Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Years Ended
31 December 2018 and 2017
With Independent Auditors' Report

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

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Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

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

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies— (together "the consolidated financial statements").

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 December 2018 and 2017, and their consolidated financial performance and cash flows for the years ended 31 December 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission.

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 the Company 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 2018 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.

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Valuation of financial instruments

The Company and its subsidiaries determine the fair value of some financial instrument investments by applying valuation techniques. The Company and its subsidiaries involve internal valuation model to determine the fair value for partial of the financial instruments. The underlying assumptions of the valuation model will significantly impact the fair value of the reported financial instruments. Therefore, we determined valuation of financial instruments as a key audit matter.

Our audit procedures included (but not limited to) assessing and testing the effectiveness of internal controls related to financial instruments valuation, including management's decision and approval of the valuation model and related assumptions, the controls related to the valuation model and change of assumptions, and management's valuation review process. We used internal valuation specialists on a sampling basis to assist in reviewing the valuation techniques, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable.

Please refer to Notes 4, 5.2 and 47 for details of the valuation of the Company and its subsidiaries' financial instruments.

Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities is dependent on the calculations based on different assumptions. Partial of the assumptions followed the regulations issued by the authorities while partial of the assumptions followed the professional judgements of internal specialists, and thus resulting in high complexity. Therefore, we determined measurement of insurance liabilities as 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 and examining the data of calculating insurance liabilities. Meanwhile, we involved internal specialists in our audit procedures, including assessing the reasonableness of the actuarial judgements and actuarial assumption models made by management. In the liability adequacy test (the "LAT"), the internal specialists evaluated the reasonableness of underlying assumptions and results. Please refer to Notes 4, 5.2 and 29 for details of the Company and its subsidiaries' measurement of insurance liabilities.

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Investment properties measured at fair value

The Company and its subsidiaries' investment properties are measured at fair value. Due to inaccessible market prices, the management evaluates the fair value of investment properties based on external real estate appraisers firm's valuation reports, which highly relied on the valuation approach chosen (including but not limited to income approach and market approach) and the assumptions. The approach chosen and the changes to the assumptions will impact the result of the investment properties valuation. Therefore, we determined investment properties measured at fair value as a key audit matter.

Our audit procedures included (but not limited to) evaluating the objectivity and qualification of external real estate appraisers, and enlisting the internal valuation specialists' assistance to evaluate the external real estate appraisers firm's valuation reports to understand the valuation approach adopted; we also ensure the reasonableness in the valuation approach adopted and key valuation assumptions to verify whether the difference between the internal valuation specialists' work and external valuation reports is acceptable.

Please refer to Notes 4, 5.2 and 18 for details of the Company and its subsidiaries' investment properties measured at fair value.

Assessment of goodwill impairment

International Accounting Standards requires entities to perform an impairment test annually. However the calculation made by the management is complex and involves major subjective judgments and assumptions. Therefore, we determined assessment of goodwill impairment as a key audit matter.

Our audit procedures included (but not limited to) assessing the rationality of financial forecasts and using internal specialists to assist in the audit procedure of goodwill impairment assessment, including the rationality of the assumptions and approaches used by the management.

Please refer to Notes 4, 5.2, and 22 for details of the Company's assessment of goodwill impairment.

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Emphasis of Matter – Applying for New Accounting Standards

We draw attention to Notes 3 of the consolidated financial statements, which describes the Company and its subsidiaries applied for the International Financial Reporting Standard 9 "Financial Instruments" and 15 "Revenue from Contracts with Customers" starting from 1 January 2018, and elected not to restate the consolidated financial statements for prior periods. Our opinion is not modified in respect of this matter.

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 Regulations Governing the Preparation of Financial Reports by Insurance Enterprise, and International Financial Reporting Standards, International Accounting Standards, Interpretation developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission, 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 the Company 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 the Company 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 the Company 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.

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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 the Company 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 the Company 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 the Company 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 the Company 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.

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 audits.

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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 2018 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 with emphasis of matter paragraph and an unqualified opinion on the parent company only financial statements of the Company as of and the years ended 31 December 2018 and 2017, respectively.

CHANG, CHENG-TAO
HSU, JUNG-HUANG

Ernst & Young, Taiwan
21 March 2019

Notice to Readers:

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As at 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2018	31 December 2017	Liabilities and equity	Notes	31 December 2018	31 December 2017
Cash and cash equivalents	4,6,54,55	$175,332,205	$210,543,885	Payables	25,54,55	$32,822,268	$25,235,969
Receivables	4,5,7,54,55	74,970,469	81,845,945	Current tax liabilities	4,5,44,54	636,050	177,190
Current tax assets	4,5,44,54	6,238	18,090	Financial liabilities at fair value through profit or loss	4,5,26,54	27,499,106	1,104,658
Financial assets at fair value through profit or loss	4,5,8,54,60(4)	1,167,751,185	43,037,361	Bonds payable	27,54,55	70,000,000	70,000,000
Financial assets at fair value through other comprehensive income	4,5,9,54,60(4)	921,968,246	-	Preferred stock liability	28,54,55	-	5,000,000
Available-for-sale financial assets	4,5,10,54,60(4)	-	1,517,450,715	Insurance liabilities	4,5,29,54	5,286,772,662	4,923,940,864
Financial assets for hedging/Derivative financial assets for hedging	4,5,11,54	216,611	246,444	Reserve for insurance contracts with feature of financial instruments	4,5,29,54	9,318,713	8,761,609
Investments accounted for using the equity method – Net	4,5,12,54	40,780,828	33,122,620	Foreign exchange volatility reserve	4,5,29,54	17,075,289	11,589,138
Financial assets measured at amortized cost	4,5,13,54,60(4)	2,258,673,041	-	Provisions	4,5,31,54	225,277	472,002
Debt instrument investments for which no active market exists	4,5,14,54	-	2,393,010,584	Deferred tax liabilities	4,5,44,54	29,213,220	37,034,552
Held-to-maturity financial assets	4,5,15,54,60(4)	-	57,807,718	Other liabilities	32,33,54,55	8,738,357	17,888,037
Other financial assets – Net	4,5,16,54	1,999,406	4,500,000	Separate account product liabilities	4,46,54	546,964,261	555,269,179
Investment property	4,5,18,54,55	461,352,381	459,175,538	Total liabilities		6,029,265,203	5,656,473,198
Investment property under construction	4,5,18,54,55	2,785,640	3,541,501				
Prepayments for buildings and land – Investments	4,5,18,54,55	722,686	690,203	Equity attributable to equity holders of the parent			
Loans	4,19,54,55	581,215,839	603,718,254	Capital stock			
Reinsurance assets	4,20,54,55	1,518,910	758,458	Common stock	34	57,265,274	53,065,274
Property and equipment	4,21,54,55	32,381,622	31,077,311	Capital surplus	35	51,535,925	13,767,663
Intangible assets	4,22,54	44,044,960	46,272,945	Retained earnings	36		
Deferred tax assets	4,5,44,54	38,252,456	28,448,690	Legal capital reserve		40,466,946	33,208,919
Other assets	4,23,24,54,55,56	40,457,645	27,119,120	Special capital reserve		277,886,402	259,379,137
Separate account product assets	4,46,54	546,964,261	555,269,179	Unappropriated retained earnings		12,683,614	34,072,057
				Other equity		(83,245,452)	42,094,995
				Non-controlling equity	36	5,536,717	5,593,318
				Total equity		362,129,426	441,181,363
Total assets		$6,391,394,629	$6,097,654,561	Total liabilities and equity		$6,391,394,629	$6,097,654,561

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of comprehensive income
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	Notes	1 January – 31 December 2018	1 January – 31 December 2017
Operating revenue	4,55		
Direct premium income	37	$561,114,753	$609,560,113
Reinsurance premium income	37	123,890	197,504
Premium income	37	561,238,643	609,757,617
Deduct: Premiums ceded to reinsurers	37	(1,852,798)	(1,353,518)
Changes in unearned premium reserve	29,37	(457,101)	(857,291)
Retained earned premium	37	558,928,744	607,546,808
Reinsurance commission earned		762,190	301,005
Handling fees earned	46	9,147,558	9,468,376
Net investment profits and losses			
Interest income	39	148,195,571	139,034,096
(Losses) gains from financial assets and liabilities at fair value through profit or loss		(127,441,329)	89,042,532
Realized gains from available-for-sale financial assets		-	68,687,213
Realized gains from debt instrument investments for which no active market exists		-	19,026,550
Realized losses from held-to-maturity financial assets		-	(3,393)
Gains from derecognition of financial assets measured at amortized cost		4,735,339	-
Realized gains from financial assets at fair value through other comprehensive income		12,010,835	-
Share of the gains of associates and joint ventures accounted for using the equity method		970,753	1,258,667
Foreign exchange gains (losses)		55,798,945	(116,018,300)
Changes in foreign exchange volatility reserve	29	(5,486,151)	(1,717,660)
Gains from investment property		10,923,103	10,231,019
Impairment losses on investments and gains on reversal of impairment losses		-	(3,278)
Expected credit impairment losses and gains on reversal of impairment	40	(519,606)	-
Gains from other investments – Net		344,099	153,167
Gains from reclassification using overlay approach		117,455,992	-
Other operating revenue		5,507,866	5,068,585
Separate account product revenue	4,46	28,084,308	44,304,129
Subtotal		819,418,217	876,379,516
Operating costs	4,55		
Insurance claim payments	38	(358,227,407)	(284,509,744)
Deduct: Claims recovered from reinsures	38	983,094	487,223
Retained claim payments	38	(357,244,313)	(284,022,521)
Changes in insurance liabilities	29	(335,097,007)	(446,299,104)
Changes in reserve for insurance contracts with feature of financial instruments	29	1,381,439	456,521
Brokerage expenses	41	(17,696,518)	(16,802,420)
Commission expenses	41	(16,203,324)	(15,704,454)
Other operating costs		(7,765,029)	(6,417,684)
Finance costs		(2,331,362)	(1,963,364)
Separate account product expenses	4,46	(28,084,308)	(44,304,129)
Subtotal		(763,040,422)	(815,057,155)
Operating expenses	4,41,55		
Business expenses		(11,767,130)	(11,669,571)
Administrative and general expenses		(17,241,315)	(17,050,628)
Employee training expenses		(91,551)	(70,016)
Expected credit impairment losses and gains on reversal of non-investment	40	(65,457)	-
Subtotal		(29,165,453)	(28,790,215)
Operating income		27,212,342	32,532,146
Non-operating income and expenses	4,42,55	1,312,360	1,441,684
Income from continuing operations before income tax		28,524,702	33,973,830
Income tax benefit	4,5,44	1,772,559	2,293,895
Net income from continuing operations		30,297,261	36,267,725
Net income		30,297,261	36,267,725
Other comprehensive income	43		
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of defined benefit plans		403,459	(406,729)
Property revaluation surplus		-	235,064
Valuation losses on equity instruments at fair value through other comprehensive income		(2,493,898)	-
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods		(37,030)	183,911
Income taxes relating to not to be reclassified to profit or loss in subsequent periods		270,829	(8,331)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations		(701,808)	(1,285,099)
Unrealized valuation gains from available-for-sale financial assets		-	51,697,578
Losses on hedging instruments/Effective portion of gains on hedging instruments in cash flow hedges		(28,747)	14,595
Losses on debt instruments at fair value through other comprehensive income		(76,864,945)	-
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		(375,064)	(1,223,394)
Other comprehensive losses reclassified using overlay approach		(117,455,992)	-
Income taxes relating to be reclassified to profit or loss in subsequent periods		23,382,027	(3,389,105)
Other comprehensive losses (income), net of tax		(173,901,169)	45,818,490
Total comprehensive (losses) income		$(143,603,908)	$82,086,215
Net income attributable to:			
Equity holders of the parent		$30,189,320	$36,290,138
Non-controlling interests		$107,941	$(22,413)
Total comprehensive (losses) income attributable to:			
Equity holders of the parent		$(143,618,129)	$82,272,008
Non-controlling interests		$14,221	$(185,793)
Basic earnings per share (in dollars)	45		
Net income from continuing operations		$5.47	$6.84

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the years ended 31 December 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

		Equity attributable to equity holders of the parent														
				Retained earnings			Other equity									
Items	Notes	Capital stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized (losses) gains from financial assets at fair value through other comprehensive income	Unrealized valuation (losses) gains from available-for-sale financial assets	(Losses) gains on hedging instruments/Effective portion of (losses) gains on hedging instruments in cash flow hedges	Remeasurements of defined benefit plans	Property revaluation surplus	Other comprehensive (losses) income reclassified using overlay approach	Total	Non-controlling interests	Total
Balance on 1 January 2017		$53,065,274	$13,768,468	$27,183,187	$242,737,539	$28,427,568	$(7,574,401)	$-	$3,200,616	$191,533	$295,377	$-	$-	$361,295,161	$2,688,759	$363,983,920
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10602902460		-	-	-	(5,042,545)	5,042,545	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of earnings for the year 2016	36															
Legal capital reserve		-	-	6,025,732	-	(6,025,732)	-	-	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	19,466,062	(19,466,062)	-	-	-	-	-	-	-	-	-	-
Cash dividends on common stock		-	-	-	-	(7,978,319)	-	-	-	-	-	-	-	(7,978,319)	-	(7,978,319)
Changes in special reserve (Note 1)		-	-	-	2,218,081	(2,218,081)	-	-	-	-	-	-	-	-	-	-
Changes in other capital surplus																
Changes in amount of associates and joint ventures accounted for using the equity method		-	(805)	-	-	-	-	-	-	-	-	-	-	(805)	-	(805)
Net income for the year ended 31 December 2017 (Note2)		-	-	-	-	36,290,138	-	-	-	-	-	-	-	36,290,138	(22,413)	36,267,725
Other comprehensive income for the year ended 31 December 2017	43	-	-	-	-	-	(2,383,935)	-	48,349,777	12,113	(184,906)	188,821	-	45,981,870	(163,380)	45,818,490
Total comprehensive income for the year ended 31 December 2017		-	-	-	-	36,290,138	(2,383,935)	-	48,349,777	12,113	(184,906)	188,821	-	82,272,008	(185,793)	82,086,215
Changes in non-controlling interests	36	-	-	-	-	-	-	-	-	-	-	-	-	-	3,090,352	3,090,352
Balance on 31 December 2017		$53,065,274	$13,767,663	$33,208,919	$259,379,137	$34,072,057	$(9,958,336)	$-	$51,550,393	$203,646	$110,471	$188,821	$-	$435,588,045	$5,593,318	$441,181,363
Effects on retrospective application and restatement	3	-	-	-	-	(2,914,533)	-	31,488,614	(51,550,393)	-	-	-	55,611,592	32,635,280	8,904	32,644,184
Balance on 1 January 2018 (Adjusted)		53,065,274	13,767,663	33,208,919	259,379,137	31,157,524	(9,958,336)	31,488,614	-	203,646	110,471	188,821	55,611,592	468,223,325	5,602,222	473,825,547
Special capital reserve recovered in response to the development of Fintech		-	-	-	(4,751)	4,751	-	-	-	-	-	-	-	-	-	-
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-1010012865		-	-	-	(3,656,933)	3,656,933	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of earnings for the year 2017	36															
Legal capital reserve		-	-	7,258,027	-	(7,258,027)	-	-	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	20,494,964	(20,494,964)	-	-	-	-	-	-	-	-	-	-
Cash dividends on common stock		-	-	-	-	(9,980,749)	-	-	-	-	-	-	-	(9,980,749)	-	(9,980,749)
Changes in special reserve (Note 1)		-	-	-	1,673,985	(1,673,985)	-	-	-	-	-	-	-	-	-	-
Changes in other capital surplus																-
Changes in amount of associates and joint ventures accounted for using the equity method		-	(31,738)	-	-	-	-	-	-	-	-	-	-	(31,738)	-	(31,738)
Net income for the year ended 31 December 2018 (Note 3)		-	-	-	-	30,189,320	-	-	-	-	-	-	-	30,189,320	107,941	30,297,261
Other comprehensive income for the year ended 31 September 2018	43	-	-	-	-	-	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(173,807,449)	(93,720)	(173,901,169)
Total comprehensive income for the year ended 31 December 2018		-	-	-	-	30,189,320	(838,144)	(64,953,430)	-	(30,358)	176,629	(1,318)	(108,160,828)	(143,618,129)	14,221	(143,603,908)
Issuance of common stock for cash		4,200,000	37,800,000	-	-	-	-	-	-	-	-	-	-	42,000,000	-	42,000,000
Disposal of equity instrument at fair value through other comprehensive (losses) income		-	-	-	-	(12,917,189)	-	12,917,189	-	-	-	-	-	-	-	-
Changes in non-controlling interests	36	-	-	-	-	-	-	-	-	-	-	-	-	-	(79,726)	(79,726)
Balance on 31 December 2018		$57,265,274	$51,535,925	$40,466,946	$277,886,402	$12,683,614	$(10,796,480)	$(20,547,627)	$-	$173,288	$287,100	$187,503	$(52,549,236)	$356,592,709	$5,536,717	$362,129,426

Note 1: The special reserve was set aside in accordance with article 18 of Regulations of the Management of Various Reserves by Insurance Enterprises.

Note 2: For the year ended 2017, the remuneration to directors and supervisors in the amount of $5,700 thousand and employees' compensation in the amount of $3,382 thousand have been deducted from the Statement of Comprehensive Income.

Note 3: For the year ended 2018, the remuneration to directors and supervisors in the amount of $5,700 thousand and employees' compensation in the amount of $2,760 thousand have been deducted from the Statement of Comprehensive Income.

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the years ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

Items	Notes	1 January – 31 December 2018	1 January – 31 December 2017
Cash flows from operating activities			
Net income, before tax		$28,524,702	$33,973,830
Adjustments:			
Revenue and expense items			
Depreciation	41	762,849	758,579
Amortization	41	2,634,955	2,637,161
Provision for bad debt expenses		-	56,196
Expected credit impairment losses and gains on reversal of investments		519,606	-
Expected credit impairment losses and gains on reversal of non-investments		65,457	-
Net losses (gains) from financial assets and liabilities at fair value through profit or loss		150,478,303	(88,838,019)
Net gains from available-for-sale financial assets		-	(45,090,025)
Net gains from financial assets at fair value through other comprehensive income		(10,413,839)	-
Net gains from debt instrument investments for which no active market exists		-	(19,026,550)
Net losses from held-to-maturity financial assets		-	3,393
Net gains from derecognition of financial assets measured at amortized cost		(4,735,339)	-
Interest expenses		2,740,267	2,148,495
Interest income		(148,195,571)	(139,034,096)
Dividend income		(24,633,969)	(23,801,701)
Changes in insurance liabilities		362,832,193	376,808,641
Changes in reserve for insurance contracts with feature of financial instruments		557,104	(1,559,141)
Changes in foreign exchange volatility reserve		5,486,151	1,717,660
Share of the gains of associates and joint ventures accounted for using the equity method		(970,753)	(1,258,667)
Gains from reclassified using overlay approach		(117,455,992)	-
Gains on disposal or scrapping of property and equipment		(7,612)	(4,281)
Losses on disposal of investments accounted for using the equity method		10,773	-
Gains on disposal of investment property		(14,163)	(77,366)
Impairment losses on financial assets		-	15,032
Gains on reversal of impairment losses		-	(11,754)
Losses on valuation of investment property		771,123	833,201
Other		-	2,258
Subtotal		220,431,543	66,279,016
Changes in operating assets and liabilities			
(Increase) decrease in financial assets at fair value through profit or loss		(11,419,743)	88,413,020
Decrease in financial assets at fair value through other comprehensive income		35,673,553	-
Increase in debt instrument investments measured at amortized cost		(394,984,673)	-
Decrease in financial assets for hedging/derivative financial assets for hedging		1,087	419
Decrease in available-for-sale financial assets		-	938,265
Increase in debt instrument investments for which no active market exists		-	(247,801,684)
Increase in held-to-maturity financial assets		-	(30,021,894)
Increase in premiums receivable		(224,073)	(175,054)
Decrease in notes receivable		209,652	1,193,552
Decrease (increase) in other receivable		18,469,834	(13,802,549)
Increase in prepaid expenses and other prepayments		(1,198,062)	(1,000,995)
Increase in guarantee deposits paid		(11,142,568)	(201,527)
Increase in reinsurance assets		(760,452)	(19,679)
Decrease in other financial assets		1,500,000	3,161,395
(Increase) decrease in other assets		(632,725)	2,728,805
Decrease in financial liabilities at fair value through profit or loss		(116,025,131)	(28,178,365)
(Decrease) increase in notes payable		(3,944,711)	5,370,376
Increase in life insurance proceeds payable		78,353	96,185
Increase (decrease) in other payables		11,970,489	(4,433,601)
Decrease in due to reinsurers and ceding companies		(25,850)	(8,804)
Decrease in commissions payable		(466,470)	(918,172)
Increase (decrease) in accounts collected in advance		27,366	(61,652)
(Decrease) increase in guarantee deposits received		(5,503,603)	5,586,378
(Decrease) increase in provisions		(246,725)	47,776
Decrease in deferred handling fees		(9,775)	(16,589)
(Decrease) increase in other liabilities		(3,663,669)	5,591,831
Increase (decrease) in provision for employee benefits		403,459	(406,729)
Subtotal		(481,914,437)	(213,919,292)
Cash used in operating activities		(232,958,192)	(113,666,446)
Interest received		144,460,393	136,141,842
Dividends received		25,183,108	24,211,222
Interest paid		(2,758,298)	(1,386,309)
Income taxes paid		(6,630,702)	(5,024,893)
Net cash (used in) provided by operating activities		(72,703,691)	40,275,416
Cash flows from investing activities			
Acquisition of investments accounted for using the equity method		(7,312,307)	(2,432,643)
Disposal of investments accounted for using the equity method		119,873	2,843
Disinvestment of investments accounted for using the equity method		120,368	247,965
Acquisition of property and equipment		(1,386,924)	(2,492,832)
Disposal of property and equipment		34,843	22,272
Acquisition of intangible assets		(102,294)	(181,441)
Decrease in loans		22,827,828	3,895,387
Acquisition of investment property		(4,681,144)	(7,078,139)
Disposal of investment property		516,032	165,128
Net cash provided by (used in) investing activities		10,136,275	(7,851,460)
Cash flows from financing activities			
Proceeds from bond issuance	27	-	35,000,000
Decrease in notes and bonds with repurchase agreement		-	(46,444)
Redemption of preferred stock liability	28	(5,000,000)	-
Cash dividends paid		(9,980,749)	(7,978,319)
Issuance of common stock for cash	34	42,000,000	-
Changes in non-controlling interests		(79,726)	(70,187)
Net cash provided by financing activities		26,939,525	26,905,050
Effects of exchange rate changes on cash and cash equivalents		416,211	2,453,807
(Decrease) increase in cash and cash equivalents		(35,211,680)	61,782,813
Cash and cash equivalents at the beginning of the periods		210,543,885	148,761,072
Cash and cash equivalents at the end of the periods		$175,332,205	$210,543,885

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
For the year ended 31 December 2018 and 2017
(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

1. Organizations and business scope

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

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

   The consolidated financial statements of the Company for the year 2018 and 2017 include the financial information of the Company and its Subsidiaries ("the Company and Subsidiaries"). Please refer to Note 4 (3) for the consolidated entities. The parent company and ultimate parent company of the Company is Cathay Financial Holdings.

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

   The consolidated financial statements of the Company and Subsidiaries for the years ended 31 December 2018 and 2017 were authorized for issue by the Company's board of directors on 21 March 2019.

3. Newly issued or revised standards and interpretations

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

a. The Company and Subsidiaries adopted IFRS 9 since 1 January 2018 and they adopted IAS 39 before 1 January 2018. Please refer to Note 4 for more details on accounting policies.

