assets				
	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$12,504,493	$-	$-	$-	$12,504,493
Financial assets at fair value through profit or loss	1,988,360	-	-	-	1,988,360
Available-for-sale financial assets	7,559,310	-	-	-	7,559,310
Debt instrument investments for which no active market exists	3,678,085	-	-	-	3,678,085
Held-to-maturity financial assets	4,462,088	-	-	-	4,462,088
Other financial assets	550,013	-	-	-	550,013
Total	$30,742,349	$-	$-	$-	$30,742,349

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

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.

II. Loans

	31 December 2016							
	Neither past due nor impaired			Past due				
Loans	Excellent	Great	Normal	but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$139,740	$-	$-	$-	$139,335	$279,075	$3,477	$275,598
Corporate Finance	64,100	-	-	-	15,750	79,850	636	79,214
Total	$203,840	$-	$-	$-	$155,085	$358,925	$4,113	$354,812

	31 December 2015							
	Neither past due nor impaired			Past due				
Loans	Excellent	Great	Normal	but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$170,367	$-	$-	$-	$121,836	$292,203	$3,874	$288,329
Corporate Finance	62,280	-	-	-	16,200	78,480	554	77,926
Total	$232,647	$-	$-	$-	$138,036	$370,683	$4,428	$366,255

C. Operational Risk

In order to avoid the potential losses caused by failed internal controls, employee fraud or misconduct and management negligence, the Company had set up the standard operating procedures and computer systems based on the business nature of the front, middle, and back departments, and manage the operational risk effectively by strict systems of internal control, internal audits, external audits, and regulatory compliance. The Company had set and implemented ”Regulations Reporting the Losses by Operational Risk” as well to establish the data base of losses resulting from operational risk by “Losses by Operational Risk Reporting System”.

D. Liquidity risk

(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 Consolidated Company established a capital liquidity management mechanism based on the business features and monitoring short-term cash flow. Considering the trading volume and holing position, the Consolidated Company carefully manage the market liquidity risk. Moreover, the Consolidated Company have drawn up a plan for capital requirements with respect to abnormal and emergency conditions to deal with significant liquidity risk.

Depending on the actual management need or special situation, the Consolidated Company uses models to assess cash flow risk, such as cash flow model or stress testing model.

Stress testing analysis is used to test changes of capital liquidity in the event of extreme in order to ensure liquidity. Stress scenarios, including significant market volatility, a variety of credit events, non-anticipated events of the financial market liquidity crunch and any other scenario which may trigger liquidity pressures is used to assess the Consolidated Company’s overall capital supply, demand and changes in cash flow gap.

In the event of cash flow gap, the risk management department will conduct an internal discussion and report the result to supervisors and the funding management department. The risk management department will take necessary measures to prevent further stressful events.

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

(C) The table below summarizes the maturity profile of the Consolidated Company's financial liabilities based on contractual undiscounted payments.

	31 December 2016						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$2,663,593	$1,389,106	$1,371,338	$8,293	$1,013	$8,462	$-
Financial liabilities at fair value through profit or loss	54,590	54,590	46,807	7,783	-	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	1,000,000	-	-

	31 December 2015						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$3,084,816	$1,510,574	$1,483,552	$14,998	$6,207	$5,817	$-
Financial liabilities at fair value through profit or loss	192,554	194,195	160,082	26,722	7,391	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

Market risk is the risk of potential revenue and portfolio value reduction due to the fluctuations of market risk factors, such as exchange rates, commodity prices, interest rates, credit spreads, and stock prices.

The Consolidated Company continues to use market risk management tools such as value-at-risk and stress testing to completely and effetely measure, monitor and manage market risk.

(A) Value-at-risk

Value-at-risk is used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level when the market risk factors changes. The Company estimates value at risk on the next day (week or two weeks) with a 99% level of confidence.

The value-at-risk model must reasonably, completely and accurately measure the maximum potential risk to be used as the Consolidated Company's risk management model. The risk management model must conduct back testing on an ongoing basis to ensure the model can effectively measure the maximum potential risk of a financial instrument or a portfolio.

