Cathay Century Insurance Co., Ltd. and Subsidiaries

Consolidated Financial Statements

For the years ended
31 December 2015 and 2014
With Independent Auditors' Report

Address: No.296, Sec. 4, Jen Ai Road, Taipei, Taiwan, R.O.C.
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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises". If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

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

We have audited the accompanying consolidated balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") and its subsidiaries as 31 December 2015, 31 December 2014 and 1 January 2014 and the related statements of comprehensive income, statement of changes in equity and statement of cash flows for the years ended 31 December 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of 31 December 2015, 31 December 2014 and 1 January 2014 and financial performance and cash flows for the years ended 31 December 2015 and 2014, in conformity with "Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises"

As described in Note 3 to the financial statements, the Company and its subsidiaries prepare the financial reports in accordance with the International Financial Reporting Standards ("IFRS"), International Accounting Standards, and interpretations issued, revised or amended (excluding IFRS 9), which are recognized by FSC and would be applicable for annual periods beginning on or after 1 January 2015. The financial statements for the years ended 31 December 2014, and the related balance sheets as of 1 January 2014 and 31 December 2014.

We have audited and expressed a modified unqualified opinion and standard unqualified opinion on the parent company only financial statements of Cathay Century Insurance Co., Ltd. for the years ended 31 December 2015 and 2014.

Ernst & Young
Taipei, Taiwan
The Republic of China

16 March 2016

Notice to Readers

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Balance Sheets

As of 31 December 2015, 31 December 2014 and 1 January 2014

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	31 December 2015	31 December 2014 (adjusted)	1 January 2014 (adjusted)
Cash and cash equivalents	4,6(1)	$12,515,171	$8,023,111	$8,194,772
Receivables	4,6(2)	2,711,388	3,649,736	3,725,513
Financial assets at fair value through profit or loss	4,6(3)	1,988,360	1,514,144	1,312,025
Available-for-sale financial assets	4,6(4)	8,100,725	8,256,604	7,234,902
Derivative financial assets for hedging	4,6(5)	-	3,747	10,022
Investments accounted for using the equity method		-	-	829
Debt instrument investments for which no active market exists	4,6(6)	3,686,683	3,359,314	2,053,740
Held-to-maturity financial assets	4,6(7)	4,462,088	2,647,264	1,955,937
Loans	4,6(8)	366,255	397,313	422,521
Reinsurance assets	4,6(9)	6,336,731	6,089,372	5,057,226
Property and equipment	4,6(10)	219,213	258,732	303,365
Intangible assets	4,6(11)	62,703	26,155	29,031
Deferred tax assets		93,269	93,146	92,369
Other assets	4,6(12)	1,562,923	1,544,267	1,332,211
Total assets		$42,105,509	$35,862,905	$31,724,463

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Balance Sheets (contiued)

As of 31 December 2015, 31 December 2014 and 1 January 2014

(Expressed in Thousands of New Taiwan Dollars)

Liabilities & equity	Notes	31 December 2015	31 December 2014 (adjusted)	1 January 2014 (adjusted)
Payables	4,6(13)	$3,084,816	$2,892,354	$2,622,538
Financial liabilities at fair value through profit or loss	4,6(3)	192,554	176,626	28,352
Preferred stock liabilities	4,6(14)	1,000,000	1,000,000	1,000,000
Insurance liabilities	4,6(15)	25,064,274	23,943,870	21,853,590
Provisions	4,6(16)	381,016	283,132	325,367
Deferred tax liabilities	4,6(24)	36,035	58,480	24,404
Other liabilities		5,127,715	679,739	433,062
Total liabilities		34,886,410	29,034,201	26,287,313
Equity attributable to owners of parent				
Capital stock	4,6(17)	2,802,202	2,721,879	2,721,879
Capital surplus				
Capital surplus - others		-	-	1,929
Retained earnings	4,6(18)			
Legal capital reserve		1,334,277	1,167,902	1,092,927
Special capital reserve		2,433,579	1,949,825	1,364,645
Undistributed earnings		698,679	247,594	74,938
Other equity		(375,022)	36,558	(169,280)
Non-controlling interests	4,6(19)	325,384	704,946	350,112
Total equity		7,219,099	6,828,704	5,437,150
Total liabilities and equity		$42,105,509	$35,862,905	$31,724,463

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Statements of Comprehensive Income

For the years ended 31 December 2015 and 2014

(Expressed in Thousands of New Taiwan Dollars, except Earning per Share)

Items	Notes	2015.1.1~2015.12.31	2014.1.1~2014.12.31 (adjusted)
Operating revenues			
Direct premium income	4,6(20)	$21,421,537	$20,754,488
Reinsurance premium income	4,6(20)	1,027,575	524,894
Premium income		22,449,112	21,279,382
Deduct: Premiums ceded to reinsurers	4,6(20)	(5,195,149)	(5,199,451)
Net changes in unearned premium reserve	4,6(20)	(84,751)	(454,273)
Retained earned premium		17,169,212	15,625,658
Reinsurance commission earned		517,313	683,179
Handling fees earned		47,672	45,375
Net investment profit and loss		972,121	917,578
Interest income		563,942	609,440
Gains (losses) on financial asset and financial liabilities at fair value through profit or loss		(191,814)	(245,702)
Realized gains (losses) on available-for-sale financial assets		347,244	233,644
Realized gains (losses) on debt instruments for which no active market exists		715	-
Realized gains (losses) on held-to-maturity financial assets		1,944	4,591
Share of profit (loss) of associates and joint ventures accounted for using the equity method		-	1,726
Gains (losses) on foreign exchange		250,090	313,879
Other operating revenue		14,871	7,402
Subtotal		18,721,189	17,279,192
Operating costs			
Insurance claims payments	4,6(21)	(11,741,986)	(11,204,362)
Deduct: Claims recovered from reinsurers	4,6(21)	2,449,598	2,457,528
Retained claim payments		(9,292,388)	(8,746,834)
Net changes in insurance liabilities	4,6(15)	(734,454)	(690,511)
Commission expenses		(1,337,028)	(1,160,449)
Other operating costs		(64,775)	(57,164)
Subtotal		(11,428,645)	(10,654,958)

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Statements of Comprehensive Income (continued)

For the years ended 31 December 2015 and 2014

(Expressed in Thousands of New Taiwan Dollars, except Earning per Share)

Items	Notes	2015.1.1~2015.12.31	2014.1.1~2014.12.31 (adjusted)
Operating expenses			
Business expenses		(4,801,903)	(4,530,540)
Administrative and general expenses		(1,383,550)	(1,280,034)
Employee training expenses		(11,902)	(12,423)
Subtotal		(6,197,355)	(5,822,997)
Operating income		1,095,189	801,237
Non-operating income and expenses		(4,187)	28,993
Profit before income tax from continuing operations		1,091,002	830,230
Income tax expense	4,6(24)	(287,150)	(173,699)
Profit from continuing operations		803,852	656,531
Net income		803,852	656,531
Other comprehensive income (loss)	4,6(22)		
Not to be reclassified to profit or loss in subsequent periods:			
Remeasurements of defined benefit plans		(98,125)	40,581
Income taxes relating to the components not to be reclassified to profit or loss in subsequent periods		16,681	(6,899)
To be reclassified to profit or loss in subsequent periods:			
Exchange differences resulting from translating the financial statements of a foreign operation		(13,023)	59,465
Unrealized gains (losses) on available-for-sale financial assets		(327,067)	161,174
Gains (losses) on effective portions of cash flow hedges		(3,747)	(6,274)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		-	(3)
Income taxes relating to the components to be reclassified to profit or loss in subsequent periods		11,824	(6,212)
Other comprehensive income, net of tax		(413,457)	241,832
Total comprehensive income		$390,395	$898,363
Net income attributable to:			
Owners of parent		$1,181,537	$832,811
Non-controlling interests		$(377,685)	$(176,280)
Comprehensive income attributable to:			
Owners of parent		$769,957	$1,038,649
Non-controlling interests		$(379,562)	$(140,286)
Basic earnings per share			
Net income (In dollars)	4,6(25)	$4.22	$2.97

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Statements of Changes in Equity

For the years ended 31 December 2015 and 2014

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to equity holders of the parent											
			Retained earnings			Other equity						
Items	Common stock	Capital surplus	Legal reserve	Special capital reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) from available-for-sale financial assets	Gains (losses) on cash flow hedges	Remeasurement of defined benefit plans	Total	Non-controlling interests	Total equity
Balance on 1 January 2014	$2,721,879	$1,929	$1,092,927	$1,364,645	$74,975	$(36,559)	$(68,830)	$10,021	$-	$5,160,987	$350,112	$5,511,099
Amounts of retrospective adjustments	-	-	-	-	(37)	-	-	-	(73,912)	(73,949)	-	(73,949)
Balance on 1 January 2014 (adjusted)	2,721,879	1,929	1,092,927	1,364,645	74,938	(36,559)	(68,830)	10,021	(73,912)	5,087,038	350,112	5,437,150
Appropriations and distribution of earnings for the year 2013												
Legal capital reserve	-	-	113,928	-	(113,928)	-	-	-	-	-	-	-
Legal capital reserve used to cover accumulated deficits	-	-	(38,953)	-	38,953	-	-	-	-	-	-	-
Provision for special reserve (Note)	-	-	-	585,180	(585,180)	-	-	-	-	-	-	-
Changes in other capital surplus:												
Share of changes in net assets of associates and joint ventures for using the equity method	-	(1,929)	-	-	-	-	-	-	-	(1,929)	-	(1,929)
Net income for the year ended 31 December 2014 (adjusted)	-	-	-	-	832,811	-	-	-	-	832,811	(176,280)	656,531
Other comprehensive income for the year ended 31 December 2014 (adjusted)	-	-	-	-	-	37,621	140,809	(6,274)	33,682	205,838	35,994	241,832
Total comprehensive income for the year ended 31 December 2014 (adjusted)	-	-	-	-	832,811	37,621	140,809	(6,274)	33,682	1,038,649	(140,286)	898,363
Other	-	-	-	-	-	-	-	-	-	-	495,120	495,120
Balance on 31 December 2014(adjusted)	2,721,879	-	1,167,902	1,949,825	247,594	1,062	71,979	3,747	(40,230)	6,123,758	704,946	6,828,704
Appropriations and distribution of earnings for the year 2014												
Legal capital reserve	-	-	166,375	-	(166,375)	-	-	-	-	-	-	-
Stock dividends	80,323	-	-	-	(80,323)	-	-	-	-	-	-	-
Provision for special reserve (Note)	-	-	-	483,754	(483,754)	-	-	-	-	-	-	-
Net income for the year ended 31 December 2015	-	-	-	-	1,181,537	-	-	-	-	1,181,537	(377,685)	803,852
Other comprehensive income for the year ended 31 December 2015	-	-	-	-	-	(12,564)	(313,825)	(3,747)	(81,444)	(411,580)	(1,877)	(413,457)
Total comprehensive income for the year ended 31 December 2015	-	-	-	-	1,181,537	(12,564)	(313,825)	(3,747)	(81,444)	769,957	(379,562)	390,395
Balance on 31 December 2015	$2,802,202	$-	$1,334,277	$2,433,579	$698,679	$(11,502)	$(241,846)	$-	$(121,674)	$6,893,715	$325,384	$7,219,099

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd. and Subsidiaries

Audited Consolidated Statements of Cash Flows

For the years ended 31 December 2015 and 2014

(Expressed in Thousands of New Taiwan Dollars)

Items	2015.1.1~2015.12.31	2014.1.1~2014.12.31 (adjusted)
Cash flows from operating activities:		
Profit before income tax	$1,091,002	$830,230
Adjustments:		
Income and other adjustments with no cash flow effects		
Depreciation expenses	108,886	102,134
Amortization expenses	20,872	32,748
Provision (reversal of provision) for bad debt expense	191	26,676
Net losses (gains) on financial assets or financial liabilities at fair value through profit or loss	191,814	245,702
Net losses (gains) on available-for-sale financial assets	(347,244)	(233,644)
Net losses (gains) on debt instrument for which with no active market exists	715	-
Net losses (gains) from held-to-maturity financial assets	(1,944)	(4,591)
Interest income	(563,942)	(609,440)
Net changes in insurance liabilities	1,143,315	1,985,170
Share of loss (profit) of associates and joint ventures accounted for using the equity method	-	(1,726)
Gain on disposal and scrapping of property and equipment	14	29
Changes in assets and liabilities from operating activities:		
Increase in financial assets at fair value through profit or loss	(653,231)	(292,647)
Decrease (increase) in available-for-sale financial assets	19,389	(674,813)
Increase in debt instrument for which no active market exists	(329,305)	(1,367,933)
Increase in held-to-maturity financial assets	(1,816,508)	(675,209)
(Increase) decrease in notes receivable	(89,018)	53,815
Decrease (increase) in premiums receivable	1,269,772	(162,900)
(Increase) decrease in other accounts receivable	(248,293)	273,295
Increase in reinsurance assets	(257,226)	(1,006,644)
Increase in other assets	(9,521)	(211,659)
Increase in claims outstanding	1,586	1,903
Increase in due to reinsurers and ceding companies	117,942	29,387
(Decrease) increase in commissions payable	(21,888)	76,777
(Decrease) increase in other payables	(126,800)	35,703
Decrease in provisions	(241)	(1,655)
Increase in other liabilities	4,447,976	246,677
Cash flows from (used in) operating activities	3,948,313	(1,302,615)
Interest received	572,221	477,970
Dividends received	141,060	104,619
Interest paid	(38,307)	(1,594)
Income taxes paid	(21,182)	(25,871)
Net cash flows from (used in) operating activities	4,602,105	(747,491)
Cash flows from investing activities:		
Proceeds from repayments of bond investments without active market	-	82,920
Capital reduction in investments for using the equity method	-	535
Acquisition of property and equipment	(86,076)	(54,434)
Acquisition of intangible assets	(41,707)	(29,337)
Increase in loans	(52,460)	(61,400)
Decrease in loans	83,518	86,608
Net cash flows (used in) from investing activities	(96,725)	24,892
Cash flows from financing activities:		
Issuance of common stock for cash	-	495,120
Net cash flows from financing activities	-	495,120
Effects of exchange rate changes on cash and cash equivalents	(13,320)	55,818
Increase (decrease) in cash and cash equivalents	4,492,060	(171,661)
Cash and cash equivalents at the beginning of periods	8,023,111	8,194,772
Cash and cash equivalents at the end of periods	$12,515,171	$8,023,111

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

1. History and organization

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

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

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

The consolidated financial statements of the Company and its subsidiaries (the "Consolidated Company") for the years ended 31 December 2015 and 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 16 March 2016.

