Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
For The Years Ended
31 December 2017 and 2016
With Independent Auditors' Report

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

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Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

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

Opinion

We have audited the accompanying consolidated balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") and its subsidiaries as of 31 December 2017 and 2016, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years ended 31 December 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of 31 December 2017 and 2016, and their consolidated financial performance and cash flows for the years ended 31 December 2017 and 2016, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprise and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2017 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Valuation of Financial instruments

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

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

Please refer to Notes 4, 5.2 and 44 for details of the valuation of the Company and its subsidiaries' financial instruments.

Measurement of insurance liabilities

The measurement of the Company and its subsidiaries' insurance liabilities is dependent on the calculations based on different assumptions. Partial of the assumptions followed the regulations issued by the authorities while partial of the assumptions followed the professional judgements of internal specialists, and thus resulting in high complexity. Therefore, we determined measurement of insurance liabilities as a key audit matter.

Our audit procedures included (but not limited to) evaluating and testing the effectiveness of internal controls around insurance liabilities, including management's decision and approval of the methods and assumptions used in setting aside various reserves and controls for changing the methods and assumptions and examining the data of calculating insurance liabilities. Meanwhile, we involved internal specialists in our audit procedures, including assessing the reasonableness of the actuarial judgements and actuarial assumption models made by management. In the liability adequacy test, the internal specialists evaluated the reasonableness of underlying assumptions and results.

Please refer to Notes 4, 5.2 and 27 for details of the Company and its subsidiaries' measurement of insurance liabilities.

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Independent Auditors' Report (continued)
English Translation of a Report Originally Issued in Chinese

Investment properties measured at fair value

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

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

Please refer to Notes 4, 5.2 and 16 for details of the Company and its subsidiaries' investment properties measured at fair value.

Assessment of goodwill impairment

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

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

Please refer to Notes 4, 5.2, and 20 for details of the Company and its subsidiaries' assessment of goodwill impairment.

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

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

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Independent Auditors' Report (continued)
English Translation of a Report Originally Issued in Chinese

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and the years ended 31 December 2017 and 2016.

Ernst & Young

Ernst & Young
Taipei, Taiwan
The Republic of China
15 March 2018

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

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English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets

As at 31 December 2017 and 31 December 2016

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	31 December 2017	31 December 2016	Liabilities and equity	Notes	31 December 2017	31 December 2016
Cash and cash equivalents	4,6,51,52	$210,543,885	$148,761,072	Short-term debts	51	$-	$46,444
Receivables	4,7,51,52	81,845,945	70,613,079	Payables	23,51,52	25,235,969	24,352,689
Current tax assets	4,5,40,51	18,090	-	Current tax liabilities	4,5,40,51	177,190	185,413
Financial assets at fair value through profit or loss	4,5,8,51	43,037,361	39,081,972	Financial liabilities at fair value through profit or loss	4,5,24,51	1,104,658	26,982,208
Available-for-sale financial assets	4,5,9,51,57(4)	1,517,450,715	1,421,616,409	Bonds payable	25,51,52	70,000,000	35,000,000
Derivative financial assets for hedging	4,5,10,51	246,444	232,269	Preferred stock liability	26,51,52	5,000,000	5,000,000
Investments accounted for using the equity method – Net	4,5,11,51	33,122,620	31,130,963	Insurance liabilities	4,5,27,51	4,923,940,864	4,547,132,223
Debt instrument investments for which no active market exists	4,5,12,51,52,57(4)	2,393,010,584	2,126,182,349	Reserve for insurance contracts with feature of financial instruments	4,5,27,51	8,761,609	10,320,750
Held-to-maturity financial assets	4,5,13,51,57(4)	57,807,718	27,775,410	Foreign exchange volatility reserve	4,5,27,51	11,589,138	9,871,478
Other financial assets – Net	4,5,14,51	4,500,000	7,661,395	Provisions	4,5,29,51	472,002	424,226
Investment property	4,5,16,51,52	459,175,538	452,751,907	Deferred tax liabilities	4,5,40,51	37,034,552	28,848,843
Investment property under construction	4,5,16,51,52	3,541,501	3,300,843	Other liabilities	30,31,51,52	17,888,037	6,788,069
Prepayments for buildings and land – Investments	4,5,16,51,52	690,203	383,904	Separate account product liabilities	4,42,51	555,269,179	498,014,211
Loans	4,17,51,52	603,718,254	607,647,075	Total liabilities		5,656,473,198	5,192,966,554
Reinsurance assets	4,18,51,52	758,458	738,779				
Property and equipment	4,19,51,52	31,077,311	29,498,116	Equity attributable to equity holders of the parent			
Intangible assets	4,20,51	46,272,945	49,045,554	Capital stock			
Deferred tax assets	4,5,40,51	28,448,690	12,640,191	Common stock	32	53,065,274	53,065,274
Other assets	4,21,22,51,52,53	27,119,120	29,874,976	Capital surplus	33	13,767,663	13,768,468
Separate account product assets	4,42,51	555,269,179	498,014,211	Retained earnings	34		
				Legal capital reserve		33,208,919	27,183,187
				Special capital reserve		259,379,137	242,737,539
				Unappropriated retained earnings		34,072,057	28,427,568
				Other equity		42,094,995	(3,886,875)
				Non-controlling interests	34	5,593,318	2,688,759
				Total equity		441,181,363	363,983,920
Total assets		$6,097,654,561	$5,556,950,474	Total liabilities and equity		$6,097,654,561	$5,556,950,474

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of comprehensive income
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

Items	Notes	1 January – 31 December 2017	1 January – 31 December 2016
Operating revenue	4,52		
Direct premium income	35	$609,560,113	$606,925,481
Reinsurance premium income	35	197,504	200,445
Premium income	35	609,757,617	607,125,926
Deduct: Premiums ceded to reinsurers	35	(1,353,518)	(1,216,171)
Changes in unearned premium reserve	27,35	(857,291)	(678,453)
Retained earned premium	35	607,546,808	605,231,302
Reinsurance commission earned		301,005	362,835
Handling fees earned	42	9,468,376	5,542,070
Net investment profits and losses			
Interest income		139,034,096	127,365,202
Gains from financial assets and liabilities at fair value through profit or loss		89,042,532	15,438,840
Realized gains from available-for-sale financial assets		68,687,213	43,761,300
Realized gains from debt instrument investments for which no active market exists		19,026,550	26,184,430
Realized losses from held-to-maturity financial assets		(3,393)	-
Share of the gains of associates and joint ventures accounted for using the equity method		1,258,667	1,094,344
Foreign exchange losses		(116,018,300)	(43,590,580)
Changes in foreign exchange volatility reserve	27	(1,717,660)	6,154,971
Gains from investment property		10,231,019	15,482,863
Impairment losses on investments and gains on reversal of impairment losses		(3,278)	(92,502)
Gains from other investments – Net		153,167	511,452
Other operating revenue		5,068,585	5,032,333
Separate account product revenue	4,42	44,304,129	39,589,093
Subtotal		876,379,516	848,067,953
Operating costs	4,52		
Insurance claim payments	36	(284,509,744)	(297,769,994)
Deduct: Claims recovered from reinsures	36	487,223	569,165
Retained claim payments	36	(284,022,521)	(297,200,829)
Changes in insurance liabilities	27	(446,299,104)	(408,182,318)
Changes in reserve for insurance contracts with feature of financial instruments	27	456,521	(216,001)
Brokerage expenses	37	(16,802,420)	(19,392,640)
Commission expenses	37	(15,704,454)	(19,508,377)
Other operating costs		(6,417,684)	(6,380,560)
Finance costs		(1,963,364)	(412,966)
Separate account product expenses	4,42	(44,304,129)	(39,589,093)
Subtotal		(815,057,155)	(790,882,784)
Operating expenses	4,37,52		
Business expenses		(11,681,038)	(13,976,870)
Administrative and general expenses		(17,063,059)	(16,746,235)
Employee training expenses		(46,118)	(45,159)
Subtotal		(28,790,215)	(30,768,264)
Operating income		32,532,146	26,416,905
Non-operating income and expenses	4,38,52	1,441,684	1,956,244
Income from continuing operations before income tax		33,973,830	28,373,149
Income tax benefit	4,5,40	2,293,895	1,861,472
Net income from continuing operations		36,267,725	30,234,621
Net income		36,267,725	30,234,621
Other comprehensive income	39		
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of defined benefit plans		(406,729)	844,347
Revaluation surplus		235,064	-
using the equity method – not to be reclassified to profit or loss in subsequent periods		183,911	(9,404)
Income taxes relating to not to be reclassified to profit or loss in subsequent periods		(8,331)	(141,776)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations		(1,285,099)	(7,314,774)
Unrealized valuation gains from available-for-sale financial assets		51,697,578	3,843,352
Effective portion of gains (losses) on hedging instruments in cash flow hedges		14,595	(216,856)
using the equity method – to be reclassified to profit or loss in subsequent periods		(1,223,394)	(668,286)
Income taxes relating to be reclassified to profit or loss in subsequent periods		(3,389,105)	3,090,669
Other comprehensive income (losses), net of tax		45,818,490	(572,728)
Total comprehensive income		$82,086,215	$29,661,893
Net income attributable to:			
Equity holders of the parent		$36,290,138	$30,128,660
Non-controlling interests		$(22,413)	$105,961
Total comprehensive income (losses) attributable to:			
Equity holders of the parent		$82,272,008	$29,898,718
Non-controlling interests		$(185,793)	$(236,825)
Basic earnings per share (in dollars)	41		
Net income		$6.84	$5.68

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

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated statements of changes in equity

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

		Equity attributable to equity holders of the parent												
				Retained earnings			Other equity							
Items	Notes	Capital stock	Capital surplus	Legal capital reserve	Special capital reserve	Unappropriated retained earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized valuation (losses) gains from available-for-sale financial assets	Effective portion of (losses) gains on hedging instruments in cash flow hedges	Remeasurements of defined benefit plans	Revaluation surplus	Total	Non-controlling interests	Total
Balance on 1 January 2016		$53,065,274	$13,028,012	$19,560,283	$227,412,391	$36,498,070	$253,184	$(3,883,850)	$371,523	$(397,790)	$-	$345,907,097	$2,327,656	$348,234,753
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402029580		-	-	-	(10,000,000)	10,000,000	-	-	-	-	-	-	-	-
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10502023110		-	-	-	(2,700,000)	2,700,000	-	-	-	-	-	-	-	-
Appropriation and distribution of earnings for the year 2015	34													
Legal capital reserve		-	-	7,622,904	-	(7,622,904)	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	26,324,056	(26,324,056)	-	-	-	-	-	-	-	-
Cash dividends on common stock		-	-	-	-	(15,251,110)	-	-	-	-	-	(15,251,110)	-	(15,251,110)
Changes in special reserve (Note 1)		-	-	-	1,701,092	(1,701,092)	-	-	-	-	-	-	-	-
Changes in other capital surplus														
Changes in amount of associates and joint ventures accounted for using the equity method		-	740,456	-	-	-	-	-	-	-	-	740,456	-	740,456
Net income for the year ended 31 December 2016 (Note 2)		-	-	-	-	30,128,660	-	-	-	-	-	30,128,660	105,961	30,234,621
Other comprehensive income for the year ended 31 December 2016	39	-	-	-	-	-	(7,827,585)	7,084,466	(179,990)	693,167	-	(229,942)	(342,786)	(572,728)
Total comprehensive income for the year ended 31 December 2016		-	-	-	-	30,128,660	(7,827,585)	7,084,466	(179,990)	693,167	-	29,898,718	(236,825)	29,661,893
Changes in non-controlling interests	34	-	-	-	-	-	-	-	-	-	-	-	597,928	597,928
Balance on 31 December 2016		53,065,274	13,768,468	27,183,187	242,737,539	28,427,568	(7,574,401)	3,200,616	191,533	295,377	-	361,295,161	2,688,759	363,983,920
Special capital reserve recovered in accordance with Order No. Financial-Supervisory-Insurance-Corporate-10602902460		-	-	-	(5,042,545)	5,042,545	-	-	-	-	-	-	-	-
Appropriation and distribution of earnings for the year 2016	34													
Legal capital reserve		-	-	6,025,732	-	(6,025,732)	-	-	-	-	-	-	-	-
Special capital reserve		-	-	-	19,466,062	(19,466,062)	-	-	-	-	-	-	-	-
Cash dividends on common stock		-	-	-	-	(7,978,319)	-	-	-	-	-	(7,978,319)	-	(7,978,319)
Changes in special reserve (Note 1)		-	-	-	2,218,081	(2,218,081)	-	-	-	-	-	-	-	-
Changes in other capital surplus														
Changes in amount of associates and joint ventures accounted for using the equity method		-	(805)	-	-	-	-	-	-	-	-	(805)	-	(805)
Net income for the year ended 31 December 2017 (Note 3)		-	-	-	-	36,290,138	-	-	-	-	-	36,290,138	(22,413)	36,267,725
Other comprehensive income for the year ended 31 December 2017	39	-	-	-	-	-	(2,383,935)	48,349,777	12,113	(184,906)	188,821	45,981,870	(163,380)	45,818,490
Total comprehensive income for the year ended 31 December 2017		-	-	-	-	36,290,138	(2,383,935)	48,349,777	12,113	(184,906)	188,821	82,272,008	(185,793)	82,086,215
Changes in non-controlling interests	34	-	-	-	-	-	-	-	-	-	-	-	3,090,352	3,090,352
Balance on 31 December 2017		$53,065,274	$13,767,663	$33,208,919	$259,379,137	$34,072,057	$(9,958,336)	$51,550,393	$203,646	$110,471	$188,821	$435,588,045	$5,593,318	$441,181,363

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

Note 2: For the year ended 2016, the remuneration to directors and supervisors in the amount of $7,200 thousand and employees' compensation in the amount of $2,800 thousand have been deducted from the Statement of Comprehensive Income.

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

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the years ended 31 December 2017 and 2016
(Expressed in thousands of New Taiwan Dollars)