(B) Stress testing

In addition to the value-at-risk model, the Consolidated Company periodically uses stress testing to assess the potential risk of extreme incidents. Stress testing is used to evaluate the potential impact on portfolio values when a series of financial variables undergo extreme changes.

The Consolidated Company conducts stress testing regularly on positions by simple sensitivity analysis and scenario analysis. The stress testing contains changes of various risk factors in all historical scenarios that may cause losses in an investment portfolio.

I. Simple Sensitivity

Simple sensitivity mainly measures changes in value of portfolio caused by specific risk factor.

II. Scenario Analysis

Scenario analysis measures the change in the total value of a portfolio under a stressful event. The measures include:

i. Historical scenarios

The measure selects from historical data of a certain period and adds the volatility of the risk factors selected to a given portfolio, then calculates the amount of loss.

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

ii. Hypothetical scenarios

Hypothetical scenario makes reasonable hypothesis with respect to possible extreme market changes and includes the risk factors related to the changes in the current portfolio to estimate the amount of loss that may incur.

The risk management department conducts stress testing regularly under historical scenario and hypothetical scenario for the Company to perform risk analysis, risk alert and business management based on the stress test report.

31 December 2016	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	−10%	$(500,093)
Interest rate risk (Yield curve)	20bp	(162,035)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(99,465)
Merchandise risk (merchandise price)	−10%	-

31 December 2016		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$117	$714
	RMB appreciate 1 %	8,564	2,619
	HKD appreciate 1 %	543	2,729
	NTD appreciate 1 %	(28,412)	(9,085)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(5,226)	(93)
	Yield curve (RMB) flat rises 1bp	(1)	(58)
	Yield curve (NTD) flat rises 1bp	(1,605)	(1,119)
Equity securities price sensitivity	Increase 1% in equity price	300	49,709

31 December 2015	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	−10%	$(426,608)
Interest rate risk (Yield curve)	20bp	(145,720)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(116,285)
Merchandise risk (merchandise price)	−10%	-

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

31 December 2015		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$132	$831
	RMB appreciate 1 %	16,208	792
	HKD appreciate 1 %	737	2,923
	NTD appreciate 1 %	(37,243)	(7,934)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,691)	(118)
	Yield curve (RMB) flat rises 1bp	(49)	(71)
	Yield curve (NTD) flat rises 1bp	(1,087)	(1,271)
Equity securities price sensitivity	Increase 1% in equity price	-	42,661

(9) Fair values 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 Consolidated Company to measure or disclose the fair values of financial assets and financial liabilities:

I. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

II. 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.

III. 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).

IV. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are 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, etc.)

V. 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 on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

VI. The Company adjusts the credit risk of the derivative contract traded over-the-counter including credit value adjustment (“CVA”) and debit value adjustments (“DVA”), to reflect the likelihood that the counterparty (CVA) or the Company (DVA) dues the whole payment or charges the whole market value of the transactions. The Company evaluates the probability of default (“PD”) of the counterparty, through the following calculation. Under the assumption that the Company will not default, the Company determines its CVA by multiplying three factors, PD, loss given default (“LGD”), and exposure at default (“EAD”), of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Company calculates its DVA by multiplying three factors, PD, LGD, and EAD, of the Company. The Company decides estimated PD by referring to the probability of default announced by external credit rating agencies. The Company sets estimated LGD at 60 % by considering the experience of John Gregory, a scholar, and foreign financial institutions. The estimated EAD for current period is evaluated by considering the fair value of the derivative instruments traded approach at OTC, which considers the adjustments of the credit risk of the derivative contract in evaluating fair value of financial instruments, to reflect the credit qualities of the counterparty and the Company, respectively.