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

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through profit or loss		Fair value through profit or loss	
Financial assets at fair value through profit or loss	$43,037,361	Financial assets at fair value through profit or loss	$1,165,120,409
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444
Subtotal	43,283,805	Subtotal	1,165,366,853
Fair value through other comprehensive income		Fair value through other comprehensive income	
Available-for-sale financial assets	1,517,450,715	Financial assets at fair value through other comprehensive income	1,026,532,442
At amortized cost		At amortized cost	
Cash and cash equivalents	210,543,885	Cash and cash equivalents	210,543,885
Receivables(excluding refundable tax)	81,139,586	Receivables(excluding refundable tax)	81,139,586
Debt instrument investments for which no active market exists	2,393,010,584	Financial assets measured at amortized cost	1,859,813,669
Held-to-maturity financial assets	57,807,718	Other financial assets	3,499,099
Other financial assets	4,500,000	Loans	603,718,254
Loans	603,718,254	Guarantee deposits paid	20,796,022
Guarantee deposits paid	20,652,061		
Subtotal	3,371,372,088	Subtotal	2,779,510,515
Total	$4,932,106,608	Total	$4,971,409,810

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

c. The traansition adjustments from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follows:

IAS 39		IFRS 9				
Items	Carrying amounts	Items	Carrying amounts	Differences	Retained earnings adjustments	Other equity adjustments
Financial assets at fair value through profit or loss						
Designated at fair value through profit or loss (Note)	$239,368	Financial assets mandatorily measured at fair value through profit or loss (Note)	$239,368	$-	$-	$-
Held for trading	42,797,993	Financial assets mandatorily measured at fair value through profit or loss	42,797,993	-	-	-
Subtotal	43,037,361	Subtotal	43,037,361	-	-	-
Derivative financial assets for hedging	246,444	Financial assets for hedging	246,444	-	-	-
Available-for-sale financial assets						
		Financial assets mandatorily measured at fair value through profit or loss	1,048,895,680	-	(1,432,852)	1,432,852
		Equity instruments at fair value through other comprehensive income	66,481,536	-	-	-
		Debt instruments at fair value through other comprehensive income	317,955,912	-	(177,019)	177,019
		Financial assets measured at amortized cost	81,515,267	(2,602,320)	(23,963)	(2,578,357)
Subtotal	1,517,450,715	Subtotal	1,514,848,395	(2,602,320)	(1,633,834)	(968,486)
Cash and cash equivalents	210,543,885	Cash and cash equivalents	210,543,885	-	-	-
Receivables	81,139,586	Receivables	81,139,586	-	-	-
Debt instrument investments for which no active market exists						
		Financial assets mandatorily measured at fair value through profit or loss	71,300,901	1,142,647	-	1,142,647
		Debt instruments at fair value through other comprehensive income	628,921,689	40,475,226	(373,716)	40,848,942
		Equity instruments at fair value through other comprehensive income	3,537	531	-	531
		Financial assets measured at amortized cost	1,732,971,804	(1,431,057)	(1,431,057)	-
Subtotal	2,393,010,584	Subtotal	2,433,197,931	40,187,347	(1,804,773)	41,992,120
Held-to-maturity financial assets						
		Financial assets mandatorily measured at fair value through profit or loss	899,724	32,994	27,073	-
		Debt instruments at fair value through other comprehensive income	13,169,768	1,560,215	(1,293)	1,561,508
		Financial assets measured at amortized cost	45,326,598	(4,837)	(4,837)	-
Subtotal	57,807,718	Subtotal	59,396,090	1,588,372	20,943	1,561,508
Other financial assets						
		Financial assets mandatorily measured at fair value through profit or loss	986,743	(13,257)	-	(13,257)
		Other financial assets	3,499,099	(901)	(901)	-
Subtotal	4,500,000	Subtotal	4,485,842	(14,158)	(901)	(13,257)
Loans	603,718,254	Loans	603,718,254	-	-	-
Guarantee deposits paid	20,652,061	Guarantee deposits paid	20,796,022	143,961	-	143,961
Total	$4,932,106,608	Total	$4,971,409,810	$39,303,202	$(3,418,565)	$42,715,846

Note: Financial assets designated at fair value through profit or loss held by the Company and Subsidiaries amounted to $239,368 thousand. While transitioning to IFRS 9, the financial instruments did not eliminate or significantly reduce an accounting mismatch, and thus had to be reclassified to financial assets mandatorily measured at fair value through profit or loss instead of financial assets designated at fair value through profit or loss.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The classifications of non-financial assets and liabilities are as follow:

IAS 39		IFRS 9				
Items	Carrying amounts	Items	Carrying amounts	Differences	Retained earnings adjustments	Other equity adjustments
Investments accounted for using the equity method	$33,122,620	Investments accounted for using the equity method	$33,118,447	$(4,173)	$(12,288)	$8,115
Deferred tax assets	28,448,690	Deferred tax assets	28,690,769	242,079	285,829	(43,750)
Insurance liabilities	4,923,940,864	Insurance liabilities	4,923,940,469	(395)	395	-
Deferred tax liabilities	37,034,552	Deferred tax liabilities	43,943,614	6,909,062	221,336	(7,130,398)
Non-controlling interest	5,593,318	Non-controlling interest	5,599,239	5,921	-	-

d. The transition adjustments from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments* for the balance of loss allowance under expected credit loss model as at 1 January 2018 are as follows:

Items and measurement categories	Balance of impairment provision under IAS 39	Reclassifications	Remeasurements	Balance of loss allowance under IFRS 9
Available-for-sale financial instruments (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	$185,987	$(185,987)	$-	$-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	177,019	177,019
Classified to financial assets measured at amortized cost (Note 2)	-	-	23,963	23,963
Debt instrument investments for which no active market exists (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	388,024	(388,024)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	373,717	373,717
Classified to financial assets measured at amortized cost (Note 2)	-	-	1,431,058	1,431,058
Held-to-maturity financial assets (Note 1)				
Classified to financial assets at fair value through profit or loss (Note 2)	15,932	(15,932)	-	-
Classified to financial assets at fair value through other comprehensive income (Note 2)	-	-	1,293	1,293
Classified to financial assets measured at amortized cost (Note 2)	-	-	4,837	4,837
Other financial assets	-	-	901	901
Loans and receivables (Note 1)				
Classified to financial assets measured at amortized cost (Note 2)	6,188,904	-	-	6,188,904
Total	$6,778,847	$(589,943)	$2,012,788	$8,201,692

Note 1: Items under IAS 39.

Note 2: Items under IFRS 9.

e. Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the Company and Subsidiaries' assets increased by $39,541,108 thousand, liabilities increased by $6,908,667 thousand, retained earnings decreased by $2,923,293 thousand, other equity increased by $35,549,813 thousand and non-controlling interests increased by $5,921 thousand on the date of initial application (1 January 2018). The related explanation is as follows:

(A) Classification and measurement of financial assets

A part of debt instrument investments for which no active market exists are reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and thus reflect on adjustments to unrealized gains of debt instrument investments for which no active market exists. The assets increased by $40,761,877 thousand, the liabilities increased by $6,838,945 thousand, retained earnings decreased by $1,172,393 thousand, other equity increased by $35,089,404 thousand and non-controlling interests increased by $5,921 thousand. The explanation for classification and measurement is as follows:

Financial assets at fair value through profit or loss

Financial assets which are classified as held-for-trading derivative instruments in financial assets at fair value through profit or loss and mixed instruments designated at fair value through profit or loss in accordance with IAS 39 are classified as financial assets at fair value through profit or loss under IFRS 9.

Available-for-sale financial assets

Classified as available-for-sale financial assets according to IAS 39, including beneficiary certificates, stocks and bonds. The related explanation of change in classification is as follows:

(a) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, beneficiary certificates are classified as financial assets measured at fair value through profit or loss in accordance with IFRS 9. As at the date of initial application, the Company and Subsidiaries reclassify available-for-sale financial assets to financial assets measured at fair value through profit or loss.

(b) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the abovementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity are reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as on 1 January 2018, aside from part of the financial assets which are not held-for-trading investments designated to be measured at fair value through other comprehensive income, the others should be reclassified as financial assets at fair value through profit or loss. No difference from carrying amount existed when stocks are measured at fair value.

(c) Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds should be reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference between fair value and amortized cost previously recognized will be adjusted to other equity and the carrying amount of the reclassified financial assets. The financial assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and for sale should be classified as financial assets at fair value through other comprehensive income under IFRS 9. No difference from carrying amount exists, and the abovementioned assets should be assessed for impairment in accordance with IFRS 9.

Bond investments whose cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss under IFRS 9. The reclassification does not result in any difference from carrying amount.

The Company and Subsidiaries chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *Insurance Contracts* since their application of IFRS 9. The reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss and designated to apply overlay approach resulted in no difference in carrying amount.

Held-to-maturity financial assets and debt instrument investments for which no active market exists

Bond investments classified as held-to-maturity financial assets and loans and receivables (placed in debt instrument investments for which no active market exists) in accordance with IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as at the date of initial application, should be reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No difference from carrying amount exists, and the abovementioned assets should be assessed for impairment in accordance with IFRS 9.

Held-to-maturity financial assets and debt instrument investments for which no active market exists held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and for sale should be reclassified as financial assets at fair value through other comprehensive income under IFRS 9. The reclassification of business model will increase other equity and the carrying amount of the reclassified financial assets. The abovementioned assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) in accordance with IAS 39 and whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss.

The Company and Subsidiaries chose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *Insurance Contracts* since their application of IFRS 9. The reclassification of debt instrument investments for which no active market exists to financial assets at fair value through profit or loss and designated to apply overlay approach resulted in an increase in other equity.

Other impact

In accordance with the classification and measurement of financial assets and impairment assessment in IFRS 9, the Company and Subsidiaries' deferred tax liabilities increased by $6,836,856 thousand, retained earnings increased by $243,584 thousand, and other equity decreased by $7,080,440 thousand.

In accordance with the classification and measurement of financial assets and impairment assessment in IFRS 9, the Company and Subsidiaries' investments accounted for using the equity method decreased by $4,173 thousand, deferred tax assets increased by $2,089 thousand, deferred tax liabilities increased by $2,089 thousand, retained earnings decreased by $10,199 thousand, and other equity increased by $6,026 thousand.

(B) Impairment assessment of financial assets

The Company and Subsidiaries recognized adjustments of expected credit losses of debt instruments, which decreased assets by $1,220,769 thousand, increased liabilities by $69,722 thousand, decreased retained earnings by $1,750,900 thousand and increased other equity by $460,409 thousand.

As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets does not increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arising from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The abovementioned rule of impairment assessment is different from incurred losses model applied currently.

Other impact

In compliance with the law, the first time IFRS 9 application effect on financial assets linked to participating policies should be recognized in retained earnings. Thus, the Company and Subsidiaries' insurance liabilities – participating policies dividends reserve decreased by $395 thousand and retained earnings increased by $395 thousand.

In accordance with impairment assessment of financial assets in IFRS 9, the Company and Subsidiaries' deferred tax assets increased by $239,990 thousand, deferred tax liabilities increased by $70,117 thousand, retained earnings increased by $261,492 thousand, and other equity decreased by $91,619 thousand.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(C) Hedge Accounting

The applicable conditions of hedge accounting under IFRS 9 are amended in order to better reflect the business' actual risk management activities on financial reports applicable to hedge accounting. However, when an entity first applies IFRS 9, it may choose it as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 or apply hedge accounting policy of IFRS 9 prospectively. The Company and Subsidiaries chose to apply hedge accounting policy of IFRS 9 prospectively when applying IFRS 9 for the first time.

f. Financial assets and liabilities have been reclassified to financial assets measured at amortized cost. The fair value and fair value gains and losses that have not yet been reclassified and shall be recognized during the transition period are as follows:

Reclassified to financial assets measured at amortized cost	
From available-for-sale financial assets (Classification under IAS 39)	
Ending balance of the fair value in current period	$63,422,955
Fair value gains and losses that should be recognized as other comprehensive income in current period if not reclassified	(1,564,934)

g. Please refer to Note 4 to Note 41 and Note 42 to Note 48 for the related disclosures required by IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments.*

B. *Prepayment Features with Negative Compensation* – Amendments to IFRS 9

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment has been issued by International Accounting Standards Board ("IASB") but not yet endorsed by FSC (the effective date issued by IASB is beginning on or after 1 January 2019). In accordance with the question and answer set issued on 12 December 2017 by the FSC, the Company and Subsidiaries elected to early apply the amendment on 1 January 2018 after considering that it was necessary.

The application of the standard has no material impact on the Company and Subsidiaries.

C. The explanation related to the application of IFRS 15 *Revenue from Contracts with Customers* (including Amendments to IFRS 15 Clarifications to IFRS 15 *Revenue from Contracts with Customers*) is as follows:

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The Company and Subsidiaries elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Company and Subsidiaries also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The revenue from contracts with customers of the Company and Subsidiaries is a performance obligation satisfied at a certain time. However, the Company and Subsidiaries recognize revenue on a straight line basis during the contract term. In addition, the Company and Subsidiaries expected to recover a part of the incremental costs incurred as a result of obtaining contracting with customers, and thus, the incremental costs shall be capitalized. However, the incremental costs are recognized as expense currently. The difference from the accounting treatment of revenue recognition and incremental costs mentioned previously increased the Company and Subsidiaries' assets by $16,619 thousand, increased liabilities by $4,876 thousand, increased retained earnings by $8,760 thousand, and increased non-controlling interests by $2,983 thousand at the date of initial application.

The application of the standard has no material impact on the Company and Subsidiaries.

D. *Disclosure Initiative* - Amendment to IAS 7"Statement of Cash Flows":

The Company and Subsidiaries required to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Please refer to Note 6 for more details.

(2) Standards or interpretations issued, revised or amended by IASB which are endorsed by FSC, but not yet adopted by the Company and Subsidiaries as at the end of the reporting period are listed below:

Items	Newly, issued revised or amended standards and interpretations	Effective date issued by IASB
A	IFRS 16 *Leases*	1 January 2019
B	IFRIC 23 *Uncertainty Over Income Tax Treatments*	1 January 2019
C	IAS 28 *Investment in Associates and Joint Ventures* - Amendments to IAS 28	1 January 2019
D	*Improvements to International Financial Reporting Standards (2015-2017 cycle)*	1 January 2019
E	*Plan Amendment, Curtailment or Settlement* - Amendments to IAS 19	1 January 2019

A. IFRS 16 *Leases*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. IFRIC 23 *Uncertainty Over Income Tax Treatments*

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

C. IAS 28 *Investment in Associates and Joint Ventures* - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. *Improvements to International Financial Reporting Standards (2015-2017 cycle)*

IFRS 3 *Business Combinations*
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 *Joint Arrangements*
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 *Income Taxes*
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 *Borrowing Costs*
The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

E. *Plan Amendment, Curtailment or Settlement* - Amendments to IAS 19

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

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from "A" explained below, the remaining standards and interpretations have no material impact on the Company and Subsidiaries.

A. IFRS 16*"Leases"*

IFRS 16 *"Leases"* replaces IAS 17 *"Leases"*, IFRIC 4 *"Determining whether an Arrangement contains a Lease"*, SIC-15 *"Operating Leases - Incentives"* and SIC-27 *"Evaluating the Substance of Transactions Involving the Legal Form of a Lease"*. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

a. For the definition of a lease, the Company and Subsidiaries elect not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Company and Subsidiaries permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

   The Company and Subsidiaries are lessees and elect not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company and Subsidiaries recognizes the cumulative effect of initially applying IFRS 16 on 1 January 2018.

   For leases that were classified as operating leases applying IAS 17, the Company and Subsidiaries expect to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments and；the Company and Subsidiaries choose an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019, to measure and recognize the right-of-use asset.

   The Company and Subsidiaries expect the right-of-use asset will increase by $1,975,650 thousand; the investment properties will increase by $9,014,035 thousand; the prepayment will decrease $345,482 thousand; the lease liability will increase by $10,690,575 thousand; the other accounts payable will decrease by $46,224 thousand and the other liabilities will decrease by $148 thousand.

b. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

Items	Newly, issued revised or amended standards and interpretations	Effective date issued by IASB
A	Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*	To be determined by IASB
B	IFRS 17 *Insurance Contracts*	1 January 2021
C	Definition of a Business - Amendments to IFRS 3	1 January 2020
D	Definition of Material - Amendments to IAS 1 and 8	1 January 2020

A. Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

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

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

B. IFRS 17 *Insurance Contracts*

The standard supersedes IFRS 4 and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts an entity issues, reinsurance contracts it holds and investment contracts with discretionary participation features it issues. The standard requires that an entity should divide a portfolio of insurance contracts issued into a minimum of a group of contracts that are onerous at initial recognition, a group of contracts at initial recognition have no significant possibility of becoming onerous subsequently and a group of remaining contracts in the portfolio. An entity shall recognize a group of insurance contracts it issues from the earliest of the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows include:

a. estimates of future cash flows
b. discount rate: an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows
c. a risk adjustment for non-financial risk

Aside from the general model, investment contracts with discretionary participation features shall be measured by applying variable fee approach ("VFA"), a modification to general model. If certain conditions are met, premium allocation approach ("PAA"), a simplification of general model, is applied to measure the liability for remaining coverage.

The standard is effective for annual periods beginning on or after 1 January 2021.

C. Definition of a Business - Amendments to IFRS 3

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Definition of a Material - Amendments to IAS 1 and 8

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.". The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

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

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the year ended 31 December 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises (“the Regulations”) and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

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

If the Company loses control of a subsidiary, it:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements-continued

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The consolidated entities are listed as follows:

Investors	Investees	Business	Ownership interest 2018.12.31	Ownership interest 2017.12.31
The Company	Cathay Lujiazui Life Insurance Co., Ltd. (“Cathay Lujiazui Life”)	Life insurance	50.00	50.00
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. (“Lin Yuan”)	Office leasing	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00
The Company	Conning Holdings Limited (“CHL”)	Holding company	100.00	100.00
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00
CHL	Conning Asia Pacific Limited	Asset management services	82.85	50.00
CHL	Conning Japan Limited	Asset management services	100.00	100.00
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00
Conning Holdings Corp.	Conning & Company (“C&C”)	Holding company	100.00	100.00
C&C	Conning Inc.	Asset management services	100.00	100.00
C&C	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00
C&C	Conning Investment Products, Inc.	Securities services	100.00	100.00
C&C	Octagon Credit Investors, LLC (“Octagon”)	Asset management services	81.8946	82.05
Octagon	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00
Octagon	Octagon Funds GP LLC	Fund management services	100.00	100.00
Octagon	Octagon Funds GP II LLC	Fund management services	100.00	100.00
Octagon	Octagon Funding I, LLC	Fund management services	100.00	100.00
Octagon	Octagon Funding II, LLC	Fund management services	100.00	100.00
Octagon	Octagon Funding III, LLC	Fund management services	100.00	100.00

The consolidated financial statements exclude the following:

Investors	Investees	Business	Ownership interest		Notes
			2018.12.31	2017.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd. (Note)	Class 3 general business insurers and Class C long-term insurer	-	100.00	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment consulting services	100.00	100.00	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.

Note: Cathay Insurance (Bermuda) Co., Ltd. was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

(4) Foreign currency transactions

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

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

(5) Translation of financial statements in foreign currency

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

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

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

(6) Cash and cash equivalents

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

(7) Financial assets and liabilities

A. Initial recognition and subsequent measurement

The accounting policies from 1 January 2018 are as follows:

According to IFRS 9 *Financial Instruments*, the Company and Subsidiaries categorized the financial assets on balance sheet as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets for hedging, financial assets measured at amortized cost and so on. Financial liabilities are categorized as financial liabilities at fair value through profit or loss, financial liabilities for hedging and bonds payable.

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

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

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

a. the entity’s business model for managing the financial assets
b. the financial assets’ contractual cash flow characteristics

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

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

Financial assets at fair value through profit or loss are:

(A) financial assets not measured at amortized cost or at fair value through other comprehensive income
(B) financial assets measured at amortized cost or at fair value through other comprehensive income be designated as financial assets at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatch

Financial liabilities at fair value through profit or loss are categorized as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in profit or loss.

In addition, to reduce the fluctuation in profit or loss due to applying IFRS 9 earlier than IFRS 17, the Company and Subsidiaries elected to remove profit or loss arising from changes in fair value in subsequent measurement and placed it in other comprehensive income based on overlay approach under IFRS 4 *Insurance Contracts*. Overlay approach is applied to financial assets if all of the following conditions are met:

(A) the financial assets are held in respect of activities related to IFRS 4.
(B) the financial assets are measured at fair value through profit or loss applying IFRS 9, but would not have been measured at fair value through profit or loss in its entirely applying under IAS 39.
(C) the financial assets designated to apply overlay approach at initial recognition when an entity first applies IFRS 9 or when a new financial asset is initially recognized or when a financial asset newly meets the criteria having previously not met.

b. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are:

(A) debt instrument investments that meet both of the following conditions:

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

(B) equity instruments investments that are not held for trading, for which an irrevocable election at initial recognition is made and whose subsequent changes in fair value are presented in other comprehensive income.

Financial assets in this category are measured at fair value in subsequent assessment. Gains or losses arising from changes in fair value shall be recognized in other equity before derecognition, except for dividends revenue, expected credit losses and foreign exchange gains or losses arising from the translation of foreign monetary financial assets, which shall be recognized in profit or loss. When the financial assets are derecognized, the cumulative gains or losses previously recognized in other equity are reclassified in profit or loss if they are debt instrument investments or recognized directly in retained earnings if they are investments in equity instruments.

c. Financial assets measured at amortized cost

Financial assets measured at amortized cost are the ones that meet both of the following conditions and are presented as receivables, financial assets measured at amortized cost, other financial assets and loans on the balance sheet:

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

Such financial assets are subsequently measured at amortized cost using the effective interest rate method and shall be recognized in profit or loss when amortized, impaired and derecognized.

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

d. Financial assets and financial liabilities for hedging

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

e. Financial liabilities

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

f. Bonds payable

Bonds payable are financial liabilities measured at amortized cost and are measured at fair value less transaction costs at initial recognition. Bonds payable are subsequently measured at amortized cost using the effective interest rate method and shall be recognized in profit or loss as an adjustment to "finance costs" during the outstanding period.

The accounting policies before 1 January 2018 are as follows:

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

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

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are subsequently measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment). Financial assets and liabilities at fair value through profit or loss are categorized as held for trading and financial assets or liabilities designated upon initial recognition as at fair value through profit or loss by its nature

Financial asset is classified as held for trading if:

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

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

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

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

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

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

b. Available-for-sale financial assets

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

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

c. Derivative financial assets and liabilities for hedging

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

d. Held-to-maturity financial assets

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

e. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

(A) those that the Company and Subsidiaries intend to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss
(B) those that the Company and Subsidiaries upon initial recognition designate as available for sale
(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 receivables or debt instrument for which no active market exists or loans. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

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

f. Financial liabilities

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

B. Derecognition of financial assets and liabilities

a. Financial assets

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

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

b. Financial liabilities

The Company and Subsidiaries remove all or part of a financial liability when the obligation specified in the contract is satisfied, 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.

C. Reclassification of financial assets

<u>The accounting policies from 1 January 2018 are as follows:</u>

Financial instruments of the Company and Subsidiaries are reclassified in accordance with IFRS 9:

a. When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.
b. An entity shall not reclassify any liability.

<u>The accounting policies before 1 January 2018 are as follows:</u>

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

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

D. Offsetting of financial instruments

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

E. Impairment of financial assets

The accounting policies from 1 January 2018 are as follows:

As for financial assets that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets does not increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not at low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity.

The Company and Subsidiaries assess the expected credit losses of the financial assets on each balance sheet date. Accounting policies for impairment of financial assets measured at different methods are as follows:

a. Debt instruments at fair value through other comprehensive income

The expected credit losses is recognized by reclassifying cumulative gains or losses recognized in other equity to profit or loss without deducting loss allowance from the carrying amount. If the expected credit losses decrease, the amount decreased shall be reversed and recognized as gains in the period it reversed.

b. Debt instruments measured at amortized cost

The carrying amount of the financial asset is reduced by loss allowance and the amount of the loss is recognized in profit or loss for the period. If the expected credit losses decrease, loss allowance shall be reversed and the reversed amount shall be recognized as gains in the period it reversed.

In addition, in accordance with the “Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises” (“Guidelines for Handling Assessment of Assets”), 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.

Also, pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall increase its allowance for bad debt to loans ratio to at least 1.5% and therefore enhance its ability against specific loan loss exposure.

The accounting policies before 1 January 2018 are as follows:

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

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

Other loss events may include:

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

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

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

In addition, in accordance with the “Guidelines for Handling Assessment of Assets”, 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.

Also, pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10402506096, the Company shall increase its allowance for bad debt to loans ratio to at least 1.5% and therefore enhance its ability against specific loan loss exposure.

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

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

F. Derivatives and hedge accounting

<u>The accounting policies from 1 January 2018 are as follows:</u>

The Company and Subsidiaries elected to apply hedge accounting policy of IFRS 9 prospectively at the initial application of IFRS 9.

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

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

Hedging relationships consist of three types:

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

At the inception of a hedge relationship, the Company and Subsidiaries formally designate and document hedge relationship to which the Company and Subsidiaries wish to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company and Subsidiaries assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of the sources of hedge ineffectiveness and how they determine the hedge ratio). If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company and Subsidiaries shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing).

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

a. Fair value hedges

   Fair value hedges is a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk which could affect profit or loss. Under fair value hedges, the hedging gains or losses on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognized in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gains or losses on the hedged item shall be recognized in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gains or losses recognized in profit or loss.

If a hedged item is a financial instrument measured at amortized cost, the adjustment arising from above paragraph to its carrying amount is amortized in profit or loss based on effective interest rate method 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, the components of the asset or liability a highly probable forecast transaction and the variability could affect profit or loss. The portion of the gains or losses on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the amount that has been accumulated in the cash flow hedge reserve shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period (or periods) during which the hedged expected future cash flows affect 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 cumulative amount shall be removed from the cash flow hedge reserve and then be included as an adjustment to the carrying amount of the asset or the liability.

If the forecast transaction is no longer expected to occur, the amount that has been recognized in cash flow hedge reserve is reclassified to profit or loss. If the hedging instrument expires or is sold, terminated, settled or is no longer designated to hedge accounting, the amount that was previously recognized in cash flow hedge reserve remains in cash flow hedge reserve until the forecast transaction occurs. If the transaction is not expected to occur, the amount is reclassified from cash flow hedge reserve to profit or loss.

c. Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instruments relating to the effective portion of the hedge are directly recognized in foreign currency translation reserve of net investment in a foreign operation, 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 foreign currency translation reserve of net investment in a foreign operation is transferred to profit or loss.