Items	Notes	1 January – 31 December 2017	1 January – 31 December 2016
Cash flows from operating activities			
Net income before tax		$33,973,830	$28,373,149
Adjustments:			
Revenue and expense items			
Depreciation	37	758,579	764,108
Amortization	37	2,637,161	2,615,179
Provision for bad debt expenses		56,196	1,008,145
Net gains from financial assets and liabilities at fair value through profit or loss		(88,838,019)	(15,103,013)
Net gains from available-for-sale financial assets		(45,090,025)	(21,405,837)
Net gains from debt instrument investments for which no active market exists		(19,026,550)	(26,184,430)
Net losses from held-to-maturity financial assets		3,393	-
Interest expenses		2,148,495	119,483
Interest income		(139,034,096)	(127,365,202)
Dividend income		(23,801,701)	(22,691,290)
Changes in insurance liabilities		376,808,641	389,044,235
Changes in reserve for insurance contracts with feature of financial instruments		(1,559,141)	(43,682,215)
Changes in foreign exchange volatility reserve		1,717,660	(6,154,971)
Share of the gains of associates and joint ventures accounted for using the equity method		(1,258,667)	(1,094,344)
Gains on disposal or scrapping of property and equipment		(4,281)	(246,003)
Gains on disposal of investment property		(77,366)	(1,028,564)
Impairment losses on financial assets		15,032	92,502
Gains on reversal of impairment losses		(11,754)	-
Losses (gains) on valuation of investment property		833,201	(3,728,709)
Other		2,258	(50,808)
Subtotal		66,279,016	124,908,266
Changes in operating assets and liabilities			
Decrease in financial assets at fair value through profit or loss		88,413,020	97,934,325
Decrease (increase) in derivative financial assets for hedging		419	(1,798)
Decrease (increase) in available-for-sale financial assets		938,265	(56,066,127)
Increase in debt instrument investments for which no active market exists		(247,801,684)	(257,037,642)
Increase in held-to-maturity financial assets		(30,021,894)	(2,637,578)
(Increase) decrease in premiums receivable		(175,054)	15,932
Decrease in notes receivable		1,193,552	375,432
Increase in other receivable		(13,802,549)	(8,617,007)
Increase in prepaid expenses and other prepayments		(1,000,995)	(3,509,191)
(Increase) decrease in guarantee deposits paid		(201,527)	1,300,424
Increase in reinsurance assets		(19,679)	(74,725)
Decrease in other financial assets		3,161,395	10,338,605
Decrease (increase) in other assets		2,728,805	(629,113)
Decrease in financial liabilities at fair value through profit or loss		(28,178,365)	(97,318,572)
Increase (decrease) in notes payable		5,370,376	(1,557)
Increase in life insurance proceeds payable		96,185	137,543
(Decrease) increase in other payables		(4,433,601)	2,875,348
Decrease in due to reinsurers and ceding companies		(8,804)	(151,371)
(Decrease) increase in commissions payable		(918,172)	1,660,411
Decrease in accounts collected in advance		(61,652)	(99,078)
Increase in guarantee deposits received		5,586,378	58,648
Increase (decrease) in provisions		47,776	(136,830)
Decrease in deferred handling fees		(16,589)	(16,197)
Increase (decrease) in other liabilities		5,591,831	(929,689)
Decrease in provision for employee benefits		(406,729)	(3,361,049)
Subtotal		(213,919,292)	(315,890,856)
Cash used in operations		(113,666,446)	(162,609,441)
Interest received		136,141,842	122,876,767
Dividends received		24,211,222	23,035,690
Interest paid		(1,386,309)	(40,927)
Income taxes (paid) received		(5,024,893)	(1,987,647)
Net cash provided by (used in) operating activities		40,275,416	(18,725,558)
Cash flows from investing activities			
Acquisition of investments accounted for using the equity method		(2,432,643)	(6,670,889)
Disposal of investments accounted for using the equity method		2,843	-
Acquisition of subsidiaries (net of cash received)	43	-	(4,708,708)
Disinvestment of investments accounted for using the equity method		247,965	47,811
Acquisition of property and equipment		(2,492,832)	(3,171,024)
Disposal of property and equipment		22,272	317,623
Acquisition of intangible assets		(181,441)	(114,730)
Decrease in loans		3,895,387	29,583,960
Acquisition of investment property		(7,078,139)	(3,254,915)
Disposal of investment property		165,128	2,138,420
Net cash (used in) provided by investing activities		(7,851,460)	14,167,548
Cash flows from financing activities			
Proceeds from bond issuance	25	35,000,000	35,000,000
Decrease in notes and bonds with repurchase agreement		(46,444)	(14,660)
Redemption of preferred stock liability	26	-	(10,000,000)
Cash dividends paid		(7,978,319)	(15,251,110)
Changes in non-controlling interests		(70,187)	(55,385)
Net cash provided by financing activities		26,905,050	9,678,845
Effects of exchange rate changes on cash and cash equivalents		2,453,807	2,742,818
Increase in cash and cash equivalents		61,782,813	7,863,653
Cash and cash equivalents at the beginning of the periods		148,761,072	140,897,419
Cash and cash equivalents at the end of the periods		$210,543,885	$148,761,072

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

<u>English Translation of Financial Statements Originally Issued in Chinese</u>

Cathay Life Insurance Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended 31 December 2017 and 2016

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

1. Organizations and business scope

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

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

The consolidated financial statements of the Company for the year 2017 and 2016 include the financial information of the Company and its Subsidiaries ("the Company and Subsidiaries"). Please refer to Note 4 (3) for the consolidated entities. The parent company and ultimate parent company of the Company is Cathay Financial Holdings.

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

The consolidated financial statements of the Company and Subsidiaries for the years ended 31 December 2017 and 2016 were authorized for issue by the Company's board of directors on 15 March 2018.

3. Newly issued or revised standards and interpretations

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

The Company and Subsidiaries applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Company and Subsidiaries is described below:

IAS 36 *Impairment of Assets (Amendment)*
This amendments relate to the amendments issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The Company and Subsidiaries evaluated that the amendment only affected the related disclosure.

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

A. IFRS 9 *Financial Instruments*

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

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

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. Consequential amendments on the related disclosures also become effective for annual periods beginning on or after 1 January 2018.

B. Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* – Amendments to IFRS 4

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

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

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

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

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

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

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

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

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

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

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

G. *Transfers of Investment Property* – Amendments to IAS 40

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

H. *Improvements to International Financial Reporting Standards (2014–2016 cycle)*:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*
The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

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

IAS 28 *Investments in Associates and Joint Ventures*
The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

I. IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

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

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 recognizes revenue in accordance with that core principle by applying the following steps:

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

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

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

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

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations listed under (A) and (B), which is described below, all other standards and interpretations have no material impact on the Company and Subsidiaries:

A. The explanation related to the application of IFRS 9 *Financial Instruments* (including the adoption of overlay approach of IFRS 9 *Financial Instruments* under IFRS 4 *Insurance Contracts*) is as follows:

The Company and Subsidiaries elect not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018).

a. Classification and measurement of financial assets

<u>Financial assets at fair value through profit or loss</u>

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

Available-for-sale financial assets

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

(A) Beneficiary certificates

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

(B) Stocks

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

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

(C) Bonds

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

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

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

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

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

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

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

The Company and Subsidiaries choose to express profit or loss of the designated financial assets in overlay approach under IFRS 4 *Insurance Contracts* since its application of IFRS 9 and thus, the abovementioned reclassification results in an increase in other equity reclassified.

b. Impairment assessment of financial assets

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

c. Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the Company and Subsidiaries expect to increase assets by $39,543,191 thousand, increase liabilities by $6,906,578 thousand, decrease retained earnings by $2,913,094 thousand, increase other equity by $35,543,786 thousand and increase non-controlling interests $5,921 thousand on the date of initial application (1 January 2018).

(A) Classification and measurement of financial assets

A part of debt instrument investments for which no active market exists are reclassified as financial assets at fair value through other comprehensive income and thus reflect on adjustments to unrealized gains of debt instrument investments for which no active market exists. The assets increased by $40,763,960 thousand, the liabilities increased by $6,906,973 thousand, retained earnings decreased by $1,232,311 thousand, other equity increased by $35,083,377 thousand and non-controlling interests increased by $5,921 thousand.

(B) Impairment assessment of financial assets

The Company recognized adjustments of expected credit losses of debt instruments, which decreased assets by $1,220,769 thousand, decreased liabilities by $395 thousand, decreased retained earnings by $1,680,783 thousand and increased other equity by $460,409 thousand.

d. Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

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

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

The revenue from contracts with customers of the Company and Subsidiaries is a performance obligation satisfied at a certain time. However, the Company and Subsidiaries recognize the revenue at straight line method during the maturities. The difference from the accounting treatment of revenue recognition mentioned previously is expected to decrease retained earnings by $4,876 thousand and increase contract liability by $4,876 thousand, respectively at the date of initial application.

The Company and Subsidiaries assessed that the effects have no material impact on the Company and Subsidiaries.

(3) Aside from the early adoption of (E), which is described below, standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company and subsidiaries' financial statements are listed below:

A.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.

B. IFRIC 23 *Uncertainty Over Income Tax Treatments*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 "*Income Taxes*" when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

C. IFRS 17 *Insurance Contracts*

IFRS 17 supersedes IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 requires an entity to divide a portfolio of insurance contracts issued into a minimum of a group of contracts that are onerous at initial recognition, a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and a group of the remaining contracts in the portfolio. An entity shall recognize a group of insurance contracts it issues from the earliest of the following: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due, and for a group of onerous contracts, when the group becomes onerous.

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

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

In addition to general model, the Standard required investment contracts with discretionary participation features to apply variable fee approach (VFA), a modification of general model. If certain criteria are met, an entity may apply the premium allocation approach (PAA), a simplified measurement approach, to measure the carrying amount of the liability for remaining coverage.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

D. IAS 28 *Investment in Associates and Joint Ventures* – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

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

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019. In accordance with the question and answer set issued on 12 December 2017 by the FSC, the Company elected to early apply the amendment on 1 January 2018 after considering that it was necessary. The application of the standard has no material impact on the Company.

F. Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 Business Combinations
The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IFRS 11 *Joint Arrangements*
The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 12 *Income Taxes*
The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 23 *Borrowing Costs*
The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after 1 January 2019.

G. *Plan Amendment, Curtailment or Settlement* – Amendments to IAS 19

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after 1 January 2019.

Aside from the early adoption of (E), all other abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company and Subsidiaries' financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Company and Subsidiaries are currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Company and Subsidiaries for the years ended 31 December 2017 and 2016 have been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

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

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

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

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

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

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

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

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

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

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

If the Company loses control of a subsidiary, it:

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

The consolidated entities are listed as follows:

			Ownership interest	
Investors	Investees	Business	2017.12.31	2016.12.31
The Company	Cathay Lujiazui Life Insurance Co., Ltd. ("Cathay Lujiazui Life")	Life insurance	50.00	50.00
The Company	Cathay Life Insurance (Vietnam) Co., Ltd. ("Cathay Life (Vietnam)")	Life insurance	100.00	100.00
The Company	Lin Yuan (Shanghai) Real Estate Co., Ltd. ("Lin Yuan")	Office leasing	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	100.00	100.00
The Company	Cathay Walbrook Holding 1 Limited	Real estate investment and management	100.00	100.00

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

Investors	Investees	Business	Ownership interest 2017.12.31	Ownership interest 2016.12.31
The Company	Cathay Walbrook Holding 2 Limited	Real estate investment and management	100.00	100.00
The Company	Conning Holdings Limited ("CHL")	Holding company	100.00	100.00
CHL	Conning U.S. Holdings, Inc.	Holding company	100.00	100.00
CHL	Conning Asset Management Ltd.	Asset management services	100.00	100.00
CHL	Conning (Germany) GmbH	Risk management software services	100.00	100.00
CHL	Conning Asia Pacific Ltd. (Note)	Asset management services	50.00	50.00
CHL	Conning Japan Ltd.	Asset management services	100.00	100.00
Conning U.S. Holdings, Inc.	Conning Holdings Corp.	Holding company	100.00	100.00
Conning Holdings Corp.	Conning & Company	Holding company	100.00	100.00
Conning & Company	Conning Inc.	Asset management services	100.00	100.00
Conning & Company	Goodwin Capital Advisers, Inc.	Asset management services	100.00	100.00
Conning & Company	Conning Investment Products, Inc.	Securities services	100.00	100.00
Conning & Company	Octagon Credit Investors, LLC	Asset management services	82.05	82.05
Octagon Credit Investors, LLC	Octagon Multi-Strategy Corporate Credit GP, LLC	Fund management services	100.00	100.00
Octagon Credit Investors, LLC	Octagon Funds GP LLC	Fund management services	100.00	100.00
Octagon Credit Investors, LLC	Octagon Funds GP II LLC	Fund management services	100.00	100.00
Octagon Credit Investors, LLC	Octagon Funding I, LLC	Fund management services	100.00	-
Octagon Credit Investors, LLC	Octagon Funds II, LLC	Fund management services	100.00	-
Octagon Credit Investors, LLC	Octagon Funding III, LLC	Fund management services	100.00	-

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

The consolidated financial statements exclude the following:

			Ownership interest		
Investors	Investees	Business	2017.12.31	2016.12.31	Notes
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class 3 general business insurers and Class C long-term insurer	100.00	100.00	The consolidated financial statements do not include Cathay Insurance (Bermuda) because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.
The Company	Cathay Securities Investment Consulting Co., Ltd.	Securities investment consulting services	100.00	100.00	The consolidated financial statements do not include Cathay Securities Investment Consulting because its total assets and operating revenue were insignificant to the total assets and operating revenue of the Company.

(4) Foreign currency transactions

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

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

(5) Translation of financial statements in foreign currency

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

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

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

(6) Cash and cash equivalents

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

(7) Financial assets and liabilities

<u>Initial recognition and subsequent measurement</u>

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

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

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

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

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

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

Financial asset is classified as held for trading if:

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

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

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

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

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

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

B. Available-for-sale financial assets

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

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

C. Derivative financial assets and liabilities for hedging

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

D. Held-to-maturity financial assets

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

E. Loans and receivables

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

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

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

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

F. Financial liabilities

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

Derecognition of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

Reclassification of financial assets

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

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

Offsetting of financial instruments

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

Impairment of financial assets

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

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

Other loss events may include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company and Subsidiaries first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company and Subsidiaries determine that no objective evidence of impairment 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 item. 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.

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

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

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

Derivative financial instruments and hedge accounting

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

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

Hedging relationships consist of three types:

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

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

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

A. Fair value hedges

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

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

B. Cash flow hedges

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

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

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

C. Hedges of a net investment in a foreign operation

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

(8) Fair value measurement

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

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

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

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

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

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

(9) Investments accounted for using the equity method

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

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

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

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

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

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

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

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

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

(10) Property and equipment

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

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

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

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

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

(11) Investment property

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

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

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

(12) Leases

The Company and Subsidiaries as a lessee

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

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

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

The Company and Subsidiaries as a lessor

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

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

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

(13) Intangible assets

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

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

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

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

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

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

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

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

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

(14) Impairment of non-financial assets

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

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

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

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

(15) Guaranteed depository insurance payment

A. The Company

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

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

A. The Company

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

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

a. Unearned premium reserve

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

b. Reserve for claims

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

c. Reserve for life insurance liabilities

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

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

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

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

d. Special reserve

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

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

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

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

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

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

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

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

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

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

e. Premium deficiency reserve

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

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

f. Other reserve

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

g. Liability adequacy reserve

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

h. Reserves for insurance contract with feature of financial instruments

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

i. Foreign exchange volatility reserve

The beginning balance of foreign exchange volatility reserve is $4,511,406 thousand which was appropriated in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and “Direction for foreign exchange volatility reserve by Life Insurance Enterprises”. As of 31 December 2017, the amount set aside was $11,589,138 thousand.

j. Liability adequacy test

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

(17) Insurance premium income and expenses

A. The Company

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

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

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

B. Cathay Lujiazui Life

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

C. Cathay Life (Vietnam)

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

(18) Product categories

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

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

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

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

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

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

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

(19) Reinsurance

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

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

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

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

(20) Provisions

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

The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

(21) Post-employment benefits

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

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

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

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

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

(22) Income taxes

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

A. Current income tax

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

The 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.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group 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 Holding Company Act, the Company and its parent company elected its parent company to be the tax payer and jointly filed corporation income tax returns and 10% surcharge on undistributed retained earnings since 2002 under the integrated income tax system. Such effects on current tax and deferred tax are accounted for as receivables or payables.

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

(23)Separate account products

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

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

(24)Business combinations and goodwill

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

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

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

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

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

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

5. Significant accounting judgments, estimates and assumptions

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

(1) Judgment

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

A. Categories of financial assets

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

B. Investment property

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

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

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

(2) Estimates and assumptions

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

A. Fair value of financial instruments

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

B. Fair value of investment property

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

C. Impairment of non-financial assets

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

D. Post-employment benefits

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

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

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

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

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

F. Income taxes

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

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

6. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand and revolving funds	$195,525	$206,716
Cash in banks	124,680,794	88,880,818
Time deposits	70,410,216	47,493,560
Cash equivalents	15,257,350	12,179,978
Total	$210,543,885	$148,761,072

7. Receivables

	31 December 2017	31 December 2016
Notes receivable – Net	$501,607	$1,695,159
Premium receivable – Net	240,514	85,249
Other receivable – Net		
Other receivable	81,124,533	68,836,962
Less: Allowance for bad debts – Other receivable	(20,713)	(4,309)
Overdue receivable	18,756	12,412
Less: Allowance for bad debts – Overdue receivable	(18,752)	(12,394)
Total	$81,845,945	$70,613,079

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

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

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

	Individually impaired	Collectively impaired	Total
1 January 2016	$78,971	$1,524	$80,495
Charge (reversal) for the current period	19,050	(1,309)	17,741
Write off	(81,532)	-	(81,532)
Exchange differences	(1)	-	(1)
31 December 2016	$16,488	$215	$16,703

8. Financial assets at fair value through profit or loss

	31 December 2017	31 December 2016
Designated at fair value through profit or loss at initial recognition		
Overseas stocks	$84,171	$-
Beneficiary certificates	155,197	80,102
Subtotal	239,368	80,102
Held for trading		
Domestic stocks	6,927,268	6,970,835
Beneficiary certificates	16,165,418	24,328,937
Exchange traded funds	573,665	292,726
Overseas bonds	2	4
Corporate bonds	2,401,922	2,217,257
Government bonds	-	1,302,284
Derivative financial instruments	16,729,718	1,614,164
Structured time deposits	-	2,275,663
Subtotal	42,797,993	39,001,870
Total	$43,037,361	$39,081,972

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

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

9. Available-for-sale financial assets

	31 December 2017	31 December 2016
Domestic stocks	$429,948,041	$360,282,256
Overseas stocks	259,200,064	246,659,267
Beneficiary certificates	342,535,402	278,276,840
Exchange traded funds	5,708,986	5,589,191
Real estate investment trust	12,136,777	19,079,885
Financial debentures	42,859,267	57,703,349
Corporate bonds	14,386,823	17,165,025
Government bonds	122,211,034	136,074,531
Overseas bonds	289,555,171	302,734,897
Subtotal	1,518,541,565	1,423,565,241
Less: Litigation deposits	(57,075)	(78,797)
Less: Securities serving as deposits paid-bonds	(1,033,775)	(1,870,035)
Total	$1,517,450,715	$1,421,616,409

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with domestic stocks and beneficiary certificates held by the Company and Subsidiaries. As of 31 December 2017 and 2016, the Company and Subsidiaries have recognized impairment losses amounting to $185,987 thousand and $202,271 thousand, respectively.