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 Consolidated Company applied for the first time the International Financial Reporting Standards, International Accounting Standards, and interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2015. The nature and the impact of each new standard and amendment that has a material effect on the Consolidated Company are described below:

A. IAS 19 “Employee Benefits”

The revised IAS 19 brought about the following changes to defined benefit plans which are summarized below:

(a) The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period.

(b) In the previous version of IAS 19, past service cost is recognized as an expense immediately to the extent that the benefits are already vested, or on a straight-line basis over the average period until the benefits become vested. Under the revised IAS 19, all past service costs are recognized at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognized. Therefore unvested past service cost is no longer deferred over future vesting periods.

(c) The revised IAS 19 required more disclosure.

(d) The Consolidated Company applied the revised IAS 19 “Employee Benefits” retrospectively in the current period in accordance with the transitional provisions set out in the revised standard except that the carrying amount of assets was not adjusted for changes in employee benefit cost that were included in the carrying amount before 1 January 2014. The figures of the earliest comparative period presented and the comparative period have been accordingly restated.

(e) In the previous version of IAS 19, the Consolidated Company amortize the amount that net cumulative unrecognized actuarial gains and losses exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets over the expected remaining working lives of employees participating in the plan. Under the amended standard, the remeasurement of net defined benefit liability (asset) will be recognized in other comprehensive income and other equity immediately when occurs.

(Expressed in thousands of dollars unless otherwise stated)

Impact on the statement of comprehensive income:

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Operating expense:		
Business expenses	$18	$(786)
Administrative and general expenses	8	(337)
Total operating expenses	26	(1,123)
Profit or loss before tax	(26)	1,123
Income tax expense	4	(191)
Net income	$(22)	$932
Net income attributable to:		
Owners of parent	$(22)	$932
Non-controlling interests	-	-
Earnings per share (in dollars)		
Basic earnings per share	$-	$-

Impact on the balance sheet:

	2015.12.31	2014.12.31	2014.1.1
Provisions	$145,543	$47,392	$89,095
Deferred tax assets	24,742	8,057	15,146
Retained earnings			
Undistributed earnings	895	(37)	(37)
Net income for the periods	(22)	932	-
Other comprehensive income			
Remeasurement of defined benefit plans	(121,674)	(40,230)	(73,912)

B. IFRS 7 “Financial Instruments Disclosures” -Transfers of Financial Assets

The amendments require that additional quantitative and qualitative disclosure on financial assets that have been transferred but not derecognized at reporting date and that have been derecognized but for which the entity retains continuing involvement. The Company and subsidiaries has added additional nature and quantitative disclosures for transferred financial assets.

C. IFRS 7 “Financial Instruments Disclosures” -Offsetting Financial Assets and Financial Liabilities

The amendments require the entity disclose more information about offsetting of financial instrument. The disclosure shall enable users to evaluate the effect of offsetting on the entity's financial position. Financial instruments that offset in accordance with IAS 32 Financial Instruments: Presentation and that do not offset but subject to enforceable master netting settlement or other similar agreements but not offset are included in the disclosure. The Company and subsidiaries has added additional nature and quantitative disclosures for transferred financial assets.

D. IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 Disclosure of Interests in Other Entities sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements, for example, summarized financial information about the associate or disclosure on subsidiaries with material non-controlling interests. Please refer to Note 6 for more details.

E. IFRS 13 “Fair Value Measurements”

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The Consolidated Company re-assessed its policies for measuring fair values. Application of IFRS 13 has not materially impacted the fair value measurements of the Consolidated Company.

Additional disclosures where required under IFRS 13, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 12. According to the transitional provisions of IFRS 13, IFRS 13 is applied prospectively as of 1 January 2015; the disclosure requirements of IFRS 13 need not be applied in comparative information before 1 January 2015.

F. IAS 1 “Presentation of Financial Statements” -Presentation of items of other comprehensive income

Beginning 1 January 2014, the Consolidated Company presented its items of other comprehensive income that will be reclassified to profit or loss separately from items that will not be reclassified in accordance with the amendments to IAS 1. The amendments affect presentation of statement of comprehensive income only and have no impact on the Consolidated Company’s financial position or performance.

G. IAS 1 “Presentation of Financial Statements” -Clarification of the requirement for comparative information

Beginning 1 January 2014, according to the amendments to IAS 1, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, the opening statement of financial position does not have to be accompanied by comparative information in the related notes. The amendments affect notes accompanying the financial statements only and have no impact on the Consolidated Company’s financial position or performance.

(2) Standards or interpretations issued by IASB but not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue are listed below.

A. IAS 36 “Impairment of Assets” (Amendment)

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

B. IFRIC 21 “Levies”

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after 1 January 2014.

C. IAS 39 “Financial Instruments: Recognition and Measurement” (Amendment)

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after 1 January 2014.

D. IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

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

IFRS 2 “Share-based Payment”

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

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 Financial Instruments to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

IFRS 8 “Operating Segments”

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

IFRS 13 “Fair Value Measurement”

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

IAS 16 “Property, Plant and Equipment”

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

IAS 24 “Related Party Disclosures”

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

IAS 38 “Intangible Assets”

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

F. Improvements to International Financial Reporting Standards (2011-2013 cycle):
IFRS 1 “First-time Adoption of International Financial Reporting Standards”

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

IFRS 3 “Business Combinations”

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

IFRS 13 “Fair Value Measurement”

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendment is effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

G. IFRS 14 “Regulatory Deferral Accounts”

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

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

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

I. IAS 16“Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization

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

J. IFRS 15 “Revenue from Contracts with Customers”

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

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

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

K. IAS 16“Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants

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

L. IFRS 9“Financial Instruments”

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

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

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

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

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

M. IAS 27“Separate Financial Statements” — Equity Method in Separate Financial Statements

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

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

N. IFRS 10“Consolidated Financial Statements” and IAS 28“Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

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

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

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

IFRS 7 “Financial Instruments: Disclosures”

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 Financial Instruments: Disclosures is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 Interim Financial Reporting. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 “Employee Benefits”
The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 34 “Interim Financial Reporting”

The amendment clarifies what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

P. IAS 1 “Presentation of Financial Statements” (Amendment):

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

Q. IFRS 10“Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28“Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

R. IFRS 16“Leases”

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

S. IAS 12“Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses

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

T. Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”

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

The above mentioned standards and interpretations issued by IASB have not yet recognized by FSC at the date of issuance of the Consolidated Company’s financial statements. The local effective dates are to be determined by FSC as the Consolidated Company is still 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 Consolidated Company for the years ended 31 December 2015 and 2014 have been prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Insurance Enterprises, IFRSs, IASs, IFRIC and SIC, which are endorsed by FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

<u>Preparation principle of consolidated financial statement</u>

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

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

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

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

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

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

If the Consolidated Company loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

Investor	Subsidiary	Business Nature	Ownership Interest		Notes
			2015.12.31	2014.12.31	
The Company	Cathay Insurance Company Ltd. (China) ("Cathay Insurance (China)")	Property Insurance	50.00	50.00	Cathay Insurance (China) acquired an operation license of an enterprise as a juristic person on 26 August 2008. The Company and Cathay Life Insurance Co., Ltd. each owns 50% interest of Cathay Insurance (China).
The Company	Cathay Insurance (Vietnam) Ltd. ("Cathay Insurance (Vietnam)")	Property Insurance	100.00	100.00	Cathay Insurance (Vietnam) acquired an operation license of an enterprise as a juristic person on 2 November 2010. The Company owns 100% interest of Cathay Insurance (Vietnam).

(4) Foreign currency transactions

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

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

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

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
B. Foreign currency items within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are accounted for based on the accounting policy for financial instruments.
C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Consolidated Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

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

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

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, 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 (including fixed-term deposits that contract period within one year).

(7) Financial assets and financial liabilities

Initial recognition and subsequent measurement

According to the IAS 39, financial assets are categorized as financial assets at fair value through profit or loss, available-for-sale financial assets, 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.

Financial assets and financial liabilities within scope are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Subsequent measurement of each category of financial instruments is listed below:

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

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

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

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

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

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

B. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity financial assets. 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 interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument. 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 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 shall be 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 Consolidated Company has both the positive intention and ability to hold the financial assets to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in profit or loss when the investments are derecognized, impaired, or amortized. The amortized cost is computed as the cost amount initially recognized minus principle repayments, plus or minus the cumulative amortization using the effective interest method arising from the difference between the cost and the maturity amount, and minus impairment. Contracts related to the financial assets, transactions costs, fees and premiums/ discounts are taken into the consideration when calculating the effective interest rate.

E. Loans and receivables

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

a. Those that the Consolidated Company intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

b. Those that the Consolidated Company and Subsidiaries upon initial recognition designates as available for sale; or

c. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are separately presented on the balance sheet as 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 method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

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

F. Financial liabilities

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

Derecognition of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

Reclassification of financial assets

In accordance with IAS 39:

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

B. The Consolidated Company shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss.

C. The Consolidated Company 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 year, there have been sales or reclassification of more than an insignificant amount of held-to-maturity investments, any remaining held-to-maturity investments shall be reclassified as available for sale.

Offsetting a financial asset and a financial liability

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

Impairment of financial assets

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

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 include:

A. significant financial difficulty of the issuer or obligor; or

B. a breach of contract, such as a default or delinquency in interest or principal payments; or

C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

D. the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

A. 0.5% of the ending balance for the first category of loan assets excluding life insurance loans, automatic premium loans and holding government debts, 2% of the ending balance for the second category of loan assets, 10% of the ending balance for the third category of loan assets, as well as 50% and 100% of the ending balance for the fourth and fifth category of loan assets.

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

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

The minimum amounts should be recorded within three years starting on January 2014.

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.

Derivative financial instruments and hedging transactions

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

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, expect for the effective portion of cash hedges, which are recognized in equity.

Hedging relationships consist of these types:

A. Fair value hedges: a hedge of the exposure to changes in fair value of a recognized asset or liability, an unrecognized firm commitment.

B. Cash flow hedges: a hedge of exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or with a highly probable forecast transaction and could affect profit or loss.

C. Hedge of a net investment in a foreign operation: a hedge of the exposure to foreign currency risk associated with a net investment in a foreign operation.

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

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

A. Fair value hedges

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

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

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

C. Hedges of a net investment in a foreign operation

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

(8) Fair value measurement

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

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

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

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

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

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

(9) Investments accounted for using the equity method

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

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

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

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

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

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the Consolidated Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case, the Consolidated Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the ''share of profit or loss of an associate'' in the statement of comprehensive income as required by IAS 36 "Impairment of Assets". In determining the value in use of the investment, the Consolidated Company estimates:

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

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

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

(10) Property and equipment

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

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

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

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

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

(11) Leases

<u>The Consolidated Company as a lessee</u>

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

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

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

(12) Intangible assets

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

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

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

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

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

Computer software

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

(13) Impairment of non-financial assets

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

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

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), 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.

(14) Separation requirement for specific assets

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

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

A. Government bonds, not including exchangeable government bonds.

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

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

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

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

A. Treasury bills.

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

C. Government bonds in a repo transaction.

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

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

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

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

(15) Insurance contract categories

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

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

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

(16) Reinsurance contracts assets

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

The Consolidated Company holds the right over re-insurers for reinsurance reserve assets, claims recoverable from reinsurers-net and due from reinsurers and ceding companies, and regularly assess if impairment has occurred to such rights or the rights can no longer be recovered. For the classification of reinsurance contracts, the Consolidated Company assess whether the transfer of significant insurance risk to the re-insurers has occurred. If the transfer of significant insurance risk is not apparent, then the contract is recognized and evaluated with deposit accounting.

(17) Insurance liabilities

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

A. Unearned premium reserve

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

B. Claims reserve

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

C. Special reserve

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

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

a. Special reserve for major incident

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

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

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

b. Special reserve for fluctuation of risks

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

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

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

D. Premiums deficiency reserve

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

(18) Insurance premium revenues and the acquisition costs

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred. Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end and are made based on past experience.

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

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

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

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

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

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

(19) Insurance claim costs

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

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

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

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

Claim reserve is not discounted to its present value.

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

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

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

(20) Liability adequacy test

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

(21) Reinsurance ceded

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

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

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

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

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

The company and all the members approved by the competent authority set the "Co-insurance Contract of Compulsory Automobile Liability Insurance" agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance team. The business is calculated on the basis of pure premiums and in accordance with the agreed portion. In addition to the liquidation or went out of business, the members shall not withdraw. If members stop operating the automobile liability insurance, simultaneously withdraw from the co-insurance group.

The company, the property insurance company with order for traveling industry performance guarantee insurance and the co-insurance company set the "Co-insurance Contract of Traveling Industry Performance Guarantee Insurance" agreed that the business should be fully included in the co-insurance, violators have to pay liquidated damages and agreed to inspect by co-insurance organization. The business is calculated on the basis of co-insurance premium and in accordance with the agreed proportion. Members shall notice in writing when going to withdraw from co-insurance before following year began three months ago.

(23) Contribution to the stabilization funds

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

(24) Post-employment benefits plan

All regular employees of the 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's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (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 retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

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

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

(25) 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.

<u>Current income tax</u>

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 10% 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.

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 Consolidated Company expects, 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.

In accordance with Article 49 of the Financial Holdings Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effect due to the adoption of the foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), other receivables and other payable among the Company and its parent company.