The accounting policies before 1 January 2018 are as follows:

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

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

Hedging relationships consist of three types:

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

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

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

a. Fair value hedges

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

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

b. Cash flow hedges

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

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

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

c. Hedges of a net investment in a foreign operation

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

(8) Fair value measurement

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

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

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

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

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

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

(9) Investments accounted for using the equity method

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

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

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

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

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

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 in accordance with IAS 28 *Investments in Associates and Joint Ventures* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). If this is the case, the Company and Subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognize the amount in the share of profit or loss of an associate in the statement of comprehensive income as required by IAS 36 *Impairment of Assets*. If using the investment's value in use as the recoverable amount, the Company and Subsidiaries determine the value in use based on the following estimates:

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

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

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

(10) Property and equipment

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

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

Buildings and construction	5～70 years
Computer equipment	3～5 years
Communication and transportation equipment	3～5 years
Other equipment	2～15 years
Leasehold improvements	5 years or lease term
Leased assets	3～5 years

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

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

(11) Investment property

Investment properties are measured initially recognized at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value, and gains or losses are recognized in profit or loss in accordance with the requirements of IAS 40 *Investment Property*, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

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

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(12) Leases

The Company and Subsidiaries as a lessee

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

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

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

The Company and Subsidiaries as a lessor

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

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

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

(13) Intangible assets

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

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

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

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

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

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

Customer relationships: customer relationships were acquired in business combination and are amortized on a straight-line basis over the useful life (5 to 15 years).

Computer software: the cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 10 years).

Other intangible assets: other intangible assets were acquired in business combination and are amortized on a straight-line basis over the useful life (3 to 6 years).

(14) Impairment of non-financial assets

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

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

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

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

(15) Guaranteed depository insurance payment

A. The Company

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

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

A. The Company

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

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

a. Unearned premium reserve

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

b. Reserve for claims

It is mainly a reserve for the unpaid claims and unreported claims. The unpaid claims reserve is assessed upon the basis that the relevant information of each case and the amount deposited is further classified by the type of insurance. Unreported claims reserve is calculated and deposited based upon the past experiences and expenses occurred and in accordance with the actuarial principles for each injury insurance and health or life insurance with a policy period within 1 year.

c. Reserve for life insurance liabilities

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

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

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

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

d. Special reserve

(A) For the retained businesses with policy period within 1 year and injury insurance with policy period longer than 1 year, the special reserve is classified into 2 categories, “Special Capital Reserve – Special Reserve for Major Incidents” and “Special Capital Reserve – Special Reserve for Fluctuation of Risks.” In accordance with the regulations reported to the authorities by the Company and related regulations, the reserve method is addressed as follows:

(a) Special capital reserve – Special reserve for major incidents

All types of insurance should follow the special catastrophe reserve rates set by authorities. Upon occurrence of the catastrophic events, actual claims on retained business in excess of $30,000 thousand can be withdrawn from the reserve. If the reserve has been set aside for over 15 years, the Company could have its plan of the recovering process of the reserve assessed by certified actuaries and submit the plan to the authority for reference. The post-tax amount of the recovery determined in accordance with IAS 12 *Income Taxes* can be recorded in the special capital reserve for major incidents under equity.

(b) Special capital reserve – Special reserve for fluctuation of risks

When the actual amount paid for indemnity minus the offsetting amount from special reserve for major incidents is less than the anticipated dollar amount need to be paid, the 15% of this difference should be reserved in special reserve for fluctuation of risks.

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

For special reserves addressed previously, the balance of the annual reserve net of tax needs to be recorded in special capital reserve under equity in accordance with IAS 12 *Income Taxes*.

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

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

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is $4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2018, the amount set aside was $17,075,289 thousand.

j. Liability adequacy test

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

(17) Insurance premium income and expenses

A. The Company

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

For non-separate account insurance product that is also classified as financial products without discretionary participation features, the insurance revenue collected is recognized on the balance sheet as "reserves for insurance contract with feature of financial instruments".

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

(18) Product categories

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

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

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

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

A. Additional payments as a percentage of total contractual payments may be more significant and take up a bigger portion.
B. In accordance with the contract, the amount and date of payment for additional payments are at the Company and Subsidiaries' discretion.
C. In accordance with the contract, additional payments are handed out based on one of the following matters:

a. special combination of contracts or specific type of contractual performance.
b. the Company and Subsidiaries hold return on investment from a portfolio of specific assets.
c. profit and loss from the Company and Subsidiaries, funds, or other entities.

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

(19) Reinsurance

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

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

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

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

(20) Provisions

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

(21) Post-employment benefits

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

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

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

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

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

(22) Income taxes

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

A. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts 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. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company and Subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. 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.

The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12 *Income Taxes*. The Company and Subsidiaries recognize the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company elected its parent company to be the tax payer and jointly filed corporation income tax returns and surcharge on undistributed retained earnings since 2002 under the integrated income tax system. Such effects on current tax and deferred tax are accounted for as receivables or payables.

Effective from 1 January, 2006, the Company has considered the impact of the "Alternative Minimum Tax Act" to estimate their income tax liabilities.

(23) Separate account products

The Company and Subsidiaries sell separate account products, of which the applicant pays the premium according to the agreement amount less the expenses incurred by the insurer. In addition, the investment distribution is approved by the applicant and then transferred to specific accounts as requested by the applicant. In accordance with the relevant regulations, the value of these specific accounts is determined based on their fair value on the applicable date.

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

(24) Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 *Financial Instruments* (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. Categories of financial assets

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

B. Investment property

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

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

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

(2) Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Fair value of investment property

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

C. Impairment loss estimation on debt instruments investments

Starting from 1 January 2018

Estimation of the impairment loss on debt instrument investments is measured at the amount of expected credit losses. The present value of the difference between the contractual cash flows that are due to an entity in accordance with the contract (carrying amount) and the cash flows that the entity expects to receive (after considering the forward-looking information) is recognized as credit losses. The evaluation method is to multiply loss given default and exposure at default by the 12-month and the lifetime probability of default of the issuers or countparty. The Company and Subsidiaries also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses.The Company and Subsidiaries take the historic experience, current market conditions and forward-looking information into consideration, and thus, make assumptions on the default rate and expected loss ratio and select the impairment assessment inputs. If actual future cash flows are less than expected, material impairment loss may occur.

Before 1 January 2018

When there are objective evidences identified showing impairment indicators, the Company and Subsidiaries take the estimation of future cash flows into consideration. The amount of the impairment loss is the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses which have not been incurred) discounted at the financial asset’s original effective interest rate. If actual future cash flows are less than expected, material impairment loss may occur.

D. Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flow is projected based on reasonable assumptions of the cash-generating unit and do not include restructuring activities that the Company and Subsidiaries are not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

E. Post-employment benefits

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

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

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

G. Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company and Subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which they operate. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carry-forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

6. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand and revolving funds	$234,078	$195,525
Cash in banks	108,749,193	124,680,794
Time deposits	49,111,685	70,410,216
Cash equivalents	17,237,249	15,257,350
Total	$175,332,205	$210,543,885

7. Receivables

	31 December 2018	31 December 2017
Notes receivable – Net	$291,955	$501,607
Premium receivable – Net	464,587	240,514
Other receivable – Net		
Other receivable	74,255,654	81,124,533
Less:Loss allowance – Other receivable	(41,727)	(20,713)
Overdue receivable	56,340	18,756
Less:Loss allowance – Overdue receivable	(56,340)	(18,752)
Total	$74,970,469	$81,845,945

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The movements in the loss allowance of receivables for the year ended 31 December 2018 are as follows:

	For the year ended 31 December 2018
Beginning balance	$39,465
Charge for the current period	103,595
Write off	(44,993)
Ending balance	$98,067

The movements in the allowance for bad debts of receivables for the year ended 31 December 2017 are as follows:

	Individually impaired	Collectively impaired	Total
1 January 2017	$16,488	$215	$16,703
Charge (reversal) for the current period	27,555	(192)	27,363
Write off	(4,590)	-	(4,590)
Exchange differences	(11)	-	(11)
31 December 2017	$39,442	$23	$39,465

The Company and Subsidiaries adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 50 for more details on loss allowance of receivables. The Company and Subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018.

8. Financial assets at fair value through profit or loss

	31 December 2018	31 December 2017 (Note)
Mandatorily measured at fair value through profit or loss		
Domestic stocks	$373,957,880	
Overseas stocks	290,847,269	
Beneficiary certificates	277,060,915	
Real estate investment trust	14,213,506	
Financial debentures	17,079,909	
Corporate bonds	1,021,572	
Overseas bonds	188,192,375	
Derivative instruments	5,377,759	
Total	$1,167,751,185	

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2018 (Note)	31 December 2017
Designated at fair value through profit or loss at initial recognition		
Overseas stocks		$84,171
Beneficiary certificates		155,197
Subtotal		239,368
Held for trading		
Domestic stocks		6,927,268
Beneficiary certificates		16,739,083
Overseas bonds		2
Corporate bonds		2,401,922
Derivative financial instruments		16,729,718
Subtotal		42,797,993
Total		$43,037,361

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

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

	31 December 2018
Mandatorily measured at fair value through profit or loss	
Domestic stocks	$371,075,775
Overseas stocks	285,553,447
Beneficiary certificates	261,762,059
Real estate investment trust	14,213,506
Financial debentures	17,079,909
Overseas bonds	187,795,448
Total	$1,137,480,144

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Reclassification from profit or loss to other comprehensive income of the financial assets designated to apply overlay approach for the year ended 31 December 2018 is addressed below:

	For the year ended 31 December 2018
Gains (losses) due to applying IFRS 9 to profit or loss	$(31,335,179)
Less: (Gains) losses if applying IAS 39 to profit or loss	(86,120,813)
(Gains) losses from reclassification due to the application of overlay approach	$(117,455,992)

Gains from financial assets at fair value through profit or loss was $127,441,329 thousand for the year ended 31 December 2018; gains from reclassification due to the application of overlay approach was $117,455,992 thousand for the year ended 31 December 2018.

Please refer to Note 56 for the Company and Subsidiaries' financial assets at fair value through profit or loss that were pledged.

9. Financial assets at fair value through other comprehensive income

	31 December 2018	31 December 2017 (Note)
Equity instrument investments at fair value through other comprehensive income		
Domestic stocks	$25,235,503	
Overseas stocks	5,025,643	
Subtotal	30,261,146	
Debt instrument investments at fair value through other comprehensive income		
Government bonds	93,149,452	
Overseas bonds	800,838,518	
Less: Litigation deposits	(1,720)	
Less: Securities serving as deposits paid-bonds	(2,111,016)	
Less: Derivative instruments collateral	(168,134)	
Subtotal	891,707,100	
Total	$921,968,246	

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

A part of the investments in equity instruments held by the Company and Subsidiaries are not held for trading, and thus are designated as financial assets at fair value through other comprehensive income.

Dividend revenue recognized relating to investments in equity instruments at fair value through other comprehensive income still held by the Company and Subsidiaries on the balance sheet date for the year ended 31 December 2018 was $1,596,995 thousand. Dividend revenue relating to the derecognition of the investments for t the year ended 31 December 2018 was $489,914 thousand.

Given the investment strategy, the Company and Subsidiaries sold investments in equity instruments at fair value through other comprehensive income for the year ended 31 December 2018. The fair value was $38,447,898 thousand at the time of sale, and the cumulative unrealized loss of $12,917,189 thousand was transferred from other equity to retained earnings on disposal.

Please refer to Note 50 for more details on loss allowance and credit risk of the debt instrument investments at fair value through other comprehensive income held by the Company and Subsidiaries.

Please refer to Note 56 for the Company and Subsidiaries' financial assets at fair value through other comprehensive income that were pledged.

10. Available-for-sale financial assets

	31 December 2018 (Note)	31 December 2017
Domestic stocks		$429,948,041
Overseas stocks		259,200,064
Beneficiary certificates		348,244,388
Real estate investment trust		12,136,777
Financial debentures		42,859,267
Corporate bonds		14,386,823
Government bonds		122,211,034
Overseas bonds		289,555,171
Subtotal		1,518,541,565
Less: Litigation deposits		(57,075)
Less: Securities serving as deposits paid-bonds		(1,033,775)
Total		$1,517,450,715

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The Company and Subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by the Company and Subsidiaries. As of 31 December 2017, the Company and Subsidiaries have recognized impairment losses amounting to $185,987 thousand.

Please refer to Note 56 for the Company and Subsidiaries' available-for-sale financial assets that were pledged.

11. Financial assets for hedging/Derivative financial assets for hedging

	31 December 2018	31 December 2017
IRS	$216,611	$246,444

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

12. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

Investees	31 December 2018	31 December 2017
Cathay Insurance (Bermuda) Co., Ltd.	$-	$121,671
Cathay Securities Investment Consulting Co., Ltd.	278,780	257,159
Total	$278,780	$378,830

(2) Investments in associates:

Investees	31 December 2018	31 December 2017
WK Technology Fund VI Co., Ltd.	$50,014	$81,873
Da Sheng Venture Inc.	1,763,971	1,514,974
Symphox Information Co., Ltd.	429,450	438,807
Cathay Insurance Company Limited (China)	710,531	781,195
Rizal Commercial Banking Corporation	15,743,568	13,749,705
PT Bank Mayapada Internasional Tbk	13,733,069	12,447,700
CMG International One Co., Ltd.	676,108	675,812
CMG International Two Co., Ltd.	675,088	675,232
CM Energy Co., Ltd.	274,352	272,256
KHL IV Venture Capital Co. Ltd.	791,667	756,353
Hsin Jih Tai Corporation	697,801	673,599
Cathay Sunrise Corporation	696,378	676,284
Ding Teng Co., Ltd.	765,935	-
Global Evolution Holding ApS	2,711,173	-
PSS Co., Ltd.	782,943	-
Total	$40,502,048	$32,743,790

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

As the Company and Subsidiaries' investments in individual associates are not significant, the related financial information is disclosed aggregately. As of 31 December 2018 and 31 December 2017, the carrying amount of investments in associates accounted for using the equity method amounted to $40,502,048 thousand and $32,743,790 thousand, respectively. The aggregate amount of the Company and Subsidiaries' share of the investments in associates is as follows:

	For the year ended 31 December	
	2018	2017
Net profit from continuing operations	$851,167	$1,152,813
Other comprehensive losses, net of tax	(420,927)	(1,029,480)
Total comprehensive income (losses)	$430,240	$123,333

The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to $38,671,388 thousand and $31,441,915 thousand, as at 31 December 2018 and 2017, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to $822,760 thousand and $1,178,559 thousand for the years periods ended 31 December 2018 and 2017, respectively. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to $(407,103) thousand and $(1,028,025) thousand for the years periods ended 31 December 2018 and 2017, respectively.

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

13. Financial assets measured at amortized cost

	31 December 2018	31 December 2017 (Note 1)
Time deposits	$611,285	
Financial debentures	53,765,350	
Corporate bonds	27,893,879	
Government bonds	38,187,773	
Overseas bonds	2,154,677,348	
Asset-backed securities	1,143,199	
Less: Litigation deposits	(1,345,625)	
Less: Securities serving as deposits paid-bonds	(7,864,253)	
Less: Derivative instruments collateral	(6,075,419)	
Less: Loss allowance (Note 2)	(2,320,496)	
Total	$2,258,673,041	

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

Note 2: Loss allowance for guarantee deposits paid in bonds amounting to $910 thousand is not included.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The Company and Subsidiaries disposed of bonds before maturity due to increase in credit risk, and the losses on disposal were $1,027,382 thousand for the year ended 31 December 2018; bonds disposal before maturity because of infrequent sales or sales insignificant in value (either individually or in aggregate) resulted in gains on disposal of $5,906,106 thousand; bonds disposal stemming from repayments due or other situations resulted in losses on disposal of $143,385 thousand.

Please refer to Note 50 for more details on loss allowance and credit risk of the financial assets measured at amortized cost held by the Company and Subsidiaries. Please refer to Note 56 for the Company and Subsidiaries' financial assets measured at amortized cost that were pledged.

14. Debt instrument investments for which no active market exists

	31 December 2018 (Note)	31 December 2017
Domestic stocks		$1,895,715
Overseas stocks		3,006
Corporate bonds		14,303,173
Financial debentures		38,250,892
Overseas bonds		2,336,271,886
Time deposits		321,465
Asset-backed securities		1,964,447
Total		$2,393,010,584

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

The Company and Subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 31 December 2017, the Company and Subsidiaries have recognized accumulated impairment losses amounting to $388,024 thousand, respectively.

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

15. Held-to-maturity financial assets

	31 December 2018 (Note)	31 December 2017
Corporate bonds		$2,697,524
Government bonds		45,175,742
Overseas bonds		18,481,454
Subtotal		66,354,720
Less: Litigation deposits		(1,376,984)
Less: Securities serving as deposits paid-bonds		(7,170,018)
Total		$57,807,718

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

The Company and Subsidiaries adopted IAS 39 for impairment assessment before 1 January 2018. An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 31 December 2017, the Company and Subsidiaries have recognized accumulated impairment losses amounting to $15,932 thousand, respectively.

Please refer to Note 56 for the Company and Subsidiaries' held-to-maturity financial assets that were pledged.

16. Other financial assets

	31 December 2018	31 December 2017
Structured time deposits	$2,000,000	$4,500,000
Less: Loss allowance	(594)	(Note)
Total	$1,999,406	$4,500,000

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

Please refer to Note 50 for more details on loss allowance and credit risk of the other financial assets held by the Company and Subsidiaries.

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

17. Structured notes

	31 December 2018	31 December 2017 (Note)
Financial assets at fair value through profit or loss	$74,755,376	$2
Debt instrument investments for which no active market exists	(Note)	25,699,128
Total	$74,755,376	$25,699,130

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

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

	Investment property			Investment property under construction	Prepayments for buildings and land – Investments
	Land	Buildings	Total		
1 January 2018	$346,372,382	$112,803,156	$459,175,538	$3,541,501	$690,203
Additions from acquisitions	38,074	6,926	45,000	3,780,125	708,349
Additions from subsequent expenditure	-	-	-	147,670	-
Transfers from (to) property and equipment	-	(740,189)	(740,189)	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	348,277	5,011,205	5,359,482	(4,683,656)	(675,866)
Losses generated from fair value adjustments	(8,165)	(762,958)	(771,123)	-	-
Disposals	(62,869)	(439,000)	(501,869)	-	-
Exchange differences	(419,677)	(794,781)	(1,214,458)	-	-
31 December 2018	$346,268,022	$115,084,359	$461,352,381	$2,785,640	$722,686

	Investment property			Investment property under construction	Prepayments for buildings and land – Investments
	Land	Buildings	Total		
1 January 2017	$341,749,465	$111,002,442	$452,751,907	$3,300,843	$383,904
Additions from acquisitions	-	-	-	3,259,037	3,690,884
Additions from subsequent expenditure	-	-	-	128,829	-
Transfers from property and equipment	204,284	170,976	375,260	-	-
Transfers from (to) investment property under construction and prepayments for buildings and land	3,381,908	3,149,274	6,531,182	(3,147,208)	(3,384,585)
Gains (losses) generated from fair value adjustments	927,359	(1,760,560)	(833,201)	-	-
Disposals	(87,762)	-	(87,762)	-	-
Exchange differences	197,128	241,024	438,152	-	-
31 December 2017	$346,372,382	$112,803,156	$459,175,538	$3,541,501	$690,203

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December	
	2018	2017
Rental income from investment property	$11,680,064	$10,986,854
Less:		
Direct operating expenses from investment property generating rental income	(668,312)	(737,755)
Direct operating expenses from investment property without generating rental income	(141,313)	(156,926)
Total	$10,870,439	$10,092,173

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

The ownership of the Company and Subsidiaries' investment properties are not subject to restrictions other than the restriction associated with being furnished as security for other's debt; the ownership of its trust property are not subject to restrictions. Also, the Company and Subsidiaries do not involve in any situations that violate Subparagraph 2, Paragraph 3 of Article 11-2 of Regulations Governing Foreign Investments by Insurance Companies.

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2018, 31 December 2017 . Please refer to original financial report for detail information of the appraisers and agencies.

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

The main inputs used are as follows:

	31 December 2018	31 December 2017
Direct capitalization rate (Net)	0.62%~4.39%	0.46%~4.39%
Discount rate	3.14%~4.23%	3.14%~4.23%

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

External appraisers use market extraction method, search several comparable properties which are identical with or similar to the subject property, consider the liquidity risk and risk premium when disposed of in the future, and then decide the direct capitalization rate and discount rate.

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

19. Loans

	31 December 2018	31 December 2017
Policy loans	$159,046,285	$155,653,559
Automatic premium loans	11,491,146	10,689,718
Secured loans	410,678,408	437,374,977
Total	$581,215,839	$603,718,254

(1) Policy loans were secured by policies issued by the Company and Subsidiaries.

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

(3) Secured loans

	31 December 2018	31 December 2017
Secured loans	$414,545,079	$442,270,123
Secured loans – Related parties	973,182	909,989
Less: Loss allowance	(5,647,608)	(6,049,266)
Subtotal	409,870,653	437,130,846
Overdue receivables	968,753	344,304
Less: Loss allowance	(160,998)	(100,173)
Subtotal	807,755	244,131
Total	$410,678,408	$437,374,977

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The Company and Subsidiaries applied IFRS 9 on 1 January 2018 and assessed impairment in accordance with "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises". Please refer to Note 50 for related information of loss allowance for the year ended 31 December 2018.

The Company and Subsidiaries applied IAS 39 prior to 1 January 2018 and assessed impairment in accordance with "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises". The movements in the provision for impairment of secured loans and overdue receivables for the year ended 31 December 2017 are as follows:

	Individually impaired	Collectively impaired	Total
1 January 2017	$103,451	$6,012,956	$6,116,407
Charge for the current period	25,086	31,689	56,775
Write off	(15,600)	(7,741)	(23,341)
Exchange differences	(402)	-	(402)
31 December 2017	$112,535	$6,036,904	$6,149,439

20. Reinsurance assets

(1)

	31 December 2018	31 December 2017
Claims recoverable from reinsurers	$803	$2,204
Due from reinsurers and ceding companies	505,852	144,196
Reinsurance reserve assets		
Ceded unearned premium reserve	624,337	300,568
Ceded reserve for claims	22,509	9,684
Ceded reserve for life insurance liabilities	365,409	301,806
Subtotal	1,012,255	612,058
Total	$1,518,910	$758,458

Reinsurance assets held by the Company and Subsidiaries were not impaired.

(2) CNY co-reinsurance business

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

A. Purpose, rationalization and expected benefit

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

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

	For the year ended 31 December 2018
Premiums ceded to reinsurers	$75,604
Claims recovered from reinsures	10,706
Reinsurance commission earned	7,692

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

Reinsurance gains of $6,397 thousand has occurred in the year ended 31 December 2018 from CNY co-reinsurance business. The amount is calculated as follows:

Reinsurance commission earned $7,692 thousand + Claims recovered from reinsurers $10,706 thousand + Net change of reinsurance reserve assets $73,161 thousand - Foreign exchange losses $9,558 thousand - Premiums ceded to reinsurers $75,604 thousand.

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

E. Accounting treatment for ceded CNY co-reinsurance business

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

F. Other notes designated by authorities: None.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

21. Property and equipment

Cost:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2018	$19,940,687	$21,587,872	$2,612,817	$11,751	$3,792,098	$359,487	$276,132	$154,477	$48,735,321
Additions from acquisitions	84	-	332,191	3	140,720	146,692	-	724,773	1,344,463
Additions from subsequent expenditure	-	-	-	-	-	-	-	42,545	42,545
Transfers	432,542	833,446	-	-	-	-	-	(525,759)	740,229
Disposals	(6,126)	(4,896)	(97,477)	(5)	(31,757)	(8,608)	-	-	(148,869)
Exchange differences	-	(51,743)	5,761	(93)	749	3,151	4	-	(42,171)
31 December 2018	$20,367,187	$22,364,679	$2,853,292	$11,656	$3,901,810	$500,722	$276,136	$396,036	$50,671,518

Cost:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2017	$17,892,247	$21,802,657	$2,444,386	$11,634	$3,674,531	$274,527	$276,170	$216,280	$46,592,432
Additions from acquisitions	-	-	275,280	2,643	133,262	37,849	-	1,995,185	2,444,219
Additions from subsequent expenditure	-	-	-	-	-	-	-	48,613	48,613
Transfers	2,053,724	(178,462)	(21,302)	-	-	21,302	-	(2,105,601)	(230,339)
Disposals	(5,284)	(18,509)	(67,538)	(2,479)	(14,922)	-	-	-	(108,732)
Exchange differences	-	(17,814)	(18,009)	(47)	(773)	25,809	(38)	-	(10,872)
31 December 2017	$19,940,687	$21,587,872	$2,612,817	$11,751	$3,792,098	$359,487	$276,132	$154,477	$48,735,321

Depreciation and impairment:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2018	$(103,134)	$(11,633,988)	$(2,110,426)	$(7,768)	$(3,302,361)	$(224,457)	$(275,876)	$-	$(17,658,010)
Depreciation	-	(409,644)	(186,503)	(1,823)	(121,314)	(43,484)	(81)	-	(762,849)
Disposals	-	3,168	80,747	5	29,026	8,608	-	-	121,554
Exchange differences	-	4,463	1,430	37	289	3,192	(2)	-	9,409
31 December 2018	$(103,134)	$(12,036,001)	$(2,214,752)	$(9,549)	$(3,394,360)	$(256,141)	$(275,959)	$-	$(18,289,896)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Depreciation and impairment:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2017	$(105,610)	$(11,320,231)	$(2,019,214)	$(8,849)	$(3,196,586)	$(168,045)	$(275,781)	$-	$(17,094,316)
Depreciation	-	(419,120)	(179,403)	(1,216)	(119,589)	(39,143)	(108)	-	(758,579)
Transfers	-	90,143	21,302	-	-	(21,302)	-	-	90,143
Disposals	2,476	14,354	57,957	2,231	13,723	-	-	-	90,741
Exchange differences	-	866	8,932	66	91	4,033	13	-	14,001
31 December 2017	$(103,134)	$(11,633,988)	$(2,110,426)	$(7,768)	$(3,302,361)	$(224,457)	$(275,876)	$-	$(17,658,010)

Net carrying amount as at:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
31 December 2018	$20,264,053	$10,328,678	$638,540	$2,107	$507,450	$244,581	$177	$396,036	$32,381,622
31 December 2017	$19,837,553	$9,953,884	$502,391	$3,983	$489,737	$135,030	$256	$154,477	$31,077,311

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

Components of building that have different useful lives are the main building structures, air conditioning units and elevators, which are depreciated over 50 years, 8 years and 15 years, respectively.