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

10. Derivative financial assets for hedging

	31 December 2017	31 December 2016
IRS	$246,444	$232,269

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

11. Investments accounted for using the equity method

(1) Investments in unconsolidated subsidiaries:

Investees	31 December 2017	31 December 2016
Cathay Insurance (Bermuda) Co., Ltd.	$121,671	$129,896
Cathay Securities Investment Consulting Co., Ltd.	257,159	249,902
Total	$378,830	$379,798

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

(2) Investments in associates:

Investees	31 December 2017	31 December 2016
WK Technology Fund VI Co., Ltd.	$81,873	$148,680
IBT Venture Capital Corp.		3,916
Da Sheng Venture Inc.	1,514,974	1,455,635
Symphox Information Co., Ltd.	438,807	433,635
Cathay Insurance Company Limited (China)	781,195	907,187
Rizal Commercial Banking Corporation	13,749,705	13,622,794
PT Bank Mayapada Internasional Tbk	12,447,700	11,740,568
CMG International One Co., Ltd.	675,812	675,258
CMG International Two Co., Ltd.	675,232	674,959
CM Energy Co., Ltd.	272,256	53,959
KHL IV Venture Capital Co. Ltd.	756,353	360,729
Hsin Jih Tai Corporation	673,599	673,845
Cathay Sunrise Corporation	676,284	-
Total	$32,743,790	$30,751,165

As the Company and Subsidiaries' investments in individual associates are not significant, the related financial information is disclosed aggregately. As of 31 December 2017 and 2016, the carrying amount of investments in associates accounted for using the equity method amounted to $32,743,790 thousand and $30,751,165 thousand, respectively. The aggregate amount of the Company and Subsidiaries' share of the investments in associates is as follows:

	For the years ended 31 December	
	2017	2016
Net profit from continuing operations	$1,152,813	$982,286
Other comprehensive losses, net of tax	(1,029,480)	(675,272)
Total comprehensive income	$123,333	$307,014

The carrying amount of investments accounted for under the equity method in investees whose financial statements were unaudited amounted to $31,441,915 thousand and $27,911,446 thousand, as at 31 December 2017 and 2016, respectively. The share of the (losses) gains of these associates accounted for using the equity method amounted to $1,178,559 thousand and $1,246,472 thousand for the years ended 31 December 2017 and 2016. The share of the other comprehensive (losses) income of these associates accounted for using the equity method amounted to $(1,028,025) thousand and $(582,597) thousand for the years ended 31 December 2017 and 2016, respectively.

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

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

12. Debt instrument investments for which no active market exists

	31 December 2017	31 December 2016
Domestic stocks	$1,895,715	$2,664,643
Overseas stocks	3,006	3,250
Corporate bonds	14,303,173	13,809,187
Financial debentures	38,250,892	37,781,644
Overseas bonds	2,336,271,886	2,068,756,583
Time deposits	321,465	337,864
Trust beneficiary right of real estate	-	300,000
Asset-backed securities	1,964,447	2,529,178
Total	$2,393,010,584	$2,126,182,349

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 31 December 2017 and 2016, the Company and Subsidiaries have recognized accumulated impairment losses amounting to $388,024 thousand and $419,627 thousand, respectively.

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

13. Held-to-maturity financial assets

	31 December 2017	31 December 2016
Corporate bonds	$2,697,524	$2,697,190
Government bonds	45,175,742	32,364,375
Overseas bonds	18,481,454	1,224,159
Subtotal	66,354,720	36,285,724
Less: Litigation deposits	(1,376,984)	(1,348,913)
Less: Securities serving as deposits paid-bonds	(7,170,018)	(7,161,401)
Total	$57,807,718	$27,775,410

An impairment provision is recognized as some objective evidences are identified showing impairment indicators associated with overseas bonds held by the Company and Subsidiaries. As of 31 December 2017 and 31 December 2016, the Company and Subsidiaries have recognized accumulated impairment losses amounting to $15,932 thousand and $29,740 thousand, respectively

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

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

14. Other financial assets

	31 December 2017	31 December 2016
Structured time deposits	$4,500,000	$7,661,395

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

15. Structured notes

	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss	$2	$4
Debt instrument investments for which no active market exists	25,699,128	24,564,319
Total	$25,699,130	$24,564,323

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

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

	Investment property			Investment property under construction	Prepayments for buildings and land – Investments
	Land	Buildings	Total		
1 January 2016	$339,220,920	$114,075,563	$453,296,483	$3,308,553	$2,758,288
Additions from acquisitions	-	-	-	3,315,438	2,292,955
Additions from subsequent expenditure	-	-	-	111,703	-
Transfers from (to) investment property under construction and prepayments for buildings and land	2,191,115	3,445,894	5,637,009	(3,434,851)	(4,667,339)
Gains (losses) generated from fair value adjustments	4,581,891	(853,182)	3,728,709	-	-
Disposals	(1,109,856)	-	(1,109,856)	-	-
Exchange differences	(3,134,605)	(5,665,833)	(8,800,438)	-	-
31 December 2016	$341,749,465	$111,002,442	$452,751,907	$3,300,843	$383,904

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

	For the years ended 31 December	
	2017	2016
Rental income from investment property	$10,986,854	$10,318,214
Less:		
Direct operating expenses from investment property generating rental income	(737,755)	(709,578)
Direct operating expenses from investment property without generating rental income	(156,926)	(187,562)
Total	$10,092,173	$9,421,074

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

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

Valuation has been performed by appraisers from professional valuation agencies based on Regulations on Real Estate Appraisal, and valuation dates are 31 December 2017 and 2016. Please refer to original financial report for detail information of the appraisers and agencies.

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

The main inputs used are as follows:

	31 December 2017	31 December 2016
Direct capitalization rate (Net)	0.73%~4.39%	0.83%~5.73%
Discount rate	3.14%~4.23%	3.14%~4.10%

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

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

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

17. Loans

	31 December 2017	31 December 2016
Policy loans	$155,653,559	$158,008,746
Automatic premium loans	10,689,718	10,532,683
Secured loans	437,374,977	439,105,646
Total	$603,718,254	$607,647,075

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

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

(3) Secured loans

	31 December 2017	31 December 2016
Secured loans	$442,270,123	$443,903,591
Secured loans – Related parties	909,989	1,018,137
Less: Allowance for bad debts	(6,049,266)	(5,998,355)
Subtotal	437,130,846	438,923,373
Overdue receivables	344,304	300,325
Less: Allowance for bad debts	(100,173)	(118,052)
Subtotal	244,131	182,273
Total	$437,374,977	$439,105,646

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

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

The movements in the provision for impairment of secured loans and overdue receivables are as follows (please refer to Note 46 for credit risk disclosure):

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

	Individually impaired	Collectively impaired	Total
1 January 2016	$184,533	$4,859,938	$5,044,471
(Reversal) charge for the current period	(81,082)	1,177,525	1,096,443
Write off	-	(24,507)	(24,507)
31 December 2016	$103,451	$6,012,956	$6,116,407

18. Reinsurance assets

(1)

	31 December 2017	31 December 2016
Claims recoverable from reinsurers	$2,204	$1,985
Due from reinsurers and ceding companies	144,196	266,517
Reinsurance reserve assets		
Ceded unearned premium reserve	300,568	199,829
Ceded reserve for claims	9,684	41,683
Ceded reserve for life insurance liabilities	301,806	228,765
Subtotal	612,058	470,277
Total	$758,458	$738,779

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

(2) CNY co-reinsurance business

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

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

A. Purpose, rationalization and expected benefit

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

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

	For the year ended 31 December 2017
Premiums ceded to reinsurers	$74,819
Claims recovered from reinsures	6,924
Reinsurance commission earned	5,562

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

Reinsurance gains of $10,708 thousand has occurred in the year ended 31 December 2017 from CNY co-reinsurance business. The amount is calculated as follows:

Reinsurance commission earned $5,562 thousand + Claims recovered from reinsurers $6,924 thousand + Net change of reinsurance reserve assets $72,802 thousand + Foreign exchange gains $239 thousand – Premiums ceded to reinsurers $74,819 thousand.

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

E. Accounting treatment for ceded CNY co-reinsurance business

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

F. Other notes designated by authorities: None.

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

19. Property and equipment

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

Cost:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2016	$15,948,783	$21,467,788	$2,284,584	$12,800	$3,548,460	$233,695	$276,166	$8,865	$43,781,141
Additions from acquisitions	-	-	226,987	-	152,734	99,892	-	199,005	678,618
Additions from subsequent expenditure	-	-	-	-	-	-	-	27,225	27,225
Transfers	1,995,478	487,965	(975)	-	-	3,545	-	(18,815)	2,467,198
Disposals	(52,014)	(23,111)	(38,163)	(800)	(23,919)	-	-	-	(138,007)
Exchange differences	-	(129,985)	(28,047)	(366)	(2,744)	(62,605)	4	-	(223,743)
31 December 2016	$17,892,247	$21,802,657	$2,444,386	$11,634	$3,674,531	$274,527	$276,170	$216,280	$46,592,432

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

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

Depreciation and impairment:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
1 January 2016	$(105,610)	$(10,914,835)	$(1,907,775)	$(7,920)	$(3,118,624)	$(148,162)	$(235,469)	$-	$(16,438,395)
Depreciation	-	(423,529)	(166,438)	(1,251)	(101,858)	(30,716)	(40,316)	-	(764,108)
Transfers	-	-	358	-	-	(3,545)	-	-	(3,187)
Disposals	-	8,901	35,057	78	22,351	-	-	-	66,387
Exchange differences	-	9,232	19,584	244	1,545	14,378	4	-	44,987
31 December 2016	$(105,610)	$(11,320,231)	$(2,019,214)	$(8,849)	$(3,196,586)	$(168,045)	$(275,781)	$-	$(17,094,316)

Net carrying amount as at:	Land	Buildings and construction	Computer equipment	Communication and transportation equipment	Other equipment	Leasehold improvement	Leased assets	Construction in progress and prepayment for real estate equipment	Total
31 December 2017	$19,837,553	$9,953,884	$502,391	$3,983	$489,737	$135,030	$256	$154,477	$31,077,311
31 December 2016	$17,786,637	$10,482,426	$425,172	$2,785	$477,945	$106,482	$389	$216,280	$29,498,116

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

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

20. Intangible assets

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

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

Cost:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2016	$37,659,600	$218,864	$8,272,925	$2,095,194	$1,785,122	$230,636	$50,262,341
Addition－Acquired separately	-	-	-	-	114,730	-	114,730
Additions through business combinations	-	218,855	2,461,974	1,835,015	-	-	4,515,844
Exchange differences	-	(14,251)	(228,758)	(125,677)	(17,877)	(5,490)	(392,053)
Other	-	-	(199,698)	-	-	-	(199,698)
31 December 2016	$37,659,600	$423,468	$10,306,443	$3,804,532	$1,881,975	$225,146	$54,301,164

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

Amortization and impairment:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
1 January 2016	$(1,039,692)	$-	$-	$(45,634)	$(1,555,189)	$(15,848)	$(2,656,363)
Amortization	(2,079,383)	-	-	(397,785)	(83,297)	(54,714)	(2,615,179)
Exchange differences	-	-	-	1,874	13,573	485	15,932
31 December 2016	$(3,119,075)	$-	$-	$(441,545)	$(1,624,913)	$(70,077)	$(5,255,610)

Net carrying amount as at:	Franchises	Trademarks	Goodwill	Customer relationships	Computer software	Other intangible assets	Total
31 December 2017	$32,461,142	$391,576	$10,279,814	$2,722,458	$325,057	$92,898	$46,272,945
31 December 2016	$34,540,525	$423,468	$10,306,443	$3,362,987	$257,062	$155,069	$49,045,554

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

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

	For the years ended 31 December	
	2017	2016
Operating costs	$2,497	$-
Operating expenses – Business expenses	$86,385	$59,220
Operating expenses – Administrative and general expenses	$2,548,279	$2,555,959

As of 31 December 2017 and 2016, the book value of goodwill was $10,279,814 thousand and $10,306,443 thousand, respectively. The goodwill arose from the acquisition of Global Life Insurance Co., Ltd. and Singfor Life Insurance Co., Ltd. on 1 July 2015, the acquisition of 100% of Conning Holdings Limited on 18 September 2015 and 82.05% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company on 1 February 2016.

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

21. Other assets

	31 December 2017	31 December 2016
Prepayment	$5,112,370	$4,087,984
Deferred acquisition costs	16,659	25,112
Guarantee deposits paid	20,652,061	21,704,201
Other assets – Other	1,338,030	4,057,679
Total	$27,119,120	$29,874,976

22. Deferred acquisition costs

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

	For the years ended 31 December	
	2017	2016
Beginning balance	$25,112	$33,565
Amortization	(8,453)	(8,453)
Ending balance	$16,659	$25,112

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

23. Payables

	31 December 2017	31 December 2016
Notes payable	$5,371,428	$1,051
Life insurance proceeds payable	736,442	640,257
Commissions payable	2,871,945	3,790,117
Due to reinsurers and ceding companies	466,669	475,472
Other payables	15,789,485	19,445,792
Total	$25,235,969	$24,352,689

24. Financial liabilities at fair value through profit or loss

	31 December 2017	31 December 2016
Held for trading		
Derivatives that are not designated hedging		
Forward	$293,952	$4,297,640
CS	742,688	22,574,860
IRS	68,018	103,404
Option	-	6,304
Total	$1,104,658	$26,982,208

25. Bonds payable

	31 December 2017	31 December 2016
Corporate bonds payable	$70,000,000	$35,000,000

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

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

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

C. Years to maturity: Perpetual.

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

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

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

G. Forms of bonds: Physical certificate.

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

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

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

C. Years to maturity: Perpetual.

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

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

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

G. Forms of bonds: Book-entry securities.

26. Preferred stock liabilities

(1) In accordance with the resolution made at the board of directors' meeting held on 29 October 2009, acting on behalf of the shareholders, the Company issued 200,000 thousand shares of Class B preferred stocks at par value of $10 per share through private placement. The placement was approved by Insurance Bureau on 14 December 2009. Key terms and conditions of the privately offered Class B preferred stocks are listed as follows:

A. Issuance period covers from 16 December 2009, the issue date, to 16 December 2016, seven years in total.

B. Dividend yield is 2.90% per year based on the actual issue price of $50 per share. Unpaid dividends will accumulate and shall be paid in full with priority after class A in the year with earnings.

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

D. The preference shares are not entitled to be sold back. With the approval from the competent authorities, the Company redeemed all the Class B preferred stocks on 8 October 2016.

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

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

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

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

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

D. The preference shares are not entitled to be sold back. Five years after issuance, the Company may redeem the shares with the approval from the competent authorities.