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

5. Significant accounting judgments, estimates and assumptions the main sources of uncertainty

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

(1) Judgments

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

A. Categories of financial assets

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

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

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

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

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

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

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

C. The significant degree of risk transform measured by the risk ratio of re-insurance policy

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

When risk ratio of re-insurance policy that greater than 1%, the policies can be defined as re-insurance contracts.

(2) Estimates and assumptions

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

A. Fair value of financial instruments

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. Impairment of non-financial assets

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

C. Post-employment benefit

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

D. Insurance contract liabilities (Including a discretionary participation feature investment contract liabilities)

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

E. Income taxes

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

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

(Expressed in thousands of dollars unless otherwise stated)

6. Contents of significant accounts

(1) Cash and cash equivalents

	2015.12.31	2014.12.31
Petty cash and cash on hand	$10,678	$10,184
Cash in banks	5,892,264	1,187,967
Time deposits	4,765,535	6,069,785
Cash equivalents	1,846,694	755,175
Total	$12,515,171	$8,023,111

(2) Receivables

	2015.12.31	2014.12.31
Notes receivable - Net	$322,666	$233,647
Premiums receivable - Net	1,757,676	3,027,639
Other receivable - Net	631,046	388,450
Total	$2,711,388	$3,649,736

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

	2015.12.31	2014.12.31
Financial assets at fair value through profit or loss		
Held for trading:		
Derivative financial assets		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	$440	$-
Non-derivative financial assets		
Stocks	17,005	-
Beneficiary certificates	1,970,915	1,514,144
Total	$1,988,360	$1,514,144

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

(Expressed in thousands of dollars unless otherwise stated)

	2015.12.31	2014.12.31
Financial liabilities at fair value through profit or loss		
Held for trading:		
Derivative financial assets		
Derivatives not designated as hedging instruments		
Forward foreign exchange contracts	$192,554	$176,626

Forward foreign exchange contracts

The Consolidated Company entered in to forward foreign exchange contracts to manage the risk exposure position for certain transactions but are not designated as hedging instruments. Details of the derivative financial instruments reported as held for trading not designated as hedging instruments as of 31 December 2015 and 31 December 2014, are as follows:

	Nominal Amount	Contract Period
31 December 2015		
Forward foreign exchange contracts	Sell USD 174,100	7 January 2016-28 April 2017
Forward foreign exchange contracts	Sell EUR 7,850	13 January 2016-18 February 2016
31 December 2014		
Forward foreign exchange contracts	Sell USD 137,600	12 January 2015-13 June 2016
Forward foreign exchange contracts	Sell EUR 2,350	12 January 2015-12 February 2015

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

(Expressed in thousands of dollars unless otherwise stated)

(4) Available-for-sale financial assets

	2015.12.31	2014.12.31
Listed stocks	$2,962,126	$3,775,366
Foreign stocks	268,415	26,064
Beneficiary certificates	2,392,475	1,694,710
Corporate bonds	416,316	808,030
Real estate investment trust	112,549	34,725
Financial debentures	858,517	854,183
Government bonds	747,347	698,603
Overseas bonds	342,980	364,923
Total	$8,100,725	$8,256,604

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

(5) Derivative financial assets for hedging

	2015.12.31	2014.12.31
Derivative financial instruments		
Interest rate swap contracts	$-	$3,747

The international investment position bearing fixed interest rate may be exposed to the risk of fluctuation in fair value because of the changes in interest rate. Therefore, the Consolidated Company entered into interest rate swap contracts to hedge such interest rate risks.

Details of the unsettled interest rate swap contracts for hedging the interest rate risk arising from the international investment position are as follows:

	Nominal Amount	Settlement Date
31 December 2015		
Interest rate swap contracts	$-	-
31 December 2014		
Interest rate swap contracts	NTD200,000	30 August 2015

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.12.31	2014.12.31
Preferred stocks	$400,000	$400,000
Corporate bonds	650,000	650,000
Bank debentures	550,000	-
Overseas bonds	1,769,173	1,711,546
Time deposits	317,510	597,768
Total	$3,686,683	$3,359,314

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

(7) Held-to-maturity financial assets

	2015.12.31	2014.12.31
Overseas bonds	$4,462,088	$2,647,264

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

(8) Loans

	2015.12.31	2014.12.31
Loans	$370,683	$464,489
Less: Allowance for bad debts	(4,428)	(67,176)
Total	$366,255	$397,313

(Expressed in thousands of dollars unless otherwise stated)

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

	Individually Impaired	Collectively Impaired	Total
1 January 2015	$65,499	$1,677	$67,176
Reversal for the current period	(65,175)	2,427	(62,748)
Write off	-	-	-
31 December 2015	$324	$4,104	$4,428
1 January 2014	$81,061	$1,563	$82,624
Reversal for the current period	(15,562)	114	(15,448)
Write off	-	-	-
31 December 2014	$65,499	$1,677	$67,176

Individually impaired loss as of 31 December 2015 and 2014 mainly results from the financial difficulties of the obligators. The individually impaired loss is recognized as the difference between the carrying amount and the present value of estimated future recoverable amount. The pledged assets of the loans are properties and equipments.

(9) Reinsurance assets

	2015.12.31	2014.12.31
Claims recoverable from reinsurers	$354,825	$321,809
Due from reinsurers and ceding companies	627,136	727,993
Reinsurance reserve assets		
Ceded unearned premium reserve	2,786,250	2,750,419
Ceded claims reserve	2,575,432	2,249,673
Ceded premium deficiency reserve	(6,912)	39,478
Subtotal	5,354,770	5,039,570
Total	$6,336,731	$6,089,372

(Expressed in thousands of dollars unless otherwise stated)

(10) Property and equipment

	Other equipment	Leased assets	Leasehold improvement	Construction in progress and equipment awaiting examination	Total
Cost:					
1 January 2015	$468,901	$147,565	$85,184	$4,910	$706,560
Additions	53,019	-	12,076	20,981	86,076
Transfers	174	-	-	-	174
Disposals	(1,432)	-	(1,957)	(16,205)	(19,594)
Exchange differences	(1,778)	-	(401)	-	(2,179)
31 December 2015	$518,884	$147,565	$94,902	$9,686	$771,037
1 January 2014	$430,796	$147,565	$70,984	$1,011	$650,356
Additions	34,159	-	11,428	8,847	54,434
Transfers	4,948	-	-	(4,948)	-
Disposals	(8,397)	-	-	-	(8,397)
Exchange differences	7,395	-	2,772	-	10,167
31 December 2014	$468,901	$147,565	$85,184	$4,910	$706,560
Depreciation and impairment:					
1 January 2015	$344,707	$43,259	$59,862	$-	$447,828
Depreciation	59,442	36,891	12,553	-	108,886
Disposals	(1,418)	-	(1,957)	-	(3,375)
Exchange differences	(1,212)	-	(303)	-	(1,515)
31 December 2015	$401,519	$80,150	$70,155	$-	$551,824
1 January 2014	$293,146	$6,368	$47,477	$-	$346,991
Depreciation	54,810	36,891	10,433	-	102,134
Disposals	(8,368)	-	-	-	(8,368)
Exchange differences	5,119	-	1,952	-	7,071
31 December 2014	$344,707	$43,259	$59,862	$-	$447,828
Net carrying amount as at:					
2015.12.31	$117,365	$67,415	$24,747	$9,686	$219,213
2014.12.31	$124,194	$104,306	$25,322	$4,910	$258,732
2014.01.01	$137,650	$141,197	$23,507	$1,011	$303,365

(Expressed in thousands of dollars unless otherwise stated)

(11) Intangible assets

	Computer software
Cost	
1 January 2015	$194,079
Addition – Acquired separately	41,707
Transfer	15,928
Exchange differences	(798)
31 December 2015	$250,916
1 January 2014	$162,005
Addition – Acquired separately	29,337
Exchange differences	2,737
31 December 2014	$194,079
Amortization and impairment:	
1 January 2015	$167,924
Amortization	20,872
Exchange differences	(583)
31 December 2015	$188,213
1 January 2014	$132,974
Amortization	32,748
Exchange differences	2,202
31 December 2014	$167,924
Net carrying amount as at:	
2015.12.31	$62,703
2014.12.31	$26,155
2014.01.01	$29,031

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

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Operating expenses	$20,872	$32,748

(Expressed in thousands of dollars unless otherwise stated)

(12) Other assets

	2015.12.31	2014.12.31
Prepayment	$27,115	21,902
Guarantee deposits paid	1,473,268	1,449,059
Other assets - Other	62,540	73,306
Total	$1,562,923	$1,544,267

(13) Payables

	2015.12.31	2014.12.31
Claims outstanding	$17,166	$15,580
Commissions payable	203,185	225,073
Due to reinsurers and ceding companies	1,510,574	1,392,632
Other payables	1,353,891	1,259,069
Total	$3,084,816	$2,892,354

(14) Preferred stock liabilities

In accordance with the resolution of the Board of Directors' meeting on 7 October 2011, the Company issued 31,250 thousand shares of Class A preferred stocks at par value of $10 per share through private offerings. The offering was approved by Insurance Bureau of Financial Supervisory Commission, Executive Yuan ("Insurance Bureau") on 26 October 2011. Primary terms and conditions of the privately offered Class A preferred stocks are listed as follows:

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

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

(15) Insurance liabilities

	2015.12.31	2014.12.31
Unearned premium reserve	$12,064,950	$11,950,213
Claims reserve	9,053,721	8,154,755
Special reserve	3,578,316	3,639,138
Premiums deficiency reserve	367,287	199,764
Total	$25,064,274	$23,943,870

(Expressed in thousands of dollars unless otherwise stated)

A. Unearned premium reserve

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

	2015.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$1,922,146	$72,493	$1,051,066	$943,573
Marine insurance	100,452	9,482	72,090	37,844
Land and air insurance	4,261,434	15,224	301,559	3,975,099
Liability insurance	598,540	1,570	197,525	402,585
Bonding insurance	44,812	757	28,168	17,401
Other property insurance	1,393,279	26,700	352,242	1,067,737
Accident insurance	1,438,577	2,389	56,036	1,384,930
Health insurance	54,641	-	9	54,632
Compulsory automobile liability insurance	1,658,486	463,968	727,555	1,394,899
Total	$11,472,367	$592,583	$2,786,250	$9,278,700

	2014.12.31			
	Unearned premium reserve		Ceded unearned premium reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$2,025,128	$71,770	$996,886	$1,100,012
Marine insurance	118,522	10,068	86,749	41,841
Land and air insurance	4,239,833	5,254	321,346	3,923,741
Liability insurance	517,552	993	154,925	363,620
Bonding insurance	44,930	897	24,523	21,304
Other property insurance	1,386,263	25,124	553,326	858,061
Accident insurance	1,615,214	2,378	74,098	1,543,494
Health insurance	44,108	-	-	44,108
Compulsory automobile liability insurance	1,641,103	201,076	538,566	1,303,613
Total	$11,632,653	$317,560	$2,750,419	$9,199,794

(Expressed in thousands of dollars unless otherwise stated)

b. Reconciliation statement of unearned premium reserve and ceded unearned premium reserve

	2015.1.1~2015.12.31		2014.1.1~2014.12.31	
	Unearned premium reserve	Ceded unearned premium reserve	Unearned premium reserve	Ceded unearned premium reserve
Beginning balance	$11,950,213	$2,750,419	$11,213,469	$2,495,090
Reserve	12,072,567	2,786,662	11,910,320	2,739,108
Recover	(11,951,486)	(2,750,332)	(11,212,249)	(2,495,310)
Losses (gains) on foreign exchange	(6,344)	(499)	38,673	11,531
Ending balance	$12,064,950	$2,786,250	$11,950,213	$2,750,419

B. Claims reserve

a. Claims reserve and ceded claims reserve

	2015.12.31			
	Claims reserve		Ceded claims reserve	
	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Reported but not paid claim	$4,551,787	$326,287	$1,537,115	$3,340,959
Unreported claims	3,889,745	285,902	1,038,317	3,137,330
Total	$8,441,532	$612,189	$2,575,432	$6,478,289

	2014.12.31			
	Claims reserve		Ceded claims reserve	
	Direct business (1)	Assumed reinsurance business (2)	Ceded reinsurance business (3)	Retained business (4)=(1)+(2)-(3)
Reported but not paid claim	$4,073,887	$223,378	$1,329,214	$2,968,051
Unreported claims	3,646,437	211,053	920,459	2,937,031
Total	$7,720,324	$434,431	$2,249,673	$5,905,082

(Expressed in thousands of dollars unless otherwise stated)

b. Net change for claims reserve and ceded claims reserve

	2015.1.1~2015.12.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Reported but not paid claim	$4,556,086	$4,066,192	$326,287	$223,378	$592,803	$1,536,911	$1,321,341	$215,570
Unreported claims	3,893,614	3,647,509	285,929	211,057	320,977	1,039,276	920,629	118,647
Total	$8,449,700	$7,713,701	$612,216	$434,435	$913,780	$2,576,187	$2,241,970	$334,217

	2014.1.1~2014.12.31							
	Direct underwriting business		Assumed reinsurance business		Net change for claims reserve	Ceded reinsurance business		Net change for ceded claims reserve
	Reserve (1)	Recover (2)	Reserve (3)	Recover (4)	(5)=(1)-(2) +(3)-(4)	Reserve (6)	Recover (7)	(8)=(6)-(7)
Reported but not paid claim	$4,032,021	$3,886,167	$223,378	$307,234	$61,998	$1,310,527	$1,351,511	$(40,984)
Unreported claims	3,627,798	1,788,532	211,003	59,116	1,991,153	916,688	313,099	603,589
Total	$7,659,819	$5,674,699	$434,381	$366,350	$2,053,151	$2,227,215	$1,664,610	$562,605