22. Intangible assets

Cost:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2018	$37,659,600	$391,576	$10,279,814	$3,518,004	$2,055,594	$208,190	$54,112,778
Addition – Acquired separately	-	-	-	-	102,294	-	102,294
Disposals	-	-	-	-	(25)	-	(25)
Exchange differences	-	11,610	218,268	104,310	(3,847)	6,173	336,514
31 December 2018	$37,659,600	$403,186	$10,498,082	$3,622,314	$2,154,016	$214,363	$54,551,561

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Cost:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2017	$37,659,600	$423,468	$10,306,443	$3,804,532	$1,881,975	$225,146	$54,301,164
Addition – Acquired separately	-	-	-	-	181,441	-	181,441
Disposals	-	-	-	-	(305)	-	(305)
Exchange differences	-	(31,892)	(624,247)	(286,528)	(7,517)	(16,956)	(967,140)
Other	-	-	597,618	-	-	-	597,618
31 December 2017	$37,659,600	$391,576	$10,279,814	$3,518,004	$2,055,594	$208,190	$54,112,778

Amortization and impairment:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2018	$(5,198,458)	$-	$-	$(795,546)	$(1,730,537)	$(115,292)	$(7,839,833)
Amortization	(2,079,383)	-	-	(391,108)	(122,508)	(41,956)	(2,634,955)
Disposals	-	-	-	-	25	-	25
Exchange differences	-	-	-	(31,217)	3,616	(4,237)	(31,838)
31 December 2018	$(7,277,841)	$-	$-	$(1,217,871)	$(1,849,404)	$(161,485)	$(10,506,601)

Amortization and impairment:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2017	$(3,119,075)	$-	$-	$(441,545)	$(1,624,913)	$(70,077)	$(5,255,610)
Amortization	(2,079,383)	-	-	(395,364)	(110,864)	(51,550)	(2,637,161)
Disposals	-	-	-	-	305	-	305
Exchange differences	-	-	-	41,363	4,935	6,335	52,633
31 December 2017	$(5,198,458)	$-	$-	$(795,546)	$(1,730,537)	$(115,292)	$(7,839,833)

Net carrying amount as at:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
31 December 2018	30,381,759	403,186	10,498,082	2,404,443	304,612	52,878	44,044,960
31 December 2017	$32,461,142	$391,576	$10,279,814	$2,722,458	$325,057	$92,898	$46,272,945

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

	For the year ended 31 December	
	2018	2017
Operating costs	$-	$-
Operating expenses – Business expenses	$104,809	$86,385
Operating expenses – Administrative and general expenses	$2,530,146	$2,550,776

As of 31 December 2018 and 31 December 2017, the book value of goodwill was $10,498,082 thousand, $10,279,814 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015, the acquisition of 100% of Conning Holdings Limited on 18 September 2015 and 81.89% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

23. Other assets

	31 December 2018	31 December 2017
Prepayment	$6,274,979	$5,112,370
Deferred acquisition costs	10,401	16,659
Guarantee deposits paid	32,195,253	20,652,061
Other assets – Other	1,977,012	1,338,030
Total	$40,457,645	$27,119,120

24. Deferred acquisition costs

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

	For the year ended 31 December	
	2018	2017
Beginning balance	$16,659	$25,112
Increase	2,331	-
Amortization	(8,589)	(8,453)
Ending balance	$10,401	$16,659

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

25. Payables

	31 December 2018	31 December 2017
Notes payable	$1,426,716	$5,371,428
Life insurance proceeds payable	814,795	736,442
Commissions payable	2,405,476	2,871,945
Due to reinsurers and ceding companies	440,818	466,669
Other payables	27,734,463	15,789,485
Total	$32,822,268	$25,235,969

26. Financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Held for trading		
Derivatives that are not designated hedging		
Forward	$4,838,945	$293,952
CS	22,636,490	742,688
IRS	23,671	68,018
Total	$27,499,106	$1,104,658

27. Bonds payable

	31 December 2018	31 December 2017
Corporate bonds payable	$70,000,000	$70,000,000

The change in the Company's bonds payable was $0 thousand for the year ended 31 December 2018. Due to the issuance of bonds, the Company increased bonds payable in the amount of $35,000,000 thousand for the year ended 31 December 2017.

(1) Pursuant to Order No. Financial-Supervisory-Insurance-Corporate-10502133020 by the FSC, the Company issued 1st perpetual non-cumulative subordinated financial debentures on 13 December 2016 through private placement. Key terms and conditions are as follows:

A. Issue amount: $35,000,000 thousand.

B. Principal amount and issue price: The face value is $1,000,000 thousand each, and is issued at par.

C. Years to maturity: Perpetual.

D. Coupon rate: From the issue date to the tenth year, the coupon rate is 3.6%; from the day following the tenth year maturity and on every tenth year maturity from then on, if the bonds are not redeemed, the coupon rate will be adjusted to a fixed annual rate of Taiwan Ten-Year Government Bond plus the issue spread.

E. Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date. The Company may stop making interest payments and such interest payments will not be cumulated or deferred under the following circumstances: the Company has no earnings or the earnings are insufficient to make interest payments; the Company would fail to meet the required risk-based capital ratio or other minimum requirements from the authorities if making those interest payments; the Company has other essential considerations.

F. Right of early redemption: The Company may, with the approval of the competent authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest. The company may redeem the bond once a year.

G. Forms of bonds: Physical certificate.

H. Interest expense amounted to $1,260,000 thousand and $1,260,179 thousand for the year ended 31 December 2018 and 2017, respectively. The expense was recorded as finance costs.

(2) Pursuant to Order No. Securities-TPEx-Bond-10600099421 of the Taipei Exchange, the Company issued 1st perpetual cumulative subordinated financial debentures on 12 May 2017 through public offering. Key terms and conditions are as follows:

A. Issue amount: $35,000,000 thousand.

B. Principal amount and issue price: The face value is $1,000 thousand each, and is issued at par.

C. Years to maturity: Perpetual.

D. Coupon rate: Fixed rate of 3.3% from the issue date to the tenth year, plus 1% if the bonds are not redeemed after the tenth year maturity.

E. Terms of interest payments: The interest payments are calculated and paid at coupon rate every year from the issue date.

F. Right of early redemption: If the Company's risk-based capital ratio is greater than twice the minimum risk-based capital ratio required for insurance companies, the Company may, with the approval of the competent authorities, redeem the bonds in whole after 10 years of the issuance, at a redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued and unpaid interest.

G. Forms of bonds: Book-entry securities.

H. Interest expense amounted to $1,155,000 thousand and $740,460 thousand for the year ended 31 December 2018 and 2017, respectively. The expense was recorded as finance costs.

28. Preferred stock liabilities

In accordance with the resolution made at the board of directors' meeting held on 7 October 2011, acting on behalf of the shareholders, the Company issued 125,000 thousand shares of Class C preferred stocks at par value of $10 per share through private placement. The placement was approved by Insurance Bureau on 26 October 2011. Key terms and conditions of the privately offered Class C preferred stocks are listed as follows:

(1) Issuance period covers from 11 November 2011, the issue date, to 11 November 2018, seven years in total.

(2) Dividend yield is 1.86% per year based on the actual issue price of $40 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A and class B in the year with earnings.

(3) The preference shares are not convertible to common stocks. When the shares mature, the Company shall repurchase the shares at the issue price in compliance with R.O.C. Company Act. If the Company is not able to repurchase all or a portion of the issued preferred stocks due to force majeure, the terms of the preferred stocks remain the same until the Company repurchases all outstanding shares. Dividends will be calculated at the original rate based on the actual extended period ended. Preferred shareholders' rights shall not be violated.

(4) The preference shares are not entitled to be sold back. With the approval from the competent authorities, the Company redeemed all the Class C preferred stocks on 19 July 2018.

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

The Company's preferred stock liabilities decreases $5,000,000 thousand for the year ended 31 December 2018 due to early redemption. The change in the Company's preferred stock liabilities was $0 thousand for the year ended 31 December 2017.

29. Insurance liabilities, reserve for insurance contract with feature of financial instruments and foreign exchange volatility reserve

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(1) The Company

A. Reserve for life insurance liabilities

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note 1)	$4,519,398,687	$8,236	$4,519,406,923
Injury insurance	7,446,584	-	7,446,584
Health insurance	652,473,787	-	652,473,787
Annuity insurance	1,395,567	25,839,454	27,235,021
Investment-linked insurance	438,045	-	438,045
Total (Note 2)	5,181,152,670	25,847,690	5,207,000,360
Less ceded reserve for life insurance liabilities:			
Life insurance	365,409	-	365,409
Net	$5,180,787,261	$25,847,690	$5,206,634,951

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note 1)	$4,221,168,278	$954,240	$4,222,122,518
Injury insurance	7,613,529	-	7,613,529
Health insurance	586,193,683	-	586,193,683
Annuity insurance	1,381,493	31,964,758	33,346,251
Investment-linked insurance	511,658	-	511,658
Total	4,816,868,641	32,918,998	4,849,787,639
Less ceded reserve for life insurance liabilities:			
Life insurance	301,806	-	301,806
Net	$4,816,566,835	$32,918,998	$4,849,485,833

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,816,868,641	$32,918,998	$4,849,787,639
Reserve	627,938,526	374,465	628,312,991
Recover	(290,271,517)	(7,420,310)	(297,691,827)
Losses (gains) on foreign exchange	26,617,020	(25,463)	26,591,557
Ending balance	5,181,152,670	25,847,690	5,207,000,360
Less ceded reserve for life insurance liabilities:			
Beginning balance – Net	301,806	-	301,806
Increase	73,160	-	73,160
Gains (losses) on foreign exchange	(9,557)	-	(9,557)
Ending balance – Net	365,409	-	365,409
Total	$5,180,787,261	$25,847,690	$5,206,634,951

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,431,522,958	$39,592,835	$4,471,115,793
Reserve	679,678,688	75,528	679,754,216
Recover	(224,607,796)	(6,748,056)	(231,355,852)
Losses (gains) on foreign exchange	(69,725,209)	(1,309)	(69,726,518)
Ending balance	4,816,868,641	32,918,998	4,849,787,639
Less ceded reserve for life insurance liabilities:			
Beginning balance – Net	228,765	-	228,765
Increase	72,802	-	72,802
Gains (losses) on foreign exchange	239	-	239
Ending balance – Net	301,806	-	301,806
Total	$4,816,566,835	$32,918,998	$4,849,485,833

Note 1: Allowance for doubtful account pertinent to 3% of business tax cut and recovery from major incident reserve are included.

Note 2: Total of reserve for life insurance liabilities after including reserve for life insurance liabilities – payables for the insured amounted to $5,207,460,951 thousand as of 31 December 2018.

B. Unearned premium reserve

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$73,117	$-	$73,117
Individual injury insurance	6,484,348	-	6,484,348
Individual health insurance	8,797,520	-	8,797,520
Group insurance	991,397	-	991,397
Investment-linked insurance	112,153	-	112,153
Total	16,458,535	-	16,458,535
Less ceded unearned premium reserve:			
Individual life insurance	509,092	-	509,092
Individual injury insurance	9,703	-	9,703
Individual health insurance	105,542	-	105,542
Total	624,337	-	624,337
Net	$15,834,198	$-	$15,834,198

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$665,528	$-	$665,528
Individual injury insurance	5,640,119	-	5,640,119
Individual health insurance	8,316,112	-	8,316,112
Group insurance	924,359	-	924,359
Investment-linked insurance	107,496	-	107,496
Total	15,653,614	-	15,653,614
Less ceded unearned premium reserve:			
Individual life insurance	242,609	-	242,609
Individual injury insurance	6,152	-	6,152
Individual health insurance	51,807	-	51,807
Total	300,568	-	300,568
Net	$15,353,046	$-	$15,353,046

Unearned premium reserve is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$15,653,614	$-	$15,653,614
Reserve	16,458,545	-	16,458,545
Recover	(15,653,614)	-	(15,653,614)
Losses (gains) on foreign exchange	(10)	-	(10)
Ending balance	16,458,535	-	16,458,535
Less ceded unearned premium reserve:			
Beginning balance – Net	300,568	-	300,568
Increase	323,769	-	323,769
Ending balance – Net	624,337	-	624,337
Total	$15,834,198	$-	$15,834,198

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$14,739,424	$-	$14,739,424
Reserve	15,646,739	-	15,646,739
Recover	(14,739,424)	-	(14,739,424)
Losses (gains) on foreign exchange	(2)	-	(2)
Other (Note)	6,877	-	6,877
Ending balance	15,653,614	-	15,653,614
Less ceded unearned premium reserve:			
Beginning balance – Net	195,822	-	195,822
Increase	104,746	-	104,746
Ending balance – Net	300,568	-	300,568
Total	$15,353,046	$-	$15,353,046

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

C. Reserve for claims

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$1,479,672	$9,145	$1,488,817
–Unreported claim	72,309	-	72,309
Individual injury insurance			
–Reported but not paid claim	27,337	-	27,337
–Unreported claim	1,780,799	-	1,780,799
Individual health insurance			
–Reported but not paid claim	851,238	-	851,238
–Unreported claim	2,777,967	-	2,777,967
Group insurance			
–Reported but not paid claim	38,689	-	38,689
–Unreported claim	1,275,114	-	1,275,114
Investment-linked insurance			
–Reported but not paid claim	218,680	-	218,680
–Unreported claim	620	-	620
Total	8,522,425	9,145	8,531,570
Less ceded reserve for claims:			
Individual life insurance	8,479	-	8,479
Individual health insurance	314	-	314
Total	8,793	-	8,793
Net	$8,513,632	$9,145	$8,522,777

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$987,697	$2,678	$990,375
–Unreported claim	69,807	-	69,807
Individual injury insurance			
–Reported but not paid claim	93,241	-	93,241
–Unreported claim	1,576,602	-	1,576,602
Individual health insurance			
–Reported but not paid claim	906,011	-	906,011
–Unreported claim	2,497,101	-	2,497,101
Group insurance			
–Reported but not paid claim	63,064	-	63,064
–Unreported claim	911,304	-	911,304
Investment-linked insurance			
–Reported but not paid claim	129,722	-	129,722
–Unreported claim	3,566	-	3,566
Total	7,238,115	2,678	7,240,793
Less ceded reserve for claims:			
Individual health insurance	1,019	-	1,019
Group insurance	936	-	936
Total	1,955	-	1,955
Net	$7,236,160	$2,678	$7,238,838

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Reserve for claims is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$7,238,115	$2,678	$7,240,793
Reserve	8,516,576	9,145	8,525,721
Recover	(7,238,115)	(2,678)	(7,240,793)
Losses (gains) on foreign exchange	5,849	-	5,849
Ending balance	8,522,425	9,145	8,531,570
Less ceded reserve for claims:			
Beginning balance – Net	1,955	-	1,955
Increase	6,838	-	6,838
Ending balance – Net	8,793	-	8,793
Total	$8,513,632	$9,145	$8,522,777

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$6,177,662	$1,056	$6,178,718
Reserve	7,222,639	2,678	7,225,317
Recover	(6,177,662)	(1,056)	(6,178,718)
Losses (gains) on foreign exchange	(2,177)	-	(2,177)
Other (Note)	17,653	-	17,653
Ending balance	7,238,115	2,678	7,240,793
Less ceded reserve for claims:			
Beginning balance – Net	40,072	-	40,072
Decrease	(38,117)	-	(38,117)
Ending balance – Net	1,955	-	1,955
Total	$7,236,160	$2,678	$7,238,838

D. Special reserve

	31 December 2018			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(62,254)	$-	$-	$(62,254)
Provision for risk of bonus	63,184	-	-	63,184
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324
Total	$930	$-	$11,083,324	$11,084,254

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2017			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(59,358)	$-	$-	$(59,358)
Provision for risk of bonus	60,247	-	-	60,247
Special reserve for revaluation increments of property	-	-	11,083,324	11,083,324
Total	$889	$-	$11,083,324	$11,084,213

Special reserve is summarized below:

	For the year ended 31 December 2018			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$889	$-	$11,083,324	$11,084,213
Effects on retrospective and restatement on IFRS 9	(395)	-	-	(395)
Reserve for participating policies dividends reserve	5,488	-	-	5,488
Recover from participating policies dividends reserve	(7,990)	-	-	(7,990)
Reserve for provision for risk of bonus	2,938	-	-	2,938
Ending balance	$930	$-	$11,083,324	$11,084,254

	For the year ended 31 December 2017			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$1,639	$-	$15,416,619	$15,418,258
Reserve for participating policies dividends reserve	15,837	-	-	15,837
Recover from participating policies dividends reserve	(8,177)	-	-	(8,177)
Reserve for provision for risk of bonus	(8,410)	-	-	(8,410)
Recover from special reserve for revaluation increments of property (Note)	-	-	(4,333,295)	(4,333,295)
Ending balance	$889	$-	$11,083,324	$11,084,213

Note: In pursuant of Order No. Financial-Supervisory-Insurance-Corporate-10600400550 issued on 2 February 2017 by the FSC, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2017 is $4.33 billion.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

	31 December 2018			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$110,364	$-	$-	$110,364
Individual injury insurance	4,762,465	-	-	4,762,465
Individual health insurance	5,240,790	-	-	5,240,790
Group insurance	4,051,838	-	-	4,051,838
Total	$14,165,457	$-	$-	$14,165,457

	31 December 2017			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$166,349	$-	$-	$166,349
Individual injury insurance	4,867,975	-	-	4,867,975
Individual health insurance	5,251,241	-	-	5,251,241
Group insurance	3,935,088	-	-	3,935,088
Total	$14,220,653	$-	$-	$14,220,653

F. Premium deficiency reserve

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$20,966,673	$-	$20,966,673
Individual injury insurance	1,229	-	1,229
Individual health insurance	1,508,079	-	1,508,079
Group insurance	72,323	-	72,323
Total	$22,548,304	$-	$22,548,304

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$24,537,677	$-	$24,537,677
Individual health insurance	1,639,247	-	1,639,247
Group insurance	55,393	-	55,393
Total	$26,232,317	$-	$26,232,317

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Premium deficiency reserve is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$26,232,317	$-	$26,232,317
Reserve	172,966	-	172,966
Recover	(3,984,323)	-	(3,984,323)
Losses (gains) on foreign exchange	127,344	-	127,344
Ending balance	$22,548,304	$-	$22,548,304

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$29,761,081	$-	$29,761,081
Reserve	1,124,133	-	1,124,133
Recover	(4,013,922)	-	(4,013,922)
Losses (gains) on foreign exchange	(638,975)	-	(638,975)
Ending balance	$26,232,317	$-	$26,232,317

G. Other reserve

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Other	$1,894,570	$-	$1,894,570

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Other	$1,916,570	$-	$1,916,570

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Other reserve is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,916,570	$-	$1,916,570
Recover	(22,000)	-	(22,000)
Ending balance	$1,894,570	$-	$1,894,570

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,938,792	$-	$1,938,792
Recover	(22,222)	-	(22,222)
Ending balance	$1,916,570	$-	$1,916,570

H. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2018	31 December 2017
Reserve for life insurance liabilities	$5,207,000,360	$4,849,787,639
Unearned premium reserve	16,458,535	15,653,614
Premium deficiency reserve	22,548,304	26,232,317
Other reserve	1,894,570	1,916,570
Total	$5,247,901,769	$4,893,590,140
Book value of insurance liabilities	$5,247,901,769	$4,893,590,140
Estimated present value of cash flows	$4,230,271,471	$4,149,327,222
Balance of liability adequacy reserve	$-	$-

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

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Liability adequacy testing methodology is listed as follows:

	31 December 2018	31 December 2017
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Under assets allocation plan on 30 June 2018, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Under assets allocation plan on 31 December 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

I. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 31 December 2018 and 31 December 2017, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2018	31 December 2017
Life insurance	$87,604	$132,398
Investment-linked insurance	843,050	340,175
Total	$930,654	$472,573

	For the year ended 31 December	
	2018	2017
Beginning balance	$472,573	$4,392,757
Insurance claim payments	(172,324)	(4,343,322)
Net provision of statutory reserve	625,700	424,381
Losses (gains) on foreign exchange	4,705	(1,243)
Ending balance	$930,654	$472,573

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

J. Foreign exchange volatility reserve

a. The hedge strategy and risk exposure

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

b. Adjustment in foreign exchange volatility reserve

	For the year ended 31 December	
	2018	2017
Beginning balance	$11,589,138	$9,871,478
Reserve		
Compulsory reserve	5,712,886	4,434,707
Extra reserve	6,990,539	3,558,983
Subtotal	12,703,425	7,993,690
Recover	(7,217,274)	(6,276,030)
Ending balance	$17,075,289	$11,589,138

c. Effects due to foreign exchange volatility reserve

	For the year ended 31 December 2018		
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	$34,578,241	$30,189,320	$(4,388,921)
Earnings per share	6.26	5.47	(0.79)
Foreign exchange volatility reserve	-	17,075,289	17,075,289
Equity attributable to equity holders of the parent	366,650,043	356,592,709	(10,057,334)

	For the year ended 31 December 2017		
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	$37,715,796	$36,290,138	$(1,425,658)
Earnings per share	7.11	6.84	(0.27)
Foreign exchange volatility reserve	-	11,589,138	11,589,138
Equity attributable to equity holders of the parent	441,256,458	435,588,045	(5,668,413)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(2) Cathay Lujiazui Life

A. Reserve for life insurance liabilities

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$13,750,483	$-	$13,750,483
Health insurance	1,156,197	-	1,156,197
Investment-linked insurance	2,496	-	2,496
Total	$14,909,176	$-	$14,909,176

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$8,592,587	$-	$8,592,587
Health insurance	791,765	-	791,765
Investment-linked insurance	3,142	-	3,142
Total	$9,387,494	$-	$9,387,494

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$9,387,494	$-	$9,387,494
Reserve	6,474,900	-	6,474,900
Recover	(627,253)	-	(627,253)
Losses (gains) on foreign exchange	(325,965)	-	(325,965)
Ending balance	$14,909,176	$-	$14,909,176

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$6,178,291	$-	$6,178,291
Reserve	4,333,033	-	4,333,033
Recover	(1,099,153)	-	(1,099,153)
Losses (gains) on foreign exchange	(24,677)	-	(24,677)
Ending balance	$9,387,494	$-	$9,387,494

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Unearned premium reserve

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$5,911	$-	$5,911
Individual health insurance	38,600	-	38,600
Group insurance	234,496	-	234,496
Total	$279,007	$-	$279,007

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$7,516	$-	$7,516
Individual health insurance	24,095	-	24,095
Group insurance	284,344	-	284,344
Total	315,955	-	315,955
Less ceded unearned premium reserve: Group insurance	-	-	-
Net	$315,955	$-	$315,955

Unearned premium reserve is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$315,955	$-	$315,955
Reserve	284,169	-	284,169
Recover	(314,266)	-	(314,266)
Losses (gains) on foreign exchange	(6,851)	-	(6,851)
Ending balance	$279,007	$-	$279,007

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$297,198	$-	$297,198
Reserve	310,495	-	310,495
Recover	(288,207)	-	(288,207)
Losses (gains) on foreign exchange	(3,531)	-	(3,531)
Ending balance	315,955	-	315,955
Less ceded unearned premium reserve:			
Beginning balance – Net	4,007	-	4,007
Decrease	(3,886)	-	(3,886)
Gains (losses) on foreign exchange	(121)	-	(121)
Ending balance – Net	-	-	-
Total	$315,955	$-	$315,955

C. Reserve for claims

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$1,323	$-	$1,323
–Unreported claim	5,984	-	5,984
Individual injury insurance			
–Reported but not paid claim	25	-	25
–Unreported claim	229	-	229
Individual health insurance			
–Reported but not paid claim	15,129	-	15,129
–Unreported claim	35,035	-	35,035
Group insurance			
–Reported but not paid claim	12,774	-	12,774
–Unreported claim	297,007	-	297,007
Total	367,506	-	367,506
Less ceded reserve for claims:			
Individual health insurance	13,716	-	13,716
Net	$353,790	$-	$353,790