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

B. Fair value of financial instruments measured at amortized cost

Other than cash and cash equivalents, accounts receivables, accounts payable and other current liabilities whose carrying amount approximate their fair value, the fair value of the Consolidated Company's financial assets and financial liabilities measured at amortized cost is listed in the table below:

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Held-to-maturity financial assets	$6,112,465	$4,462,088	6,128,125	$4,464,874
Debt instrument investments for which no active market exists	2,520,733	3,686,683	2,542,908	3,729,609

(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

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

Level 2 -Inputs other than quoted prices included within Level 1 that are observable for 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 Consolidated Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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

B. Fair value measurement hierarchy of the Consolidated Company's assets and liabilities

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

As of 31 December 2016:

	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments:				
Assets				
Financial assets at fair value through profit or loss				
Stocks	$22,280	$-	$-	$22,280
Beneficiary certificates	813,263	-	-	813,263
Available-for-sale financial assets				
Stocks	4,247,821	300,000	519,000	5,066,821
Bonds	325,882	1,540,928	-	1,866,810
Beneficiary certificates	2,268,284	-	-	2,268,284
Derivative financial instruments:				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	40,000	-	40,000
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	54,590	-	54,590

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

As of 31 December 2015:

	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments:				
Assets				
Financial assets at fair value through profit or loss				
Stocks	$17,005	$-	$-	$17,005
Beneficiary certificates	1,970,915	-	-	1,970,915
Available-for-sale financial assets				
Stocks	2,630,541	-	600,000	3,230,541
Bonds	606,863	1,758,297	-	2,365,160
Beneficiary certificates	2,020,472	484,552	-	2,505,024
Derivative financial instruments:				
Assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	-	440	-	440
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	192,554	-	192,554

Transfers between Level 1 and Level 2

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

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

Reconciliation for fair value measurements in Level 3

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

Available-for-sale financial assets	Stocks
1 January 2016	$600,000
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(81,000)
31 December 2016	$519,000
1 January 2015	$952,200
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(52,200)
Acquisitions or issuances	200,000
Disposals or settlements	(500,000)
31 December 2015	$600,000

Total gains (losses) recognized in profit or loss in the table above contains gains (losses) related to assets on hand as of 31 December 2016 and 2015 are both in the amount of $0 thousand.

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:

As of 31 December 2016

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	5% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Consolidated Company's equity by $37,200 thousand.

As of 31 December 2015

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
Available-for-sale					
Stocks	Market approach	discount for lack of marketability	0%	The fair value was recognized by the price of latest transaction	None

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

The Consolidated Company's Risk Management Department is responsible for validating the fair value measurements 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 Consolidated Company's accounting policies at each reporting date.

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

C. Fair value measurement hierarchy of the Consolidated Company's assets and liabilities not measured at fair value but for which the fair value is disclosed

As of 31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets	$-	$6,128,125	$-	$6,128,125
Debt instrument investments for which no active market exists	52,466	2,490,442	-	2,542,908

As of 31 December 2015

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value for which only the fair value is disclosed:				
Held-to-maturity financial assets	$-	$4,464,874	$-	$4,464,874
Debt instrument investments for which no active market exists	113,805	3,615,804	-	3,729,609

8. Related parties transactions

(1) Premium income

Name	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties		
Cathay Life Insurance Co., Ltd.	$122,617	$148,130
Cathay United Bank Co., Ltd.	167,339	151,260
San Ching Engineering Co., Ltd.	4,498	9,944
Cathay Real Estate Development Co., Ltd.	7,782	7,944
Cathay Medical Care Corporate	3,823	4,196
Total	$306,059	$321,474

Premium rates were no materially different from that with unrelated parties.

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

(2) Premiums receivable

Name	31 December 2016	%	31 December 2015	%
Other related parties				
Cathay Life Insurance Co., Ltd.	$8,856	0.60	$8,338	0.47
Cathay United Bank Co., Ltd.	3,259	0.22	9,349	0.53
Total	$12,115		$17,687	

Transactions with other related parties are primarily from the operating transactions, and the average collection period is one month.

(3) Insurance claims payment

Name	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties		
San Ching Engineering Co., Ltd.	$-	$4,160
Cathay Life Insurance Co., Ltd.	11,809	926
Total	$11,809	$5,086

(4) Cash in banks

Name	Type	31 December 2016	31 December 2015
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	$634,754	$652,474
	Checking Deposits	142,370	116,048
	Time deposits	623,200	623,200
Indovina Bank Ltd.	Cash in banks	5,722	17,233
	Time deposits	219,997	159,199
Total		$1,626,043	$1,568,154

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

	Interest Rate		
Name	Type	31 December 2016	31 December 2015
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	0.001%~0.35%	0.001%-0.45%
	Time deposits	0.38%~1.205%	0.15%-1.345%
Indovina Bank Ltd.	Cash in banks	1.00%	0.01%
	Time deposits	4.3%-7.4%	4.20%-7.50%

		Interest Revenue	
Name	Type	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	$478	$514
	Time deposits	6,825	8,121
Indovina Bank Ltd.	Cash in banks	89	-
	Time deposits	4,865	5,480
Total		$12,257	$14,115

As of 31 December 2016 and 2015, time deposit pledged were $28,677 thousand and $28,598 thousand.