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

	2015.12.31		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$1,273,927	$122,200	$1,396,127
Marine insurance	302,768	67,946	370,714
Land and air insurance	948,712	1,000,889	1,949,601
Liability insurance	465,420	439,981	905,401
Bonding insurance	41,204	67,272	108,476
Other property insurance	920,655	359,572	1,280,227
Accident insurance	129,040	433,197	562,237
Health insurance	8,258	50,841	59,099
Compulsory automobile liability insurance	788,090	1,633,749	2,421,839
Total	$4,878,074	$4,175,647	$9,053,721

(Expressed in thousands of dollars unless otherwise stated)

	2014.12.31		
	Claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$1,146,481	$89,187	$1,235,668
Marine insurance	394,186	114,198	508,384
Land and air insurance	932,619	796,653	1,729,272
Liability insurance	274,039	509,388	783,427
Bonding insurance	21,842	45,469	67,311
Other property insurance	762,712	278,066	1,040,778
Accident insurance	87,839	468,766	556,605
Health insurance	4,820	46,612	51,432
Compulsory automobile liability insurance	672,727	1,509,151	2,181,878
Total	$4,297,265	$3,857,490	$8,154,755

d. Reinsurance assets- ceded claims reserve for policyholder

	2015.12.31		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$604,278	$63,437	$667,715
Marine insurance	190,358	35,902	226,260
Land and air insurance	48,285	28,992	77,277
Liability insurance	268,371	117,732	386,103
Bonding insurance	33,553	60,202	93,755
Other property insurance	231,629	83,555	315,184
Accident insurance	9,628	45,716	55,344
Health insurance	-	75	75
Compulsory automobile liability insurance	151,013	602,706	753,719
Total	$1,537,115	$1,038,317	$2,575,432

(Expressed in thousands of dollars unless otherwise stated)

	2014.12.31		
	Ceded claims reserve		
	Reported but not paid claim	Unreported claims	Total
Fire insurance	$481,509	$24,965	$506,474
Marine insurance	223,098	81,827	304,925
Land and air insurance	50,179	23,399	73,578
Liability insurance	71,772	146,934	218,706
Bonding insurance	18,239	32,972	51,211
Other property insurance	327,003	50,747	377,750
Accident insurance	8,024	51,615	59,639
Health insurance	-	(315)	(315)
Compulsory automobile liability insurance	149,390	508,315	657,705
Total	$1,329,214	$920,459	$2,249,673

e. Reconciliation statement of claims reserve and ceded claims reserve

	2015.1.1~2015.12.31		2014.1.1~2014.12.31	
	Claims reserve	Ceded claims reserve	Claims reserve	Ceded claims reserve
Beginning balance	$8,154,755	$2,249,673	$6,041,523	$1,663,767
Reserve	9,061,916	2,576,187	8,094,200	2,227,215
Recover	(8,148,136)	(2,241,970)	(6,041,049)	(1,664,610)
Losses (gains) on foreign exchange	(14,814)	(8,458)	60,081	23,301
Ending balance	$9,053,721	$2,575,432	$8,154,755	$2,249,673

C. Special reserve

a. Special reserve - Compulsory automobile liability insurance

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Beginning balance	$1,528,545	$2,225,672
Reserve	23,143	47,505
Recover	(64,182)	(744,632)
Ending balance	$1,487,506	$1,528,545

(Expressed in thousands of dollars unless otherwise stated)

b. Special reserve - Non-compulsory automobile liability insurance

	2015.1.1~2015.12.31		
	Major incidents	Fluctuation of risks	Total
Beginning balance	$524,353	$1,586,240	$2,110,593
Reserve	-	-	-
Recover	(18,727)	(1,056)	(19,783)
Ending balance	$505,626	$1,585,184	$2,090,810

	2014.1.1~2014.12.31		
	Major incidents	Fluctuation of risks	Total
Beginning balance	$543,080	$1,586,240	$2,129,320
Reserve	-	-	-
Recover	(18,727)	-	(18,727)
Ending balance	$524,353	$1,586,240	$2,110,593

There is no material impact on the Company's profit or loss and earnings per share, when the Company does not apply to “Precautions of strengthening disaster insurance of property insurance industry (commercial earthquake and typhoons flood insurance)”, “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for the nuclear Insurance”. The special reserve under liabilities increases $1,782,311 thousand, and special capital reserve under equity decreases $992,706 thousand.

(Expressed in thousands of dollars unless otherwise stated)

D. Premium deficiency reserve

a. Premium deficiency reserve and ceded premium deficiency reserve

	2015.12.31			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$627	$(627)
Marine insurance	-	-	(13,542)	13,542
Land and air insurance	-	13,988	-	13,988
Liability insurance	12,503	(3)	5,962	6,538
Bonding insurance	-	-	4	(4)
Other property insurance	278,729	33	37	278,725
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	62,037	-	-	62,037
Total	$353,269	$14,018	$(6,912)	$374,199

	2014.12.31			
	Premium deficiency reserve		Ceded premium deficiency reserve	
	Direct business	Assumed reinsurance business	Ceded reinsurance business	Retained business
Fire insurance	$-	$-	$-	$-
Marine insurance	-	7	(1,183)	1,190
Land and air insurance	-	1,095	-	1,095
Liability insurance	14,898	5	2,071	12,832
Bonding insurance	509	-	8	501
Other property insurance	136,975	1	38,582	98,394
Accident insurance	-	-	-	-
Health insurance	-	-	-	-
Compulsory automobile liability insurance	46,274	-	-	46,274
Total	$198,656	$1,108	$39,478	$160,286

(Expressed in thousands of dollars unless otherwise stated)

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

2015.1.1~2015.12.31

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

2014.1.1~2014.12.31

	Direct underwriting business		Assumed Reinsurance business		Net change for premium deficiency reserve	Ceded reinsurance business		Net change for ceded premium deficiency reserve	Recognized net loss (gain) for premium deficiency reserve
	Reserve	Recover	Reserve	Recover		Reserve	Recover		
	(1)	(2)	(3)	(4)	(5)=(1)-(2) +(3)-(4)	(6)	(7)	(8)=(6)-(7)	(9)=(5)-(8)
Fire insurance	$-	$4,229	$-	$92	$(4,321)	$-	$-	$-	$(4,321)
Marine insurance	-	160	7	2	(155)	(1,184)	(8,736)	7,552	(7,707)
Land and air insurance	-	-	1,095	376	719	-	(329)	329	390
Liability insurance	14,392	27,473	5	11	(13,087)	2,001	3,479	(1,478)	(11,609)
Bonding insurance	492	10,288	-	-	(9,796)	7	9,698	(9,691)	(105)
Other property insurance	132,327	160,823	1	425	(28,920)	37,272	-	37,272	(66,192)
Accident insurance	-	-	-	97	(97)	-	-	-	(97)
Health insurance	-	-	-	-	-	-	-	-	-
Compulsory automobile liability insurance	44,704	39,244	-	-	5,460	-	-	-	5,460
Total	$191,915	$242,217	$1,108	$1,003	$(50,197)	$38,096	$4,112	$33,984	$(84,181)

(Expressed in thousands of dollars unless otherwise stated)

c. Reconciliation statement for premium deficiency reserve and ceded premium deficiency reserve

	2015.1.1~2015.12.31		2014.1.1~2014.12.31	
	Premium deficiency reserve	Ceded premium deficiency reserve	Premium deficiency reserve	Ceded premium deficiency reserve
Beginning balance	$199,764	$39,478	$243,606	$4,118
Reserve	369,472	(6,871)	193,023	38,096
Recover	(200,196)	(39,566)	(243,220)	(4,112)
Loss (gains) on foreign exchange	(1,753)	47	6,355	1,376
Ending balance	$367,287	$(6,912)	$199,764	$39,478

d. Effects for the change of estimation and assumption

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

(16) Post-employment benefits

Defined contribution plan

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

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

Expenses under the defined contribution plan for the years ended 31 December 2015 and 2014 are $109,896 thousand and $64,536 thousand, respectively.

(Expressed in thousands of dollars unless otherwise stated)

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% 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.

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 $28,281 thousand to its defined benefit plan during the 12 months beginning after 31 December 2015.

The defined benefits plan obligation will expire in 2030 and 2029 as at 31 December 2015 and 2014.

Pension costs recognized in profit or loss for the years ended 31 December 2015 and 2014:

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Current period service costs	$22,630	$23,851
Net interest of liability (asset) of the defined benefit plan	5,350	5,895
Total	$27,980	$29,746

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.12.31	2014.12.31	2014.1.1
Defined benefit obligation at 1 January	$(790,914)	$(687,859)	$(706,615)
Plan assets at fair value	409,898	404,727	381,248
Other non-current liabilities - Accrued pension liabilities recognized on the consolidated balance sheets	$(381,016)	$(283,132)	$(325,367)

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
1 January 2014	$706,615	$(381,248)	$325,367
Current period service costs	23,851	-	23,851
Net interest expense (income)	13,411	(7,516)	5,895
Subtotal	37,262	(7,516)	29,746
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(8,694)	-	(8,694)
Experience adjustments	(33,481)	-	(33,481)
Return on plan assets	-	1,595	1,595
Subtotal	(42,175)	1,595	(40,580)
Payments from the plan	(13,843)	13,843	-
Contributions by employer	-	(31,401)	(31,401)
31 December 2014	687,859	(404,727)	283,132
Current period service costs	22,630	-	22,630
Net interest expense (income)	13,639	(8,289)	5,350
Subtotal	36,269	(8,289)	27,980
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	75,263	-	75,263
Experience adjustments	22,629	-	22,629
Return on plan assets	-	232	232
Subtotal	97,892	232	98,124
Payments from the plan	(31,106)	31,106	-
Contributions by employer	-	(28,220)	(28,220)
31 December 2015	$790,914	$(409,898)	$381,016

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.12.31	2014.12.31
Discount rate	1.39%	2.00%
Expected rate of salary increases	1.50%	1.50%

A sensitivity analysis for significant assumption as at 31 December 2015 and 2014 is, as shown below:

	Effect on the defined benefit obligation			
	2015.1.1~2015.12.31		2014.1.1~2014.12.31	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$58,528	$-	$51,589
Discount rate decrease by 0.5%	64,855	-	57,092	-
Future salary increase by 0.5%	62,482	-	55,717	-
Future salary decrease by 0.5%	-	57,737	-	50,902

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

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

(17) Common stock

As of 31 December 2015 and 2014, the total authorized and issued shares were 280,220 thousand and 272,188 thousand at par value of $10, respectively. Each share carries equal rights to vote and to receive dividends.

The recapitalization of earnings of 80,323 thousand by issuing 8,032 thousand shares was resolved at the Company's board of directors, acting on behalf of the shareholders on 30 April 2015. The recapitalization was approved by the Financial Supervisory Commission on 29 May 2015 and the recapitalization record date was 12 June 2015.

(18) Retained earnings

A. 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. 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 29 April 2015, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $166,375 thousand. On 21 April 2014, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $113,928 thousand, offsetting deficits of $38,953 thousand.

B. Special capital reserve

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

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

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

On 29 April 2015, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $585,180 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of 585,180 thousand had been recognized at the end of 2014 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 2015.

C. Undistributed earnings

According to the article 35 of the Company's Articles of Incorporation, the Company's annual earnings, after paying tax and offsetting deficits, if any, shall be appropriated first as legal reserve and special capital reserve according to law. The total remaining amount plus beginning undistributed earnings are the distributable earnings. The distributable earnings must be appropriated in accordance with the resolution by the stockholders' meeting. The dividends go first to preferred stockholders for current year dividends and any dividends that have been omitted in the past. From the remainder, there should be appropriations of 2% as bonus to employees.

According to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employee remuneration may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employee remuneration could be distributed to employees of affiliated enterprises meeting certain criteria. The company is expected to revise the article based on the regulations mentioned above by the stockholders' meeting for the year ended 2016. Please refer to Note 6(21) for details of the estimation basis and recognized amount for employee remuneration (bonuses) and remuneration to directors and supervisors

However, the Company doesn't complete the revised draft of the Article of Incorporation yet. The employee remuneration is estimated temporarily with the current Article of Incorporation.

(Expressed in thousands of dollars unless otherwise stated)

Information on the Board of Directors' recommendations and shareholders' approval regarding the employee bonuses and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

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 2015, the reserves amounted to$ 2,433,579 thousand.

Please refer to Note 6(23) for details of the estimation basis and recognized amount for employee remuneration (bonuses) and remuneration to directors and supervisors.