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

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

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

(1) The Company

A. Reserve for life insurance liabilities

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

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance (Note)	$3,901,312,393	$2,015,303	$3,903,327,696
Injury insurance	7,719,298	-	7,719,298
Health insurance	520,453,768	-	520,453,768
Annuity insurance	1,377,249	37,577,532	38,954,781
Investment-linked insurance	660,250	-	660,250
Total	4,431,522,958	39,592,835	4,471,115,793
Less ceded reserve for life insurance liabilities:			
Life insurance	228,765	-	228,765
Net	$4,431,294,193	$39,592,835	$4,470,887,028

Reserve for life insurance liabilities is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,029,237,366	$53,505,125	$4,082,742,491
Reserve	654,644,967	140,118	654,785,085
Recover	(233,272,476)	(13,976,663)	(247,249,139)
Losses (gains) on foreign exchange	(19,086,899)	(75,745)	(19,162,644)
Ending balance	4,431,522,958	39,592,835	4,471,115,793
Less ceded reserve for life insurance liabilities:			
Beginning balance – Net	162,951	-	162,951
Increase	84,222	-	84,222
Gains (losses) on foreign exchange	(18,408)	-	(18,408)
Ending balance – Net	228,765	-	228,765
Total	$4,431,294,193	$39,592,835	$4,470,887,028

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

B. Unearned premium reserve

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

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$577,903	$-	$577,903
Individual injury insurance	5,407,855	-	5,407,855
Individual health insurance	7,873,045	-	7,873,045
Group insurance	773,372	-	773,372
Investment-linked insurance	107,249	-	107,249
Total	14,739,424	-	14,739,424
Less ceded unearned premium reserve:			
Individual life insurance	191,241	-	191,241
Individual injury insurance	4,581	-	4,581
Total	195,822	-	195,822
Net	$14,543,602	$-	$14,543,602

Unearned premium reserve is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$14,095,377	$-	$14,095,377
Reserve	14,739,426	-	14,739,426
Recover	(14,095,377)	-	(14,095,377)
Losses (gains) on foreign exchange	(2)	-	(2)
Ending balance	14,739,424	-	14,739,424
Less ceded unearned premium reserve:			
Beginning balance – Net	165,694	-	165,694
Increase	30,128	-	30,128
Ending balance – Net	195,822	-	195,822
Total	$14,543,602	$-	$14,543,602

Note: The amount incurred as a result of the business transferred from the subsidiary, Cathay Insurance (Bermuda) Co., Ltd., on 15 December 2017.

C. Reserve for claims

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

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$784,305	$1,056	$785,361
–Unreported claim	62,034	-	62,034
Individual injury insurance			
–Reported but not paid claim	80,075	-	80,075
–Unreported claim	1,423,114	-	1,423,114
Individual health insurance			
–Reported but not paid claim	598,282	-	598,282
–Unreported claim	2,278,264	-	2,278,264
Group insurance			
–Reported but not paid claim	25,157	-	25,157
–Unreported claim	861,011	-	861,011
Investment-linked insurance			
–Reported but not paid claim	63,850	-	63,850
–Unreported claim	1,570	-	1,570
Total	6,177,662	1,056	6,178,718
Less ceded reserve for claims:			
Individual life insurance	34,765	-	34,765
Individual health insurance	1,130	-	1,130
Group insurance	4,177	-	4,177
Total	40,072	-	40,072
Net	$6,137,590	$1,056	$6,138,646

Reserve for claims is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,795,257	$1,056	$4,796,313
Reserve	6,177,965	1,056	6,179,021
Recover	(4,795,257)	(1,056)	(4,796,313)
Losses (gains) on foreign exchange	(303)	-	(303)
Ending balance	6,177,662	1,056	6,178,718
Less ceded reserve for claims:			
Beginning balance – Net	34,947	-	34,947
Increase	5,125	-	5,125
Ending balance – Net	40,072	-	40,072
Total	$6,137,590	$1,056	$6,138,646

Note: The amount incurred as a result of the business transferred from the subsidiary, Cathay Insurance (Bermuda) Co., Ltd., on 15 December 2017.

D. Special reserve

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

	31 December 2016			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Participating policies dividends reserve	$(67,018)	$-	$-	$(67,018)
Provision for risk of bonus	68,657	-	-	68,657
Special reserve for revaluation increments of property	-	-	15,416,619	15,416,619
Total	$1,639	$-	$15,416,619	$15,418,258

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

Special reserve is summarized below:

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

	For the year ended 31 December 2016			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Beginning balance	$1,354	$-	$25,416,619	$25,417,973
Reserve for participating policies dividends reserve	(7,471)	-	-	(7,471)
Recover from participating policies dividends reserve	(23,160)	-	-	(23,160)
Reserve for provision for risk of bonus	30,916	-	-	30,916
Recover from special reserve for revaluation increments of property (Note)	-	-	(10,000,000)	(10,000,000)
Ending balance	$1,639	$-	$15,416,619	$15,418,258

Note: In pursuant of Order No. Financial-Supervisory-Insurance-Corporate-10600400550 issued on 2 February 2017 by the FSC, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2017 is $4.33 billion. In pursuant of Order No. Financial-Supervisory-Insurance-Corporate-10500400250 issued on 30 January 2016 by the FSC, the Company can recover special reserve for revaluation increments of property by month, and the total recovered amount in 2016 is $10 billion.

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

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

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

	31 December 2016			
	Insurance contract	Financial instruments with discretionary participation feature	Other	Total
Individual life insurance	$148,738	$-	$-	$148,738
Individual injury insurance	4,550,926	-	-	4,550,926
Individual health insurance	5,613,473	-	-	5,613,473
Group insurance	3,980,743	-	-	3,980,743
Total	$14,293,880	$-	$-	$14,293,880

F. Premium deficiency reserve

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance	$27,998,318	$-	$27,998,318
Individual health insurance	1,762,497	-	1,762,497
Group insurance	266	-	266
Total	$29,761,081	$-	$29,761,081

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

Premium deficiency reserve is summarized below:

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$22,242,577	$-	$22,242,577
Reserve	8,147,744	-	8,147,744
Recover	(466,838)	-	(466,838)
Losses (gains) on foreign exchange	(162,402)	-	(162,402)
Ending balance	$29,761,081	$-	$29,761,081

G. Other reserve

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Other	$1,938,792	$-	$1,938,792

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

Other reserve is summarized below:

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,967,824	$-	$1,967,824
Recover	(29,032)	-	(29,032)
Ending balance	$1,938,792	$-	$1,938,792

H. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2017	31 December 2016
Reserve for life insurance liabilities	$4,849,787,639	$4,471,115,793
Unearned premium reserve	15,653,614	14,739,424
Premium deficiency reserve	26,232,317	29,761,081
Other reserve	1,916,570	1,938,792
Total	$4,893,590,140	$4,517,555,090
Book value of insurance liabilities	$4,893,590,140	$4,517,555,090
Estimated present value of cash flows	$4,149,327,222	$3,543,343,439
Balance of liability adequacy reserve	$-	$-

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

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

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

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

Liability adequacy testing methodology is listed as follows:

	31 December 2017
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2017. (2) Discount rate: Under assets allocation plan on 30 September 2017, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

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

I. Reserve for insurance contracts with feature of financial instruments

The Company issues financial instruments without discretionary participation feature. As of 31 December 2017 and 2016, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2017	31 December 2016
Life insurance	$132,398	$4,339,921
Investment-linked insurance	340,175	52,836
Total	$472,573	$4,392,757

	For the years ended 31 December	
	2017	2016
Beginning balance	$4,392,757	$49,123,102
Insurance claim payments	(4,343,322)	(45,260,145)
Net provision of statutory reserve	424,381	529,960
Losses (gains) on foreign exchange	(1,243)	(160)
Ending balance	$472,573	$4,392,757

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

J. Foreign exchange volatility reserve

a. The hedge strategy and risk exposure

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

b. Adjustment in foreign exchange volatility reserve

	For the years ended 31 December	
	2017	2016
Beginning balance	$9,871,478	$16,026,449
Reserve		
Compulsory reserve	4,434,707	4,067,313
Extra reserve	3,558,983	977,335
Subtotal	7,993,690	5,044,648
Recover	(6,276,030)	(11,199,619)
Ending balance	$11,589,138	$9,871,478

c. Effects due to foreign exchange volatility reserve

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

	For the year ended 31 December 2016		
Items	Inapplicable amount (1)	Applicable amount (2)	Effects (2) - (1)
Net income attributable to equity holders of the parent	$25,020,034	$30,128,660	$5,108,626
Earnings per share	4.71	5.68	0.97
Foreign exchange volatility reserve	-	9,871,478	9,871,478
Equity attributable to equity holders of the parent	365,537,916	361,295,161	(4,242,755)

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

(2) Cathay Lujiazui Life

A. Reserve for life insurance liabilities

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$5,649,735	$-	$5,649,735
Health insurance	524,915	-	524,915
Investment-linked insurance	3,641	-	3,641
Total	$6,178,291	$-	$6,178,291

Reserve for life insurance liabilities is summarized below:

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$5,389,116	$-	$5,389,116
Reserve	2,616,406	-	2,616,406
Recover	(1,294,012)	-	(1,294,012)
Losses (gains) on foreign exchange	(533,219)	-	(533,219)
Ending balance	$6,178,291	$-	$6,178,291

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

B. Unearned premium reserve

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$8,186	$-	$8,186
Individual health insurance	7,751	-	7,751
Group insurance	281,261	-	281,261
Total	297,198	-	297,198
Less ceded unearned premium reserve:			
Group insurance	4,007	-	4,007
Net	$293,191	$-	$293,191

Unearned premium reserve is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$264,157	$-	$264,157
Reserve	311,280	-	311,280
Recover	(252,370)	-	(252,370)
Losses (gains) on foreign exchange	(25,869)	-	(25,869)
Ending balance	297,198	-	297,198
Less ceded unearned premium reserve:			
Beginning balance – Net	16,631	-	16,631
Decrease	(11,692)	-	(11,692)
Gains (losses) on foreign exchange	(932)	-	(932)
Ending balance – Net	4,007	-	4,007
Total	$293,191	$-	$293,191

C. Reserve for claims

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

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Unreported claim	$3,733	$-	$3,733
Individual injury insurance			
–Reported but not paid claim	59	-	59
–Unreported claim	689	-	689
Individual health insurance			
–Reported but not paid claim	3,296	-	3,296
–Unreported claim	17,444	-	17,444
Group insurance			
–Reported but not paid claim	30,713	-	30,713
–Unreported claim	263,067	-	263,067
Total	319,001	-	319,001
Less ceded reserve for claims:			
Individual health insurance	1,611	-	1,611
Net	$317,390	$-	$317,390

Reserve for claims is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$379,539	$-	$379,539
Reserve	277,569	-	277,569
Recover	(306,056)	-	(306,056)
Losses (gains) on foreign exchange	(32,051)	-	(32,051)
Ending balance	319,001	-	319,001
Less ceded reserve for claims:			
Beginning balance – Net	3,686	-	3,686
Decrease	(1,834)	-	(1,834)
Gains (losses) on foreign exchange	(241)	-	(241)
Ending balance – Net	1,611	-	1,611
Total	$317,390	$-	$317,390

D. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2017	31 December 2016
Reserve for life insurance liabilities	$9,387,494	$6,178,291
Unearned premium reserve	315,955	297,198
Total	$9,703,449	$6,475,489
Book value of insurance liabilities	$9,703,449	$6,475,489
Estimated present value of cash flows	$7,762,759	$5,180,390
Balance of liability adequacy reserve	$-	$-

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

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

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

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

Liability adequacy testing methodology is listed as follows:

	31 December 2017
Test method	Gross premium valuation method (GPV)
Groups	Integrated testing
Assumptions	(1) Information of policies: Include insurance contracts and financial instruments with discretionary participation feature as of 31 December 2017. (2) Discount rate: Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016, with neutral assumption for discount rates after 30 years.

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

E. Reserve for insurance contracts with feature of financial instruments

Cathay Lujiazui Life issues financial instruments without discretionary participation feature. As of 31 December 2017 and 2016, reserve for insurance contracts with feature of financial instruments is summarized below:

	31 December 2017	31 December 2016
Life insurance	$8,289,036	$5,927,993

	For the years ended 31 December	
	2017	2016
Beginning balance	$5,927,993	$4,879,863
Premiums received	3,550,568	1,993,303
Insurance claim payments	(272,538)	(132,578)
Net recovery of statutory reserve	(880,901)	(313,959)
Losses (gains) on foreign exchange	(36,086)	(498,636)
Ending balance	$8,289,036	$5,927,993

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

(3) Cathay Life (Vietnam)

A. Reserve for life insurance liabilities

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Life insurance	$1,177,110	$-	$1,177,110

Reserve for life insurance liabilities is summarized below:

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$786,995	$-	$786,995
Reserve	396,062	-	396,062
Losses (gains) on foreign exchange	(5,947)	-	(5,947)
Ending balance	$1,177,110	$-	$1,177,110

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

B. Unearned premium reserve

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual injury insurance	$3,282	$-	$3,282
Individual health insurance	3,130	-	3,130
Total	$6,412	$-	$6,412

Unearned premium reserve is summarized below:

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$4,380	$-	$4,380
Reserve	2,061	-	2,061
Losses (gains) on foreign exchange	(29)	-	(29)
Ending balance	$6,412	$-	$6,412

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

C. Reserve for claims

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

	31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Individual life insurance			
–Reported but not paid claim	$1,151	$-	$1,151
Individual injury insurance			
–Reported but not paid claim	152	-	152
–Unreported claim	354	-	354
Individual health insurance			
–Reported but not paid claim	134	-	134
–Unreported claim	354	-	354
Total	$2,145	$-	$2,145

Reserve for claims is summarized below:

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

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

	For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total
Beginning balance	$1,245	$-	$1,245
Reserve	919	-	919
Losses (gains) on foreign exchange	(19)	-	(19)
Ending balance	$2,145	$-	$2,145

D. Liability adequacy reserve

	Insurance contract and financial instruments with discretionary participation feature	
	31 December 2017	31 December 2016
Reserve for life insurance liabilities	$1,978,535	$1,177,110
Unearned premium reserve	8,630	6,412
Total	$1,987,165	$1,183,522
Book value of insurance liabilities	$1,987,165	$1,183,522
Estimated present value of cash flows	$1,469,620	$195,644
Balance of liability adequacy reserve	$-	$-

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

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

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

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

28. Post-employment benefits

Defined contribution plan

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

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

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 2017 and 2016 were $1,066,308 thousand and $1,126,266 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the six months of the service year at the time of employee's application for retirement approved. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 15% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute $623,392 thousand to its defined benefit plan during the 12 months beginning after 31 December 2017.

As of 31 December 2017 and 2016, the Company expects its defined benefits plan obligation to become due in 2027 and 2026, respectively.

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

Pension costs recognized in profit or loss are as follows:

	For the years ended 31 December	
	2017	2016
Current service cost	$269,734	$286,153
Interest income or expense	(51,511)	48,429
Total	$218,223	$334,582

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

	31 December 2017	31 December 2016
Defined benefit obligation	$12,709,374	$12,750,011
Fair value of plan assets	(17,272,896)	(16,281,302)
Benefit asset recognized on the balance sheets	$(4,563,522)	$(3,531,291)

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

	Defined benefit obligation	Fair value of plan assets	Benefit asset
1 January 2016	$13,247,213	$(9,046,860)	$4,200,353
Current service cost	286,153	-	286,153
Interest expense (income)	151,591	(103,162)	48,429
Subtotal	437,744	(103,162)	334,582
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in financial assumptions	(140,250)	-	(140,250)
Experience adjustments	229,968	-	229,968
Return on plan assets	-	(934,065)	(934,065)
Subtotal	89,718	(934,065)	(844,347)
Benefits paid	(1,024,664)	1,024,664	-
Contributions by employer	-	(7,221,879)	(7,221,879)
31 December 2016	12,750,011	(16,281,302)	(3,531,291)
Current service cost	269,734	-	269,734
Interest expense (income)	158,504	(210,015)	(51,511)
Subtotal	428,238	(210,015)	218,223
Remeasurements of the defined benefit liability (asset)			
Actuarial gains and losses arising from changes in financial assumptions	345,187	-	345,187
Experience adjustments	366,959	-	366,959
Return on plan assets	-	(305,417)	(305,417)
Subtotal	712,146	(305,417)	406,729
Benefits paid	(1,181,021)	1,181,021	-
Contributions by employer	-	(1,657,183)	(1,657,183)
31 December 2017	$12,709,374	$(17,272,896)	$(4,563,522)

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

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

	31 December 2017	31 December 2016
Discount rate	1.01%	1.29%
Expected rate of salary increases	1.00%	1.00%

A sensitivity analysis for significant assumption is shown below:

	For the years ended 31 December			
	2017		2016	
	Increase (decrease) defined benefit obligation		Increase (decrease) defined benefit obligation	
Discount rate decrease (increase) by 0.5%	$635,469	$(597,341)	$663,001	$(612,001)
Future salary increase (decrease) by 0.5%	622,759	(584,631)	650,251	(612,001)

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

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

29. Provisions

	Litigation liability	Contingent liability	Total
1 January 2017	$56,245	$367,981	$424,226
Addition	-	77,070	77,070
Gains on foreign exchange	-	(29,294)	(29,294)
31 December 2017	$56,245	$415,757	$472,002

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

30. Other liabilities

	31 December 2017	31 December 2016
Accounts collected in advance	$365,297	$426,948
Deferred handling fees	28,560	45,149
Guarantee deposits received	8,402,759	2,816,382
Other liabilities – Other	9,091,421	3,499,590
Total	$17,888,037	$6,788,069

31. Deferred handling fees

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

	For the years ended 31 December	
	2017	2016
Beginning balance	$45,149	$61,347
Amortization	(14,756)	(15,373)
Gains on foreign exchange	(1,833)	(825)
Ending balance	$28,560	$45,149

32. Common stock

As of 31 December 2017 and 2016, the total authorized thousand shares were all 5,306,527 at par value of $10.