(5) Loans

	For the years ended 31 December 2016			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$28,181	$26,190	1.53%~1.60%	$430

	For the years ended 31 December 2015			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$48,781	$44,136	1.74%~1.82%	$629

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

(6) Financial assets at fair value through profit or loss

Name	Type	31 December 2016	31 December 2015
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	$-	$100,620

(7) Available-for-sale financial assets

Name	Type	31 December 2016	31 December 2015
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	$306,641	$139,118

(8) Discretionary account management balance

Name	31 December 2016	31 December 2015
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	$1,069,225	$433,188

(9) Guarantee deposits paid

Name	31 December 2016	%	31 December 2015	%
Other related parties				
Cathay Life Insurance Co., Ltd.	$24,469	3.95	$24,014	1.63
Cathay Futures Co., Ltd.	6,817	1.10	6,810	0.46
Cathay United Bank Co., Ltd.	22,224	3.59	22,403	1.52
Lin Yuan (Shanghai) Real Estate	7,282	1.18	5,444	0.37
Total	$60,792		$58,671	

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

(10) Other payable

Name	31 December 2016	%	31 December 2015	%
Parent company				
Cathay Financial Holdings Co., Ltd.	$307,399	26.75	$274,450	20.27
Other related parties				
Cathay Life Insurance Co., Ltd.	152,623	13.28	240,495	17.76
Symphox Information Co., Ltd.	2,581	0.22	3,489	0.26
Total	$462,603		$518,434	

(11) Preferred stock liability

Name	31 December 2016	%	31 December 2015	%
Parent company				
Cathay Financial Holdings Co., Ltd.	$1,000,000	100.00	$1,000,000	100.00

(12) Operating costs

Name	Type	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties			
Cathay United Bank Co., Ltd.	Handing fee paid	$24,027	$22,102

(13) Operating expenses

Name	Type	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	$103,072	$101,034
	Marketing expenses	1,326,662	1,439,178
	Party premium expenses	17,516	18,523
	Administrative expenses	8,211	7,962
Cathay United Bank Co., Ltd.	Marketing expenses	98,684	75,941
	Rental expenses	9,020	8,902
Cathay Securities Investment Trust Co., Ltd.	Management fees	4,468	1,760
Lin Yuan (Shanghai) Real Estate	Rental expenses	21,373	20,689
Total		$1,589,006	$1,673,989

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

(14) Other expenses

Name	For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties		
Symphox Information Co., Ltd.	$45,371	$18,837
Seaward Card Co., Ltd.	4,743	4,207
Total	$50,114	$23,044

(15) Non-operating expenses and losses

Name	For the years ended 31 December 2016	For the years ended 31 December 2015
Parent company		
Cathay Financial Holdings Co., Ltd.	$18,600	$18,600

Non-operating expenses and losses are interest expenses accrued from preferred stock liability.

(16) Other

As of 31 December 2016 and 2015 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below (in thousands):

Name		For the years ended 31 December 2016	For the years ended 31 December 2015
Other related parties			
Cathay United Bank Co., Ltd.	CS contracts	US$76,700	US$74,200
		EUR$ 5,850	EUR$4,350

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

(17) Key management personnel compensation in total

Name	For the years ended 31 December 2016	For the years ended 31 December 2015
Short-term employee benefits	$63,528	$49,409
Post-employment benefits	5,147	2,441
Termination benefits	-	4,128
Total	$68,675	$55,978

9. Pledged assets

(1) The Company

	31 December 2016	31 December 2015
Guarantee deposits paid-government bonds	$529,664	$541,415
Guarantee deposits paid-time deposits	20,000	20,000
Total	$549,664	$561,415

As of 31 December 2016 and 2015, the Company provided government bonds amounting to $529,664 thousand and $541,415 thousand as the “Guaranteed Depository Insurance” in accordance with the Insurance Act, respectively. The pledged assets are stated at book value.