(19) Non-controlling interests

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Beginning balance	$704,946	$350,112
Net income (loss) attributable to non-controlling interests	(377,685)	(176,280)
Other comprehensive income attributable to non-controlling interests:		
Exchange differences resulting from translating the financial statements of foreign operation	(1,418)	21,844
Unrealized gains (losses) on available-for-sale financial assets	(459)	14,150
Others	-	495,120
Ending balance	$325,384	$704,946

(Expressed in thousands of dollars unless otherwise stated)

(20) Retained earned premium

	2015.1.1~2015.12.31					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsuers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$2,991,546	$138,087	$2,007,921	$1,121,712	$(156,213)	$1,277,925
Marine insurance	642,424	35,669	466,608	211,485	(3,985)	215,470
Land and air insurance	7,268,324	23,648	474,885	6,817,087	51,533	6,765,554
Liability insurance	1,205,428	7,220	438,020	774,628	38,985	735,643
Bonding insurance	126,713	1,130	94,410	33,433	(2,636)	36,069
Other property insurance	2,514,057	35,207	291,777	2,257,487	211,908	2,045,579
Accident insurance	2,715,579	6,331	216,418	2,505,492	(158,526)	2,664,018
Health insurance	228,561	-	38	228,523	10,524	217,999
Compulsory automobile liability insurance	3,728,905	780,283	1,205,072	3,304,116	93,161	3,210,955
Total	$21,421,537	$1,027,575	$5,195,149	$17,253,963	$84,751	$17,169,212

	2014.1.1~2014.12.31					
	Direct premium income (1)	Reinsurance premium income (2)	Premium ceded to reinsuers (3)	Retained premium (4)=(1)+(2)-(3)	Net change in unearned premium reserve (5)	Retained earned premium (6)=(4)-(5)
Fire insurance	$3,066,441	$130,790	$1,949,918	$1,247,313	$(17,415)	$1,264,728
Marine insurance	633,043	30,780	459,847	203,976	(7,622)	211,598
Land and air insurance	7,065,877	10,334	492,137	6,584,074	505,333	6,078,741
Liability insurance	997,612	1,832	286,693	712,751	(11,399)	724,150
Bonding insurance	103,191	1,455	62,981	41,665	3,724	37,941
Other property insurance	2,270,408	28,684	892,601	1,406,491	(191,054)	1,597,545
Accident insurance	2,686,858	6,016	183,057	2,509,817	101,217	2,408,600
Health insurance	183,625	-	(60)	183,685	(4,614)	188,299
Compulsory automobile liability insurance	3,747,433	315,003	872,277	3,190,159	76,103	3,114,056
Total	$20,754,488	$524,894	$5,199,451	$16,079,931	$454,273	$15,625,658

(Expressed in thousands of dollars unless otherwise stated)

(21) Retained claim payment

	2015.1.1~2015.12.31			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(934,468)	$(35,333)	$(388,823)	$(580,978)
Marine insurance	(304,113)	(13,073)	(173,985)	(143,201)
Land and air insurance	(4,379,076)	(84,166)	(446,703)	(4,016,539)
Liability insurance	(514,862)	(507)	(162,355)	(353,014)
Bonding insurance	(35,710)	(205)	(32,615)	(3,300)
Other property insurance	(1,320,966)	(15,187)	(282,257)	(1,053,896)
Accident insurance	(1,019,959)	(134)	(112,550)	(907,543)
Health insurance	(116,847)	-	-	(116,847)
Compulsory automobile liability insurance	(2,513,842)	(453,538)	(850,310)	(2,117,070)
Total	$(11,139,843)	$(602,143)	$(2,449,598)	$(9,292,388)

	2014.1.1~2014.12.31			
	Insurance claims paid (1)	Reinsurance claims paid (2)	Claims recovered from reinsurers (3)	Retained claim paid (4)=(1)+(2)-(3)
Fire insurance	$(761,046)	$(3,456)	$(283,942)	$(480,560)
Marine insurance	(397,445)	(146,885)	(417,371)	(126,959)
Land and air insurance	(4,114,551)	(88,107)	(394,604)	(3,808,054)
Liability insurance	(506,064)	(38)	(162,179)	(343,923)
Bonding insurance	(57,763)	(201)	(47,825)	(10,139)
Other property insurance	(1,211,248)	(11,815)	(188,320)	(1,034,743)
Accident insurance	(1,030,538)	(363)	(125,143)	(905,758)
Health insurance	(99,370)	-	-	(99,370)
Compulsory automobile liability insurance	(2,462,705)	(312,767)	(838,144)	(1,937,328)
Total	$(10,640,730)	$(563,632)	$(2,457,528)	$(8,746,834)

(Expressed in thousands of dollars unless otherwise stated)

(22) Components of other comprehensive income

	2015.1.1~2015.12.31				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$(98,125)	$-	$(98,125)	$16,681	$(81,444)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operation	(13,023)	-	(13,023)	-	(13,023)
Unrealized gains (losses) on available-for-sale financial assets	(133,116)	(193,951)	(327,067)	11,824	(315,243)
Gains (losses) on effective portions of cash flow hedges	(3,747)	-	(3,747)	-	(3,747)
Total	$(248,011)	$(193,951)	$(441,962)	$28,505	$(413,457)

	2014.1.1~2014.12.31				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	$40,581	$-	$40,581	$(6,899)	$33,682
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operation	59,465	-	59,465	-	$59,465
Unrealized gains (losses) on available-for-sale financial assets	328,427	(167,253)	161,174	(6,212)	154,962
Gains (losses) on effective portions of cash flow hedges	(6,274)	-	(6,274)	-	(6,274)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(3)	-	(3)	-	(3)
Total	$422,196	$(167,253)	$254,943	$(13,111)	$$241,832

(Expressed in thousands of dollars unless otherwise stated)

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

Function / Description	2015.1.1~2015.12.31			2014.1.1~2014.12.31		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salary and wages	$-	$2,300,091	$2,300,091	$-	$2,152,012	$2,152,012
Labor & health insurance	-	180,755	180,755	-	189,304	189,304
Pension expenses	-	137,876	137,876	-	94,282	94,282
Other employee benefits	-	93,821	93,821	-	83,791	83,791
Depreciation	-	108,886	108,886	-	102,134	102,134
Amortization	-	20,872	20,872	-	32,748	32,748

The number of the Consolidated Company’s employees was 3,149 and 2,872 as of 31 December 2015 and 2014, respectively.

A resolution was passed at a Board of Directors meeting of the Company held on 16 March 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 1 ‰ to 2 ‰ of profit of the current year is distributable as employees’ compensation. However, the company's accumulated losses shall have been covered. The Articles of Incorporation are to be amended in the shareholders’ meeting in 2016. Information on the Board of Directors’ resolution regarding the employees’ compensation and remuneration to directors and supervisors can be obtained from the “Market Observation Post System” on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees’ compensation for the year ended 31 December 2015 to be 1 ‰ of profit of current year, recognized $1,470 thousand as employee benefits expense.

The estimated employee bonuses for the year ended 31 December 2014 were based on post-tax net income of the period and the Company’s Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses for the year ended 31 December 2014 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders’ meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was calculated based on the closing price one day earlier than the date of shareholders’ meeting and considered the impacts of ex-right/ex-dividend. The Company estimated the amounts of the employee bonuses for the year ended 31 December 2014 to be $1,362 thousand. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended 31 December 2014.

(Expressed in thousands of dollars unless otherwise stated)

(24) Income tax

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

Income tax expense (income) recognized in profit or loss

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Current income tax expense:		
Current income tax charge	$275,122	$153,256
Adjustments in respect of current income tax of prior periods	6,090	256
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	5,938	20,187
Total income tax expense	$287,150	$173,699

Income tax related to components of other comprehensive income

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Deferred tax expense (income):		
Unrealized gains (losses) on available-for-sale financial assets	$(11,824)	$6,212
Remeasurements of defined benefit plans	(16,681)	6,899
Income tax relating to components of other comprehensive income	$(28,505)	$13,111

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

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Accounting profit before tax from continuing operations	$1,091,002	$830,230
Tax at the domestic rates applicable to profits in the country concerned	$249,675	$171,100
Tax effect of expenses not deductible for tax purposes	68,482	47,599
Tax effect of revenues exempt from taxation	(37,103)	(45,294)
Tax effect of deferred tax assets/liabilities	6	38
Adjustments in respect of current income tax of prior periods	6,090	256
Total income tax expense recognized in profit or loss	$287,150	$173,699

(Expressed in thousands of dollars unless otherwise stated)

Deferred tax assets (liabilities) relate to the following:

	2015.1.1~2015.12.31				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of available-for-sale investments to fair value	$(5,122)	$-	$11,824	$-	$6,702
Revaluations of financial liabilities at fair value through profit or loss	25,206	(22,573)	-	-	2,633
Provisions for employee benefits liability	50,191	(41)	16,681	-	66,831
Bad debt losses	17,749	(674)	-	-	17,075
Unrealized exchange gain	(53,358)	17,322	-	1	(36,035)
Other	-	28	-	-	28
Deferred tax income expense		$(5,938)	$28,505	$1	
Net deferred tax assets/(liabilities)	$34,666				$57,234
Reflected in balance sheet as follows:					
Deferred tax assets	$93,146				$93,269
Deferred tax liabilities	$(58,480)				$(36,035)

	2014.1.1~2014.12.31				
	Beginning balance	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Exchange differences	Ending balance
Temporary differences					
Revaluations of available-for-sale investments to fair value	$1,090	$-	$(6,212)	$-	$(5,122)
Revaluations of financial liabilities at fair value through profit or loss	15,118	10,088	-	-	25,206
Provisions for employee benefits liability	57,370	(280)	(6,899)	-	50,191
Bad debt losses	18,791	(1,042)	-	-	17,749
Unrealized exchange gain	(24,404)	(28,953)	-	(1)	(53,358)
Other		$(20,187)	$(13,111)	$(1)	
Deferred tax income expense	$67,965				$34,666
Net deferred tax assets/(liabilities)					
Reflected in balance sheet as follows:	$92,369				$93,146
Deferred tax assets	$(24,404)				$(58,480)

(Expressed in thousands of dollars unless otherwise stated)

Unrecognized deferred tax assets

As of 31 December 2015 and 2014, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amount to $304,634 thousand and $237,782 thousand, respectively.

Imputation credit information

	2015.12.31	2014.12.31
Balances of imputation credit amounts	$14,337	$10,273

The actual creditable ratio for 2015 and 2014 were 1.35% and 2.71%, respectively.

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

The assessment of income tax returns

As of 30 December 2015, the assessment of the income tax returns of the Consolidated Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2009

(25) Earnings per share

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

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

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousand)	$1,181,537	$832,811
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	280,220	280,220
Basic earnings per share (in dollars)	$4.22	$2.97

There have been no other transaction involving ordinary shares or potential shares between the reporting date and the date of completion of the financial statements.

7. Risk management for insurance contracts and financial instruments

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

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

a. Board of directors

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

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

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

b. Risk management committee

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

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

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

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

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

c. Chief risk officer

The Chief Risk Officer appointment and removal by the Board of directors, which has the independence, it could not concurrently business unit and financial unit, and has acquired any rights that may affect the company's risk profile overview data.

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

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

d. Risk management department

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

(b) Responsibility of risk management division:

① To assist in drafting risk management policies and the execution when ratified by the board of directors.

② To assist in setting up risk limits according to the risk appetite.

③ To compile risk information from various departments, coordinate and communicate with them to execute policies and limits.

④ To propose risk management related reports on a regular basis.

⑤ To supervise risk limit and its use in each business unit on a regular basis.

⑥ To assist in stress tests and conduct back-testing when necessary.

⑦ To conduct other risk management related tasks.

e. Business unit

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

① To supervise the daily risk management and report of the responsible unit and take necessary responsive actions.
② To oversee the sharing of risk management information to risk management on a regular basis.

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

① To identify risk and report risk exposure.
② To evaluate (quantitative or qualitative) the degree of influence when risks occur and pass the risk information in a timely and correct manner.
③ To review each risk item and its limit on a regular basis to insure the effective execution of risk limit within business unit.
④ To oversee risk exposure and report when over-limit occur, including measures taken against it.
⑤ To assist in development of risk model to insure the evaluation of risk, use of model, and its assumption are conducted on a reasonable basis and is consistent with actual practice.
⑥ To assure effective execution of internal control within business unit to comply with relevant regulations and risk management policies of the Company.
⑦ To assist in collecting information regarding operation risk.

f. Audit department

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

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

a. Risks reporting

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

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

b. Scope and nature of risk evaluation system

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

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

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

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Fire insurance	NT$827,000	NT$729,000
Marine insurance	NT$827,000	NT$729,000
Engineering insurance	NT$827,000	NT$729,000
Other property insurance	NT$827,000	NT$729,000
Automobile insurance	NT$827,000	NT$729,000
Health and injury insurance	NT$827,000	NT$729,000

F. Methods of asset / liability management

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

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

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

(2) Receivables and payables of insurance contracts

A. Receivables of insurance contracts

	Premiums receivable (Note)	
	2015.12.31	2014.12.31
Fire insurance	$760,232	$694,299
Marine insurance	243,481	253,767
Land and air insurance	177,558	986,485
Liability insurance	173,119	153,702
Bonding insurance	43,048	39,522
Other property insurance	293,262	352,528
Accident insurance	134,114	272,721
Health insurance	14,718	15,934
Compulsory automobile liability insurance	19,614	338,731
Total	1,859,146	3,107,689
Less: Allowance for bad debts	(101,470)	(80,050)
Net	$1,757,676	$3,027,639

Note: As of 31 December 2015 and 2014, the receivables included overdue receivables amounted to $216,525 thousand and $227,092 thousand. The allowance for bad debts amounted to $65,494 thousand and $24,293 thousand.

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

	Claims reported and paid off	
	2015.12.31	2014.12.31
Fire insurance	$45,435	$34,417
Marine insurance	22,730	23,522
Land and air insurance	40,360	38,387
Liability insurance	17,874	27,060
Bonding insurance	38,430	(6)
Other property insurance	27,756	10,043
Accident insurance	17,103	16,075
Health insurance	-	-
Compulsory automobile liability insurance	145,137	172,311
Total	354,825	321,809
Less: Allowance for bad debts	-	-
Net	$354,825	$321,809

(Expressed in thousands of dollars unless otherwise stated)

C. Payables of insurance contracts

	2015.12.31		
	Commissions payables	Other payables	Total
Fire insurance	$37,552	$19,059	$56,611
Marine insurance	11,642	9,764	21,406
Land and air insurance	26,159	160,717	186,876
Liability insurance	17,423	17,082	34,505
Bonding insurance	5,027	1,597	6,624
Other property insurance	29,277	12,039	41,316
Accident insurance	10,159	64,426	74,585
Health insurance	4,159	2,713	6,872
Compulsory automobile liability insurance	61,787	-	61,787
Total	$203,185	$287,397	$490,582

	2014.12.31		
	Commissions payables	Other payables	Total
Fire insurance	$23,836	$15,511	$39,347
Marine insurance	8,315	9,017	17,332
Land and air insurance	29,709	192,108	221,817
Liability insurance	11,806	11,930	23,736
Bonding insurance	6,233	711	6,944
Other property insurance	42,441	13,067	55,508
Accident insurance	7,460	63,959	71,419
Health insurance	3,927	1,418	5,345
Compulsory automobile liability insurance	91,346	-	91,346
Total	$225,073	$307,721	$532,794

(Expressed in thousands of dollars unless otherwise stated)

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

	2015.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$126,360	$323,938
Sompo Japan Re	89,844	38,097
Guy Carpenter	59,628	20,582
Marsh	19,937	255,959
Taian	24,893	3,898
Sompo Japan Nipponkoa	17,435	24,953
Others	348,862	843,147
Total	686,959	1,510,574
Less: Allowance for bad debts	(59,823)	-
Net	$627,136	$1,510,574

	2014.12.31	
	Due from reinsurers and ceding companies (Note)	Due to reinsurers and ceding companies
Non-Life Insurance Association of the R.O.C	$34,273	$166,447
Sompo Japan Re	89,734	32,502
Kann An	43,086	7,143
Best Re	41,234	8,350
FP Marine	78,021	30,811
Guy Carpenter	59,866	31,599
Marsh	125,258	259,300
Swiss Re	1,380	79,963
Willis	1,116	99,913
Others	294,043	676,604
Total	768,011	1,392,632
Less: Allowance for bad debts	(40,018)	-
Net	$727,993	$1,392,632

Note: As of 31 December 2015 and 2014, the due from reinsurers and ceding companies included overdue receivables amounted to $29,649 thousand and $47,827 thousand. The allowance for bad debts amounted to $29,649 thousand and $19,566 thousand.