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Unreported claim	$2,306	$-	$2,306
Individual injury insurance			
–Reported but not paid claim	1	-	1
–Unreported claim	1,130	-	1,130
Individual health insurance			
–Reported but not paid claim	7,175	-	7,175
–Unreported claim	23,915	-	23,915
Group insurance			
–Reported but not paid claim	8,870	-	8,870
–Unreported claim	289,230	-	289,230
Total	332,627	-	332,627
Less ceded reserve for claims:			
Individual life insurance	34	-	34
Individual health insurance	7,693	-	7,693
Group insurance	2	-	2
Total	7,729	-	7,729
Net	$324,898	$-	$324,898

Reserve for claims is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$332,627	$-	$332,627
Reserve	387,799	-	387,799
Recover	(344,344)	-	(344,344)
Losses (gains) on foreign exchange	(8,576)	-	(8,576)
Ending balance	367,506	-	367,506
Less ceded reserve for claims:			
Beginning balance – Net	7,729	-	7,729
Decrease	6,282	-	6,282
Gains (losses) on foreign exchange	(295)	-	(295)
Ending balance – Net	13,716	-	13,716
Total	$353,790	$-	$353,790

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$319,001	$-	$319,001
Reserve	250,883	-	250,883
Recover	(233,355)	-	(233,355)
Losses (gains) on foreign exchange	(3,902)	-	(3,902)
Ending balance	332,627	-	332,627
Less ceded reserve for claims:			
Beginning balance – Net	1,611	-	1,611
Increase	6,033	-	6,033
Gains (losses) on foreign exchange	85	-	85
Ending balance – Net	7,729	-	7,729
Total	$324,898	$-	$324,898

D. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2018	31 December 2017
Reserve for life insurance liabilities	$14,909,176	$9,387,494
Unearned premium reserve	279,007	315,955
Total	$15,188,183	$9,703,449
Book value of insurance liabilities	$15,188,183	$9,703,449
Estimated present value of cash flows	$12,150,546	$7,762,759
Balance of liability adequacy reserve	$-	$-

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

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Liability adequacy testing methodology is listed as follows:

	31 December 2018	31 December 2017
Test method	Gross premium valuation method (GPV)	Gross premium valuation method (GPV)
Groups	Integrated testing	Integrated testing
Assumptions		
a. Information of policies	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.	Include insurance contracts and financial instruments with discretionary participation feature as of valuation date.
b. Discount rate	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2017, with neutral assumption for discount rates after 30 years.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

E. Reserve for insurance contracts with feature of financial instruments

Cathay Lujiazui Life issues financial instruments without discretionary participation feature. As of 31 December 2018 and 31 December 2017, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2018	31 December 2017
Life insurance	$8,388,059	$8,289,036

	For the year ended 31 December	
	2018	2017
Beginning balance	$8,289,036	$5,927,993
Premiums received	2,442,568	3,550,568
Insurance claim payments	(136,938)	(272,538)
Net recovery of statutory reserve	(2,007,139)	(880,901)
Losses (gains) on foreign exchange	(199,468)	(36,086)
Ending balance	$8,388,059	$8,289,036

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$3,219,759	$-	$3,219,759

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$1,978,535	$-	$1,978,535

Reserve for life insurance liabilities is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,978,535	$-	$1,978,535
Reserve	1,217,267	-	1,217,267
Losses (gains) on foreign exchange	23,957	-	23,957
Ending balance	$3,219,759	$-	$3,219,759

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,177,110	$-	$1,177,110
Reserve	914,782	-	914,782
Losses (gains) on foreign exchange	(113,357)	-	(113,357)
Ending balance	$1,978,535	$-	$1,978,535

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Unearned premium reserve

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$7,312	$-	$7,312
Individual health insurance	7,463	-	7,463
Total	$14,775	$-	$14,775

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$4,374	$-	$4,374
Individual health insurance	4,256	-	4,256
Total	$8,630	$-	$8,630

Unearned premium reserve is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$8,630	$-	$8,630
Reserve	6,036	-	6,036
Losses (gains) on foreign exchange	109	-	109
Ending balance	$14,775	$-	$14,775

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$6,412	$-	$6,412
Reserve	2,770	-	2,770
Losses (gains) on foreign exchange	(552)	-	(552)
Ending balance	$8,630	$-	$8,630

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

C. Reserve for claims

	31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$1,417	$-	$1,417
Individual injury insurance			
–Reported but not paid claim	483	-	483
–Unreported claim	826	-	826
Individual health insurance			
–Reported but not paid claim	665	-	665
–Unreported claim	864	-	864
Total	$4,255	$-	$4,255

	31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$974	$-	$974
Individual injury insurance			
–Reported but not paid claim	140	-	140
–Unreported claim	520	-	520
Individual health insurance			
–Reported but not paid claim	306	-	306
–Unreported claim	537	-	537
Total	$2,477	$-	$2,477

Reserve for claims is summarized below:

	For the year ended 31 December 2018		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,477	$-	$2,477
Reserve	1,747	-	1,747
Losses (gains) on foreign exchange	31	-	31
Ending balance	$4,255	$-	$4,255

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$2,145	$-	$2,145
Recover	504	-	504
Losses (gains) on foreign exchange	(172)	-	(172)
Ending balance	$2,477	$-	$2,477

D. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2018	31 December 2017
Reserve for life insurance liabilities	$3,219,759	$1,978,535
Unearned premium reserve	14,775	8,630
Total	$3,234,534	$1,987,165
Book value of insurance liabilities	$3,234,534	$1,987,165
Estimated present value of cash flows	$1,885,077	$1,469,620
Balance of liability adequacy reserve	$-	$-

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

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

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

Note 4: The expense assumption under estimated present value of cash flows started to adopt actual expense in the calculation of estimated present value of cash flows from 30 June 2017.

30. Post-employment benefits

Defined contribution plan

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

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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 year ended 31 December 2018 and 2017 were $1,054,031 thousand and $1,066,308 thousand, respectively.

Defined benefit 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 six months of the service year at the time of employee's application for retirement approved. 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 15% 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. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

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 $406,071 thousand to its defined benefit plan during the 12 months beginning after 31 December 2018.

As of 31 December 2018 and 2017, the Company expects its defined benefits plan obligation to become due in 2028 and 2027, respectively.

Pension costs recognized in profit or loss are as follows:

	For the year ended 31 December	
	2018	2017
Current service cost	$261,086	$269,734
Interest income or expense	(49,240)	(51,511)
Total	$211,846	$218,223

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

	31 December 2018	31 December 2017
Defined benefit obligation	$13,419,411	$12,709,374
Fair value of plan assets	(19,128,897)	(17,272,896)
Benefit asset recognized on the balance sheets	$(5,709,486)	$(4,563,522)

Reconciliation of asset of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit asset
1 January 2017	$12,750,011	$(16,281,302)	$(3,531,291)
Current service cost	269,734	-	269,734
Interest expense (income)	158,504	(210,015)	(51,511)
Subtotal	428,238	(210,015)	218,223
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in financial assumptions	345,187	-	345,187
Experience adjustments	366,959	-	366,959
Return on plan assets	-	(305,417)	(305,417)
Subtotal	712,146	(305,417)	406,729
Benefits paid	(1,181,021)	1,181,021	-
Contributions by employer	-	(1,657,183)	(1,657,183)
31 December 2017	12,709,374	(17,272,896)	(4,563,522)
Current service cost	261,086	-	261,086
Interest expense (income)	123,506	(172,746)	(49,240)
Subtotal	384,592	(172,746)	211,846
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in financial assumptions	824,972	-	824,972
Experience adjustments	330,600	-	330,600
Return on plan assets	-	(1,559,031)	(1,559,031)
Subtotal	1,155,572	(1,559,031)	(403,459)
Benefits paid	(830,127)	830,127	-
Contributions by employer	-	(954,351)	(954,351)
31 December 2018	$13,419,411	$(19,128,897)	$(5,709,486)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The principal assumptions used in determining the Company's defined benefit plan are shown below:

	31 December 2018	31 December 2017
Discount rate	0.90%	1.01%
Expected rate of salary increases	1.50%	1.00%

A sensitivity analysis for significant assumption is shown below:

	For the year ended 31 December			
	2018		2017	
	Increase (decrease) defined benefit obligation		Increase (decrease) defined benefit obligation	
Discount rate decrease (increase) by 0.5%	$657,551	$(603,874)	$635,469	$(597,341)
Future salary increase (decrease) by 0.5%	630,712	(590,454)	622,759	(584,631)

The sensitivity analyses above are based on a change in a significant assumption (for example: changes 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.

31. Provisions

	Litigation liability	Contingent liability	Total
1 January 2018	$56,245	$415,757	$472,002
Recognition	-	165,798	165,798
Reversal	-	(419,894)	(419,894)
Gains on foreign exchange	-	7,371	7,371
31 December 2018	$56,245	$169,032	$225,277

32. Other liabilities

	31 December 2018	31 December 2017
Accounts collected in advance	$392,663	$365,297
Deferred handling fees	18,785	28,560
Guarantee deposits received	2,899,157	8,402,759
Other liabilities – Other	5,427,752	9,091,421
Total	$8,738,357	$17,888,037

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

33. Deferred handling fees

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

	For the year ended 31 December	
	2018	2017
Beginning balance	$28,560	$45,149
Amortization	(8,858)	(14,756)
Gains on foreign exchange	(917)	(1,833)
Ending balance	$18,785	$28,560

34. Common stock

On 25 April 2018, the Company's board of directors, on behalf of the shareholders, resolved to increase its capital by issuing 420,000 thousand shares of common stocks at par value of $10 per share and at issue price of $100 per share through private placement. The proposal of the capital increase was approved by FSC on 15 May 2018. The record date of the capital increase is 28 June 2018.

As of 31 December 2018 and 31 December 2017, the total authorized thousand shares were 5,726,527 and 5,306,527 at par value of $10.

35. Capital surplus

	31 December 2018	31 December 2017
Additional paid-in capital	$50,800,000	$13,000,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Changes in amount of associates and joint ventures accounted for using the equity method	706,783	738,521
Total	$51,535,925	$13,767,663

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

36. Retained earnings

(1) Legal capital reserve

Pursuant to the Insurance Act, 20% of the Company's after-tax net income in the current year must be appropriated as legal capital reserve until the total amount of the legal capital reserve equals the issued share capital. Prior to 2007, this legal capital reserve was appropriated by 10% of the Company's after-tax net income according to the R.O.C. Company Act. When the Company incurs no loss, it may distribute the portion of its legal capital reserve which exceeds 25% of the issued share capital by issuing new shares or by cash to its original shareholders in proportion to the number of shares being held by each of them.

On 25 April 2018, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $7,258,027 thousand. On 29 June 2017, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $6,025,732 thousand.

(2) Special capital reserve

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

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

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

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

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

The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. In order to ensure the soundness and stability of the financial structure, the FSC as of 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. The amount set aside by the Company is $124,002,466 thousand. The amount could only be used as a surplus to reserve for life insurance liability accessed and approved by authorities as inadequate and the surplus to reserve when the Company applies Phase II of IFRS 4 *Insurance Contract* to stabilize financial structure. On 25 April 2018, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserve of $373,335 thousand, which is from the gain from fair value change in 2017.

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

On 25 April 2018, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $22,713,045 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of $2,218,081 thousand had been recognized at the end of 2017 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 2018.

(3) Undistributed retained earnings

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. If there is any surplus earnings of the then current year not distributed by a profit-seeking enterprise, an additional profit-seeking income tax shall be levied at the rate of 10% on such undistributed surplus earnings. Before the year 2004, the term “undistributed surplus earnings” as referred to in the preceding paragraph means the approved income. Beginning from the year 2005, the term shall denote the amount of income after tax as calculated by a profit-seeking enterprise in accordance with the Commercial Accounting Act. The income tax will only be levied on the undistributed surplus earnings once. From 1 January 2018, tax rate of the income tax for undistributed earnings has decreased to 5%.

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

Please refer to Note 41 for details on employees’ compensation and remuneration to directors and supervisors.

D. The Company’s distribution of 2018 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.

E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. As of 31 December 2018, the addition amount was $1,673,985 thousand.

(4) Non-controlling interests

	For the year ended 31 December	
	2018	2017
Beginning balance	$5,593,318	$2,688,759
Effects on retrospective and restatement	8,904	(Note)
Net income (losses) attributable to non-controlling interests	107,941	(22,413)
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of foreign operations	(98,849)	(83,296)
Unrealized valuation losses from available-for-sale financial assets	(Note)	(80,084)
Other comprehensive losses reclassified using overlay approach	5,129	
Other	(79,726)	3,090,352
Ending balance	$5,536,717	$5,593,318

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

37. Retained earned premium

(1) The Company

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$549,215,594	$394,173	$549,609,767	$601,654,859	$116,213	$601,771,072
Reinsurance premium income	123,890	-	123,890	197,504	-	197,504
Premium income	549,339,484	394,173	549,733,657	601,852,363	116,213	601,968,576
Less:						
Premiums ceded to reinsurers	(1,749,175)	-	(1,749,175)	(1,288,345)	-	(1,288,345)
Changes in unearned premium reserve	(481,162)	-	(481,162)	(802,569)	-	(802,569)
Subtotal	(2,230,337)	-	(2,230,337)	(2,090,914)	-	(2,090,914)
Retained earned premium	$547,109,147	$394,173	$547,503,320	$599,761,449	$116,213	$599,877,662

(2) Cathay Lujiazui Life

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$10,593,973	$-	$10,593,973	$7,167,839	$-	$7,167,839
Reinsurance premium income	-	-	-	-	-	-
Premium income	10,593,973	-	10,593,973	7,167,839	-	7,167,839
Less:						
Premiums ceded to reinsurers	(103,623)	-	(103,623)	(65,173)	-	(65,173)
Changes in unearned premium reserve	30,097	-	30,097	(51,952)	-	(51,952)
Subtotal	(73,526)	-	(73,526)	(117,125)	-	(117,125)
Retained earned premium	$10,520,447	$-	$10,520,447	$7,050,714	$-	$7,050,714

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$911,013	$-	$911,013	$621,202	$-	$621,202
Reinsurance premium income	-	-	-	-	-	-
Premium income	911,013	-	911,013	621,202	-	621,202
Less:						
Changes in unearned premium reserve	(6,036)	-	(6,036)	(2,770)	-	(2,770)
Subtotal	(6,036)	-	(6,036)	(2,770)	-	(2,770)
Retained earned premium	$904,977	$-	$904,977	$618,432	$-	$618,432

38. Retained claim payments

(1) The Company

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$349,196,087	$7,492,342	$356,688,429	$276,955,773	$6,249,221	$283,204,994
Reinsurance claim payments	160,934	-	160,934	143,631	-	143,631
Insurance claim payments	349,357,021	7,492,342	356,849,363	277,099,404	6,249,221	283,348,625
Less:						
Claims recovered from reinsurers	(894,281)	-	(894,281)	(448,561)	-	(448,561)
Retained claim payments	$348,462,740	$7,492,342	$355,955,082	$276,650,843	$6,249,221	$282,900,064

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(2) Cathay Lujiazui Life

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$1,288,225	$-	$1,288,225	$1,107,218	$-	$1,107,218
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	1,288,225	-	1,288,225	1,107,218	-	1,107,218
Less:						
Claims recovered from reinsurers	(88,813)	-	(88,813)	(38,662)	-	(38,662)
Retained claim payments	$1,199,412	$-	$1,199,412	$1,068,556	$-	$1,068,556

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$89,819	$-	$89,819	$53,901	$-	$53,901
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	89,819	-	89,819	53,901	-	53,901
Less:						
Claims recovered from reinsurers	-	-	-	-	-	-
Retained claim payments	$89,819	$-	$89,819	$53,901	$-	$53,901

39. Interest Revenue

	For the year ended 31 December	
	2018	2017
Financial assets at fair value through other comprehensive income	$38,579,811	(Note)
Available-for-sale financial assets	-	$19,396,452
Financial assets measured at amortized cost	89,322,666	(Note)
Debt instrument investments for which no active market exists	-	98,552,011
Loans	17,534,836	18,386,530
Other	2,758,258	2,699,103
Total	$148,195,571	$139,034,096

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

	For the year ended 31 December	
	2018	2017(Note)
Operating income－Expected credit impairment losses and gains on reversal of investments		
Debt instrument investments at fair value through other comprehensive income	$54,361	
Financial assets measured at amortized cost	(861,548)	
Other interest receivable	(38,139)	
Other financial assets	307	
Loans	325,413	
Subtotal	(519,606)	
Operating income－Expected credit impairment losses and gains on reversal of non-investments		
Receivables	(65,457)	
Total	$(585,063)	

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

Please refer to Note 50 for more details on credit risk of the expected credit impairment losses and gains on reversal of investments and non-investments held by the Company and Subsidiaries.

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

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$25,706,004	$8,184,680	$33,890,684	$25,314,064	$7,585,128	$32,899,192
Labor and health insurance expenses	2,013,003	924,040	2,937,043	1,981,596	881,634	2,863,230
Pension expenses	1,040,424	225,453	1,265,877	1,047,535	236,996	1,284,531
Director remuneration	-	67,128	67,128	-	57,187	57,187
Other expenses	700,139	358,447	1,058,586	837,009	341,233	1,178,242
Depreciation	-	762,849	762,849	-	758,579	758,579
Amortization	-	2,634,955	2,634,955	-	2,637,161	2,637,161

In 2018 and 2017, the average numbers of employees in the Company and Subsidiaries were 37,996 and 36,039, respectively. Among them, the numbers of non-employee directors were 17 and 16, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

As of 31 December 2018 and 2017, total numbers of employees in the Company and Subsidiaries were 38,694 and 37,471, respectively.

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

Based on the profit of the year ended 31 December 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018 to be 0.01% of profit of the current year and no more than 0.1% of profit of the current year, respectively. The employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018, recognized under salary expenses, amounted to $2,760 thousand and $5,700 thousand, respectively. Based on the profit of the year ended 31 December 2017, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2017 to be 0.01% of profit of the current year and no more than 0.1% of profit of the current year, respectively. The employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2017, recognized under salary expenses, amounted to $3,382 thousand and $5,700 thousand, respectively.

A resolution was passed at a board of directors meeting held on 15 March 2018 to distribute $3,382 thousand and $5,700 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively. No differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2017.

42. Non-operating income and expenses

	For the year ended 31 December	
	2018	2017
(Losses) gains on disposal of property and equipment	$7,612	$4,281
Dividend on preferred stock liabilities	(50,704)	(93,000)
Other	1,355,452	1,530,403
Total	$1,312,360	$1,441,684

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

43. Components of other comprehensive income

	For the year ended 31 December 2018				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	$403,459	$-	$403,459	$(84,395)	$319,064
Property revaluation surplus	-	-	-	(1,318)	(1,318)
Valuation losses on equity instruments at fair value through other comprehensive income	(2,493,898)	-	(2,493,898)	301,074	(2,192,824)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	(37,030)	-	(37,030)	55,468	18,438
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations	(701,808)	-	(701,808)	-	(701,808)
Losses on hedging instruments	54,891	(83,638)	(28,747)	(1,611)	(30,358)
Losses on debt instruments at fair value through other comprehensive income	(66,451,106)	(10,413,839)	(76,864,945)	13,943,465	(62,921,480)
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	(375,064)	-	(375,064)	139,879	(235,185)
Other comprehensive losses reclassified using overlay approach	(66,832,205)	(50,623,787)	(117,455,992)	9,300,294	(108,155,698)
Total	$(136,432,761)	$(61,121,264)	$(197,554,025)	$23,652,856	$(173,901,169)

	For the year ended 31 December 2017				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax expense	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	$(406,729)	$-	$(406,729)	$69,144	$(337,585)
Property revaluation surplus	235,064	-	235,064	(46,243)	188,821
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	183,911	-	183,911	(31,232)	152,679
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations	(1,285,099)	-	(1,285,099)	-	(1,285,099)
Unrealized valuation gains from available-for-sale financial assets	96,236,042	(44,538,464)	51,697,578	(3,622,509)	48,075,069
Effective portion of gains on hedging instruments in cash flow hedges	149,883	(135,288)	14,595	(2,482)	12,113
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	(1,223,394)	-	(1,223,394)	235,886	(987,508)
Total	$93,889,678	$(44,673,752)	$49,215,926	$(3,397,436)	$45,818,490

Upon derecognition of the Company and Subsidiaries' debt instrument investments at fair value through other comprehensive income, the cumulative gains or losses of $10,413,839 thousand for the year ended 31 December 2018 that recognized in other comprehensive income was reclassified to profit or loss.

44. Income taxes

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(1) Income tax expense (benefit) recognized in profit or loss

	For the year ended 31 December	
	2018	2017
Current income tax expense (benefit)		
Current income tax charge	$(3,328,637)	$9,332,427
Adjustments in respect of current income tax of prior periods	55,073	77,945
Deferred tax expense (benefit)		
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	4,638,814	(12,769,603)
Deferred tax expense relating to origination and reversal of tax loss and tax credit	-	1,065,336
Deferred tax benefit relating to changes in tax rate or the imposition of new taxes	(3,420,102)	-
Other		
Tax effect under consolidated income tax systems	282,293	-
Total income tax benefit	$(1,772,559)	$(2,293,895)

(2) Income taxes relating to components of other comprehensive income

	For the year ended 31 December	
	2018	2017
Deferred tax expense (benefit)		
Property revaluation surplus	$-	$46,243
Valuation gains on equity instruments at fair value through other comprehensive income	(125,592)	(Note)
Unrealized valuation gains from available-for-sale financial assets	(Note)	3,622,509
Losses on hedging instruments/effective portion of gains on hedging instruments in cash flow hedges	(5,749)	2,482
Losses on debt instruments at fair value through other comprehensive income	(15,331,397)	(Note)
Remeasurements of defined benefit plans	80,692	(69,144)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(140,887)	(204,654)
Other comprehensive losses reclassified using overlay approach	(10,183,325)	(Note)
Deferred tax benefit relating to change in tax rate or the imposition of new taxes	2,053,402	-
Income taxes relating to components of other comprehensive income	$(23,652,856)	$3,397,436

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(3) Income taxes charged to equity

	For the year ended 31 December	
	2018	2017
Current income tax expense (benefit)		
Derecognition of equity instruments at fair value through other comprehensive income	$(738,866)	(Note)
Deferred tax expense (benefit)		
Derecognition of equity instruments at fair value through other comprehensive income	738,866	(Note)
Deferred tax income relating to changes in tax rate or the imposition of new taxes	26,633	$-
Capital surplus	3	3
Income taxes relating to components of equity	$26,636	$3

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

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

	For the year ended 31 December	
	2018	2017
Accounting profit before tax from continuing operations	$28,524,702	$33,973,830
Tax at the domestic rates applicable to profits in the country concerned	$5,921,567	$5,949,677
Tax effect of revenue exempt from taxation	(9,292,776)	(7,172,058)
Tax effect of expenses not deductible for tax purposes	521,008	342,258
Cash dividends	3,452,344	-
Unrecognized tax (gains) losses of deferred tax assets	(22,664)	(1,629)
Tax effect of deferred tax assets/liabilities	10,071	(192,385)
Withholding tax for overseas investments credit	1,532,721	17,986
Land value increment tax	(935,441)	(988,747)
The deduction of losses and investment tax credit	-	(218,037)
China corporate income tax	624	588
Tax effect of the rates applicable to profits in the other jurisdictions	52,042	(127,761)
Adjustments in respect of current income tax of prior periods	56,089	75,060
Other tax effect under tax laws adjustment	(3,420,102)	-
Other		
Investment gains	69,665	21,153
Tax effect under consolidated income tax system	282,293	-
Total income tax benefit recognized in profit or loss	$(1,772,559)	$(2,293,895)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Deferred tax assets (liabilities) relate to the following:

	For the year ended 31 December 2018						
	Beginning balance(Note)	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Foreign exchange (losses) gains	Ending balance
Temporary differences							
Property and equipment	$260,332	$31,779	$-	$-	$-	$-	$292,111
Investment property	(25,458,325)	(289,150)	(1,319)	-	-	8,519	(25,740,275)
Financial assets at fair value through profit or loss	(2,606,358)	1,291,922	-	-	-	-	(1,314,436)
Financial assets at fair value through profit or loss – overlay approach	(7,047,497)	-	11,456,202	-	-	-	4,408,705
Valuation gains or losses on equity instruments at fair value through other comprehensive income	743,398	-	291,001	(715,565)	-	-	318,834
Profit or loss on debt instruments at fair value through other comprehensive income	(7,773,323)	6,802	13,943,465	-	-	-	6,176,944
Financial assets for hedging	(41,712)	-	(1,611)	-	-	-	(43,323)
Investments accounted for using the equity method – Net	(321,616)	(175,414)	195,347	(26,636)	-	9,226	(319,093)
Financial assets measured at amortized cost	(152,347)	(14,842)	-	-	-	-	(167,189)
Other Financial assets	153	(35)	-	-	-	-	118
Guarantee deposits paid	762	8,885	-	-	-	-	9,647
Financial liabilities at fair value through profit or loss	171,747	5,309,198	-	-	-	-	5,480,945
Other receivables	(110,841)	(21,385)	-	-	-	-	(132,226)
Other payables	69,475	104	-	-	-	478	70,057
Defined benefit liability	(775,380)	(277,243)	(84,395)	-	-	-	(1,137,018)
Office supplies	2,262	648	-	-	-	-	2,910
Foreign exchange losses (gains)	24,774,906	(7,941,838)	(2,145,834)	(23,301)	-	-	14,663,933
Goodwill and franchises	21,456	13,883	-	-	-	-	35,339
Allowance for bad debts recognition in excess of limitation	265,840	31,607	-	-	-	-	297,447
Fair value adjustments made on a business combination	(382,860)	40,314	-	-	-	(10,565)	(353,111)
Other	241,992	202,523	-	-	-	(35)	444,480
Unused tax losses	2,856,623	3,187,267	-	-	-	547	6,044,437
Deferred tax benefit (expenses)		$1,405,025	$23,652,856	$(765,502)	$-	$8,170	
Deferred tax assets (liabilities) – Net	$(15,261,313)						$9,039,236
Reflected in balance sheet as follows:							
Deferred tax assets	$29,408,946						$38,252,456
Deferred tax liabilities	$(44,670,259)						$(29,213,220)