(2) Cathay Insurance (Vietnam)

	31 December 2016	31 December 2015
Government deposits paid-time deposits	$8,677	$8,598

According to Insurance Act of Vietnam, Cathy Insurance (Vietnam) should deposit guarantee deposits at an amount equal to 2% of its paid-in capital. The guaranteed deposits of Cathay Insurance (Vietnam) are time deposits. The pledged assets are stated at book value.

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

10. Contingent liabilities and unrecognized contractual commitments

Legal claim contingency

The Consolidated Company has its own response policies to legal claims. Once the losses can be reasonable estimated based on professional advices, the Consolidated Company will recognize the losses and adjust negative impacts on financial affairs resulting from the claims.

Operating lease commitments - The Consolidated Company as a lessee

The Consolidated Company entered into several operating lease contracts for office and equipment. The operating lease will expire in 3-5 years, and there's no limited condition in the contracts.

According to the noncancelable operating lease contracts, the future minimum lease payments at 31 December 2016 and 2015 are as follows:

(1) Significant lease contracts of the Company

	31 December 2016	31 December 2015
Not later than 1 year	$86,025	118,302
Later than 1 year but not later than 5 years	4,699	72,773
Later than 5 years	-	-
Total	$90,724	$191,075

11. Significant disaster losses: None.

12. Subsequent events: None.

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

13. Others matters

(1) Discretionary account management

A. As of 31 December 2016 and 2015, the Consolidated Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	31 December 2016	
	Carrying amount	Fair value
Listed stocks	$747,794	$747,794
Foreign stocks	132,666	132,666
Reverse repurchase bonds	600,050	600,050
Cash in banks	104,183	104,183
Futures and options	2,007	2,007
Total	$1,586,700	$1,586,700

	31 December 2015	
	Carrying amount	Fair value
Listed stocks	$410,018	$410,018
Foreign stocks	77,752	77,752
Reverse repurchase bonds	215,147	215,147
Cash in banks	47,526	47,526
Futures and options	2,005	2,005
Total	$752,448	$752,448

B. As of 31 December 2016 and 2015, the Consolidated Company entered into discretionary account management contracts in the amounts of $1,500,000 thousand and $700,000 thousand, respectively.

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

(2) 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.

	31 December 2016		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$6,961,855	$-	$6,961,855
Receivables	1,983,309	-	1,983,309
Investments	8,603,548	11,742,960	20,346,508
Reinsurance assets	8,028,287	-	8,028,287
Property and equipment	-	91,262	91,262
Intangible assets	-	34,424	34,424
Other assets	-	804,652	804,652
Total assets			$38,250,297
Payables	$2,654,118	$9,475	$2,663,593
Financial liabilities	54,590	1,000,000	1,054,590
Insurance liabilities	-	24,317,028	24,317,028
Provision	-	380,158	380,158
Other liabilities	-	618,947	618,947
Total liabilities			$29,034,316

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

	31 December 2015		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$12,515,171	$-	$12,515,171
Receivables	2,711,388	-	2,711,388
Investments	7,586,756	11,017,355	18,604,111
Reinsurance assets	6,336,731	-	6,336,731
Property and equipment	-	219,213	219,213
Intangible assets	-	62,703	62,703
Other assets	-	1,656,192	1,656,192
Total assets			$42,105,509
Payables	$3,072,792	$12,024	$3,084,816
Financial liabilities	185,163	1,007,391	1,192,554
Insurance liabilities	-	25,064,274	25,064,274
Provision	-	381,016	381,016
Other liabilities	-	5,163,750	5,163,750
Total liabilities			$34,886,410

(3) Eliminated inter-company transactions

	For the years ended 31 December 2016	
	Company name and debit (credit) amounts	
Transactions	The Company	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity		
j Eliminate subsidiaries investment profit and loss	$14,762	$(14,762)
k Eliminate subsidiaries equity	(612,671)	612,671

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

	For the years ended 31 December 2015		
	Company name and debit (credit) amounts		
Transactions	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
j Eliminate subsidiaries investment profit and loss	$379,267	$(377,685)	$(1,582)
k Eliminate subsidiaries equity	(918,299)	650,767	592,916

Note: The eliminated difference of inter-company result in non-controlling equity $0 thousand and $325,384 thousand for the years ended 31 December 2016 and 2015, respectively.