33. Capital surplus

	31 December 2017	31 December 2016
Additional paid-in capital	$13,000,000	$13,000,000
Differences between share price and book value from acquisition or disposal of subsidiaries	29,142	29,142
Changes in amount of associates and joint ventures accounted for using the equity method	738,521	739,326
Total	$13,767,663	$13,768,468

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

34. Retained earnings

(1) Legal capital reserve

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

On 29 June 2017, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $6,025,732 thousand. On 27 April 2016, the Company's board of directors, acting on behalf of the shareholders, resolved to recognize the legal capital reserves of $7,622,904 thousand.

(2) Special capital reserve

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

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

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

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

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

The Company changes its accounting policy for subsequent measurement of investment property from cost to fair value starting from year of 2014. In order to ensure the soundness and stability of the financial structure, the FSC as of 23 January 2015 requires insurance companies to set aside special capital reserve equal to the amount of the increase in retained earnings net of the increase in reserve for life insurance liabilities resulting from valid contracts' fair value approved by the authority. The amount set aside by the Company is $124,002,466 thousand. The amount could only be used as a surplus to reserve for life insurance liability accessed and approved by authorities as inadequate and the surplus to reserve when the Company applies Phase II of IFRS 4 *Insurance Contract* to stabilize financial structure. On 29 June 2017, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserve of $1,159,795 thousand, which is from the gain from fair value change in 2016.

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

On 29 June 2017, the Company's board of directors, acting on behalf of the shareholders, recognized special capital reserves of $21,167,154 thousand, among which special reserves for major incidents and special reserves for fluctuation of risks in the amount of $1,701,092 thousand had been recognized at the end of 2016 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 2017.

(3) Undistributed retained earnings

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

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

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

Please refer to Note 37 for details on employees' compensation and remuneration to directors and supervisors.

D. The Company's distribution of 2017 retained earnings has not been approved by the shareholders as of the independent auditors' opinion date. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

E. Special reserves for major incidents and special reserves for fluctuation of risks are recorded as special capital reserve under equity at the end of this year. The reserved amount was $2,218,081 thousand for the year ended 31 December 2017.

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

(4) Non-controlling interests

	For the years ended 31 December	
	2017	2016
Beginning balance	$2,688,759	$2,327,656
Net (loss) income attributable to non-controlling interests	(22,413)	105,961
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of foreign operations	(83,296)	(218,277)
Unrealized valuation losses from available-for-sale financial assets	(80,084)	(124,509)
Non-Controlling interests from acquisition of subsidiaries	-	597,928
Other	3,090,352	-
Ending balance	$5,593,318	$2,688,759

35. Retained earned premium

(1) The Company

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$601,654,859	$116,213	$601,771,072	$601,920,846	$189,485	$602,110,331
Reinsurance premium income	197,504	-	197,504	200,445	-	200,445
Premium income	601,852,363	116,213	601,968,576	602,121,291	189,485	602,310,776
Less:						
Premiums ceded to reinsurers	(1,288,345)	-	(1,288,345)	(1,180,423)	-	(1,180,423)
Changes in unearned premium reserve	(802,569)	-	(802,569)	(613,921)	-	(613,921)
Subtotal	(2,090,914)	-	(2,090,914)	(1,794,344)	-	(1,794,344)
Retained earned premium	$599,761,449	$116,213	$599,877,662	$600,326,947	$189,485	$600,516,432

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

(2) Cathay Lujiazui Life

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$7,167,839	$-	$7,167,839	$4,364,271	$-	$4,364,271
Reinsurance premium income	-	-	-	-	-	-
Premium income	7,167,839	-	7,167,839	4,364,271	-	4,364,271
Less:						
Premiums ceded to reinsurers	(65,173)	-	(65,173)	(35,748)	-	(35,748)
Changes in unearned premium reserve	(51,952)	-	(51,952)	(62,471)	-	(62,471)
Subtotal	(117,125)	-	(117,125)	(98,219)	-	(98,219)
Retained earned premium	$7,050,714	$-	$7,050,714	$4,266,052	$-	$4,266,052

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct premium income	$621,202	$-	$621,202	$450,879	$-	$450,879
Reinsurance premium income	-	-	-	-	-	-
Premium income	621,202	-	621,202	450,879	-	450,879
Less:						
Premiums ceded to reinsurers	-	-	-	-	-	-
Changes in unearned premium reserve	(2,770)	-	(2,770)	(2,061)	-	(2,061)
Subtotal	(2,770)	-	(2,770)	(2,061)	-	(2,061)
Retained earned premium	$618,432	$-	$618,432	$448,818	$-	$448,818

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

36. Retained claim payments

(1) The Company

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$276,955,773	$6,249,221	$283,204,994	$285,097,519	$11,022,532	$296,120,051
Reinsurance claim payments	143,631	-	143,631	143,328	-	143,328
Insurance claim payments	277,099,404	6,249,221	283,348,625	285,240,847	11,022,532	296,263,379
Less:						
Claims recovered from reinsurers	(448,561)	-	(448,561)	(524,545)	-	(524,545)
Retained claim payments	$276,650,843	$6,249,221	$282,900,064	$284,716,302	$11,022,532	$295,738,834

(2) Cathay Lujiazui Life

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$1,107,218	$-	$1,107,218	$1,474,138	$-	$1,474,138
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	1,107,218	-	1,107,218	1,474,138	-	1,474,138
Less:						
Claims recovered from reinsurers	(38,662)	-	(38,662)	(44,620)	-	(44,620)
Retained claim payments	$1,068,556	$-	$1,068,556	$1,429,518	$-	$1,429,518

(3) Cathay Life (Vietnam)

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Insurance contract	Financial instruments with discretionary participation feature	Total	Insurance contract	Financial instruments with discretionary participation feature	Total
Direct insurance claim payments	$53,901	$-	$53,901	$32,477	$-	$32,477
Reinsurance claim payments	-	-	-	-	-	-
Insurance claim payments	53,901	-	53,901	32,477	-	32,477
Less:						
Claims recovered from reinsurers	-	-	-	-	-	-
Retained claim payments	$53,901	$-	$53,901	$32,477	$-	$32,477

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

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

Items	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$25,935,005	$5,651,535	$31,586,540	$32,290,451	$5,695,215	$37,985,666
Labor and health insurance expenses	1,832,493	847,901	2,680,394	1,876,062	815,595	2,691,657
Pension expenses	1,047,535	236,996	1,284,531	1,195,996	264,852	1,460,848
Other expenses	1,568,980	2,361,896	3,930,876	1,486,929	2,435,375	3,922,304
Depreciation	9,058	749,521	758,579	7,264	756,844	764,108
Amortization	2,497	2,634,664	2,637,161	-	2,615,179	2,615,179

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

Based on the profit of the year ended 31 December 2017, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2017 to be 0.01% of profit of the current year and no more than 0.1% of profit of the current year, respectively. The employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2017, recognized under salary expenses, amounted to $3,382 thousand and $5,700 thousand, respectively. Based on the profit of the year period ended 31 December 2016, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2016 to be 0.01% of profit of the current year and no more than 0.1% of profit of the current year, respectively. The employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2016, recognized under salary expenses, amounted to $2,800 thousand and $7,200 thousand, respectively.

A resolution was passed at a board of directors meeting held on 8 March 2017 to distribute $2,800 thousand and $7,200 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2016, respectively. No differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2016.

As of 31 December 2017 and 2016, total numbers of employees in the Company and Subsidiaries were 39,822 and 36,578, respectively.

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

38. Non-operating income and expenses

	For the years ended 31 December	
	2017	2016
Gains on disposal of property and equipment	$4,281	$246,003
Dividend on preferred stock liabilities	(93,000)	(318,820)
Other	1,530,403	2,029,061
Total	$1,441,684	$1,956,244

39. Components of other comprehensive income

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

	For the year ended 31 December 2016				
	Arising during the period	Reclassification adjustments during the period	Other comprehensive income	Income tax benefit	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	$844,347	$-	$844,347	$(143,539)	$700,808
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – not to be reclassified to profit or loss in subsequent periods	(9,404)	-	(9,404)	1,763	(7,641)
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations	(7,314,774)	-	(7,314,774)	-	(7,314,774)
Unrealized valuation gains from available-for-sale financial assets	24,461,770	(20,618,418)	3,843,352	2,961,464	6,804,816
Effective portion of losses on hedging instruments in cash flow hedges	(47,367)	(169,489)	(216,856)	36,866	(179,990)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods	(668,286)	-	(668,286)	92,339	(575,947)
Total	$17,266,286	$(20,787,907)	$(3,521,621)	$2,948,893	$(572,728)

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

40. Income taxes

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

Income tax expense (benefit) recognized in profit or loss

	For the years ended 31 December	
	2017	2016
Current income tax expense (benefit)		
Current income tax charge	$9,332,427	$3,965,026
Adjustments in respect of current income tax of prior periods	77,945	(3,692)
Deferred tax expense (benefit)		
Deferred tax benefit relating to origination and reversal of temporary differences	(12,769,603)	(5,822,806)
Deferred tax expense relating to origination and reversal of tax loss and tax credit	1,065,336	-
Total income tax benefit	$(2,293,895)	$(1,861,472)

Income taxes relating to components of other comprehensive income

	For the years ended 31 December	
	2017	2016
Deferred tax expense (benefit)		
Revaluation surplus	$46,243	$-
Unrealized valuation gains (losses) from available-for-sale financial assets	3,622,509	(2,961,464)
Effective portion of gains (losses) on hedging instruments in cash flow hedges	2,482	(36,866)
Remeasurements of defined benefit plans	(69,144)	143,539
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	(204,654)	(94,102)
Income taxes relating to components of other comprehensive income	$3,397,436	$(2,948,893)

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

Income taxes charged to equity

	For the years ended 31 December	
	2017	2016
Deferred tax expense (benefit)		
Capital surplus	$3	$151,147
Income taxes relating to components of equity	$3	$151,147

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

	For the years ended 31 December	
	2017	2016
Accounting profit before tax from continuing operations	$33,973,830	$28,373,149
Tax at the domestic rates applicable to profits in the country concerned	$5,949,677	$5,056,116
Tax effect of revenue exempt from taxation	(7,172,058)	(6,233,766)
Tax effect of expenses not deductible for tax purposes	342,258	59,598
Unrecognized tax (gains) losses of deferred tax assets	(1,629)	(13,530)
Tax effect of deferred tax assets/liabilities	(192,385)	41,366
Withholding tax for overseas investments credit	17,986	-
Total amount of land value increment	-	(119)
Land value increment tax	(988,747)	2,771,022
The deduction of losses and investment tax credit	(218,037)	(3,633,208)
China corporate income tax	588	406
Tax effect of the rates applicable to profits in the other jurisdictions	(127,761)	32,443
Adjustments in respect of current income tax of prior periods	75,060	(5,476)
Other		
Investment gains	21,153	63,676
Total income tax expense recognized in profit or loss	$(2,293,895)	$(1,861,472)

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

Deferred tax assets (liabilities) relate to the following:

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

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

	For the year ended 31 December 2016						
	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Foreign exchange (losses) gains	Ending balance
Temporary differences							
Property and equipment	$277,540	$(5,763)	$-	$-	$4,256	$518	$276,551
Investment property	(23,230,611)	(2,878,634)	-	-	-	19,145	(26,090,100)
Financial assets at fair value through profit or loss	(2,101,943)	1,903,532	-	-	-	-	(198,411)
Available-for-sale financial assets	(361,647)	101	403,051	-	-	-	41,505
Derivative financial assets for hedging	(76,095)	-	36,865	-	-	-	(39,230)
Investments accounted for using the equity method – Net	(130,045)	(174,193)	94,102	(151,147)	1,399,037	(57,809)	979,945
Debt instrument investments for which no active market exists	(207,587)	87,898	-	-	-	-	(119,689)
Financial liabilities at fair value through profit or loss	6,584,967	(2,015,676)	-	-	-	-	4,569,291
Other receivables	(84,316)	(14,602)	-	-	-	-	(98,918)
Other payables	155,048	(9,630)	-	-	(37,103)	(2,671)	105,644
Defined benefit liability	714,060	(1,170,841)	(143,539)	-	-	-	(600,320)
Deferred revenue	5,986	(5,055)	-	-	(680)	(251)	-
Contribution in aid of construction costs	1	(1)	-	-	-	-	-
Office supplies	3,116	(877)	-	-	-	-	2,239
Foreign exchange losses (gains)	(10,187,791)	9,714,514	2,558,414	-	-	-	2,085,137
Goodwill and franchises	4,291	8,582	-	-	-	-	12,873
Allowance for bad debts recognition in excess of limitation	37,116	222,240	-	-	-	-	259,356
Fair value adjustments made on a business combination	(784,429)	179,611	-	-	(781,335)	50,597	(1,335,556)
Other	277	8,314	-	-	-	(12)	8,579
Unused tax credits	4,398	(4,301)	-	-	-	(97)	-
Unused tax losses	3,917,103	14,810	-	-	3,365	(2,826)	3,932,452
Deferred tax benefit (expenses)		$5,860,029	$2,948,893	$(151,147)	$587,540	$6,594	
Deferred tax assets (liabilities) – Net	$(25,460,561)						$(16,208,652)
Reflected in balance sheet as follows:							
Deferred tax assets	$11,519,847						$12,640,191
Deferred tax liabilities	$(36,980,408)						$(28,848,843)

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

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

		Unused tax losses		
Year	Tax losses	31 December 2017	31 December 2016	Expiration year
2009	$12,007,617	$-	$1,252,887	2019
2013	1,908,009	1,908,009	1,908,009	2023
2014	22,931,435	16,664,752	22,931,435	2024
		$18,572,761	$26,092,331	

Unrecognized deferred tax assets

As of 31 December 2017 and 2016, deferred tax assets that have not been recognized amounting to $530,046 thousand and $1,743,529 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of 31 December 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries, for which deferred tax liability has not been recognized, aggregated to $144,961 thousand and $119,321 thousand, respectively.

Imputation credit information

	31 December 2017	31 December 2016
Balances of imputation credit amounts	(Note)	$2,100,557

The actual creditable ratio of cash dividends for 2016 and 2015 were 6.59% and 4.50%, respectively. For 2016, imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to the Article 66-6 of Income Tax Act.

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

Note: On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act and the President announced on 7 February 2018 that the imputation credit ratio will no longer be used.

The assessment of income tax returns

As of 31 December 2017, the assessment of the income tax returns of the Company is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2012

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

41. Earnings per share

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

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

	For the years ended 31 December	
	2017	2016
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company	$36,290,138	$30,128,660
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	5,306,527	5,306,527
Basic earnings per share (in dollars)	$6.84	$5.68

If foreign exchange volatility reserve was not applied, basic earnings per share would be $7.11 and $4.71 for the years ended 31 December 2017 and 2016, respectively. If gains from recovery of special reserve for revaluation increment of property was not included, basic earnings per share would be $6.02 and $3.79 for the years ended 31 December 2017 and 2016, respectively.