(Expressed in thousands of dollars unless otherwise stated)

(3) Information of management achievements

A. Acquisition cost for insurance contracts

	2015.1.1~2015.12.31				
Item	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	$65,603	$41,288	$12,641	$104,619	$224,151
Marine insurance	15,193	6,215	2,560	35,560	59,528
Land and air insurance	146,373	-	681	965,854	1,112,908
Liability insurance	37,607	22,905	781	85,069	146,362
Bonding insurance	10,907	(11)	4	4,258	15,158
Other property insurance	13,905	435,630	6,287	53,974	509,796
Accident insurance	41,994	-	-	436,224	478,218
Health insurance	21,776	-	-	27,453	49,229
Compulsory automobile liability insurance	-	454,689	-	-	454,689
Total	$353,358	$960,716	$22,954	$1,713,011	$3,050,039

	2014.1.1~2014.12.31				
Item	Commission expenses	Surcharge	Reinsurance commission expenses	Other cost	Total
Fire insurance	$60,983	$31,504	$6,854	$101,131	$200,472
Marine insurance	17,741	3,666	2,315	45,124	68,846
Land and air insurance	127,449	-	408	921,794	1,049,651
Liability insurance	32,202	18,792	223	75,400	126,617
Bonding insurance	11,096	643	2	2,162	13,903
Other property insurance	17,713	290,828	3,439	69,637	381,617
Accident insurance	35,723	-	2	409,296	445,021
Health insurance	26,387	-	-	14,037	40,424
Compulsory automobile liability insurance	-	472,479	-	2,862	475,341
Total	$329,294	$817,912	$13,243	$1,641,443	$2,801,892

(Expressed in thousands of dollars unless otherwise stated)

B. Disclosure for insurance cost benefit analysis

a. Cost benefit analysis for direct underwriting

	2015.1.1~2015.12.31					
Item	Direct premium income	Net change for unearned premium reserve	Acquisition cost for insurance contracts	Insurance claims payments	Net change for claims reserve	Net gain(loss)
Fire insurance	$2,991,546	$102,134	$(211,510)	$(934,468)	$(152,711)	$1,794,991
Marine insurance	642,424	18,050	(56,968)	(304,113)	106,283	405,676
Land and air insurance	7,268,324	(21,776)	(1,112,227)	(4,379,076)	(234,694)	1,520,551
Liability insurance	1,205,428	(80,726)	(145,581)	(514,862)	(116,789)	347,470
Bonding insurance	126,713	(3,518)	(15,154)	(35,710)	(41,180)	31,151
Other property insurance	2,514,057	(7,027)	(503,509)	(1,320,966)	(252,847)	429,708
Accident insurance	2,715,579	176,600	(478,218)	(1,019,959)	(5,768)	1,388,234
Health insurance	228,561	(10,533)	(49,229)	(116,847)	(7,668)	44,284
Compulsory automobile liability insurance	3,728,905	(19,257)	(454,689)	(2,513,842)	(30,625)	710,492
Total	$21,421,537	$153,947	$(3,027,085)	$(11,139,843)	$(735,999)	$6,672,557

	2014.1.1~2014.12.31					
Item	Direct premium income	Net change for unearned premium reserve	Acquisition cost for insurance contracts	Insurance claims payments	Net change for claims reserve	Net gain(loss)
Fire insurance	$3,066,441	$6,083	$(193,618)	$(761,046)	$(180,283)	$1,937,577
Marine insurance	633,043	21,314	(66,531)	(397,445)	148,393	338,774
Land and air insurance	7,065,877	(648,343)	(1,049,243)	(4,114,551)	(283,853)	969,887
Liability insurance	997,612	23,368	(126,394)	(506,064)	(233,551)	154,971
Bonding insurance	103,191	(9,111)	(13,901)	(57,763)	(45,532)	(23,116)
Other property insurance	2,270,408	112,282	(378,178)	(1,211,248)	(165,077)	628,187
Accident insurance	2,686,858	(104,191)	(445,019)	(1,030,538)	(140,627)	966,483
Health insurance	183,625	4,770	(40,424)	(99,370)	(765)	47,836
Compulsory automobile liability insurance	3,747,433	(86,732)	(475,341)	(2,462,705)	(1,083,825)	(361,170)
Total	$20,754,488	$(680,560)	$(2,788,649)	$(10,640,730)	$(1,985,120)	$4,659,429

(Expressed in thousands of dollars unless otherwise stated)

b. Cost benefit analysis for assumed reinsurance business

	2015.1.1~2015.12.31					
Item	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	$138,087	$(726)	$(12,641)	$(35,333)	$(15,267)	$74,120
Marine insurance	35,669	585	(2,560)	(13,073)	31,269	51,890
Land and air insurance	23,648	(9,970)	(681)	(84,166)	14,249	(56,920)
Liability insurance	7,220	(577)	(781)	(507)	(161)	5,194
Bonding insurance	1,130	141	(4)	(205)	(65)	997
Other property insurance	35,207	(1,576)	(6,287)	(15,187)	3,388	15,545
Accident insurance	6,331	(12)	-	(134)	125	6,310
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	780,283	(262,893)	-	(453,538)	(211,319)	(147,467)
Total	$1,027,575	$(275,028)	$(22,954)	$(602,143)	$(177,781)	$(50,331)

	2014.1.1~2014.12.31					
Item	Reinsurance premium income	Net change for unearned premium reserve	Reinsurance commission expenses	Reinsurance claims payments	Net change for claims reserve	Net (loss) gain for assumed reinsurance
Fire insurance	$130,790	$(17,685)	$(6,854)	$(3,456)	$(41,155)	$61,640
Marine insurance	30,780	4,887	(2,315)	(146,885)	142,131	28,598
Land and air insurance	10,334	3,371	(408)	(88,107)	(6,598)	(81,408)
Liability insurance	1,832	(395)	(223)	(38)	(22)	1,154
Bonding insurance	1,455	(175)	(2)	(201)	(112)	965
Other property insurance	28,684	5,086	(3,439)	(11,815)	(10,615)	7,901
Accident insurance	6,016	213	(2)	(363)	875	6,739
Health insurance	-	-	-	-	-	-
Compulsory automobile liability insurance	315,003	(12,813)	-	(312,767)	(152,535)	(163,112)
Total	$524,894	$(17,511)	$(13,243)	$(563,632)	$(68,031)	$(137,523)

(Expressed in thousands of dollars unless otherwise stated)

c. Recognized gain (loss) for reinsurance contracts purchased

	2015.1.1~2015.12.31					
Item	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$2,007,921	$(54,805)	$(153,293)	$(388,823)	$(167,376)	$1,243,624
Marine insurance	466,608	14,650	(55,426)	(173,985)	78,610	330,457
Land and air insurance	474,885	19,787	(88,866)	(446,703)	(3,700)	(44,597)
Liability insurance	438,020	(42,318)	(87,852)	(162,355)	(164,813)	(19,318)
Bonding insurance	94,410	(6,013)	(17,740)	(32,615)	(42,560)	(4,518)
Other property insurance	291,777	203,305	(58,488)	(282,257)	57,731	212,068
Accident insurance	216,418	18,062	(55,644)	(112,550)	4,295	70,581
Health insurance	38	(9)	(4)	-	(390)	(365)
Compulsory automobile liability insurance	1,205,072	(188,989)	-	(850,310)	(96,014)	69,759
Total	$5,195,149	$(36,330)	$(517,313)	$(2,449,598)	$(334,217)	$1,857,691

	2014.1.1~2014.12.31					
Item	Reinsurance expenses	Net change for unearned premium reserve ceded	Reinsurance commission earned	Claims recovered from reinsurers	Net change for claims reserve ceded	Net loss (gain) for reinsurance ceded
Fire insurance	$1,949,918	$(29,017)	$(127,933)	$(283,942)	$(171,781)	$1,337,245
Marine insurance	459,847	18,579	(57,431)	(417,371)	257,125	260,749
Land and air insurance	492,137	(139,639)	(94,168)	(394,604)	4,769	(131,505)
Liability insurance	286,693	11,574	(80,283)	(162,179)	(55,024)	781
Bonding insurance	62,981	(5,562)	(11,564)	(47,825)	(32,326)	(34,296)
Other property insurance	892,601	(73,686)	(265,468)	(188,320)	(177,773)	187,354
Accident insurance	183,057	(2,761)	(46,332)	(125,143)	(26,111)	(17,290)
Health insurance	(60)	156	-	-	1,008	1,104
Compulsory automobile liability insurance	872,277	(23,442)	-	(838,144)	(362,492)	(351,801)
Total	$5,199,451	$(243,798)	$(683,179)	$(2,457,528)	$(562,605)	$1,252,341

(Expressed in thousands of dollars unless otherwise stated)

(4) Sensitivity of insurance risk

A. The Company

Insurance type	Premium income	Expected loss ratio	Changes in income when the expected loss ratio increases 5%	
			Before reinsurance	After reinsurance
Fire insurance	$2,599,189	61.11	$129,959	$65,174
Marine insurance	596,946	63.28	29,847	8,520
Land and air insurance	7,223,911	66.39	361,196	223,447
Liability insurance	1,020,502	66.22	51,025	20,753
Bonding insurance	127,111	66.97	6,356	452
Other property insurance	569,316	61.12	28,466	13,669
Accident insurance	2,705,820	76.08	135,291	92,249
Health insurance	228,561	72.20	11,428	8,238
Compulsory automobile liability insurance	2,900,065	NA	NA	NA

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

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

B. Cathay Insurance (China)

Insurance type	Premium income	Changes in income when the expected loss ratio increases 5%	
		Before reinsurance	After reinsurance
Fire insurance	$302,279	$15,114	$6,029
Marine insurance	38,432	1,921	1,046
Liability insurance	184,524	9,226	3,795
Bonding insurance	(398)	(20)	(86)
Other property insurance	1,941,292	97,065	96,203
Compulsory automobile liability insurance	828,840	41,442	41,442

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

(5) Interpretation of concentration of insurance risk

A. The Company

a. Situations that might cause concentration of insurance risk:

(a) Single insurance contract or few related contracts

For the years ended 31 December 2015, the Company will undertake a business with infrequent but enormous losses only if all risks are evaluated by the underwriting department based on underwriting guidelines, or are discussed by an ad hoc meeting.

(b) Exposure to unanticipated change in trend

For the years ended 31 December 2015, the loss rates of the rest insurance categories are still within reasonable range.

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

“Regulations for Assisting Lawsuit Cases of Cathay Century Insurance” is set up to safeguard the rights of the Company and the insured and to implement process control of lawsuit cases of insurance claim. In addition, each compliance department of the Company will appoint staff to be responsible of compliance matters, so that possible legal risk is minimized. For the years ended 31 December 2015, no material lawsuit or legal risks has taken place.

(d) Correlation and mutual influence between different risks

In case of a catastrophe, beside huge sum of claim of the insured case, other risks such as market risk, credit risk, liquidity risk, can also be derived. To avoid the operation of the Company being severely endangered by these derived risks, the Company has established "Operation standards under crisis" that set up crisis team in reaction to the event. The team will execute emergent tasks such as resource coordination and fund procurement to protect the rights of the insured and the Company and to guard financial order. For the years ended 31 December 2015, there is no catastrophe has taken place.

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

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

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

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

(Expressed in thousands of dollars unless otherwise stated)

(f) Concentration risks in geographic regions and operating segments

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

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

Insurance type	2015.1.1~2015.12.31			
	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	$11,023,955	$783,168	$1,485,782	$10,321,341
Fire insurance	2,637,741	130,887	1,739,283	1,029,345
Marine insurance	767,862	51,708	631,065	188,505
Engineering insurance	475,667	8,883	214,220	270,330
Health and injury insurance	1,649,547	5,831	127,087	1,528,291
Other insurance	1,414,000	34,281	567,013	881,268
Total	$17,968,772	$1,014,758	$4,764,450	$14,219,080

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

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

The Company in order to control the occurrence of low frequency, but will affect greatly the risk of an event, the event has special coverage for natural disasters, the subject of risk assessment and loss prevention seminars are held regularly to help customers reduce the incidence of disasters.

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

a. Situations that might cause to the concentration of insurance risk:

(a) The exposure of unanticipated change in trend

Cathay Insurance (China) reduces the impact of unexpected risk changes on daily operating activities by formulating intensive underwriting and claim policy, entering into proper reinsurance agreements and inspecting and analyzing claims data periodically.