(4) Exchange rates used to translate material financial assets and liabilities denominated in foreign currencies are disclosed as follows:

	31 December 2016		
Financial Assets	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	$231,508	32.2790	$7,472,860
RMB	238,062	4.6449	1,105,784
EUR	599	33.9172	20,321
JPY	64,064	0.2744	17,577
Non-Monetary Items			
USD	175,600	32.2790	5,668,192
EUR	7,850	33.9172	266,250

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

	31 December 2015		
Financial Assets	Foreign Currency	Exchange Rate	NTD
Monetary Items			
USD	$229,782	33.0660	$7,597,970
RMB	329,011	5.0955	1,676,464
EUR	442	36.1312	15,971
Non-Monetary Items			
USD	174,100	33.0660	5,756,791
EUR	7,850	36.1312	283,630

As the Consolidated Company has a large variety of foreign currencies, it is not possible to disclose the foreign currency exchange gains or losses based on each foreign currency's exposure to major impact. The foreign currency exchange gains (loss) for the years ended 31 December 2016 and 2015 were $(270,970) thousand and $250,090 thousand, respectively.

The abovementioned information is disclosed by book value of foreign currencies (already translated to functional currencies)

(5) Interests in unconsolidated structured entities

Unconsolidated structured entities

A. The Company does not provide financial support or other support to the unconsolidated structured entities. The Company's maximum exposure to loss from its interests in the unconsolidated structured entities is limited to the carrying amount of assets the Company recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of structured entity	Nature and purpose	Interests owned
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

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

B. Details of the carrying amount of assets recognized by Consolidated Company relating to its interests in unconsolidated structured entities as of 31 December 2016 and 2015, are as follows:

	31 December 2016	31 December 2015
Securitization vehicle		
Available-for-sale financial assets	$136,785	$112,549
Held-to-maturity financial assets	880,018	1,069,768
Total	$1,016,803	$1,182,317

(6) Capital management

A. Objective

In order to enhance the Consolidated Company's capital structure and business growth, the Consolidated 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. Policy

In order to assume all types of risks, the Company applies capital adequacy ratio as the index of capital adequacy. The Company calculates capital adequacy ratio periodically and aperiodically in order to understand the situation of capital adequacy in the short-run and mid-term. The Company set business objectives, plan assets allocation based on the ratio and dividend policy.

C. Procedures

a. Periodically

Regularly review the capital adequacy ratios in order to implement the capital adequacy management. The Company provides capital adequacy report every half year by the competent authority and analyze the possible changes in its own capital and risk capital when forecasting the investment development plan. The Company ensures a healthy capital structure and implements capital adequacy management.

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

b. Aperiodically

Practice scenario analysis for capital adequacy ratio focusing on the Company's usage 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.

(7) Operation segments information

a. General information

The Consolidated Company operates property insurance by Insurance Act. In accordance with IFRS 8, the Company only provides insurance contracts products and it has no different business way, client style and supervision environment. The supervisor of the Company also implement assets overall, and consider the Company as a single operating segment.

b. Geographical information

Operating revenues of the Consolidated Company are mainly premium income and investment profit from domestic and foreign areas. Geographical information about the operating revenues of the Consolidated Company is as follows:

	For the years ended 31 December 2016	For the years ended 31 December 2015
Taiwan	$17,489,199	$15,335,782
Other countries	2,376,595	3,385,407
Total	$19,865,794	$18,721,189

The revenue information above is based on the location of the customer.

c. Information about major customers

There is no major customer that the revenue is more than 10% of the Consolidated Company's total revenue.

(8) Significant contract

None.

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD$28,963 thousand to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. The joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized the Company to RMB$200,000 thousand to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was RMB$100,000 thousand and was authorized by CIRC. As of 31 December 2016, the Company has totally remitted US$60,562 thousand.