42. Separate account insurance products

(1) The Company

A. Separate account insurance products – Assets and liabilities

	Assets	
Items	31 December 2017	31 December 2016
Cash in bank	$1,613,062	$1,890,327
Financial assets at fair value through profit or loss	543,380,078	491,662,050
Other receivables	10,136,857	4,303,425
Total	$555,129,997	$497,855,802

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

Items	Liabilities	
	31 December 2017	31 December 2016
Other payables	$1,273,153	$1,077,195
Reserve for separate account – Insurance contracts	244,206,352	299,663,763
Reserve for separate account – Investment contracts	309,650,492	197,114,844
Total	$555,129,997	$497,855,802

B. Separate account insurance products – Revenue and expenses

Items	Expenses	
	For the years ended 31 December	
	2017	2016
Insurance claim payments	$49,996,847	$13,485,565
Cash surrender value	45,961,126	31,097,687
Dividends	117	199
Recovery of separate account reserve	(55,233,773)	(8,732,999)
Administrative expenses	3,668,445	3,859,479
Non-operating income and expenses	(107,843)	(111,443)
Total	$44,284,919	$39,598,488

Items	Revenue	
	For the years ended 31 December	
	2017	2016
Premium income	$27,180,081	$22,424,584
Interest income	1,420	1,054
Gains from financial assets and liabilities at fair value through profit or loss	35,356,584	22,213,920
Foreign exchange losses	(18,253,166)	(5,041,070)
Total	$44,284,919	$39,598,488

C. The commission earned for the sales of separate account insurance products from counterparties for the years ended 31 December 2017 and 2016 were $1,113,252 thousand and $1,236,252 thousand, respectively.

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

(2) Cathay Lujiazui Life

A. Separate account insurance products – Assets and liabilities

Items	Assets	
	31 December 2017	31 December 2016
Cash in bank	$18,055	$15,729
Financial assets at fair value through profit or loss	121,083	142,542
Interest receivable	44	78
Other	-	60
Total	$139,182	$158,409

Items	Liabilities	
	31 December 2017	31 December 2016
Other payables	$576	$8
Reserve for separate account	124,469	144,302
Other	14,137	14,099
Total	139,182	$158,409

B. Separate account insurance products – Revenue and expenses

Items	Expenses	
	For the years ended 31 December	
	2017	2016
Cash surrender value	$34,128	$15,340
Administrative expenses	1,827	2,146
Tax expenses	319	-
Recovery of separate account reserve	(17,064)	(26,881)
Total	$19,210	$(9,395)

Items	Revenue	
	For the years ended 31 December	
	2017	2016
Premium income	$485	$1,204
Interest income	114	78
Tax expenses	-	1,792
Gains (losses) from financial assets and liabilities at fair value through profit or loss	18,611	(12,469)
Total	$19,210	$(9,395)

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

43. Business combinations

On 1 February 2016, the Company and Subsidiaries acquired 80% of Octagon Credit Investors, LLC through Conning & Company, a 100% subsidiary of the Company, with $4,708,746 thousand of cash and obtained control of Octagon Credit Investors, LLC. On the acquisition date, the Company and Subsidiaries acquired additional 2.05% of Octagon Credit Investors, LLC through Conning & Company, with $673,400 thousand of cash and the Company and Subsidiaries thereby held 82.05% of Octagon Credit Investors, LLC.

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

	Fair value recognized on the acquisition date
Cash and cash equivalents	$38
Receivables	286,708
Financial assets at fair value through profit or loss	82,603
Held-to-maturity financial assets	357,388
Intangible assets (Except for goodwill)	2,053,870
Other assets	44,166
Payables	(114,616)
Provisions	(367,003)
Other liabilities	(57,820)
Identifiable net assets	$2,285,334

Goodwill of Octagon Credit Investors, LLC is as follows:	
Purchase consideration	$4,708,746
Add: Non-controlling interests at fair value	530,467
Less: Identifiable net assets at fair value	(2,285,334)
Goodwill	$2,953,879

44. Risk management for insurance contracts and financial instruments

Risk management objectives, policies, procedures and methods:

(1) Objectives of risk management

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

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

A. Board of directors

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

B. Risk management committee

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

C. Chief Risk Officer

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

D. Risk management department

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

b. The department should perform the following functions with regard to different business activities:

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

E. Business Units

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

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

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

F. Audit department

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

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

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

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

A. Market risk

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

B. Credit risk

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

C. Sovereign risk

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

D. Liquidity risk

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

E. Operational risk

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

F. Insurance risk

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

G. Asset and liability matching risk

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

H. Risk-based capital (RBC) ratio

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

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

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

a. Promulgate the Company's risk management standards including the definitions and range of risks, management structure, risk management indexes and other risk management measures.
b. Establish methods to evaluate insurance risks.

c. Regularly provide the insurance risk management report to be reviewed by the risk management committee and as a reference to developing insurance risk management strategies.
d. When an exceptional risk event occurs, the affected departments should propose possible solutions to the risk management committee in the Company and that in the Cathay Financial Holding Co., Ltd. (Cathay Financial Holdings under paragraph 44).

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

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

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

A. Insurance risk assessment covers the following topics:

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

B. The scope of management of insurance risk

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

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

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

(7) Asset/liability management

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

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

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

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

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

A. Capital adequacy management

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

B. Exception management process

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

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

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

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

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

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

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

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

45. Information of insurance risk

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

A. The Company

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

	For the year ended 31 December 2016		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	2,359,350	1,958,260
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	3,385,125	2,809,654
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	459,376	381,282
Rate of return	+0.1%	Increase 4,548,123	Increase 3,774,942
Rate of return	-0.1%	Decrease 4,552,582	Decrease 3,778,643

B. Cathay Lujiazui Life

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

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

	For the year ended 31 December 2016		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.10 (×0.90)	248,834	186,626
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	146,617	109,963
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.10 (×0.90)	127,668	95,751
Rate of return	+0.25%	Increase 467,118	Increase 350,339
Rate of return	-0.25%	Decrease 508,538	Decrease 381,403

C. Cathay Life (Vietnam)

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

	For the year ended 31 December 2016		
	Scenarios	Changes in income before tax	Changes in equity
		Decrease (increase)	Decrease (increase)
Mortality/Morbidity	×1.05 (×0.95)	276	221
		Decrease (increase)	Decrease (increase)
Expense	×1.05 (×0.95)	17,299	13,839
		Increase (decrease)	Increase (decrease)
Surrender rates	×1.05 (×0.95)	1,295	1,036
Rate of return	+0.1%	Increase 5,171	Increase 4,137
Rate of return	-0.1%	Decrease 5,176	Decrease 4,140

a. Changes in income before tax listed above refer to the effects of income before tax arising from the assumption for the years ended 31 December 2017 and 2016. The influence on equities of the Company, Cathay Lujiazui Life and Cathay Life (Vietnam) is assumed that the income tax is calculated on pre-tax income at rates of 17%、25% and 20% individually.

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

c. Sensitivity Test

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

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

(2) Interpretation of concentration of insurance risks

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

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

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

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

(3) Claim development trend

A. The Company

a. Direct business development trend

	Development year								Reserve for
Accident year	1	2	3	4	5	6	7	Unreported claim	unreported claim
2011	15,466,682	18,940,951	19,286,961	19,361,431	19,417,890	19,455,613	19,478,487	-	-
2012	15,166,460	18,319,737	18,627,566	18,692,848	18,738,263	18,771,322	18,791,600	20,278	20,319
2013	14,442,425	17,662,901	17,964,940	18,028,018	18,069,018	18,098,499	18,116,659	47,641	47,736
2014	14,671,864	17,805,516	18,119,932	18,201,744	18,242,928	18,271,520	18,289,519	87,775	87,950
2015	15,353,566	18,647,560	18,975,168	19,043,649	19,087,142	19,116,954	19,135,587	160,419	160,740
2016	15,940,308	19,566,897	19,895,098	19,968,525	20,013,548	20,044,792	20,064,486	497,589	498,584
2017	17,297,974	20,945,515	21,289,539	21,367,654	21,417,667	21,451,594	21,472,944	4,174,970	4,183,320

Expected future payment	$4,998,649
Add: Assumed reserve for incurred but not reported claim	59,731
Reserve for unreported claim	5,058,380
Add: Reported but not paid claim	2,182,413
Claims reserve balance	$7,240,793

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

b. Retained business development trend

Accident year	Development year 1	2	3	4	5	6	7	Unreported claim	Reserve for unreported claim
2011	15,553,626	19,063,409	19,415,280	19,490,798	19,547,836	19,586,014	19,609,097	-	-
2012	15,298,518	18,496,160	18,807,374	18,873,700	18,919,542	18,952,942	18,973,509	20,567	20,608
2013	14,543,224	17,805,873	18,112,807	18,176,624	18,218,139	18,248,001	18,266,399	48,260	48,357
2014	14,764,171	17,934,637	18,252,665	18,335,267	18,376,893	18,405,828	18,424,041	88,774	88,951
2015	15,460,302	18,790,745	19,121,654	19,191,036	19,235,018	19,265,208	19,284,077	162,423	162,748
2016	16,041,097	19,690,231	20,022,069	20,096,276	20,141,722	20,173,294	20,193,193	502,962	503,968
2017	17,420,583	21,111,234	21,460,143	21,539,307	21,589,889	21,624,257	21,645,881	4,225,298	4,233,748

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

Expected future payment	$5,058,380
Add: Reported but not paid claim	2,180,458
Retained claims reserve balance	$7,238,838

In accordance with Order No. Financial-Supervisory-Insurance-Corporate-10402133590 issued on 22 December 2015 by the FSC, the Company recognizes reserve for claims by aggregating reserve for unreported claim and reported but not paid claim. Reserve for unreported claim is determined based on reported claim and adjusted to related expenses; reported but not paid claim is reserved on a case by case basis. Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying the Company. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated claim amounts and reported but not paid claim at the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

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

B. Cathay Lujiazui Life

a. Direct business development trend

	Development year							Expected
Accident year	1	2	3	4	5	6	7	future payment
2011	237,167	438,906	465,126	465,126	480,877	480,877	480,877	-
2012	252,607	493,329	533,176	537,233	537,233	537,233	537,233	-
2013	373,487	600,405	638,047	647,886	647,886	647,886	647,886	-
2014	219,203	410,263	439,067	647,886	647,886	647,886	647,886	-
2015	260,111	446,354	439,067	449,703	449,703	449,703	449,703	10,636
2016	267,604	446,354	469,749	490,137	490,137	490,137	490,137	43,783
2017	267,604	471,264	495,964	536,056	536,056	536,056	536,056	268,452

Expected future payment	$322,871
Less: Expected reported but not paid claim	(6,290)
Add: Assumed reserve for incurred but not reported claim	-
Reserve for unreported claim	316,581
Add: Reported but not paid claim	16,046
Claims reserve balance	$332,627

b. Retained business development trend

	Development year							Expected
Accident year	1	2	3	4	5	6	7	future payment
2011	232,992	438,547	465,126	465,126	472,205	472,205	472,205	-
2012	246,925	492,079	533,154	537,211	472,205	472,205	472,205	-
2013	317,152	591,666	629,265	639,101	639,101	639,101	639,101	-
2014	196,444	387,079	415,859	639,101	639,101	639,101	639,101	-
2015	257,487	443,345	415,859	426,488	426,488	426,488	426,488	10,629
2016	255,291	443,345	463,423	484,661	484,661	484,661	484,661	41,316
2017	255,291	473,886	495,346	518,488	518,488	518,488	518,488	263,197

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

Expected future payment	$315,142
Less: Expected reported but not paid claim	(6,290)
Add: Reported but not paid claim	16,046
Retained claims reserve balance	$324,898

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

Cathay Lujiazui Life recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). Due to uncertainty, estimation, and judgment involved in recognition, there is a high degree of complexity in reserving for claim. Any changes of the estimation or judgment are treated as the changes of the accounting estimates and can be recognized as profit and loss in current year. Some claims are delayed in notifying Cathay Lujiazui Life. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments. The claims reserve recorded on the book is estimated based upon the currently available information. However, the final amount probably will deviate from the original estimates because of the follow-up developments of the claim events.

The chart above has shown the development trend of claim payments. The event year is the actual year for the occurrence of the insurance claim events; The x-axis is the year of the development for the settlement cases; the dollar amount showing above the diagonal line represents the settlement cases in that specific event year with the corresponding accumulated dollar amounts in the end of the year; the dollar amount shown below the diagonal line represents the accumulated estimated dollar amounts need to be paid for each event year as time passes. It is possible that the circumstances and trends affecting dollar amount of recognition for the claims reserve in current year will be different from that in the future. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart.

C. Cathay Life (Vietnam)

Direct business development trend (and retained business development trend)

	Development year				
Accident year	1	2	3	4	5
2013	546	681	681	681	681
2014	620	675	675	678	678
2015	1,363	1,594	1,594	1,596	1,596
2016	2,112	2,538	2,538	2,540	2,540
2017	12,433	15,098	15,098	15,110	15,110

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

Cathay Life (Vietnam) recognizes claims reserve for reported claims (reported but not paid) and unreported claims (incurred but not reported). The estimation method of unreported claims is earned premium multiplied by the loss ratio based upon the past loss experiences instead of loss triangle method, which was approved by Vietnam local authorities. Thus, the expected future payment amount for the settlement cases cannot be determined by this chart. Also, the expected payment for unreported claims involves major subjective judgment and estimation on the past experiences. Thus, uncertainty exists that the estimated claims reserve for claim payments on the balance sheet date will not be equal to the final settled amount of claim payments.

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

(1) Credit risk

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

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

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

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

(2) Liquidity risk

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

Unit: Billion

	Insurance contracts and financial instruments with discretionary participation features		
	Within 1 year	1 to 5 years	Over 5 years
31 December 2017	$(108.2)	$47.4	$17,116.3
31 December 2016	(221.3)	(136.5)	17,034.1

Note: Separate account products are not included.

(3) Market risk

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

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

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

(1) Credit risk analysis

A. Sources of credit risk

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

a. Issuer credit risk represents a risk that the Company may suffer financial losses for holding debt instruments or bank savings because the issuers (guarantors) or banks are not able to repay due to default, bankruptcy, liquidation or any other similar circumstances.
b. Counterparty credit risk refers to the risk that the counterparty will not meet its obligations to perform or pay as and when due and, as a result, the Company will bear financial losses.
c. Underlying asset credit risk means the risk that the Company may suffer losses arising from deterioration of the credit quality and/or credit rating, increase of credit risk premium or breach of any contract terms of any underlying assets to certain financial instruments.