(b) The correlation and cross effect between different risks

When significant incidents happened, Cathay Century (China) may face huge claim loss for the insured cases or the impairment loss of intangible or tangible assets. It may also create risks such as market risk, credit risk, and liquidity risk and so on. To ensure the management level and related departments can rapidly handle the significant incidents; Cathay Century (China) established “Notice for Significant Incidents Handling Process”. If necessary, the general manager or assigned personnel will hold the emergency response team to ensure rights and operation of Cathay Century (China) and protect the safety of policyholders’ property. No significant incident occurred for the years ended 31 December 2015.

b. Following tables summarized the concentration before and after reinsurance by types of insurance risk of Cathay Insurance (China):

	2015.1.1~2015.12.31			
Insurance type	Direct Premium income	Reinsurance premium income	Premiums ceded to reinsurers	Net premium income
Automobile insurance	$2,729,614	$-	$(200)	$2,729,814
Fire insurance	307,665	4,151	188,168	123,648
Marine insurance	38,432	4,460	21,966	20,926
Engineering insurance	24,620	22	15,128	9,514
Health and injury insurance	-	2	-	2
Other insurance	194,638	1,016	110,973	84,681
Total	$3,294,969	$9,651	$336,035	$2,968,585

(Expressed in thousands of dollars unless otherwise stated)

(6) Claim development trend

A. The Company

	-2009.12.31	2010.1.1-2010.12.31	2011.1.1-2011.12.31	2012.1.1-2012.12.31	2013.1.1-2013.12.31	2014.1.1-2014.12.31	2015.1.1-2015.12.31	Total
Estimate of cumulative claims incurred:								
At end of underwriting year	$3,322,792	$3,931,646	$5,408,275	$4,851,463	$5,773,901	$7,066,945	$7,559,011	
One year later	4,039,173	4,872,374	5,667,748	5,687,982	6,109,827	7,217,836		
Two year later	4,142,479	4,895,061	5,171,294	5,742,806	6,169,858			
Three year later	4,178,118	6,227,365	5,223,218	5,780,855				
Four year later	4,142,281	6,161,427	5,284,693					
Five year later	4,128,773	6,177,427						
Six year later	4,004,236							
Estimate of cumulative claims incurred	4,004,236	6,177,427	5,284,693	5,780,855	6,169,858	7,217,836	7,559,011	$42,193,916
Cumulative payment to date	4,089,515	6,081,253	5,224,982	5,645,053	5,828,257	6,336,899	4,048,303	37,254,262
Subtotal	(85,279)	96,174	59,711	135,802	341,601	880,937	3,510,708	4,939,654
Reconciliation	-	-	-	-	-	-	105,767	105,767
Recorded in balance sheet	$(85,279)	$96,174	$59,711	$135,802	$341,601	$880,937	$3,616,475	$5,045,421

Note: The upper part of this chart is to explain the amount of claim for property insurance of each underwriting year estimated through time.

The upper table excluding claim reserve of compulsory automobile liability insurance $1,997,616 thousand and assumed reinsurance (except compulsory automobile liability insurance) $153,995 thousand.

(Expressed in thousands of dollars unless otherwise stated)

B. Cathay Insurance (China)

	2010.12.31	2011.1.1-2011.12.31	2012.1.1-2012.12.31	2013.1.1-2013.12.31	2014.1.1-2014.12.31	2015.1.1-2015.12.31	Total
Estimated accumulation amount of claim:							
As to 2010/12/31	$345,810						
As to 2011/12/31	342,551	$372,183					
As to 2012/12/31	307,631	333,325	$1,035,275				
As to 2013/12/31	307,656	350,825	869,681	$1,513,818			
As to 2014/12/31	306,799	361,879	828,085	1,370,602	$2,054,658		
As to 2015/12/31	307,314	347,998	828,483	1,357,248	1,850,661	$2,251,174	
Estimated accumulation of claim	307,314	347,998	828,483	1,357,248	1,850,661	2,251,174	$6,942,878
Accumulated claim paid	307,299	344,385	806,988	1,285,125	1,647,938	1,074,433	5,466,168
Subtotal	15	3,613	21,495	72,123	202,723	1,176,741	1,476,710
Indirect claim expense, discount and risk margin							65,233
Recognized amount on balance sheet							$1,541,943

C. Cathay Insurance (Vietnam)

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

(Expressed in thousands of dollars unless otherwise stated)

(7) Financial instruments

Financial instruments	2015.12.31	2014.12.31
Financial assets		
Financial assets at fair value through profit or loss:		
Held for trading	$1,988,360	$1,514,144
Available-for-sale financial assets	8,100,725	8,256,604
Derivative financial assets for hedging	-	3,747
Held-to-maturity financial assets	4,462,088	2,647,264
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	12,504,493	8,012,927
Debt instrument investments for which no active market exists	3,686,683	3,359,314
Receivables	2,711,388	3,649,736
Loans	366,255	397,313
Guarantee deposits paid	1,473,268	1,449,059
Subtotal	20,742,087	16,868,349
Total	$35,293,260	$29,290,108
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Held for trading	$192,554	$176,626
Financial liabilities measured at amortized cost:		
Payables	3,084,816	2,892,354
Preferred stock liabilities	1,000,000	1,000,000
Total	$4,277,370	$4,068,980

(8) Financial risk management objectives and policies

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

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

A. Market risk

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

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

a. Foreign currency risk

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

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

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

b. Interest rate risk

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

c. Equity price risk

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

B. Credit risk

a. Credit risk management policies

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

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

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

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

c. Credit concentration risk analysis

(a) The amounts of credit risk exposure of the Consolidated Company’s financial assets are as follows:

	2015.12.31					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$5,485,530	$-	$58,273	$841,130	$6,119,560	$12,504,493
Financial assets at fair value through profit or loss	1,408,854	-	-	-	579,506	1,988,360
Available-for-sale financial assets	5,799,270	-	398,491	247,748	1,655,216	8,100,725
Debt instrument investments for which no active market exists	1,600,000	-	355,325	672,062	1,059,296	3,686,683
Held-to-maturity financial assets	207,094	-	852,253	2,208,347	1,194,394	4,462,088
Total	$14,500,748	$-	$1,664,342	$3,969,287	$10,607,972	$30,742,349
Proportion	47.17%	0.00%	5.41%	12.91%	34.51%	100.00%

(Expressed in thousands of dollars unless otherwise stated)

	2014.12.31					
Financial assets	Taiwan	New Zealand and Australia	Europe	Americas	Emerging market and others	Total
Cash and cash equivalents	$4,104,523	$399	$20,945	$1,144,039	$2,743,021	$8,012,927
Financial assets at fair value through profit or loss	1,303,979	-	-	-	210,165	1,514,144
Available-for-sale financial assets	6,774,531	-	144,333	175,223	1,162,517	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	-	3,747
Debt instrument investments for which no active market exists	1,050,000	-	340,597	805,258	1,163,459	3,359,314
Held-to-maturity financial assets	190,572	-	155,490	1,264,985	1,036,217	2,647,264
Total	$13,427,352	$399	$661,365	$3,389,505	$6,315,379	$23,794,000
Proportion	56.43%	0.00%	2.78%	14.25%	26.54%	100.00%

d. Credit risk quality analysis

(a) Credit quality classifications of the Consolidated Company's financial assets are as follows:

	Credit quality of financial assets				
	2015.12.31				
	Normal assets				
Financial assets	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$12,504,493	$-	$-	$-	$12,504,493
Financial assets at fair value through profit or loss	1,988,360	-	-	-	1,988,360
Available-for-sale financial assets	8,100,725	-	-	-	8,100,725
Debt instrument investments for which no active market exists	3,686,683	-	-	-	3,686,683
Held-to-maturity financial assets	4,462,088	-	-	-	4,462,088
Total	$30,742,349	$-	$-	$-	$30,742,349

(Expressed in thousands of dollars unless otherwise stated)

	Credit quality of financial assets				
	2014.12.31				
	Normal assets				
Financial assets	Investment grade	Non-investment grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$8,012,927	$-	$-	$-	$8,012,927
Financial assets at fair value through profit or loss	1,514,144	-	-	-	1,514,144
Available-for-sale financial assets	8,256,604	-	-	-	8,256,604
Derivative financial assets for hedging	3,747	-	-	-	3,747
Debt instrument investments for which no active market exists	3,359,314	-	-	-	3,359,314
Held-to-maturity financial assets	2,647,264	-	-	-	2,647,264
Total	$23,794,000	$-	$-	$-	$23,794,000

Note: Investment grade assets refer to those 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.

(b) Loans

	2015.12.31							
	Neither past due nor impaired							
Loans	Excellent	Great	Normal	Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$170,367	$-	$-	$-	$121,836	$292,203	$3,023	$289,180
Corporate Finance	62,280	-	-	-	16,200	78,480	1,405	77,075
Total	$232,647	$-	$-	$-	$138,036	$370,683	$4,428	$366,255

	2014.12.31							
	Neither past due nor impaired							
Loans	Excellent	Great	Normal	Past due but not impaired	Impaired	Total (EIR principal)	Loss reserve	Net
Consumer Finance	$154,569	$-	$-	$-	$120,917	$275,486	$1,677	$273,809
Corporate Finance	60,000	-	-	-	129,003	189,003	65,499	123,504
Total	$214,569	$-	$-	$-	$249,920	$464,489	$67,176	$397,313

C. Operational Risk

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

D. Liquidity risk

a. Sources of liquidity risk

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

b. Liquidity risk management

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

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

c. The table below summarizes the maturity profile of the Consolidated Company’s financial liabilities based on contractual undiscounted payments.

	2015.12.31						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$3,084,816	$1,510,574	$1,483,552	$14,998	$6,207	$5,817	$-
Financial liabilities at fair value through profit or loss	192,554	194,195	160,082	26,722	7,391	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	-	1,000,000	-

	2014.12.31						
Liabilities	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Payables	$2,892,354	$1,392,632	$1,359,251	$27,249	$4,745	$1,387	$-
Financial liabilities at fair value through profit or loss	176,626	176,626	112,818	58,687	5,121	-	-
Preferred stock liabilities	1,000,000	1,000,000	-	-	-	1,000,000	-

E. Market risk analysis

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

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

a. Value-at-risk

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

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

b. Stress testing

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

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

(a) Simple Sensitivity

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

(Expressed in thousands of dollars unless otherwise stated)

(b) Scenario Analysis

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

① Historical scenarios

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

② Hypothetical scenarios

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

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

2015.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	−10%	$(426,608)
Interest rate risk (Yield curve)	20bp	(145,720)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(116,285)
Merchandise risk (merchandise price)	−10%	-

2015.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$132	$831
	RMB appreciate 1 %	16,208	792
	HKD appreciate 1 %	737	2,923
	NTD appreciate 1 %	(37,243)	(7,934)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(4,691)	(118)
	Yield curve (RMB) flat rises 1bp	(49)	(71)
	Yield curve (NTD) flat rises 1bp	(1,087)	(1,271)
Equity securities price sensitivity	Increase 1% in equity price	-	42,661

(Expressed in thousands of dollars unless otherwise stated)

2014.12.31	Stress testing	
Risk factors	Variation (+/−)	Changes in profit and loss
Equity price risk (Index)	−10%	$(439,327)
Interest rate risk (Yield curve)	20bp	(92,715)
Foreign currency risk (Exchange rate)	USD exchange NTD devalue 1 dollar	(232,313)
Merchandise risk (merchandise price)	−10%	-

2014.12.31		Profit and loss	Equity
Foreign currency risk sensitivity	EUR appreciate 1 %	$1	$378
	RMB appreciate 1 %	26,644	562
	HKD appreciate 1 %	85	478
	NTD appreciate 1 %	(38,752)	(3,344)
Interest rate risk sensitivity	Yield curve (USD) flat rises 1bp	(2,231)	(133)
	Yield curve (RMB) flat rises 1bp	(558)	(78)
	Yield curve (NTD) flat rises 1bp	(350)	(1,286)
Equity securities price sensitivity	Increase 1% in equity price	-	43,933

(9) Fair values of financial instruments

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

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

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

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, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

e. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

(Expressed in thousands of dollars unless otherwise stated)

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

B. Fair value of financial instruments measured at amortized cost

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

	Carrying amount		Fair value	
	2015.12.31	2014.12.31	2015.12.31	2014.12.31
Held-to-maturity financial assets	$4,462,088	$2,647,264	$4,464,874	$2,767,723
Debt instrument investments for which no active market exists	3,686,683	3,359,314	3,729,609	3,399,085

(10) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

(Expressed in thousands of dollars unless otherwise stated)

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

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

Level 3 -Unobservable inputs for the asset or liability

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

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

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

As at 31 December 2015:

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

(Expressed in thousands of dollars unless otherwise stated)

As at 31 December 2014:

	Level 1	Level 2	Level 3	Total
Non-derivative financial instruments:				
Assets				
Financial assets at fair value through profit or loss				
Beneficiary certificates	$1,514,144	$-	$-	$1,514,144
Available-for-sale financial assets				
Stocks	2,849,230	-	952,200	3,801,430
Bonds	1,032,630	1,693,109	-	2,725,739
Beneficiary certificates	1,508,276	221,159	-	1,729,435
Derivative financial instruments:				
Assets				
Derivative financial assets for hedging				
Swap contracts	-	3,747	-	3,747
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	-	176,626	-	176,626

Transfers between Level 1 and Level 2

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3

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

(Expressed in thousands of dollars unless otherwise stated)

Available-for-sale financial assets	Stocks
1 January 2015	$952,200
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	(52,200)
Acquisitions or issuances	200,000
Disposals or settlements	(500,000)
31 December 2015	$600,000
1 January 2014	$-
Total gains (losses) recognized	
Amount recognized in other comprehensive income (Unrealized gains (losses) on available-for-sale financial assets)	52,200
Acquisitions or issuances	900,000
31 December 2014	$952,200

Total gains (losses) recognized in profit or loss in the table above contains gains (losses) related to assets on hand as at 31 December 2015 and 2014 in the amount of $0 thousand, respectively.