Note:The Company and Subsidiaries adopted IFRS 9 and IFRS 15 since 1 January 2018. Please refer to Note 3 for the explanation of the opening balance adjustment.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017						
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Foreign exchange (losses) gains	Ending balance
Temporary differences							
Property and equipment	$276,551	$(15,569)	$-	$-	$-	$(650)	$260,332
Investment property	(26,090,100)	675,222	(46,243)	-	-	2,796	(25,458,325)
Financial assets at fair value through profit or loss	(198,411)	(2,607,781)	-	-	-	-	(2,806,192)
Available-for-sale financial assets	41,505	(971)	(7,081,164)	-	-	-	(7,040,630)
Derivative financial assets for hedging	(39,230)	-	(2,482)	-	-	-	(41,712)
Investments accounted for using the equity method – Net	979,945	(1,421,235)	204,654	(3)	-	(75,301)	(311,940)
Debt instrument investments for which no active market exists	(119,689)	16,662	-	-	-	-	(103,027)
Guarantee deposits paid	-	762	-	-	-	-	762
Financial liabilities at fair value through profit or loss	4,569,291	(4,397,544)	-	-	-	-	171,747
Other receivables	(98,918)	(11,923)	-	-	-	-	(110,841)
Other payables	105,644	(30,406)	-	-	-	(6,971)	68,267
Defined benefit liability	(600,320)	(244,204)	69,144	-	-	-	(775,380)
Office supplies	2,239	23	-	-	-	-	2,262
Foreign exchange losses (gains)	2,085,137	19,251,809	3,458,655	-	-	-	24,795,601
Goodwill and franchises	12,873	8,583	-	-	-	-	21,456
Allowance for bad debts recognition in excess of limitation	259,356	6,484	-	-	-	-	265,840
Fair value adjustments made on a business combination	(1,335,556)	869,966	-	-	-	82,730	(382,860)
Other	8,579	(6,162)	-	-	-	(262)	2,155
Unused tax losses	3,932,452	(1,074,082)	-	-	-	(1,747)	2,856,623
Deferred tax benefit (expenses)		$11,019,634	$(3,397,436)	$(3)	$-	$595	
Deferred tax assets (liabilities) – Net	$(16,208,652)						$(8,585,862)
Reflected in balance sheet as follows:							
Deferred tax assets	$12,640,191						$28,448,690
Deferred tax liabilities	$(28,848,843)						$(37,034,552)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The following table contains information of the unused tax losses of the Company:

		Unused tax losses		
Year	Tax losses	31 December 2018	31 December 2017	Expiration year
2013	$1,908,009	$1,908,009	$1,908,009	2023
2014	22,931,435	17,725,373	16,664,752	2024
2018	12,414,165	12,414,165	-	2028
		$32,047,547	$18,572,761	

Unrecognized deferred tax assets

As of 31 December 2018 and 2017, deferred tax assets that have not been recognized amounting to $577,528 thousand and $530,046 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of 31 December 2018 and 2017, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liability has not been recognized, aggregated to $146,062 thousand and $144,961 thousand, respectively.

(4) The assessment of income tax returns

As of 31 December 2018, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2014

The Company has filed administrative remedial due to disagreements on assessment of premiums on bonds investment amortized to interest revenue for fiscal year 2007 and the foreign withholding tax recognition for fiscal years 2011 and 2012, respectively.

45. Earnings per share

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

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

	For the year ended 31 December	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	$30,189,320	$36,290,138
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,521,705	5,306,527
Basic earnings per share (in dollars)	$5.47	$6.84

If foreign exchange volatility reserve was not applied, basic earnings per share would be $6.26 and $7.11 for the years ended 31 December 2018 and 2017, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be $5.47 and $6.02 for the years ended 31 December 2018 and 2017, respectively.

46. Separate account insurance products

(1) The Company

A. Separate account insurance products – Assets and liabilities

	Assets	
Items	31 December 2018	31 December 2017
Cash in bank	$888,274	$1,613,062
Financial assets at fair value through profit or loss	539,874,109	543,380,078
Other receivables	6,090,351	10,136,857
Total	$546,852,734	$555,129,997

	Liabilities	
Items	31 December 2018	31 December 2017
Other payables	$743,442	$1,273,153
Reserve for separate account – Insurance contracts	220,038,873	244,206,352
Reserve for separate account – Investment contracts	326,070,419	309,650,492
Total	$546,852,734	$555,129,997

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Separate account insurance products – Revenue and expenses

	Expenses	
	For the year ended 31 December	
Items	2018	2017
Insurance claim payments	$19,184,402	$49,996,847
Cash surrender value	29,582,214	45,961,126
Dividends	4	117
Recovery of separate account reserve	(24,332,150)	(55,233,773)
Administrative expenses	3,781,782	3,668,445
Non-operating income and expenses	(120,381)	(107,843)
Total	$28,095,871	$44,284,919

	Revenue	
	For the year ended 31 December	
Items	2018	2017
Premium income	$43,335,095	$27,180,081
Interest income	2,500	1,420
(Losses) gains from financial assets and liabilities at fair value through profit or loss	(19,148,899)	35,356,584
Foreign exchange gains (losses)	3,907,175	(18,253,166)
Total	$28,095,871	$44,284,919

C. The commission earned for the sales of separate account insurance products from counterparties for the years ended 31 December 2018 and 2017 were $1,039,335 thousand and $1,113,252 thousand, respectively.

(2) Cathay Lujiazui Life

A. Separate account insurance products – Assets and liabilities

	Assets	
Items	31 December 2018	31 December 2017
Cash in bank	$17,902	$18,055
Financial assets at fair value through profit or loss	94,126	121,083
Interest receivable	55	44
Other	(556)	-
Total	$111,527	$139,182

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	Liabilities	
Items	31 December 2018	31 December 2017
Other payables	$8	$576
Reserve for separate account	98,690	124,469
Other	12,829	14,137
Total	$111,527	$139,182

B. Separate account insurance products – Revenue and expenses

	Expenses	
	For the year ended 31 December	
Items	2018	2017
Cash surrender value	$9,456	$34,128
Administrative expenses	1,703	1,827
Tax expenses	-	319
Recovery of separate account reserve	(22,722)	(17,064)
Total	$(11,563)	$19,210

	Revenue	
	For the year ended 31 December	
Items	2018	2017
Premium income	$464	$485
Interest income	178	114
Tax expenses	1,517	-
(Losses) gains from financial assets and liabilities at fair value through profit or loss	(13,722)	18,611
Total	$(11,563)	$19,210

47. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

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

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

A. Board of directors

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

B. Risk management committee

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

C. Chief Risk Officer

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

D. Risk management department

a. The department is responsible for monitoring, measuring and evaluating daily risks and should perform its duties independently.

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

E. Business Units

a. Each business unit shall assign a risk management coordinator to assist with the risk management of each business unit.

b. The duties of the risk management includes the following:

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

F. Audit department

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

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

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

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

A. Market risk

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

B. Credit risk

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

C. Sovereign risk

Sovereign risk is the risk that the Company suffers losses from loans, financial investments and long-term investments in a specific country as a consequence of market price fluctuation or default of security issuers or debtors stemming from local political and/or economic situations. The Company measures the risk by certain ratio. The ratio could be calculated as follows: the total investment amount of a certain country or specific area divided by total foreign investment amount or adjusted net asset. The Company reviews and adjusts the indicator on a regular basis.

D. Liquidity risk

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

E. Operational risk

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

F. Insurance risk

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

G. Asset and liability matching risk

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

H. Risk-based capital (RBC) ratio

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

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

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

a. Promulgate the Company’s risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.
b. Establish methods to evaluate insurance risks.
c. Regularly provide the insurance risk management report to monitor insurance risk and as a reference for developing insurance risk management strategies.
d. Regularly summarize the results of implementing risk management policies and report to the risk management committee. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee of the Company and that of the Cathay Financial Holding Co., Ltd. (referred to as Cathay Financial Holdings under paragraph 47).

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

a. Underwriters should, at all times, comply with certain relevant rules of financial underwriting which includes checking insurance notification database for exceptional cases and consider the amount insured, type of insurance, age, family status, reason for insurance, employment status, financial situation etc. to determine whether an insurance policy is suitable and affordable for the potential policyholder.
b. The Company has set up an underwriting team to deal with controversial cases with regard to new contracts and to interpret relevant underwriting standards.
c. The Company has a special panel for major insurance projects to enhance risk management over such projects and avoid adverse selection and moral hazard.

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

A. Insurance risk assessment covers the following topics:

a. Product design and pricing risk: This risk arises from improper design of products, terms and conditions and pricing attributable to using the unsuitable and/or inconsistent information and/or facing unexpected changes.
b. Underwriting risk: Unexpected losses arise from soliciting business, underwriting activities and approval, other expenditure activities, etc.
c. Reinsurance risk: This risk occurs when a company fails to reinsure the excess risk or a reinsurer fails to fulfill its responsibility that results in losses in premium, claims or non-reimbursed expenses.
d. Catastrophe risk: This risk arises from accidents which lead to considerable losses in one or more categories of insurance and the aggregate amount of such losses is huge enough to affect the Company’s credit rating and solvency.
e. Claim risk: This risk arises from mishandling claims.
f. Risk of insufficient reserve: It happens when the Company does not have sufficient reserves to fulfill its obligations owing to underestimating its liabilities.

B. The scope of management of insurance risk

a. Build up a top-down framework of the Company’s insurance risk management and empower relevant parties to execute risk management.
b. Establish the Company’s insurance risk management standards including the definitions and types of risks, management of the structure, risk management indexes and other risk management measures.
c. Develop action plans in consideration of the Company’s growth strategy and the global financial environment.
d. Determine methods to measure insurance risks.
e. Regularly provide insurance risk management report for supervision and as a reference to initiate insurance management strategy.
f. Manage other risk management issues.

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

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

(7) Asset/liability management

A. The Company established an asset/liability management committee to improve the asset/liability management structure, ensure the full application of the asset/liability management policy and to review the performance from strategy and practice aspect on a regular basis thus to reduce all types of risks the Company is facing.

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

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

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

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

A. Capital adequacy management

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

B. Exception management process

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

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

A. The Company enters into derivative transactions to reduce market risk and credit risk of the assets. The derivative contracts such as stock index options, index futures, interest rate futures, interest rate swaps, currency forwards, cross currency swaps and credit default swaps are applied to hedge risks arising from investments, such as equity risk, interest rate risk, cash flow risk, foreign exchange risk and credit risk; however, the derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

B. Hedging instrument against risks and implementation are made preliminarily in consideration of the risk tolerance levels. The Company executes hedge and exercises authorized financial instruments to adjust the overall risk level to the tolerance levels based on the market dynamics, business strategies, the characteristics of products and risk management policies.

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

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

48. Information of insurance risk

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

A. The Company

	For the year ended 31 December 2018		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,706,747	2,165,397
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,909,035	2,327,228
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	455,191	364,153
Rate of return	+0.1%	Increase 5,289,255	Increase 4,231,404
Rate of return	-0.1%	Decrease 5,294,445	Decrease 4,235,556

	For the year ended 31 December 2017		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,495,441	2,071,216
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	2,851,307	2,366,585
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	398,387	330,661
Rate of return	+0.1%	Increase 4,931,527	Increase 4,093,167
Rate of return	-0.1%	Decrease 4,936,362	Decrease 4,097,180

B. Cathay Lujiazui Life

	For the year ended 31 December 2018		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	156,537	117,402
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	81,505	61,128
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	103,360	77,520
Rate of return	+0.25%	Increase 569,098	Increase 426,824
Rate of return	-0.25%	Decrease 624,721	Decrease 468,541

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	For the year ended 31 December 2017		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	151,823	113,867
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	74,890	56,167
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	111,057	83,534
Rate of return	+0.25%	Increase 286,846	Increase 215,135
Rate of return	-0.25%	Decrease 314,238	Decrease 235,679

C. Cathay Life (Vietnam)

	For the year ended 31 December 2018		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	742	594
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	33,710	26,968
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	7,768	6,214
Rate of return	+0.1%	Increase 9,699	Increase 7,759
Rate of return	-0.1%	Decrease 9,709	Decrease 7,767

	For the year ended 31 December 2017		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	480	384
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	23,538	18,830
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	4,570	3,656
Rate of return	+0.1%	Increase 6,346	Increase 5,077
Rate of return	-0.1%	Decrease 6,352	Decrease 5,082

a. Changes in income before tax listed above referred to the effects of income before tax arising from the assumption for the year ended 31 December 2018 and 2017. The changes in equities of the Company, Cathay Lujiazui Life and Cathay Life (Vietnam) were assumed that the income tax was calculated at rates of 20% (17% for the period ended 31 December 2017), 25% and 20% of pre-tax income, individually.

b. An increase (decrease) of 0.1% on discount rate applied to liability adequacy test has no impact on income before tax and equity. The result of the test shows the Company's adequacy. However, if the discount rate keeps declining significantly, income before tax and equity will probably be affected.

c. Sensitivity Test

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

Note 1: Expense items includes underwriting expenses, commission expenses, other operating expenses included in operating costs as well as business expenses, administration expenses and training expenses included in operating expenses.
Note 2: The rate of returns is measured by 2 x (net profits or losses on investment – finance costs) / (the beginning balance of usable capital + the ending balance of usable capital – net profits or losses on investment + finance costs) and it needs to be annualized.

(2) Interpretation of concentration of insurance risks

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The Company considers the risk features, the capability of assuming risk, and other factors to evaluate the retention risk with approval of competent authority. For the excess of retention amount, the Company cedes this portion of amounts to reinsurers. At the same time, the Company takes into account the possibility of unexpected human and natural disasters each year and estimates the reasonable maximum amount of losses from retained risks. The Company determines whether it is necessary to adjust the reinsured amount or catastrophe reinsurance according to the risk features and the capability of assuming risk. Hence, the insurance risk to some extent has been diversified to reduce the potential impact on unexpected losses.

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

(3) Claim development trend

A. The Company

a. Direct business development trend

	Development year								Reserve for
Accident year	1	2	3	4	5	6	7	Unreported claim	unreported claim
2012	15,166,460	18,319,737	18,627,566	18,692,848	18,738,263	18,771,322	18,800,554		
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,097,513	18,125,787	28,274	28,330
2014	14,671,864	17,805,516	18,119,932	18,201,745	18,198,744	18,228,449	18,257,576	58,832	58,950
2015	15,353,566	18,647,560	18,975,168	19,056,336	19,099,986	19,131,168	19,161,792	105,456	105,667
2016	15,940,308	19,566,897	19,885,388	19,962,924	20,008,065	20,040,758	20,072,953	187,565	187,940
2017	17,297,974	21,370,270	21,723,236	21,807,561	21,858,682	21,895,032	21,930,440	560,170	561,290
2018	19,438,330	23,694,177	24,092,183	24,189,860	24,251,512	24,293,282	24,332,373	4,894,043	4,903,831

Expected future payment	$5,846,008
Add: Assumed reserve for incurred but not reported claim	60,801
Reserve for unreported claim	5,906,809
Add: Reported but not paid claim	2,624,761
Claims reserve balance	$8,531,570

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

b. Retained business development trend

	Development year								Reserve for
Accident year	1	2	3	4	5	6	7	Unreported claim	unreported claim
2012	15,309,599	18,511,432	18,822,965	18,889,412	18,935,309	18,968,733	18,998,438		
2013	14,552,889	17,819,664	18,127,219	18,191,122	18,232,660	18,261,664	18,290,295	28,631	28,688
2014	14,772,070	17,947,230	18,265,698	18,348,342	18,346,033	18,376,107	18,405,584	59,551	59,670
2015	15,474,235	18,809,508	19,140,593	19,222,948	19,267,154	19,298,734	19,329,738	106,790	107,004
2016	16,051,766	19,702,389	20,024,753	20,103,113	20,148,713	20,181,729	20,214,232	189,479	189,858
2017	17,425,760	21,529,927	21,887,079	21,972,384	22,024,060	22,060,811	22,096,599	566,672	567,806
2018	19,559,153	23,857,225	24,259,844	24,358,635	24,421,004	24,463,393	24,503,048	4,943,895	4,953,783

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

Expected future payment	$5,906,809
Add: Reported but not paid claim	2,615,968
Retained claims reserve balance	$8,522,777

In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402133590 issued on 22 December 2015 by the FSC, the Company recognizes reserve for claims by aggregating reserve for unreported claim and reported but not paid claim. Reserve for unreported claim is determined based on reported claim and adjusted to related expenses; reported but not paid claim is reserved on a case by case basis. Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying the Company. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated claim amounts and reported but not paid claim at the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Cathay Lujiazui Life

a. Direct business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	231,615	428,631	454,238	454,238	469,620	469,620	469,620	-
2013	246,693	481,780	520,694	524,656	524,656	524,656	524,656	-
2014	364,744	586,350	623,110	632,719	632,719	632,719	632,719	-
2015	214,071	400,659	428,788	632,719	632,719	632,719	632,719	-
2016	254,022	435,905	428,788	447,781	447,781	447,781	447,781	18,993
2017	261,339	435,905	458,752	488,043	488,043	488,043	488,042	52,137
2018	261,339	460,232	484,354	533,765	533,765	533,765	533,765	272,426

Expected future payment	$343,556
Less: Expected reported but not paid claim	(5,301)
Reserve for unreported claim	338,255
Add: Reported but not paid claim	29,251
Claims reserve balance	$367,506

b. Retained business development trend

Accident year	Development year							Expected future payment
	1	2	3	4	5	6	7	
2012	227,537	428,281	454,238	454,238	461,150	461,150	461,150	-
2013	241,145	480,560	520,673	524,635	461,150	461,150	461,150	-
2014	309,727	577,815	614,534	624,140	624,140	624,140	624,140	-
2015	191,845	378,017	406,124	624,140	624,140	624,140	624,140	-
2016	251,459	432,967	406,124	423,438	423,438	423,438	423,438	17,314
2017	249,315	432,967	452,574	484,025	484,025	484,025	484,025	51,058
2018	249,315	462,792	483,750	510,783	510,783	510,783	510,783	261,468

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

Expected future payment	$329,840
Less: Expected reported but not paid claim	(5,301)
Add: Reported but not paid claim	29,251
Retained claims reserve balance	$353,790

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Cathay Lujiazui Life recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Lujiazui Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

C. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend)

Accident year	Development year				
	1	2	3	4	5
2014	625	681	681	683	683
2015	1,375	1,608	1,608	1,608	1,608
2016	2,130	2,559	2,559	2,561	2,561
2017	14,879	18,084	18,084	18,094	18,094
2018	85,893	104,367	104,367	104,423	104,423

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

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

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

(1) Credit risk

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

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

One of the reinsurance counterparties of the Company and Subsidiaries in 2018, Trust International Insurance & Reinsurance Company B.S.C. (c) Trust Re, did not meet the requirements as a qualified reinsurer. Turst Re's credit rating was withdrawn by AM Best Company on 5 December 2018. According to "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" and "Insurance Enterprises Unqualified Reinsure Reserve", the follwings matters were disclosed:

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Unqualified reinsurance contract summary and premiums ceded to reinsurers:

Unit: Thousands of New Taiwan Dollars

Reinsure contract category	Individual insurance	Group insurance	Catastrophe
Type of insurance	Individual life insurance	Life and injury insurance	Life, injury and health insurance
2018 Premiums ceded to reinsurers	$583	$599	$416

The unqualified reinsurance contracts were terminated on 31 December 2018.

Unqualified reinsurance reserve amount and component：

Unit: Thousands of New Taiwan Dollars

	31 December 2018
Ceded unearned premium reserve	$-
Ceded reserve for claims that reported but not paid claim	-
Claims recovered from reinsures	-
Total	$-

(2) Liquidity risk

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

Unit: Billions of New Taiwan Dollars

	Insurance contracts and financial instruments with discretionary participation features		
	Within 1 year	1 to 5 years	Over 5 years
31 December 2018	$(1,095)	$1,993	$175,216
31 December 2017	(1,082)	474	171,163

Note: Separate account products are not included.

(3) Market risk

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

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

(1) Credit risk analysis

A. Sources of credit risk

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

a. Issuer credit risk represents a risk that the Company may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors), borrowers or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.
b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, the Company will bear financial losses.
c. Underlying asset credit risk means the risk that the Company may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Concentration risk

a. Regional distribution of maximum risk exposure for financial assets of the Company:

	31 December 2018					
Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$108,663,821	$598,577	$136,389	$54,671,101	$201,744	$164,271,632
Financial assets at fair value through profit or loss	36,221,083	26,691,362	86,749,425	34,116,884	82,160,244	265,938,998
Financial assets at fair value through other comprehensive income	90,868,582	31,038,900	168,157,801	359,145,961	242,495,856	891,707,100
Financial assets for hedging	96,344	-	-	120,267	-	216,611
Financial assets measured at amortized cost	183,624,214	140,559,799	382,921,822	1,001,042,809	549,913,112	2,258,061,756
Other financial assets	-	-	1,999,406	-	-	1,999,406
Total	$419,474,044	$198,888,638	$639,964,843	$1,449,097,022	$874,770,956	$3,582,195,503
Proportion	11.7%	5.5%	17.9%	40.5%	24.4%	100.0%

	31 December 2017					
Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$129,912,803	$82,321	$265,187	$56,291,047	$14,369,897	$200,921,255
Financial assets at fair value through profit or loss	5,766,821	1,219,662	7,689,393	4,455,766	-	19,131,642
Available-for-sale financial assets	178,366,275	24,358,644	39,738,326	126,393,250	147,352,716	516,209,211
Derivative financial assets for hedging	100,138	-	-	146,306	-	246,444
Debt instrument investments for which no active market exists	103,443,034	148,990,759	461,590,904	1,066,922,659	597,851,906	2,378,799,262
Held-to-maturity financial assets	39,326,264	-	-	11,482,335	-	50,808,599
Other financial assets	1,000,000	-	3,500,000	-	-	4,500,000
Total	$457,915,335	$174,651,386	$512,783,810	$1,265,691,363	$759,574,519	$3,170,616,413
Proportion	14.4%	5.5%	16.2%	39.9%	24.0%	100.0%

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

b. Regional distribution of maximum risk exposure for secured loans:

	31 December 2018				
Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$287,440,820	$48,492,142	$71,391,306	$8,193,993	$415,518,261
Overdue receivables	878,642	36,044	54,067	-	968,753
Total	$288,319,462	$48,528,186	$71,445,373	$8,193,993	$416,487,014
Proportion	69.2%	11.6%	17.2%	2.0%	100%

	31 December 2017				
Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$313,014,247	$50,733,517	$77,352,450	$2,079,898	$443,180,112
Overdue receivables	244,525	29,822	69,957	-	344,304
Total	$313,258,772	$50,763,339	$77,422,407	$2,079,898	$443,524,416
Proportion	70.6%	11.4%	17.5%	0.5%	100.0%

c. Credit risk quality category

The credit risk of the Company can be categorized into low credit risk, medium credit risk, high credit risk and credit impaired. The definitions of each category are as follows:

(A) Low credit risk indicates that an entity or a subject has an ability to perform financial commitment in a stable level. Even though it encounters material uncertainty and is exposed to unfavorable conditions, it can still maintain its ability to perform financial commitment.

(B) Medium credit risk indicates that an entity or a subject has a weak ability to perform financial commitment. Unfavorable operational, financial or economic conditions will diminish its ability to perform financial commitment.

(C) High credit risk indicates that an entity or a subject has a fragile ability to perform financial commitment. Whether the entity can perform the commitment depends on whether its business environment and financial status are favorable.

(D) Credit impaired indicates that an entity or a subject fail to fulfill its obligations. The Company evaluated whether the impairment standard has been reached based on potential losses.

d. Determinants for whether the credit risk has increased significantly since initial recognition

(A) The Company assesses, at each reporting date, whether the credit risk of a financial instrument in the scope of impairment requirements under IFRS 9 has increased significantly since initial recognition. To make this assessment, the Company considers reasonable and supportable information (including forward-looking information) which indicates that credit risk has increased significantly since initial recognition. Main indicators include external credit rating, past due information, credit spread and other market information which shows that the credit risk related to borrowers and issuers has increased significantly.