B. Concentration risk

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

31 December 2017

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$129,912,803	$82,321	$265,187	$56,291,047	$14,369,897	$200,921,255
Financial assets at fair value through profit or loss	5,766,821	1,219,662	7,689,393	4,455,766	-	19,131,642
Available-for-sale financial assets	178,366,275	24,358,644	39,738,326	126,393,250	147,352,716	516,209,211
Derivative financial assets for hedging	100,138	-	-	146,306	-	246,444
Debt instrument investments for which no active market exists	103,443,034	148,990,759	461,590,904	1,066,922,659	597,851,906	2,378,799,262
Held-to-maturity financial assets	39,326,264	-	-	11,482,335	-	50,808,599
Other financial assets	1,000,000	-	3,500,000	-	-	4,500,000
Total	$457,915,335	$174,651,386	$512,783,810	$1,265,691,363	$759,574,519	$3,170,616,413
Proportion	14.4%	5.5%	16.2%	39.9%	24.0%	100.0%

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

31 December 2016

Financial assets	Taiwan	Asia	Europe	North America	Emerging markets and others	Total
Cash and cash equivalents	$87,108,982	$154,207	$214,434	$50,897,880	$2,250,356	$140,625,859
Financial assets at fair value through profit or loss	5,912,042	159,986	436,867	900,477	-	7,409,372
Available-for-sale financial assets	208,994,073	21,188,062	47,296,352	146,039,840	132,691,256	556,209,583
Derivative financial assets for hedging	70,905	-	6,036	155,328	-	232,269
Debt instrument investments for which no active market exists	79,879,337	131,219,394	422,728,136	939,595,037	543,161,710	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	4,161,395	-	3,500,000	-	-	7,661,395
Total	$412,677,985	$152,721,649	$474,181,825	$1,137,588,562	$678,103,322	$2,855,273,343
Proportion	14.5%	5.3%	16.6%	39.8%	23.8%	100.0%

C. Credit Quality

Classification of credit quality for financial assets of the Company:

31 December 2017

Financial assets	Normal assets		Past due but not impaired	Impaired	Provision for impairment	Total
	Investment grade	Non-investment grade or unrated				
Cash and cash equivalents	$200,921,255	$-	$-	$-	$-	$200,921,255
Financial assets at fair value through profit or loss	17,133,088	1,998,554	-	-	-	19,131,642
Available-for-sale financial assets	436,351,502	79,857,709	-	-	-	516,209,211
Derivative financial assets for hedging	246,444	-	-	-	-	246,444
Debt instrument investments for which no active market exists	2,320,427,781	58,371,481	-	388,024	(388,024)	2,378,799,262
Held-to-maturity financial assets	50,808,599	-	-	-	-	50,808,599
Other financial assets	4,500,000	-	-	-	-	4,500,000
Total	$3,030,388,669	$140,227,744	$-	$388,024	$(388,024)	$3,170,616,413
Proportion	95.6%	4.4%	-	-	-	100.0%

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

31 December 2016

Financial assets	Normal assets: Investment grade	Normal assets: Non-investment grade or unrated	Past due but not impaired	Impaired	Provision for impairment	Total
Cash and cash equivalents	$140,625,859	$-	$-	$-	$-	$140,625,859
Financial assets at fair value through profit or loss	5,596,015	1,813,357	-	-	-	7,409,372
Available-for-sale financial assets	489,718,539	66,491,044	-	-	-	556,209,583
Derivative financial assets for hedging	232,269	-	-	-	-	232,269
Debt instrument investments for which no active market exists	2,047,651,043	68,932,571	-	419,627	(419,627)	2,116,583,614
Held-to-maturity financial assets	26,551,251	-	-	-	-	26,551,251
Other financial assets	7,661,395	-	-	-	-	7,661,395
Total	$2,718,036,371	$137,236,972	$-	$419,627	$(419,627)	$2,855,273,343
Proportion	95.2%	4.8%	-	-	-	100.0%

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

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

31 December 2017

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$313,014,247	$50,733,517	$77,352,450	$2,079,898	$443,180,112
Overdue receivables	244,525	29,822	69,957	-	344,304
Total	$313,258,772	$50,763,339	$77,422,407	$2,079,898	$443,524,416
Proportion	71%	11%	17%	1%	100%

31 December 2016

Location	Northern and eastern areas	Central area	Southern area	Overseas	Total
Secured loans	$317,414,591	$49,707,033	$77,800,104	$-	$444,921,728
Overdue receivables	202,100	22,926	75,299	-	300,325
Total	$317,616,691	$49,729,959	$77,875,403	$-	$445,222,053
Proportion	71%	11%	18%	-	100%

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

E. Secured loans and overdue receivables

31 December 2017

Secured loans and overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$297,933,077	$77,668,071	$35,341,027	$208,490	$3,185,642	$414,336,307	$5,903,496	$408,432,811
Corporate finance	24,361,225	4,743,263	-	-	83,621	29,188,109	245,943	28,942,166
Total	$322,294,302	$82,411,334	$35,341,027	$208,490	$3,269,263	$443,524,416	$6,149,439	$437,374,977

31 December 2016

Secured loans and overdue receivables	Neither past due nor impaired			Past due but not impaired	Impaired	Total (EIR Principal)	Provision for impairment	Net
	Excellent	Good	Normal					
Consumer finance	$243,209,527	$117,269,110	$52,440,764	$198,646	$3,336,620	$416,454,667	$5,873,070	$410,581,597
Corporate finance	23,812,636	4,239,528	616,002	-	99,220	28,767,386	243,337	28,524,049
Total	$267,022,163	$121,508,638	$53,056,766	$198,646	$3,435,840	$445,222,053	$6,116,407	$439,105,646

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

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

	Past due but not impaired		
	Due in 1~2 months	Due in 2~3 months	Total
31 December 2017	$176,870	$31,620	$208,490
31 December 2016	164,117	34,529	198,646

(2) Liquidity risk analysis

A. Sources of liquidity risk

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

B. Liquidity risk management

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

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

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

C. Maturity analysis of financial liabilities

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

a. Maturity analysis of non-derivative financial liabilities:

31 December 2017	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Payables	$19,484,551	$212,530	$86,508	$87,619	$5,364,761	$25,235,969
Bonds payable (Note)	414,540	1,194,411	2,415,000	7,245,000	80,815,000	92,083,951
Preferred stock liability	-	5,080,005	-	-	-	5,080,005

31 December 2016	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
Short-term debts	$46,444	$-	$-	$-	$-	$46,444
Payables	24,023,143	161,436	97,186	70,924	-	24,352,689
Bonds payable (Note)	-	1,260,000	1,260,000	3,780,000	41,234,411	47,534,411
Preferred stock liability	-	-	5,173,005	-	-	5,173,005

Note: The bonds payable do not have maturity dates; therefore, the remaining period used for the calculation of the contract cash flow is 10 years.

b. Maturity analysis of derivative financial liabilities:

31 December 2017	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$31,508	$14,615	$23,524	$(230)	$-	$69,417
Forward	286,470	-	-	-	-	286,470
CS	1,369,037	-	-	-	-	1,369,037

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

31 December 2016	Less than 6 months	Due in 6~12 months	Due in 1~2 years	Due in 2~5 years	Over 5 years	Total
IRS	$30,094	$25,847	$47,231	$3,278	$-	$106,450
Forward	3,439,114	1,524,029	92,750	-	-	5,055,893
CS	25,588,589	294,288	-	-	-	25,882,877
Option	6,304	-	-	-	-	6,304

(3) Market risk analysis

A. Sources of market risk

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

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

a. Value at Risk

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

b. Stress testing

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

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

(A) Simple Sensitivity

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

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

(B) Scenario Analysis

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

(a) Historical scenario

In consideration of the fluctuation of risk factors when a specific historical event happened, the Company and Subsidiaries simulate what the dollar amount of losses for the current investment portfolio would be in the same period of time.

(b) Hypothetical scenario

The Company and Subsidiaries make hypothesis with rational expectations from the extreme market movements to assess the dollar amount of losses for the investment position by taking into consideration the movement of relevant risk factors.

Risk management department performs the stress testing with historical and hypothetical scenarios regularly. The Company's and Subsidiaries risk analysis, early warning, and business management are in accordance with the stress testing report.

Table of Stress Testing

For the year ended 31 December 2017

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(67,589,109)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(40,098,053)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(8,280,120)

For the year ended 31 December 2016

Risk Factors	Changes (+/-)	Gain (loss)
Equity risk (Price)	Price decreases by 10%	$(59,988,277)
Interest rate risk (Yield curve)	The main yield curve shifts up by 100 bps	(43,562,955)
Exchange risk (Foreign exchange rate)	Appreciation of NTD to all foreign currencies by 1%	(6,730,848)

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

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

Note 2: Effects of hedging are considered.

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

c. Sensitivity Analysis

Summarization of Sensitivity Analysis

For the year ended 31 December 2017

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$3,340,835	$5,024,663
	CNY(CNH)/USD	appreciates 1%	1,030,594	354,944
	HKD/USD	appreciates 1%	(1,293)	347,739
	EUR/USD	appreciates 1%	132,515	133,280
	GBP/USD	appreciates 1%	89,699	11,739
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	100	(191,051)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(317)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(3,158)
	Yield curve (NTD)	parallelly shifts up 1 bp	1,261	(182,921)
Equity price risk	Equity price increases 1%		91,623	6,671,264

For the year ended 31 December 2016

Risk Factors	Variables (+/-)		Changes in Income	Changes in Equity
Foreign currency risk	USD/NTD	appreciates 1%	$1,999,538	$4,798,619
	CNY(CNH)/USD	appreciates 1%	452,155	295,279
	HKD/USD	appreciates 1%	(13,843)	728,461
	EUR/USD	appreciates 1%	(33,948)	109,022
	GBP/USD	appreciates 1%	30,075	11,340
Interest rate risk	Yield curve (USD)	parallelly shifts up 1 bp	-	(216,091)
	Yield curve (AUD)	parallelly shifts up 1 bp	-	(825)
	Yield curve (EUR)	parallelly shifts up 1 bp	-	(3,977)
	Yield curve (NTD)	parallelly shifts up 1 bp	982	(185,555)
Equity price risk	Equity price increases 1%		91,639	5,905,205

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

Note 1: Impacts of credit changes are not included.

Note 2: Effects of hedging are considered.

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

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

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

48. Information of financial instruments

(1) Categories of financial instruments

Financial assets

Items	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss		
Designated at fair value through profit or loss at initial recognition	$239,368	$80,102
Held for trading	42,797,993	39,001,870
Subtotal	43,037,361	39,081,972
Available-for-sale financial assets	1,517,450,715	1,421,616,409
Derivative financial assets for hedging	246,444	232,269
Held-to-maturity financial assets	57,807,718	27,775,410
Loans and receivables		
Cash and cash equivalents (Note)	210,348,360	148,554,356
Receivables	81,845,945	70,613,079
Debt instrument investments for which no active market exists	2,393,010,584	2,126,182,349
Other financial assets	4,500,000	7,661,395
Loans	603,718,254	607,647,075
Guarantee deposits paid	20,652,061	21,704,201
Subtotal	3,314,075,204	2,982,362,455
Total	$4,932,617,442	$4,471,068,515

Note: Exclude cash on hand and revolving funds.

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

Financial liabilities

Items	31 December 2017	31 December 2016
Financial liabilities at fair value through profit or loss		
Held for trading	$1,104,658	$26,982,208
Financial liabilities at amortized cost		
Short-term debts	-	46,444
Payables	25,235,969	24,352,689
Bonds payable	70,000,000	35,000,000
Preferred stock liability	5,000,000	5,000,000
Guarantee deposits received	8,402,759	2,816,382
Subtotal	108,638,728	67,215,515
Total	$109,743,386	$94,197,723

(2) Fair value of financial instruments

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

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

a. The carrying amount of cash and cash equivalents, accounts receivables, short-term debts and accounts payable approximate their fair value due to their short maturities.

b. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.

c. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

d. Fair value of debt instruments without market quotations is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk information).

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

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

B. Financial instruments not measured at fair value

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

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

	Carrying amount	
	31 December 2017	31 December 2016
Financial assets		
Debt instrument investments for which no active market exists	$2,393,010,584	$2,126,182,349
Held-to-maturity financial assets (Note)	66,354,720	36,285,724
Other financial assets	4,500,000	7,661,395

	Fair value	
	31 December 2017	31 December 2016
Financial assets		
Debt instrument investments for which no active market exists	$2,485,340,753	$2,105,543,457
Held-to-maturity financial assets (Note)	73,483,056	39,199,654
Other financial assets	4,521,701	7,720,518

Note: Guarantee deposits paid in bonds are included.

(3) Hedge accounting disclosures

Cash flow hedges

The following table summarizes the terms of the Company and Subsidiaries' interest rate swaps for bonds used as hedging instruments as of 31 December 2017 and 2016:

31 December 2017

Hedged item	Hedging instrument	Fair Value	Expected period of cash flow	Expected period of profit and loss recognized in the statement of comprehensive income
Floating rate bonds	IRS	$246,444	19 February 2018~26 May 2024	19 February 2018~26 May 2024

31 December 2016

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	$232,269	25 January 2017~26 May 2024	25 January 2017~26 May 2024

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

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

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 years ended 31 December	
	2017	2016
Amount recognized in other comprehensive income	$14,595	$(216,856)
Amount reclassified from equity to profit or loss	(419)	1,798

(4) Offsetting of financial assets and financial liabilities

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

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

31 December 2017

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	$16,976,162	$-	$16,976,162	$1,102,509	$5,561,151	$10,312,502

31 December 2017

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	$1,104,658	$-	$1,104,658	$1,102,509	$24,176	$(22,027)

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

31 December 2016

Financial assets bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial assets	Gross amount of offset financial liabilities recognized on balance sheet	Net financial assets recognized on balance sheet	Financial instruments (Note)	Cash collateral received	Net amount
Derivative financial instrument	$1,846,433	$-	$1,846,433	$(1,846,433)	$-	$-

31 December 2016

Financial liabilities bound by offsetting or enforceable master netting arrangement or similar agreement						
				Relevant amount that has not been offset on balance sheet		
Item	Gross amount of recognized financial liabilities	Gross amount of offset financial assets recognized on balance sheet	Net financial liabilities recognized on balance sheet	Financial instruments (Note)	Cash collateral pledged	Net amount
Derivative financial instrument	$26,975,904	$-	$26,975,904	$(1,846,433)	$-	$25,129,471

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

49. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

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

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.

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

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

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

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

	31 December 2017			
Items	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Stocks	$84,171	$84,171	$-	$-
Other	155,197	-	155,197	-
Held for trading				
Stocks	6,927,268	6,912,293	14,975	-
Bonds	2,401,924	2,401,922	2	-
Other	16,739,083	16,739,083	-	-
Available-for-sale financial assets				
Stocks	689,148,105	676,397,304	2,650,074	10,100,727
Bonds (Note 1)	469,012,295	24,890,926	444,121,369	-
Other	360,381,165	292,738,242	16,490,474	51,152,449
Investment property (Note 2)	452,495,844	-	-	452,495,844
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	16,729,718	-	16,729,718	-
Derivative financial assets for hedging	246,444	-	246,444	-
Liabilities				
Financial liabilities at fair value through profit or loss	1,104,658	-	1,104,658	-

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

Items	31 December 2016			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss at initial recognition				
Other	$80,102	$-	$80,102	$-
Held for trading				
Stocks	6,970,835	6,970,835	-	-
Bonds	3,519,545	2,217,257	1,302,288	-
Other	26,897,326	24,621,664	2,275,662	-
Available-for-sale financial assets				
Stocks	606,941,523	595,839,280	2,477,887	8,624,356
Bonds (Note 1)	513,677,802	40,845,964	472,831,838	-
Other	302,945,916	248,458,142	14,032,097	40,455,677
Investment property (Note 2)	447,175,243	-	-	447,175,243
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	1,614,164	-	1,614,164	-
Derivative financial assets for hedging	232,269	-	232,269	-
Liabilities				
Financial liabilities at fair value through profit or loss	26,982,208	6,304	26,975,904	-

Note 1: Guarantee deposits paid in bonds are included.

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

A. Transfers between Level 1 and Level 2

For the year ended 31 December 2017, the Company and Subsidiaries transferred stocks available-for-sale which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of $354,375 thousand was transferred as its market price was obtainable. For the year ended 31 December 2016, the Company and Subsidiaries transferred stocks available-for-sale which were measured at fair value on a recurring basis, from Level 2 to Level 1. A total of $133,875 thousand was transferred as its market price was obtainable.

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

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

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

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Available-for-sale financial assets	Investment property	Available-for-sale financial assets	Investment property
Beginning balance	$49,080,033	$447,175,243	$40,719,087	$448,801,078
Total gains (losses) recognized				
Amount recognized in profit or loss				
Realized gains from available-for-sale financial assets	3,205,822	-	2,251,211	-
(Losses) gains from investment property	-	(833,201)	-	3,728,709
Amount recognized in other comprehensive income				
Unrealized valuation (losses) gains from available-for-sale financial assets	(347,924)	-	992,871	-
Exchange differences resulting from translating the financial statements of foreign operations	-	438,152	-	(8,800,438)
Acquisitions or issuances	19,478,410	-	11,203,252	-
Transfers from property and equipment	-	375,260	-	-
Transfers from investment property under construction	-	3,147,208	-	3,434,851
Transfers from prepayments for buildings and land – Investments	-	2,067	-	11,043
Transfers from investment property measured at cost	-	2,191,115	-	-
Disposals or settlements	(9,902,617)	-	(5,918,867)	-
Transfers to Level 3	307,692	-	-	-
Transfers out of Level 3	(568,240)	-	(167,521)	-
Ending balance	$61,253,176	$452,495,844	$49,080,033	$447,175,243

Total gains (losses) recognized in profit or loss in the table above contain unrealized gains and losses related to assets on hand as of 31 December 2017 and 2016 in the amount of $(833,201) thousand and $3,728,709 thousand, respectively.