Information on significant unobservable inputs to valuation

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

As at 31 December 2015

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Available-for-sale Stocks	Market approach	discount for lack of marketability	0%	The fair value was recognized by the price of latest transaction

(Expressed in thousands of dollars unless otherwise stated)

As at 31 December 2014

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Available-for-sale Stocks	Market approach	discount for lack of marketability	30%	The higher the discount for lack of marketability, the lower the fair value of the stocks

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

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

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

As at 31 December 2015

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

As at 31 December 2014

Not applicable

(Expressed in thousands of dollars unless otherwise stated)

8. Related parties transactions

(1) Premium income

Name	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties		
Cathay Life Insurance Co., Ltd.	$148,130	$160,401
Cathay United Bank Co., Ltd.	151,260	129,239
San Ching Engineering Co., Ltd.	9,944	17,092
Cathay Real Estate Co., Ltd.	7,944	7,553
Cathay Medical Care Corporate	4,196	3,333
Total	$321,474	$317,618

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

(2) Premiums receivable

Name	2015.12.31	%	2014.12.31	%
Other related parties				
Cathay Life Insurance Co., Ltd.	$8,338	0.47	$3,084	0.10
Cathay United Bank Co., Ltd.	9,349	0.53	338	0.01
Total	$17,687		$3,422	

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

(3) Insurance claims payment

Name	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties		
San Ching Engineering Co., Ltd.	$4,160	$-
Cathay Life Insurance Co., Ltd.	926	7,836
Total	$5,086	$7,836

(Expressed in thousands of dollars unless otherwise stated)

(4) Cash in banks

Name	Type	2015.12.31	2014.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	$652,474	$655,280
	Checking Deposits	116,048	101,828
	Time deposits	623,200	623,200
Indovina Bank Ltd.	Cash in banks	17,233	14,460
	Time deposits	159,199	104,195
Total		$1,568,154	$1,498,963

		Interest Rate	
Name	Type	2015.12.31	2014.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	0.001%-0.45%	0.01%-0.45%
	Time deposits	0.15%-1.345%	0.17%-3.50%
Indovina Bank Ltd.	Cash in banks	0.01%	0.10%-1.00%
	Time deposits	4.20%-7.50%	5.00%-7.70%

		Interest Revenue	
Name	Type	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Cash in banks	$514	$738
	Time deposits	8,121	8,878
Indovina Bank Ltd.	Time deposits	5,480	6,210
Total		$14,115	$15,826

As of 31 December 2015 and 31 December 2014, time deposit pledged was $28,598 thousands and $23,720 thousands.

(Expressed in thousands of dollars unless otherwise stated)

(5) Loans

	2015.1.1~2015.12.31			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$48,781	$44,136	1.74%~1.82%	$629

	2014.1.1~2014.12.31			
Name	Maximum amount	Ending balance	Interest rate	Interest income
Other related parties	$40,894	$35,935	1.84%~1.88%	$695

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

Name	Type	2015.12.31	2014.12.31
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	$100,620	$-

(7) Available-for-sale financial assets

Name	Type	2015.12.31	2014.12.31
Other related parties			
Cathay Securities Investment Trust Co., Ltd.	Beneficiary certificates	$139,118	$292,579

(8) Discretionary account management balance

Name	2015.12.31	2014.12.31
Other related parties		
Cathay Securities Investment Trust Co., Ltd.	$433,188	$422,222

(Expressed in thousands of dollars unless otherwise stated)

(9) Guarantee deposits paid

Name	2015.12.31	%	2014.12.31	%
Other related parties				
Cathay Life Insurance Co., Ltd.	$24,014	1.63	$22,465	1.55
Cathay Futures Co., Ltd.	6,810	0.46	9,964	0.69
Cathay United Bank	22,403	1.52	17,383	1.20
Lin Yuan (Shanghai) Real Estate	5,444	0.37	5,466	0.38
Total	$58,671		$55,278	

(10) Other payable

Name	2015.12.31	%	2014.12.31	%
Parent company				
Cathay Financial Holdings Co., Ltd.	$274,450	20.27	$171,856	15.28
Other related parties				
Cathay Life Insurance Co., Ltd.	240,495	17.76	264,638	23.54
Symphox Information Co., Ltd.	3,489	0.26	3,945	0.35
Total	$518,434		$440,439	

(11) Preferred stock liability

Name	2015.12.31	%	2014.12.31	%
Parent company				
Cathay Financial Holdings Co., Ltd.	$1,000,000	100.00	$1,000,000	100.00

(12) Operating costs

Name	Type	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties			
Cathay United Bank Co., Ltd.	Handling fees	$22,102	$21,029

(Expressed in thousands of dollars unless otherwise stated)

(13) Operating expenses

Name	Type	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties			
Cathay Life Insurance Co., Ltd.	Rental expenses	$101,034	$102,006
	Marketing expenses	1,439,178	1,371,042
	Party premium expenses	18,523	19,295
	Administrative expenses	7,962	7,613
Cathay United Bank Co., Ltd.	Marketing expenses	75,941	69,566
	Rental expenses	8,902	8,950
Lin Yuan (Shanghai) Real Estate	Rental expenses	20,689	19,840
Total		$1,672,229	$1,598,312

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

(14) Other expenses

Name	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Other related parties		
Symphox Information Co., Ltd.	$18,837	$37,640
Seaward Card Co., Ltd.	4,207	3,149
Total	$23,044	$40,789

(15) Non-operating expenses and losses

Name	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Parent company		
Cathay Financial Holdings Co., Ltd.	$18,600	$18,600

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

(16) Other

As of 31 December 2015 and 31 December 2014 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below (in thousands):

Name	Item	2015.12.31	2014.12.31
Other related parties			
Cathay United Bank	CS contracts	US $74,200	US $58,200
Co., Ltd.		EUR $4,350	EUR $1,350
	IRS	NT $-	NT $200,000

(17) Key management personnel compensation in total

Name	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Short-term employee benefits	$49,409	$36,814
Post-employment benefits	2,441	2,472
Termination benefits	4,128	-
Total	$55,978	$39,286

9. Pledged assets

(1) The Company

	2015.12.31	2014.12.31
Government deposits paid government bonds	$541,415	$514,324
Guarantee deposits paid-time deposits	20,000	15,000
Total	$561,415	$529,324

As of 31 December 2015 and 2014, the Company provided government bonds amounting to $514,415 thousand and $514,324 thousand, respectively, as the “Guaranteed Depository Insurance” in accordance with the Insurance Act. The pledged assets are stated at book value.

(Expressed in thousands of dollars unless otherwise stated)

(2) Cathay Insurance (China)

	2015.12.31	2014.12.31
Government deposits paid-times deposits	$814,736	$818,000

According to the Insurance Act of the People's Republic of China, Cathy Insurance (China) should deposit guarantee deposits at an amount equal to 20% of it paid-in capital. The guaranteed deposits of Cathay Insurance (China) are time deposits. The pledged assets are stated at book value.

(3) Cathay Insurance (Vietnam)

	2015.12.31	2014.12.31
Government deposits paid-times deposits	$8,598	$8,720

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

10. Contingent liabilities and unrecognized contractual commitments

Legal claim contingency

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

Operating lease commitments - The Consolidated Company as a lessee

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

According to the noncancelable operating lease contracts, the future minimum lease payments at 31 December 2015 and 2014 are as follows:

(1) Significant lease contracts of the Company

	2015.12.31	2014.12.31
Not later than 1 year	$132,533	$126,387
Later than 1 year but not later than 5 years	530,131	505,547
Later than 5 years	-	-
Total	$662,664	$631,934

(Expressed in thousands of dollars unless otherwise stated)

(2) Operating lease contracts that can't be cancelled of Cathay Insurance (China)

	2015.12.31	2014.12.31
Not later than 1 year	$67,798	$62,570
Later than 1 year but not later than 5 years	107,477	107,750
Later than 5 years	-	-
Total	$175,275	$170,320

11. Significant disaster losses: None.

12. Subsequent events: None.

13. Others

(1) 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.

	2015.12.31		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$12,515,171	$-	$12,515,171
Receivables	2,711,388	-	2,711,388
Investments	7,586,756	11,017,355	18,604,111
Reinsurance assets	6,336,731	-	6,336,731
Property and equipment	-	219,213	219,213
Intangible assets	-	62,703	62,703
Other assets	-	1,656,192	1,656,192
Total assets			$42,105,509
Payables	$3,072,792	$12,024	$3,084,816
Financial liabilities	185,163	1,007,391	1,192,554
Insurance liabilities	-	25,064,274	25,064,274
Provision	-	381,016	381,016
Other liabilities	-	5,163,750	5,163,750
Total liabilities			$34,886,410

(Expressed in thousands of dollars unless otherwise stated)

	2014.12.31		
	Recovery or settlement within 12 months	Recovery or settlement more than 12 months	Total
Cash and cash equivalents	$8,023,111	$-	$8,023,111
Receivables	3,649,736	-	3,649,736
Investments	7,814,542	8,363,844	16,178,386
Reinsurance assets	6,069,884	19,488	6,089,372
Property and equipment	-	258,732	258,732
Intangible assets	-	26,155	26,155
Other assets	-	1,637,413	1,637,413
Total assets			$35,862,905
Payables	$2,886,222	$6,132	$2,892,354
Financial Liabilities	171,505	1,005,121	1,176,626
Insurance liabilities	-	23,943,870	23,943,870
Provision	-	283,132	283,132
Other liabilities	-	738,219	738,219
Total liabilities			$29,034,201

(2) Hedged accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company's interest rate swaps for bonds used as hedging instruments as of 31 December 2015 and 2014:

31 December 2015				
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	$-	-	-

(Expressed in thousands of dollars unless otherwise stated)

31 December 2014

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	$3,747	1 January 2015 ~ 30 April 2015	1 January 2015 ~ 30 April 2015

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

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

	For the year ended 31 December	
	2015	2014
Amount recognized in other comprehensive income	$(3,747)	$(6,274)
Amount reclassified from equity to profit or loss	1,249	6,441

(3) Offsetting of financial assets and financial liabilities

The Consolidated Company deals with derivative instrument transactions, such as, forward contracts and SWAPs. 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.

(Expressed in thousands of dollars unless otherwise stated)

31 December 2015

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral received	Net amount
Derivative financial instrument	$440	$-	$440	$-	$-	$440

31 December 2014

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement

Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Relevant amount that has not been offset on balance sheet: Financial instruments	Relevant amount that has not been offset on balance sheet: Cash collateral pledged	Net amount
Derivative financial instrument	$192,554	$-	$192,554	$-	$-	$192,554

(4) Eliminated inter-company transactions

Transactions	2015.1.1~2015.12.31 Company name and debit (credit) amounts: The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
① Eliminate subsidiaries investment profit and loss	$379,267	$(377,685)	$(1,582)
② Eliminate subsidiaries equity	(918,299)	650,767	592,916

(Expressed in thousands of dollars unless otherwise stated)

	2014.1.1~2014.12.31		
	Company name and debit (credit) amounts		
Transactions	The Company	Cathay Insurance (China)	Cathay Insurance (Vietnam)
Eliminate investment under equity method and equity			
① Eliminate subsidiaries investment profit and loss	$260,865	$(176,280)	$(84,585)
② Eliminate subsidiaries equity	(1,111,548)	1,409,892	406,602

Note: The eliminated difference of inter-company result in non-controlling equity $325,384 thousands and $704,946 thousands for the years ended 31 December 2015 and 2014, respectively.

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

	2015.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$229,782	33.0660	$7,597,970
RMB	329,011	5.0955	1,676,464
EUR	442	36.1312	15,971
Non-Monetary Items			
USD	174,100	33.0660	-
EUR	7,850	36.1312	-
	(Nominal Amount)		

	2014.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$155,361	31.7180	$4,927,753
RMB	534,397	5.1161	2,734,037
EUR	440	38.5501	16,952
DKK	607	6.1469	3,732
Non-Monetary Items			
USD	137,600	31.7180	-
EUR	2,350	38.5501	-
	(Nominal Amount)		(Note)

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

Note: The Consolidated entered into forward foreign exchange contracts to hedge exchange rate risks from international investment. Financial liabilities at fair value through profit and loss were recognized by $192,554 thousand and $176,626 thousand at 31 December 2015 and 2014. Financial liabilities at fair value through profit and loss were recognized by $440 thousand and $0 thousand at 31 December 2015 and 2014.

(6) Interests in unconsolidated structured entities

A. Unconsolidated structured entities

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

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

B. As of 31 December 2015, the carrying amount of assets recognized by Company relating to its interests in unconsolidated structured entities is disclosed as follows:

	Asset Securitization commodity
Available-for-sale financial assets	$1,069,768

(7) Capital management

A. Objective

In order to enhance the Company's capital structure and business growth, the Company has established a set of capital adequacy management standards and complies with laws and regulation to maintain its capital adequacy ratio in a certain range in order to reduce all types of risks.

B. Policy

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

C. Procedures

a. Periodically

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

(Expressed in thousands of dollars unless otherwise stated)

b. Aperiodically

Practice scenario analysis for capital adequacy ratio focusing on the Company's usage of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. Capital adequacy ratio

Capital adequacy ratio of the Company, which is defined by Insurance Act and Regulations Governing Capital Adequacy of Insurance Companies, is above 200% during the past two years, and complies with the regulations.

(8) Operation segments information

a. General information

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

b. Geographical information

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

	2015.1.1~ 2015.12.31	2014.1.1~ 2014.12.31
Taiwan	$15,335,782	$14,376,930
Other countries	3,385,407	2,902,262
Total	$18,721,189	$17,279,192

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

c. Information about major customers

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

(9) Significant contract

The Company agreed the subsidiary Cathay Insurance (China) to increase capital and the offering was agreed on 14 September, 2015. Zhejiang Ant Financial Service Group Co., Ltd. (Ant Financial) acquired all the newly issued shares as strategic investor.

14. Information of investment in Mainland China

On 31 December 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to USD$28.96 million to establish an insurance subsidiary, engaging in the business of property insurance business. On 8 October 2007, China Insurance Regulatory Commission (CIRC) authorized the Company to prepare to build a property insurance company in form of joint venture with Cathay life Insurance. And, the joint venture company named Cathay Insurance Company Ltd. (China) established in Shanghai has acquired a business license of an enterprise as a legal person on 26 August 2008. On 28 May 2013, the MOEAIC authorized the Company to RMB$200 million to establish an insurance subsidiary. On 13 June 2013 and 18 March 2014, each amount of the company's remittance was RMB$100,000 thousands and was authorized by CIRC. As of 31 December 2015, the Company has totally remitted US$60.56 million.