(B) If the credit risk at the reporting date is determined to be low, an entity can assume that the credit risk of the financial instrument has not increased significantly since initial recognition.

e. Definitions of a default occurring on a financial asset and a credit-impaired financial asset

The definition of a default occurring on financial assets of the Company is the same as a credit-impaired financial asset. If one or more of the criteria below are met, a default occurs and a financial asset is credit-impaired:

(A) Quantitative factor: when contractual payments are more than 90 days past due, a default occurs and a financial asset is credit-impaired.

(B) Qualitative factor: an evidence indicates that the issuers or borrowers cannot pay the contractual payments or that they have significant financial difficulties, for example:

(a) The issuers and borrowers have entered bankruptcy or are probable to enter bankruptcy or financial reorganization.
(b) The borrowers fail to make interest or principal payments based on original terms and conditions.
(c) The collaterals of the borrowers are seized provisionally or enforced.
(d) The borrowers claim for a change of credit conditions due to financial difficulties.

(C) The abovementioned definitions of a default occurring on a financial asset and a credit impairment are applicable to all financial assets held by the Company, and are align with those of relevant financial assets for internal credit risk management. The definitions are also applicable to related impairment assessment model.

f. Measurement of expected credit losses

(A) Methods and assumptions adopted

For financial instruments on which the credit risk has not increased significantly since initial recognition, the Company measures loss allowance for financial instruments at an amount equal to 12-month expected credit losses; for financial instruments on which the credit risk has increased significantly since initial recognition or are credit-impaired, the Company measures loss allowance for financial instruments at an amount equal to the lifetime expected credit losses.

The evaluation method is to multiply loss given default and exposure at default by the 12-month and the lifetime probability of default of the issuers or countparty. The Company also considers the effect of the time value of money to calculate 12-month expected credit losses and the lifetime expected credit losses.

Default rate is the rate that a default occurs on issuers, guarantee agencies and borrowers. Loss given default is the loss rate resulted from the default of issuers, guarantee agencies and borrowers. Loss given default used by the Company in impairment assessment is based on information regularly issued by Moody's. Probability of default is based on information regularly issued by Taiwan Ratings and Moody's and is determined based upon current observable information and macroeconomic information (gross domestic product and economic growth rate, for example) with adjustments of historic data. Exposure at default is measured at the amortized cost and interest receivables of the financial assets.

(B) Consideration of forward-looking information

The Company takes forward-looking information into consideration while measuring expected credit losses of the financial assets.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

g. Gross carrying amount of maximum credit risk exposure and category of credit quality

(A) Financial assets of the Company

31 December 2018 (Note 1)

		Stage 1	Stage 2	Stage 3			
		12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Gross carrying amount
Investment grade	Debt instruments at fair value through other comprehensive income	$868,624,804	$-	$-	$-	$-	$868,624,804
	Financial assets measured at amortized cost	2,221,201,714	-	-	-	(853,594)	2,220,348,120
	Other financial assets	2,000,000				(594)	1,999,406
Non-investment grade	Debt instruments at fair value through other comprehensive income	22,790,603	215,072	76,621	-	-	23,082,296
	Financial assets measured at amortized cost	26,117,815	7,906,750	5,155,973	-	(1,466,902)	37,713,636

31 December 2017 (Note 1)

	Normal assets					
Financial assets	Investment grade	Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$200,921,255	$-	$-	$-	$-	$200,921,255
Financial assets at fair value through profit or loss	17,133,088	1,998,554	-	-	-	19,131,642
Available-for-sale financial assets	436,351,502	79,857,709	-	-	-	516,209,211
Derivative financial assets for hedging	246,444	-	-	-	-	246,444
Debt instrument investments for which no active market exists	2,320,427,781	58,371,481	-	388,024	(388,024)	2,378,799,262
Held-to-maturity financial assets	50,808,599	-	-	-	-	50,808,599
Other financial assets	4,500,000	-	-	-	-	4,500,000
Total	$3,030,388,669	$140,227,744	$-	$388,024	$(388,024)	$3,170,616,413
Proportion	95.6%	4.4%	-	-	-	100.0%

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

Note 2: 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.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(B) Secured loans of the Company

	31 December 2018 (Note)						
	Stage 1	Stage 2	Stage 3				
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Loss allowance	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Gross carrying amount
Secured loans	$411,821,024	$111,237	$4,554,753	$-	$(682,254)	$(5,126,352)	$410,678,408

	31 December 2017 (Note)							
	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$297,933,077	$77,668,071	$35,341,027	$208,490	$3,185,642	$414,336,307	$5,903,496	$408,432,811
Corporate finance	24,361,225	4,743,263	-	-	83,621	29,188,109	245,943	28,942,166
Total	$322,294,302	$82,411,334	$35,341,027	$208,490	$3,269,263	$443,524,416	$6,149,439	$437,374,977

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

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

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
31 December 2018	(Note)	(Note)	(Note)
31 December 2017	$176,870	$31,620	$208,490

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

h. Movement of loss allowance is summarized below:

(A) Debt instrument investments at fair value through other comprehensive income

		Lifetime expected credit losses			
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$455,064	$96,965	$-	$-	$552,029
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(1,372)	1,372	-	-	-
Transfer to credit impairment finanace assets	(19)	-	19	-	-
Transfer to 12-month expected credit losses	127	(127)	-	-	-
New financial assets originated or purchased	197,122	-	4,313	-	201,435
Financial assets that have been derecognized during the period	(218,560)	(139,162)	-	-	(357,722)
Changes in models/risk parameters	21,707	57,581	8,007	-	87,295
Foreign exchange and other movements	14,211	420	-	-	14,631
31 December 2018	$468,280	$17,049	$12,339	$-	$497,668

(B) Financial assets measured at amortized cost

		Lifetime expected credit losses			
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$754,100	$705,758	$-	$-	$1,459,858
Changes due to financial instruments recognized as at 1 January					
Transfer to lifetime expected credit losses	(4,597)	4,597	-	-	-
Transfer to credit impairment finanace assets	(696)	-	696	-	-
Transfer to 12-month expected credit losses	29,348	(29,348)	-	-	-
New financial assets originated or purchased	236,156	-	294,207	-	530,363
Financial assets that have been derecognized during the period	(110,906)	(366,214)	-	-	(477,120)
Changes in models/risk parameters	(24,051)	371,227	415,541	-	762,717
Foreign exchange and other movements	25,076	19,602	-	-	44,678
31 December 2018	$904,430	$705,622	$710,444	$-	$2,320,496

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The credit rating of one of the foreign bonds hold by the Company and Subsidiaries, as measured at fair value through other comprehensive income and at amortized cost, was downgraded by international credit rating agencies and had a credit impairment event in January 2019. In the assessment of the loss allowance, the company and Subsidiaries reclassified the loss allowance from 12-month expected credit losses to lifetime expected credit losses.

(C) Other financial assets

		Lifetime expected credit losses			
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9
1 January 2018	$901	$-	$-	$-	$901
Foreign exchange and other movements	(307)	-	-	-	(307)
31 December 2018	$594	$-	$-	$-	$594

(D) Secured loans

		Lifetime expected credit losses					
	12-month expected credit losses	Collectively assessed	Not purchased or originated credit-impaired financial asset	Purchased or originated credit-impaired financial assets	Total of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
1 January 2018	$108,879	$1,211	$601,271	$-	$711,361	$5,438,078	$6,149,439
Changes due to financial instruments recognized as at 1 January:	-	-	-	-	-	-	-
Transfer to lifetime expected credit losses	(15)	15	-	-	-	-	-
Transfer to credit-impaired financial assets	(338)	(44)	382	-	-	-	-
Transfer to 12-month expected credit losses	2,763	(1,036)	(1,727)	-	-	-	-
New financial assets originated or purchased	23,349	-	8,284	-	31,633	-	31,633
Financial assets that have been derecognized during the period	(12,626)	(124)	(69,442)	-	(82,192)	-	(82,192)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	-	(311,726)	(311,726)
Changes in models/risk parameters	(31,445)	179	52,718	-	21,452	-	21,452
31 December 2018	$90,567	$201	$591,486	$-	$682,254	$5,126,352	$5,808,606

There is no significant change in loss allowance due to significant change in the carrying amount of the abovementioned financial instruments.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

i. The exposure to credit risk and loss allowance of receivables

Measurement of loss allowance of the Company's receivables which are in the scope of the impairment requirements under IFRS 9 is based upon the lifetime expected credit losses under simplified approach. The assessment of loss allowance as of 31 December 2018 is addressed below.

The Company's receivables which are in the scope of the impairment requirements under IFRS 9 included notes receivable in the amount of $72,825 thousand and other receivables in the amount of $11,351,131 thousand. Loss allowance measured by a provision matrix under simplified approach is as follows:

	Recognition				
	Not yet due/ within 1 month	1-3 months	3-6 months	Over 6 months	Total
Gross carrying amount	$11,311,658	$111,076	$1,219	$3	$11,423,956
Loss rate	0%	2%	10%	50%	
Lifetime expected credit losses		$2,222	$123	$1	$2,346

The abovementioned expected credit losses measured by a provision matrix under simplified approach amounted to $2,346 thousand. The movement in loss allowance is as follows:

	For the year ended 2018
Beginning balance (in accordance with IAS 39)	$2,175
Transition adjustment to retained earnings as at 1 January	-
Beginning balance (in accordance with IFRS 9)	2,175
Addition for the current period	171
Ending balance	$2,346

In accordance with the transition provision in IFRS 9 that was adopted on 1 January 2018, the Company elected not to restate prior periods at the date of initial application. Please refer to Note 6 for the movements in allowance for bad debts of receivables for the year ended 31 December 2017.

(2) Liquidity risk analysis

A. Sources of liquidity risk

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Liquidity risk management

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

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

C. Maturity analysis of financial liabilities

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

a. Maturity analysis of non-derivative financial liabilities

	31 December 2018					
	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	$31,044,618	$239,517	$285,769	$1,242,728	$9,636	$32,822,268
Bonds payables (Note)	-	1,608,951	2,415,000	7,245,000	78,400,000	89,668,951

	31 December 2017					
	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	$19,484,551	$212,530	$86,508	$87,619	$5,364,761	$25,235,969
Bonds payable (Note)	414,540	1,194,411	2,415,000	7,245,000	80,815,000	92,083,951
Preferred stock liability	-	5,080,005	-	-	-	5,080,005

Note: The bonds payable do not have maturity dates; therefore, the remaining period used for the calculation of the contract cash flow is 10 years.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

b. Maturity analysis of derivative financial liabilities

	31 December 2018					
	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$14,230	$3,686	$3,978	$2,587	$-	$24,481
Forward	5,538,893	53,900	-	-	-	5,592,793
CS	23,555,917	10,107,225	-	- -	-	33,663,142

	31 December 2017					
	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$31,508	$14,615	$23,524	$(230)	$-	$69,417
Forward	286,470	-	-	-	-	286,470
CS	1,369,037	-	-	-	-	1,369,037

(3) Market risk analysis

A. Sources of market risk

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

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

a. Value at Risk

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

b. Stress testing

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(A) Simple Sensitivity

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

(B) Scenario Analysis

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

(a) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, the Company and Subsidiaries simulate what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(b) Hypothetical scenario

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

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

Table of Stress Testing

		Amount affected for the nine-month periods ended	
Risk Factors	Changes (+/-)	31 December 2018	31 December 2017
Equity risk (Price)	Price decreases by 10%	$(71,190,476)	$(67,589,109)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(111,404,367)	(40,098,053)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(10,932,445)	(8,280,120)

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

Note 2: Effects of hedging are considered.

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

c. Sensitivity Analysis

Summarization of Sensitivity Analysis
For the year ended 31 December 2018

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$5,703,586	$5,189,911
	CNY(CNH)/USD	appreciates 1%	834,767	536,707
	HKD/USD	appreciates 1%	1,978	614,256
	EUR/USD	appreciates 1%	93,336	197,382
	GBP/USD	appreciates 1%	30,281	245,729
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	2,040	(912,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	1,501	-
	Yield curve (EUR)	parallelly shifts up 1 bp	3,709	(8,246)
	Yield curve (NTD)	parallelly shifts up 1 bp	491	(161,089)
Equity price risk	Equity price increases 1%		135,986	7,006,951

For the year ended 31 December 2017

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$3,340,835	$5,024,663
	CNY(CNH)/USD	appreciates 1%	1,030,594	354,944
	HKD/USD	appreciates 1%	(1,293)	347,739
	EUR/USD	appreciates 1%	132,515	133,280
	GBP/USD	appreciates 1%	89,699	11,739
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	100	(191,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(317)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(3,158)
	Yield curve (NTD)	parallelly shifts up 1 bp	1,261	(182,921)
Equity price risk	Equity price increases 1%		91,623	6,671,264

Note 1: Impacts of credit changes are not included.

Note 2: Effects of hedging are considered.

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

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

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

51. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Items	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss		
Mandatorily measured at fair value through profit or loss	$1,167,751,185	(Note 1)
Designated at fair value through profit or loss at initial recognition	(Note 1)	$239,368
Held for trading	(Note 1)	42,797,993
Subtotal	1,167,751,185	43,037,361
Financial assets at fair value through other comprehensive income	921,968,246	(Note 1)
Available-for-sale financial assets	(Note 1)	1,517,450,715
Financial assets for hedging / derivative financial assets for hedging	216,611	246,444
Measured at amortized cost		
Cash and cash equivalents (Note 2)	175,098,127	(Note 1)
Receivables	74,970,469	(Note 1)
Financial assets measured at amortized cost	2,258,673,041	(Note 1)
Other financial assets	1,999,406	(Note 1)
Loans	581,215,839	(Note 1)
Guarantee deposits paid	32,195,253	(Note 1)
Subtotal	3,124,152,135	(Note 1)
Held-to-maturity financial assets	(Note 1)	57,807,718
Loans and receivables	(Note 1)	
Cash and cash equivalents (Note 2)	(Note 1)	210,348,360
Receivables	(Note 1)	81,845,945
Debt instrument investments for which no active market exists	(Note 1)	2,393,010,584
Other financial assets	(Note 1)	4,500,000
Loans	(Note 1)	603,718,254
Guarantee deposits paid	(Note 1)	20,652,061
Subtotal	(Note 1)	3,314,075,204
Total	$5,214,088,177	$4,932,617,442

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

Note 2: Exclude cash on hand and revolving funds.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Financial liabilities

Items	31 December 2018	31 December 2017
Financial liabilities at fair value through profit or loss		
Held for trading	$27,499,106	$1,104,658
Financial liabilities measured at amortized cost		
Payables	32,822,268	25,235,969
Bonds payable	70,000,000	70,000,000
Preferred stock liability	-	5,000,000
Guarantee deposits received	2,899,157	8,402,759
Subtotal	105,721,425	108,638,728
Total	$133,220,531	$109,743,386

(2) Fair value of financial instruments

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

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

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

b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).

e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivatives is obtained using the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

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

B. Financial instruments not measured at fair value

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	Carrying amount		Fair value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets				
Financial assets measured at amortized cost (Note 1)	$2,273,957,428	(Note 2)	$2,180,587,244	(Note 2)
Debt instrument investments for which no active market exists	(Note 2)	$2,393,010,584	(Note 2)	$2,485,340,753
Held-to-maturity financial assets (Note 1)	(Note 2)	66,354,720	(Note 2)	73,483,056
Other financial assets	1,999,406	4,500,000	2,009,973	4,521,701

Note 1: Guarantee deposits paid in bonds are included.

Note 2: The Company and Subsidiaries adopted IFRS 9 since 1 January 2018. The Company and Subsidiaries elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(3) Hedge accounting disclosures

Cash flow hedges

The Company and Subsidiaries elected to apply hedge accounting policy of IFRS 9 prospectively at the initial application of IFRS 9. The future cash flows fluctuation in the floating-rate assets held by the Company and Subsidiaries may occur due to the change in market interest rate and lead to risk. The Company and Subsidiaries held IRS thus to hedge risks arising from changes in interest rate. Information of hedge accounting from 1 January 2018 is as follows:

A. Hedging instruments

31 December 2018

Hedging instrument	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument: Assets	Carrying amount of the hedging instrument: Liabilities	Line items in balance sheet where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness for current period
IRS	$6,800,000	$216,611	$-	Financial assets for hedging	$54,891

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. A profile of the timing of the nominal amount of the hedging instrument and the average price or rate

	Due in				
31 December 2018	1 month	1-3 months	3 months-1 year	1-5 years	Over 5 years
IRS					
Nominal principal	$-	$-	$-	$3,800,000	$3,000,000
Average fixed rate	-	-	-	1.6%	1.7%

C. Hedged items

	For the year ended 31 December 2018							
	Changes in fair value used for calculating hedge ineffectiveness for current period	Cash flow hedge reserve	Balance of cash flow hedge reserve generated from the hedging relationships where hedge accounting is no longer applicable	Change in the value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the cash flow hedge reserve to profit or loss	Line items affected in profit or loss because of the reclassification
Floating-rate bonds	$(54,891)	$216,611	n/a	$54,891	$-	$-	$(84,725)	Finance cost
Discontinued hedge－floating-rate bonds	n/a	n/a	$-	n/a	n/a	n/a	1,087	Finance cost

D. Movement of equity component applying hedged accounting and related other comprehensive income are summarized below:

	For the year ended 31 December 2018
Beginning balance	$203,646
Gross amount recognized in other comprehensive income	
Change in the value of the hedging instrument recognized in other comprehensive income	54,891
Amount reclassified from the cash flow hedge reserve to profit or loss	(83,638)
Income tax	(1,611)
Ending balance	$173,288

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

The following table summarizes the terms of the Company and Subsidiaries' IRS for bonds used as hedging instruments before 1 January 2018:

31 December 2017				
Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$246,444	19 February 2018 ~ 26 May 2024	19 February 2018 ~ 26 May 2024

The terms of IRS agreements are established based on the terms of the bonds hedged.

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

	For the years ended 31 December 2017
Amount recognized in other comprehensive income	$14,595
Amount reclassified from equity to profit or loss	(419)

(4) Offsetting of financial assets and financial liabilities

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

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

31 December 2018						
Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments	Financial collateral received	Net amount
Derivative instrument	$5,584,159	$-	$5,584,159	$(5,424,679)	$-	$159,480

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

31 December 2018

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments	Financial collateral pledged	Net amount
Derivative instrument	$27,499,106	$-	$27,499,106	$(5,424,679)	$(10,921,864)	$11,152,563

31 December 2017

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments	Financial collateral received	Net amount
Derivative instrument	$16,976,162	$-	$16,976,162	$(1,102,509)	$(5,561,151)	$10,312,502

31 December 2017

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments	Financial collateral pledged	Net amount
Derivative instrument	$1,104,658	$-	$1,104,658	$(1,102,509)	$(24,176)	$(22,027)

52. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

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

	31 December 2018			
Items	Total	Level 1	Level 2	Level 3
Non-derivative instruments				
Assets				
Financial assets at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss				
Stocks	$664,805,149	$587,635,828	$72,200,110	$4,969,211
Bonds	206,293,856	2,488,966	202,301,743	1,503,147
Other	291,274,421	194,722,071	19,550,417	77,001,933
Financial assets at fair value through other comprehensive income				
Stocks	30,261,146	26,030,760	154,309	4,076,077
Bonds (Note 1)	893,987,970	29,684,763	864,303,207	-
Investment property (Note 2)	455,726,384	-	-	455,726,384
Derivative instruments				
Assets				
Financial assets at fair value through profit or loss	5,377,759	10,210	5,367,549	-
Financial assets for hedging	216,611	-	216,611	-
Liabilities				
Financial liabilities at fair value through profit or loss	27,499,106	-	27,499,106	-

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2017			
Items	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Stocks	$84,171	$84,171	$-	$-
Other	155,197	-	155,197	-
Held for trading				
Stocks	6,927,268	6,912,293	14,975	-
Bonds	2,401,924	2,401,922	2	-
Other	16,739,083	16,739,083	-	-
Available-for-sale financial assets				
Stocks	689,148,105	676,397,304	2,650,074	10,100,727
Bonds (Note 1)	469,012,295	24,890,926	444,121,369	-
Other	360,381,165	292,738,242	16,490,474	51,152,449
Investment property (Note 2)	452,495,844	-	-	452,495,844
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	16,729,718	-	16,729,718	-
Derivative financial assets for hedging	246,444	-	246,444	-
Liabilities				
Financial liabilities at fair value through profit or loss	1,104,658	-	1,104,658	-

Note 1: Guarantee deposits paid in bonds are included.

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

A. Transfers between Level 1 and Level 2

For the year ended 31 December 2018, the Company and Subsidiaries transferred stocks which were mandatorily measured at fair value through profit or loss on a recurring basis, from Level 2 to Level 1. A total of $2,450,314 thousand was transferred as its market price was obtainable. For the year ended 31 December 2017, the Company and Subsidiaries transferred stocks held for trading which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of $354,375 thousand was transferred as its market price was obtainable.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

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

	For the year ended 31 December 2018			For the year ended 31 December 2017	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income (Note)	Investment property	Available-for-sale financial assets (Note)	Investment property
Beginning balance	$59,420,556	$4,631,596	$452,495,844	$49,080,033	$447,175,243
Total gains (losses) recognized					
Amount recognized in profit or loss					
Gains from financial assets and liabilities at fair value through profit or loss	11,910,451	-	-	-	-
Realized gains from available-for-sale financial assets	-	-	-	3,205,822	-
Other comprehensive losses reclassified using overlay approach	(7,748,963)	-	-	-	-
Losses from investment property	-	-	(771,123)	-	(833,201)
Amount recognized in other comprehensive income			-		
Unrealized valuation losses from available-for-sale financial assets	-	-	-	(347,924)	-
Exchange differences resulting from translating the financial statements of foreign operations	20,806	105	(1,214,458)	-	438,152
Other comprehensive income reclassified using overlay approach	7,748,963	-	-	-	-
Valuation losses on equity instruments at fair value through other comprehensive income	-	(463,425)	-	-	-
Acquisitions or issuances	25,664,367	119,700	45,000	19,478,410	-
Transfers from property and equipment			(740,189)	-	375,260
Transfers from investment property under construction			4,683,656	-	3,147,208
Transfers from prepayments for building and land － Investments			675,826	-	2,067
Transfers from investment property measured at cost			1,053,619	-	2,191,115
Disposals or settlements	(12,091,586)	(185,788)	(501,792)	(9,902,617)	-
Transfers to Level 3	941,655	-	-	307,692	-
Transfers out of Level 3	(2,391,958)	(26,111)	-	(568,240)	-
Ending balance	$83,474,291	$4,076,077	$455,726,383	$61,253,176	$452,495,844

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

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 31 December 2018 and 2017 in the amount of $56,344 thousand and $(833,201) thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

C. Information on significant unobservable inputs to valuation

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

31 December 2018

Items	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income	Net value approach	Discount for lack of marketability	0%~3%	The higher the discount for lack of marketability, the lower the fair value of the stocks.
	Market approach	Discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks.
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	22%~37%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
		Growth rate of net profit after tax	-48%~-36%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks.
		Dividend payout ratio	70%~140%	The higher the dividend payout ratio, the higher the fair value of the stocks.
Investment property	Refer to Note 18			

31 December 2017

Items	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Available-for-sale financial assets	Market approach	Discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks.
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	15%~53%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
		Growth rate of net profit after tax	-60%~69%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks.
		Dividend payout ratio	0~140%	The higher the dividend payout ratio, the higher the fair value of the stocks.
Investment property	Refer to Note 18			

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

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

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

	31 December 2018			
	Total	Level 1	Level 2	Level 3
Financial assets not measured at fair value for which only the fair value is disclosed				
Financial assets measured at amortized cost (Note)	$2,180,587,244	$74,806,524	$2,105,780,720	$-
Other financial assets	2,009,973	-	2,009,973	-

	31 December 2017			
	Total	Level 1	Level 2	Level 3
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$2,485,340,753	$321,465	$2,485,016,282	$3,006
Held-to-maturity financial assets (Note)	73,483,056	22,469	67,216,914	6,243,673
Other financial assets	4,521,701	-	4,521,701	-

Note: Guarantee deposits paid in bonds are included.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

	31 December 2018		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$103,246,497	30.733000	$3,173,074,587
AUD	2,933,900	21.677522	63,599,680
CNH	15,976,157	4.474192	71,480,393
Non-Monetary Items			
USD	9,679,449	30.733000	297,478,514
HKD	15,745,308	3.923980	61,784,266
Investments accounted for using the equity method			
CNY	158,735	4.476200	710,531
USD	88,217	30.733000	2,711,174
PHP	26,948,935	0.584200	15,743,568
IDR	6,505,480,341	0.002111	13,733,069
Financial Liabilities			
Monetary Items			
USD	1,329,950	30.733000	40,873,360

	31 December 2017		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$87,345,078	29.848000	$2,607,075,875
AUD	2,049,548	23.262039	47,676,669
CNH	19,592,718	4.579003	89,715,108
Non-Monetary Items			
USD	12,894,813	29.848000	384,884,383
HKD	9,105,617	3.818955	34,773,943
Investments accounted for using the equity method			
CNY	170,436	4.583500	781,195
USD	4,076	29.848000	121,671
PHP	22,996,663	0.597900	13,749,705
IDR	5,655,474,784	0.002201	12,447,700

Note: The Company and Subsidiaries evaluated that foreign currencies other than functional currencies of each consolidated entities do not have material impact; thus, the related amounts are excluded from the disclosure.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

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

Items	31 December 2018		
	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$175,332,205	$-	$175,332,205
Receivables	74,184,073	786,396	74,970,469
Current tax assets	6,238	-	6,238
Financial assets at fair value through profit or loss	8,923,624	1,158,827,561	1,167,751,185
Financial assets at fair value through other comprehensive income	9,199,964	912,768,282	921,968,246
Financial assets for hedging	-	216,611	216,611
Investments accounted for using the equity method – Net	-	40,780,828	40,780,828
Financial assets measured at amortized cost	33,988,272	2,224,684,769	2,258,673,041
Other financial assets – Net	-	1,999,406	1,999,406
Investment property	-	461,352,381	461,352,381
Investment property under construction	-	2,785,640	2,785,640
Prepayments for buildings and land – Investments	-	722,686	722,686
Loans	460,031	580,755,808	581,215,839
Reinsurance assets	482,321	1,036,589	1,518,910
Property and equipment	-	32,381,622	32,381,622
Intangible assets	-	44,044,960	44,044,960
Deferred tax assets	-	38,252,456	38,252,456
Other assets	6,804,247	33,653,398	40,457,645
Separate account product assets	6,996,582	539,967,679	546,964,261
Total assets			$6,391,394,629

Items	31 December 2018		
	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$31,284,135	$1,538,133	$32,822,268
Current tax liabilities	636,050	-	636,050
Financial liabilities at fair value through profit or loss	27,490,471	8,635	27,499,106
Bonds payable	-	70,000,000	70,000,000
Insurance liabilities	-	5,286,772,662	5,286,772,662
Reserve for insurance contracts with feature of financial instruments	-	9,318,713	9,318,713
Foreign exchange volatility reserve	-	17,075,289	17,075,289
Provisions	-	225,277	225,277
Deferred tax liabilities	-	29,213,220	29,213,220
Other liabilities	418,274	8,320,083	8,738,357
Separate account product liabilities	743,450	546,220,811	546,964,261
Total liabilities			$6,029,265,203

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	31 December 2017		
Items	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$210,543,885	$-	$210,543,885
Receivables	81,067,451	778,494	81,845,945
Current tax assets	18,090	-	18,090
Financial assets at fair value through profit or loss	17,005,404	26,031,957	43,037,361
Available-for-sale financial assets	34,065,289	1,483,385,426	1,517,450,715
Derivative financial assets for hedging	14,942	231,502	246,444
Investments accounted for using the equity method – Net	-	33,122,620	33,122,620
Debt instrument investments for which no active market exists	31,707,234	2,361,303,350	2,393,010,584
Held-to-maturity financial assets	138,304	57,669,414	57,807,718
Other financial assets – Net	-	4,500,000	4,500,000
Investment property	-	459,175,538	459,175,538
Investment property under construction	-	3,541,501	3,541,501
Prepayments for buildings and land – Investments	-	690,203	690,203
Loans	185,534	603,532,720	603,718,254
Reinsurance assets	-	758,458	758,458
Property and equipment	-	31,077,311	31,077,311
Intangible assets	-	46,272,945	46,272,945
Deferred tax assets	-	28,448,690	28,448,690
Other assets	5,613,550	21,505,570	27,119,120
Separate account product assets	11,768,018	543,501,161	555,269,179
Total assets			$6,097,654,561

	31 December 2017		
Items	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$19,697,081	$5,538,888	$25,235,969
Current tax liabilities	177,190	-	177,190
Financial liabilities at fair value through profit or loss	1,053,845	50,813	1,104,658
Bonds payable	-	70,000,000	70,000,000
Preferred stock liability	5,000,000	-	5,000,000
Insurance liabilities	-	4,923,940,864	4,923,940,864
Reserve for insurance contracts with feature of financial instruments	-	8,761,609	8,761,609
Foreign exchange volatility reserve	-	11,589,138	11,589,138
Provisions	415,757	56,245	472,002
Deferred tax liabilities	-	37,034,552	37,034,552
Other liabilities	375,474	17,512,563	17,888,037
Separate account product liabilities	1,273,729	553,995,450	555,269,179
Total liabilities			$5,656,473,198

55. Related party transactions

(1) Information of the related parties that had transactions with the Company and Subsidiaries during the financial reporting period is as follows:

Name	Nature of the relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary (Note 1)
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary
Cathay Insurance Company Limited (China)	Associate
Symphox Information Co., Ltd.	Associate
Rizal Commercial Banking Corporation	Associate
PT Bank Mayapada Internasional Tbk	Associate
KHL IV Venture Capital Co., Ltd.	Associate
Cathay Sunrise Corporation	Associate
CM Energy Co., Ltd	Associate
PSS Co., Ltd.	Associate
Global Evolution Holding ApS	Associate of Subsidiaries
Ally Logistic Property Co., Ltd.	Subsidiary of associates
Seaward Card Co., Ltd.	Subsidiary of associates (Note 2)
Cathay United Bank	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Co., Ltd.	Other related party
Cathay Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Indovina Bank Limited	Other related party
Cathay Futures Co., Ltd.	Other related party
Cathay Charity Foundation	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Cathay Securities (Hongkong) Co., Ltd	Other related party
Cathay Hospitality Consulting Co., Ltd	Other related party
Other (including directors, supervisors, key management personnel and their spouses and relatives within the second-degree of kinship)	Other related party

Note 1: Cathay Insurance (Bermuda) Co., Ltd. was dissolved on 8 May 2018, and has completed liquidation on 21 May 2018.

Note 2: Seaward Card Co., Ltd., originally held by Cathay United Bank, was sold to Symphox Information Co., Ltd. on 21 July 2017. Thus, the relationship between the Company and its Subsidiaries with Seaward Card Co., Ltd. has changed from other related party to Subsidiary of associates.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(2) Significant transactions with related parties

A. Property transactions

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

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

	For the year ended 31 December 2018	
Name	Items	Amount
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	Wuri E-commerce Building, etc.	$869,331
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	17,910
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	1,351,132
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	586,426
Subtotal		1,955,468
Total		$2,824,799

	For the year ended 31 December 2017	
Name	Items	Amount
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	Jui-Fang Logistic Park, etc.	$1,348,450
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	15,758
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Subtotal		1,516,024
Total		$2,864,474

The total amounts of contracted projects for real estate as of 31 December 2018 and 31 December 2017, between the Company and Subsidiaries and Ally Logistic Property Co., Ltd. were $3,383,783 thousand, and $3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2018 and 31 December 2017, between the Company and Subsidiaries and Lin Yuan Property Management Co., Ltd. were $0 thousand and $1,387 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2018 and 31 December 2017, between the Company and Subsidiaries and San Ching Engineering Co., Ltd. were $1,838,045 thousand and $及1,853,190 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2018 and 31 December 2017, between the Company and Subsidiaries and Cathay Real Estate Development Co., Ltd. were $1,742,250 thousand and $1,742,250 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

b. Selling decorations and equipment of buildings to related parties

Name	For the years ended 31 December 2018	2017
Other related party		
Cathay Hospitality Management Co., Ltd	$452,540	$-

The amount aboved is total selling price before tax. Gains on disposal of decorations and equipment of buildings to Cathay Hospitality Management Co., Ltd. for the year ended 31 December 2018 was $13,540 thousand.

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

Name	Rental income For the years ended 31 December 2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$58,613	$54,011
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	8,944	8,900
Associate and its subsidiary		
Symphox Information Co., Ltd.	41,126	40,912
Ally Logistic Property Co., Ltd.	499,776	299,821
Cathay Insurance Company Limited (China)	30,353	27,103
Subtotal	571,255	367,836
Other related party		
Cathay United Bank	681,206	580,440
Cathay Century Insurance Co., Ltd.	108,092	105,435
Cathay Securities Investment Trust Co., Ltd.	48,087	45,132
Cathay Securities Co., Ltd.	39,358	38,063
San Ching Engineering Co., Ltd.	5,610	5,610
Cathay Futures Co., Ltd.	6,271	6,091
Cathay Medical Care Corp.	186,308	185,327
Cathay Venture Inc.	4,742	4,730
Cathay Real Estate Development Co., Ltd.	18,466	19,361
Cathay Healthcare Management Co., Ltd.	56,574	56,032
Cathay Hospitality Management Co., Ltd.	218,778	225,304
Subtotal	1,373,492	1,271,525
Total	$2,012,304	$1,702,272

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

	Guarantee deposits received	
Name	31 December 2018	31 December 2017
Parent company		
Cathay Financial Holding Co., Ltd.	$12,588	$12,588
Associate and its subsidiary		
Symphox Information Co., Ltd.	10,363	9,798
Ally Logistic Property Co., Ltd.	57,040	55,669
Cathay Insurance Company Limited (China)	7,030	7,186
Subtotal	74,433	72,653
Other related party		
Cathay United Bank	189,738	164,798
Cathay Century Insurance Co., Ltd.	25,167	26,786
Cathay Securities Investment Trust Co., Ltd.	10,991	10,093
Cathay Securities Co., Ltd.	9,393	8,826
Cathay Medical Care Corp.	11,260	10,916
Cathay Real Estate Development Co., Ltd.	3,803	3,773
Cathay Healthcare Management Co., Ltd.	15,628	13,157
Cathay Hospitality Management Co., Ltd.	206,166	216,949
Subtotal	472,146	455,298
Total	$559,167	$540,539

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

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

	Rental expense	
	For the years ended 31 December	
Name	2018	2017
Other related party		
Cathay Real Estate Development Co., Ltd.	$7,413	$7,413
Cathay United Bank	52,745	61,790
	$60,158	$69,203

	Guarantee deposits paid	
Name	31 December 2018	31 December 2017
Other related party		
Cathay United Bank	$12,019	$15,367

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

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

B. Stock issuance transactions with the related parties

① Issuance of common stock for cash by the Company

	For the years ended 31 December	
Name	2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$42,000,000	$-

② Subscription of common stock issued by the related parties

	For the years ended 31 December	
Name	2018	2017
Associate and its subsidiary		
Rizal Commercial Banking Corporation	$1,992,264	$271,974
PT Bank Mayapada Internasional Tbk	1,628,071	894,670
KHI IV Venture Capital Co., Ltd.	-	375,000
Cathay Sunrise Corporation	-	675,000
CM Energy Co., Ltd	-	216,000
PSS Co., Ltd.	407,671	-
Total	$4,028,006	$2,432,644

C. Cash in banks

Name	Items	31 December 2018	31 December 2017
Other related party			
Cathay United Bank	Time deposit	$2,715,620	$2,047,772
	Cash in bank	28,726,895	26,172,194
	Check deposit	268,337	343,491
	Security deposit	6	6
Indovina Bank Limited	Time deposit	1,536,338	13,140
	Cash in bank	8,344	15,984
Total		$33,255,540	$28,592,587

Interest income from Cathay United Bank for the year ended 31 December 2018 and 2017 were $61,162 thousand and $28,157 thousand, respectively.

Interest income from Indovina Bank Limited for the year ended 31 December 2018 and 2017 were $52,841 thousand and $1,438 thousand, respectively.

As of 31 December 2018 and 31 December 2018, time deposit pledged were $3,000 thousand, $3,000 thousand and $3,000 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

D. Loans

Name	For the year ended 31 December 2018 Maximum amount	Rate	Ending balance
Other related party			
Other	$1,085,539	1.03%~3.74%	$973,182

Name	For the year ended 31 December 2017 Maximum amount	Rate	Ending balance
Other related party			
Other	$1,107,371	1.03%~3.44%	$909,989

Interest income from other for the year ended 31 December 2018 and 2017 were $14,152 thousand and $14,329 thousand, respectively.

E. Fund issued by the related party

Name	Items	31 December 2018	31 December 2017
Associates of subsidiaries			
Global Evolution Holding ApS	Market price	$2,138,492	$-
	Cost	$2,142,144	$-

F. Discretionary account management balance

Name	31 December 2018	31 December 2017
Associate of subsidiaries		
Global Evolution Holding ApS	$6,494,247	$-
Other related party		
Cathay Securities Investment Trust Co., Ltd.	210,965,710	245,661,387
Total	$217,459,957	$245,661,387

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

G. Other receivables

Name	31 December 2018	31 December 2017
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$8,998,563	$706,336
Other related party		
Cathay Century Insurance Co., Ltd.	60,668	56,124
Cathay Securities Investment Trust Co., Ltd.	48,365	51,323
Subtotal	109,033	107,447
Total	$9,107,596	$813,783

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

H. Guarantee deposits paid

Name	31 December 2018	31 December 2017
Other related party		
Cathay Futures Co., Ltd.	$1,511,584	$1,628,717

For the year ended 31 December 2018 and 2017, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were $1,471 thousand and $1,087 thousand, respectively.

I. Prepaid investment

	For the year ended 31 December	
Name	2018	2017
Associate		
Cathay Insurance Company Limited (China)	$1,100,344	$-

On 17 September 2018, the board of directors resolved to increase capital in the amount of CNY 245,000 thousand in its associate,Cathay Insurance Company Limited (China). On 6 December 2018, the Investment Commission of the Ministry of Economic Affairs authorized the Company’s remittance of the investment. This capital increase has been approved by China Banking and Insurance Regulatory Commission on 23 January 2019.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

J. Guarantee deposits received

Name	31 December 2018	31 December 2017
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	$139,386	$337,790
Other related party		
Lin Yuan Property Management Co., Ltd.	5,000	5,000
San Ching Engineering Co., Ltd.	440,700	661,181
Cathay Hospitality Management Co., Ltd.	256,883	120,257
Cathay Hospitality Consulting Co., Ltd.	107,074	-
Subtotal	809,657	786,438
Total	$949,043	$1,124,228

K. Other payables

Name	31 December 2018	31 December 2017
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$65,589	$158,589
Associate and its subsidiary		
Symphox Information Co., Ltd.	9,718	1,776
Other related party		
Cathay United Bank	89,605	163,342
Cathay Century Insurance Co., Ltd.	7,372	7,706
Cathay Securities Investment Trust Co., Ltd.	13,166	14,576
Subtotal	110,143	185,624
Total	$185,450	$345,989

Note: The payables consist of tax payable under the consolidated income tax system and interest expenses accrued from bonds payable and preferred stock liability.

L. Bonds payable

Name	31 December 2018	31 December 2017
Parent company		
Cathay Financial Holding Co., Ltd.	$35,000,000	$35,000,000

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

M. Preferred stock liability

Name	31 December 2018	31 December 2017
Parent company		
Cathay Financial Holding Co., Ltd.	$-	$5,000,000

N. Premium income

	For the year ended 31 December	
Name	2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$3,162	$2,918
Other related party		
Cathay United Bank	51,299	78,392
Cathay Century Insurance Co., Ltd.	19,867	19,215
Cathay Securities Co., Ltd.	3,747	3,546
Cathay Medical Care Corp.	44,017	43,234
Cathay Securities Co., Ltd.	7,901	8,044
Lin Yuan Property Management Co., Ltd.	3,184	3,183
San Ching Engineering Co., Ltd.	3,365	2,516
Other	259,323	294,377
小　計	392,703	452,507
Total	$395,865	$455,425

O. Handling fees earned

	For the year ended 31 December	
Name	2018	2017
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$68,106	$80,707

P. Other operating income

	For the year ended 31 December	
Name	2018	2017
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$130,908	$101,440

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

Q. Insurance expenses

	For the year ended 31 December	
Name	2018	2017
Other related party		
Cathay Century Insurance Co., Ltd.	$107,023	$115,158

R. Indemnity income

	For the year ended 31 December	
Name	2018	2017
Other related party		
Cathay Century Insurance Co., Ltd.	$17,158	$13,114

S. Reinsurance income

	For the year ended 31 December	
Name	2018	2017
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$-	$131,460

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

T. Reinsurance service expenses

	For the year ended 31 December	
Name	2018	2017
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$-	$8,826

U. Reinsurance claim payments

	For the year ended 31 December	
Name	2018	2017
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$-	$128,255

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

V. Other operating costs

Name	For the year ended 31 December 2018	2017
Other related party		
Cathay United Bank	$1,024,363	$902,199
Cathay Securities Investment Trust Co., Ltd.	402,183	152,394
Total	$1,426,546	$1,054,593

W.Finance costs

Name	For the year ended 31 December 2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$1,260,000	$1,260,179

Finance costs consist of interest expenses accrued from bonds payable.

X. Operating expenses

Name	For the year ended 31 December 2018	2017
Associate and its subsidiary		
Symphox Information Co., Ltd.	$248,531	$286,646
Seaward Card Co., Ltd.	85,498	90,759
Subtotal	334,029	377,405
Other related party		
Cathay United Bank	6,067,566	5,860,235
Cathay Securities Co., Ltd.	-	8,450
Cathay Venture Inc.	5,928	13,440
Lin Yuan Property Management Co., Ltd.	793,716	781,188
Cathay Real Estate Development Co., Ltd.	4,718	5,828
Cathay Futures Co., Ltd.	1,757	3,571
Cathay Healthcare Management Co., Ltd.	33,175	30,623
Cathay Medical Care Corp.	14,847	3,731
Cathay Charity Foundation	5,300	5,550
San Ching Engineering Co., Ltd.	3,672	3,924
Cathay Securities (Hongkong) Co., Ltd.	6,049	-
Subtotal	6,936,728	6,716,540
Total	$7,270,757	$7,093,945

Y. Non-operating income

Name	For the year ended 31 December 2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$4,415	$5,127
Other related party		
Cathay Century Insurance Co., Ltd.	629,342	580,053
Cathay United Bank	188,212	174,073
Cathay Securities Co., Ltd.	18,824	13,290
Cathay Securities Investment Trust Co., Ltd.	23,668	19,151
Cathay Healthcare Management Co., Ltd.	4,938	4,792
Cathay Medical Care Corp.	3,702	3,651
Subtotal	868,686	795,010
Total	$873,101	$800,137

Non-operating income is mainly generated from the Company and Subsidiaries' integrated marketing activities.

Z. Non-operating expense

Name	For the year ended 31 December 2018	2017
Parent company		
Cathay Financial Holding Co., Ltd.	$50,704	$93,000

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

AA. Other

As of 31 December 2018 and 31 December 2018, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below (USD in thousands):

Item	31 December 2018		31 December 2017	
CS contracts	USD	3,752,000	USD	3,322,000

AB. Key management personnel compensation

	For the year ended 31 December	
Name	2018	2017
Short-term employee benefits	$171,146	$134,551
Post-employment benefits	1,779	1,219
Total	$172,925	$135,770

The management of the Company includes chairman, directors, president, senior executive vice president, senior vice general managers and the above.

56. Pledged assets

(1) The Company

The Company provided cash, time deposits and government bonds to its lessees as guarantees for the guarantee deposits received and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the Guaranteed Depository Insurance. Pledged assets are summarized based on the net carrying amounts. Details are as follows:

	31 December 2018	31 December 2017
Guarantee deposits paid – Government bonds	$11,321,833	$9,637,852
Guarantee deposits paid – Time deposits	495,000	486,100
Guarantee deposits paid – Others	80,461	56,163
Total	$11,897,294	$10,180,115

(2) Cathay Lujiazui Life

According to the requirement of the "China Insurance Regulatory Commission", the guaranteed deposit is 20% of the registered capital. Details are as follows (CNY in thousands):

	31 December 2018	31 December 2017
Guarantee deposits paid – Time deposits	CNY 700,000	CNY 630,000

(3) Cathay Life (Vietnam)

According to the requirement of the Ministry of Finance of Vietnam, the guaranteed deposit is 2% of the legal capital. Details are as follows (VND in thousands):

	31 December 2018	31 December 2017
Guarantee deposits paid – Time deposits	VND 12,000,000	VND 12,000,000

(4) CHL

In accordance with Dodd-Frank Act, the financial assets are used as collaterals for loans. Details are as follows (USD in thousands):

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	USD -	USD 23,036
Held-to-maturity financial assets	(Note)	177,858
Total	USD -	USD 200,894

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

57. Commitment and Contingencies

(1) Legal claim contingency

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

(2) Investment commitment for private equity fund

As of 31 December 2018, the maximum remaining capital commitment for the contracted private equity fund of the Company was USD 2,277,301 thousand, EUR 315,235 thousand, GBP 1,557 thousand and NTD 2,200,000 thousand.

58. Significant disaster damages

None.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

59. Significant subsequent events

Please refer to Note 50

60. Other matters

(1) Discretionary account management

A. As of 31 December 2018 and 31 December 2017, the Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	31 December 2018	
Items	Carrying amount	Fair value
Domestic stocks	$118,377,980	$118,377,980
Overseas stocks	60,215,861	60,215,861
Reverse repurchase bonds	12,410,000	12,410,000
Cash in banks	17,914,307	17,914,307
Beneficiary certificates	1,830,959	1,830,959
Futures and options	216,603	216,603
Total	$210,965,710	$210,965,710

	31 December 2017	
Items	Carrying amount	Fair value
Domestic stocks	$146,469,572	$146,469,572
Overseas stocks	55,439,633	55,439,633
Reverse repurchase bonds	8,910,000	8,910,000
Cash in banks	34,384,975	34,384,975
Beneficiary certificates	318,911	318,911
Futures and options	138,296	138,296
Total	$245,661,387	$245,661,387

B. As of 31 December 2018, the Company entered into discretionary account management contracts in the amounts of NTD 97,872,589 thousand, USD 1,417,500 thousand and HKD 2,023,000 thousand. As of 31 December 2017, the Company entered into discretionary account management contracts in the amounts of NTD 107,000,000 thousand, USD 1,595,000 thousand and HKD 2,750,000 thousand.

(2) Revenue and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are directly recognized or allocated to the Company and its affiliates by using reasonable allocation method based on the attribution of the transactions.

(3) Capital management

A. Objectives

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its RBC ratio in a certain range in order to reduce all types of risks.

B. Policies

In order to assume all types of risks, the Company applies RBC ratio as the indicator for capital adequacy. The Company calculates RBC ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

C. Procedures

a. Periodically

The Company regularly reviews the RBC ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the RBC ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

The Company conducts scenario analysis for RBC ratio focusing on the Company's use of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. RBC ratio

RBC 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.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

(4) Structured entities

A. Consolidated structured entities

The Company owns real estate investment and management organizations as consolidated structured entities. As of 31 December 2018 and 31 December 2017, the Company and Subsidiaries provided loans amounting to GBP 345,000 thousand and GBP 345,000 thousand to the consolidated structured entities for operation and investment, respectively.

B. Unconsolidated structured entities

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

Types of structured entity	Nature and purpose	Interests owned
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

b. As of 31 December 2018 and 31 December 2017, the carrying amount of assets recognized by the Company and Subsidiaries relating to their interests in unconsolidated structured entities is disclosed as follows:

	31 December 2018	
	Private equity funds	Asset-backed securities
Financial assets at fair value through profit or loss	$77,198,514	$29,059,383
Financial assets at fair value through other comprehensive income	-	53,974,279
Financial assets measured at amortized cost	-	152,673,283
Total	$77,198,514	$235,706,945

	31 December 2017	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$51,152,449	$75,857,755
Debt instrument investments for which no active market exists	-	133,790,164
Held-to-maturity financial assets	-	6,175,423
Total	$51,152,449	$215,823,342

61. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs ("MOEAIC") authorized the Company to remit USD 22,850 thousand and USD 27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from USD 50,000 thousand to USD 48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit USD 59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized the Company to remit USD 3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of USD 32,520 thousand of unexecuted project to CNY 200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was USD 110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. The Company has remitted USD 48,330 thousand to the subsidiary as of 31 December 2009. The Company injected additional USD 29,880 thousand on 29 September 2010 and CNY 200,000 thousand on 8 May 2014. On 23 August 2017, MOEAIC authorized the Company to remit CNY 700,000 thousand and the amount was remitted on 20 September 2017. As of 31 December 2018, the Company's remittances to the subsidiary totaled approximately CNY 900,000 thousand and USD 78,210 thousand.

On 17 October 2007, MOEAIC authorized the Company to remit USD 26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized the Company to increase the remittances from USD 26,390 thousand to USD 28,960 thousand. On 15 August 2008, MOEAIC further authorized the Company to revise the remittance from USD 28,960 thousand to USD 28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY 200,000 thousand to increase the share capital. On 6 December 2018, MOEAIC authorized the Company to remit CNY 245,000 thousand. As of 31 December 2018, the Company's remittances to this general insurance company totaled approximately CNY 445,000 thousand and USD 28,140 thousand.

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

On 1 November 2011 and 11 April 2012, MOEAIC authorized the Company to remit CNY 300,000 (USD 47,000) thousand and CNY 500,000 (USD 80,000) thousand, respectively. A total of USD 127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized the Company to remit CNY 700,000 (USD 111,000) thousand to increase the share capital. As of 31 December 2018, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY 1,500,000 thousand.

62. Segment information

(1) General Information

The Company and Subsidiaries operates business about insurance of the person in accordance with the provisions of the Insurance Law. According to IFRS 8, the Company and Subsidiaries only provide insurance contract products and the company executive consider whole company to allocate resources, so the whole company is a single operating department.

(2) Regional Information

The operating income of the company and subsidiaries is mainly from premiun income of domestic and overseas and investment income. The reginal information about the company and subsidiaries operating income is as follows:

	For the year ended 31 December	
	2018	2017
Domestic	$666,111,803	$793,432,793
Overseas	153,306,414	82,946,723
Total	$819,418,217	$876,379,516