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

C. Information on significant unobservable inputs to valuation

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

31 December 2017

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Available-for-sale financial assets	Market approach	Discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Discount for lack of marketability, discount for minority interest, etc.	15%~53%	The higher the discount for lack of marketability and control, the lower the fair value of the stocks
		Growth rate of net profit after tax	-60%~69%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		Dividend payout ratio	0~140%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 16			

31 December 2016

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Available-for-sale financial assets	Market approach	Discount for lack of marketability	11%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
		Growth rate of adjusted net profit after tax	-50%~235%	The higher the growth rate of adjusted net profit after tax, the higher the fair value of the stocks
		Dividend payout ratio	50%~100%	The higher the dividend payout ratio, the higher the fair value of the stocks
Investment property	Refer to Note 16			

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

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

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

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

	31 December 2017			
	Total	Level 1	Level 2	Level 3
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$2,485,340,753	$321,465	$2,485,016,282	$3,006
Held-to-maturity financial assets (Note)	73,483,056	22,469	67,216,914	6,243,673
Other financial assets	4,521,701	-	4,521,701	-

	31 December 2016			
	Total	Level 1	Level 2	Level 3
Financial assets not measured at fair value for which only the fair value is disclosed				
Debt instrument investments for which no active market exists	$2,105,543,457	$337,864	$2,105,202,343	$3,250
Held-to-maturity financial assets (Note)	39,199,654	22,694	38,801,873	375,087
Other financial assets	7,720,518	-	7,720,518	-

Note: Guarantee deposits paid in bonds are included.

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

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

The following information of material foreign assets and liabilities is disclosed aggregately based on the functional currency of each consolidated entities:

	31 December 2017		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$87,345,078	29.848000	$2,607,075,875
AUD	2,049,548	23.262039	47,676,669
CNH	19,592,718	4.579003	89,715,108
Non-Monetary Items			
USD	12,894,813	29.848000	384,884,383
HKD	9,105,617	3.818955	34,773,943
Investments accounted for using the equity method			
CNY	170,436	4.583500	781,195
USD	4,076	29.848000	121,671
PHP	22,996,663	0.597900	13,749,705
IDR	5,655,474,784	0.002201	12,447,700

	31 December 2016		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$71,400,397	32.279000	$2,304,733,421
AUD	1,587,161	23.302210	36,984,357
CNH	18,365,459	4.621883	84,883,001
Non-Monetary Items			
USD	11,858,753	32.279000	382,788,693
HKD	17,501,775	4.162213	72,846,112
Investments accounted for using the equity method			
CNY	195,312	4.644800	907,187
USD	4,024	32.279000	129,896
PHP	20,906,682	0.651600	13,622,794
IDR	4,889,865,889	0.002401	11,740,568

Note: The Company and Subsidiaries evaluated that foreign currencies other than functional currencies of each consolidated entities do not have material impact; thus, the related amount are excluded from the disclosure.

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

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

	31 December 2017		
Items	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$210,543,885	$-	$210,543,885
Receivables	81,067,451	778,494	81,845,945
Current tax assets	18,090	-	18,090
Financial assets at fair value through profit or loss	17,005,404	26,031,957	43,037,361
Available-for-sale financial assets	34,065,289	1,483,385,426	1,517,450,715
Derivative financial assets for hedging	14,942	231,502	246,444
Investments accounted for using the equity method – Net	-	33,122,620	33,122,620
Debt instrument investments for which no active market exists	31,707,234	2,361,303,350	2,393,010,584
Held-to-maturity financial assets	138,304	57,669,414	57,807,718
Other financial assets – Net	-	4,500,000	4,500,000
Investment property	-	459,175,538	459,175,538
Investment property under construction	-	3,541,501	3,541,501
Prepayments for buildings and land – Investments	-	690,203	690,203
Loans	185,534	603,532,720	603,718,254
Reinsurance assets	-	758,458	758,458
Property and equipment	-	31,077,311	31,077,311
Intangible assets	-	46,272,945	46,272,945
Deferred tax assets	-	28,448,690	28,448,690
Other assets	5,613,550	21,505,570	27,119,120
Separate account product assets	11,768,018	543,501,161	555,269,179
Total assets			$6,097,654,561

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

	31 December 2017		
Items	Settlement within 12 months	Settlement more than 12 months	Total
Payables	$19,697,081	$5,538,888	$25,235,969
Current tax liabilities	177,190	-	177,190
Financial liabilities at fair value through profit or loss	1,053,845	50,813	1,104,658
Bonds payable	-	70,000,000	70,000,000
Preferred stock liability	5,000,000	-	5,000,000
Insurance liabilities	-	4,923,940,864	4,923,940,864
Reserve for insurance contracts with feature of financial instruments	-	8,761,609	8,761,609
Foreign exchange volatility reserve	-	11,589,138	11,589,138
Provisions	415,757	56,245	472,002
Deferred tax liabilities	-	37,034,552	37,034,552
Other liabilities	375,474	17,512,563	17,888,037
Separate account product liabilities	1,273,729	553,995,450	555,269,179
Total liabilities			$5,656,473,198

	31 December 2016		
Items	Recovery within 12 months	Recovery more than 12 months	Total
Cash and cash equivalents	$148,761,072	$-	$148,761,072
Receivables	70,372,693	240,386	70,613,079
Financial assets at fair value through profit or loss	4,404,143	34,677,829	39,081,972
Available-for-sale financial assets	60,284,138	1,361,332,271	1,421,616,409
Derivative financial assets for hedging	19,956	212,313	232,269
Investments accounted for using the equity method – Net	-	31,130,963	31,130,963
Debt instrument investments for which no active market exists	25,677,843	2,100,504,506	2,126,182,349
Held-to-maturity financial assets	-	27,775,410	27,775,410
Other financial assets – Net	1,661,395	6,000,000	7,661,395
Investment property	-	452,751,907	452,751,907
Investment property under construction	-	3,300,843	3,300,843
Prepayments for buildings and land – Investments	-	383,904	383,904
Loans	102,607	607,544,468	607,647,075
Reinsurance assets	-	738,779	738,779
Property and equipment	-	29,498,116	29,498,116
Intangible assets	-	49,045,554	49,045,554
Deferred tax assets	-	12,640,191	12,640,191
Other assets	4,804,280	25,070,696	29,874,976
Separate account product assets	6,209,559	491,804,652	498,014,211
Total assets			$5,556,950,474

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

	31 December 2016		
Items	Settlement within 12 months	Settlement more than 12 months	Total
Short-term debts	$46,444	$-	$46,444
Payables	24,184,579	168,110	24,352,689
Current tax liabilities	185,413	-	185,413
Financial liabilities at fair value through profit or loss	26,846,814	135,394	26,982,208
Bonds payable	-	35,000,000	35,000,000
Preferred stock liability	-	5,000,000	5,000,000
Insurance liabilities	-	4,547,132,223	4,547,132,223
Reserve for insurance contracts with feature of financial instruments	-	10,320,750	10,320,750
Foreign exchange volatility reserve	-	9,871,478	9,871,478
Provisions	-	424,226	424,226
Deferred tax liabilities	-	28,848,843	28,848,843
Other liabilities	366,379	6,421,690	6,788,069
Separate account product liabilities	1,077,203	496,937,008	498,014,211
Total liabilities			$5,192,966,554

52. Related party transactions

(1) Information of the related parties that had transactions with the Company and Subsidiaries during the financial reporting period is as follows:

Name	Nature of the relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary
Cathay Insurance Company Limited (China)	Associate
Symphox Information Co., Ltd.	Associate
Ally Logistic Property Co., Ltd.	Subsidiary of associates
Seaward Card Co., Ltd.	Subsidiary of associates (Note1)

Name	Nature of the relationship
Cathay United Bank	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Co., Ltd.	Other related party
Cathay Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Indovina Bank Limited	Other related party
Cathay Futures Co., Ltd.	Other related party
Cathay Charity Foundation	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Cathay Medical Care Corp.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Lin Yuan Property Management Co., Ltd.	Other related party
San Ching Engineering Co., Ltd.	Other related party
Liang-Ting Co., Ltd.	Other related party (Note 2)
Other (including directors, supervisors, key management personnel and their spouses and relatives within the second-degree of kinship)	Other related party

Note 1: Seaward Card Co., Ltd., originally held by Cathay United Bank, was sold to Symphox Information Co., Ltd. on 21 July 2017. Thus, the relationship between the Company and its Subsidiaries with Seaward Card Co., Ltd. has changed from other related party to Subsidiary of associates.

Note 2: No longer a related party of the Company and Subsidiaries from 8 June 2016.

(2) Significant transactions with related parties

A. Property transactions

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

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

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

	For the year ended 31 December 2017	
Name	Items	Amount
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	Wuri E-commerce Building, etc.	$1,348,450
Other related party		
Lin Yuan Property Management Co., Ltd.	Cathay Land Mark, etc.	15,758
San Ching Engineering Co., Ltd.	THSR Taoyuan Commercial Park, etc.	274,409
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	1,225,857
Subtotal		1,516,024
Total		$2,864,474

	For the year ended 31 December 2016	
Name	Items	Amount
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	Jui-Fang Logistic Park, etc.	$1,423,127
Other related party		
Lin Yuan Property Management Co., Ltd.	Dunnan Xinyi Building, etc.	32,158
San Ching Engineering Co., Ltd.	Cathay Land Mark, etc.	440,901
Cathay Real Estate Development Co., Ltd.	Minsheng Jingguo Building, etc.	598,936
Subtotal		1,071,995
Total		$2,495,122

The total amounts of contracted projects for real estate as of 31 December 2017 and 2016 between the Company and Subsidiaries and Ally Logistic Property Co., Ltd. were $3,383,783 thousand and $3,383,783 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2017 and 2016 between the Company and Subsidiaries and Lin Yuan Property Management Co., Ltd. were $1,387 thousand and $17,252 thousand, respectively.

The total amounts of contracted projects for real estate as of 31 December 2017 and 2016 between the Company and Subsidiaries and San Ching Engineering Co., Ltd. were $1,853,190 thousand and $1,853,332 thousand, respectively.

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

The total amounts of contracted projects for real estate as of 31 December 2017 and 2016 between the Company and Subsidiaries and Cathay Real Estate Development Co., Ltd. were $1,742,250 thousand and $1,742,250 thousand, respectively.

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

	Rental income	
	For the years ended 31 December	
Name	2017	2016
Parent company		
Cathay Financial Holding Co., Ltd.	$54,011	$37,868
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	8,900	8,580
Associate and its subsidiary		
Symphox Information Co., Ltd.	40,912	35,867
Ally Logistic Property Co., Ltd.	299,821	165,768
Cathay Insurance Company Limited (China)	27,103	21,373
Subtotal	367,836	223,008
Other related party		
Cathay United Bank	580,440	480,382
Cathay Century Insurance Co., Ltd.	105,435	103,072
Cathay Securities Investment Trust Co., Ltd.	45,132	45,039
Cathay Securities Co., Ltd.	38,063	33,497
San Ching Engineering Co., Ltd.	5,610	5,610
Cathay Futures Co., Ltd.	6,091	6,001
Cathay Medical Care Corp.	185,327	180,882
Cathay Venture Inc.	4,730	3,470
Cathay Real Estate Development Co., Ltd.	19,361	17,416
Cathay Healthcare Management Co., Ltd.	56,032	55,638
Cathay Hospitality Management Co., Ltd.	225,304	206,105
Liang-Ting Co., Ltd.	-	3,088
Subtotal	1,271,525	1,140,200
Total	$1,702,272	$1,409,656

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

Name	Guarantee deposits received 31 December 2017	31 December 2016
Parent company		
Cathay Financial Holding Co., Ltd.	$12,588	$10,086
Subsidiary		
Cathay Securities Investment Consulting Co., Ltd.	2,089	4,108
Associate and its subsidiary		
Symphox Information Co., Ltd.	9,798	9,617
Ally Logistic Property Co., Ltd.	55,669	55,649
Cathay Insurance Company Limited (China)	7,186	7,282
Subtotal	72,653	72,548
Other related party		
Cathay United Bank	164,798	157,492
Cathay Century Insurance Co., Ltd.	26,786	24,469
Cathay Securities Investment Trust Co., Ltd.	10,093	10,093
Cathay Securities Co., Ltd.	8,826	8,442
Cathay Medical Care Corp.	10,916	10,801
Cathay Real Estate Development Co., Ltd.	3,773	3,998
Cathay Healthcare Management Co., Ltd.	13,157	13,157
Cathay Hospitality Management Co., Ltd.	216,949	214,825
Subtotal	455,298	443,277
Total	$542,628	$530,019

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

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

Name	Rental expense For the years ended 31 December 2017	2016
Other related party		
Cathay Real Estate Development Co., Ltd.	$7,413	$7,413
Cathay United Bank	61,790	62,071
Total	$69,203	$69,484

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

Name	Guarantee deposits paid	
	31 December 2017	31 December 2016
Other related party		
Cathay United Bank	$15,367	$15,455

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

B. Cash in banks

Name	Items	31 December 2017	31 December 2016
Other related party			
Cathay United Bank	Time deposit	$2,047,772	$2,069,040
	Cash in bank	26,515,691	24,819,057
Indovina Bank Limited	Time deposit	13,140	21,270
	Cash in bank	15,984	33,928
Total		$28,592,587	$26,943,295

Interest income from Cathay United Bank for the years ended 31 December 2017 and 2016 were $28,157 thousand and $19,034 thousand, respectively.

Interest income from Indovina Bank Limited for the years ended 31 December 2017 and 2016 were $1,438 thousand and $270 thousand, respectively.

As of 31 December 2017 and 2016, time deposit pledged were $3,000 thousand and $4,482 thousand, respectively.

C. Secured loans

Name	For the year ended 31 December 2017		
	Maximum amount	Rate	Ending balance
Other related party			
Other	$1,107,371	1.03%~3.44%	$909,989

Name	For the year ended 31 December 2016		
	Maximum amount	Rate	Ending balance
Other related party			
Other	$1,085,235	1.03%~3.44%	$1,018,137

Interest income from other for the years ended 31 December 2017 and 2016 were $14,329 thousand and $16,436 thousand, respectively.

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

D. Balance of beneficiary certificates purchased from related parties

Name		31 December 2017	31 December 2016
Other related party			
Cathay Securities Investment	Market value	$-	$101,392
Trust Co., Ltd. managed funds	Cost	$-	$100,000

E. Discretionary account management balance

Name	31 December 2017	31 December 2016
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$245,661,387	$183,588,745

F. Other receivables

Name	31 December 2017	31 December 2016
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$706,336	$4,953,921
Other related party		
Cathay Century Insurance Co., Ltd.	56,124	152,623
Cathay Securities Investment Trust Co., Ltd.	51,323	39,460
Subtotal	107,447	192,083
Total	$813,783	$5,146,004

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

G. Reinsurance assets

Name	31 December 2017	31 December 2016
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$-	$13,245

H. Guarantee deposits paid

Name	31 December 2017	31 December 2016
Other related party		
Cathay Futures Co., Ltd.	$1,628,717	$1,200,485

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

For the years ended 31 December 2017 and 2016, the imputed interest income of guarantee deposits paid from Cathay Futures Co., Ltd. were $1,087 thousand and $1,748 thousand, respectively.

I. Guarantee deposits received

Name	31 December 2017	31 December 2016
Associate and its subsidiary		
Ally Logistic Property Co., Ltd.	$337,790	$382,618
Other related party		
Lin Yuan Property Management Co., Ltd.	5,000	5,000
San Ching Engineering Co., Ltd.	661,181	297,261
Cathay Hospitality Management Co., Ltd.	120,257	120,257
Subtotal	786,438	422,518
Total	$1,124,228	$805,136

J. Other payables

Name	31 December 2017	31 December 2016
Parent company		
Cathay Financial Holding Co., Ltd. (Note)	$158,589	$158,410
Associate and its subsidiary		
Symphox Information Co., Ltd.	1,776	28,762
Other related party		
Cathay United Bank	163,342	549,934
Cathay Century Insurance Co., Ltd.	7,706	8,856
Cathay Securities Investment Trust Co., Ltd.	14,576	9,834
Subtotal	185,624	568,624
Total	$345,989	$755,796

Note: The payables are interest expenses accrued from bonds payable and preferred stock liability.

K. Bonds payable

Name	31 December 2017	31 December 2016
Parent company		
Cathay Financial Holding Co., Ltd.	$35,000,000	$35,000,000

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

L. Preferred stock liability

Name	31 December 2017	31 December 2016
Parent company		
Cathay Financial Holding Co., Ltd.	$5,000,000	$5,000,000

M. Premium income

	For the years ended 31 December	
Name	2017	2016
Other related party		
Cathay United Bank	$78,392	$71,294
Cathay Century Insurance Co., Ltd.	19,215	17,516
Cathay Securities Investment Trust Co., Ltd.	3,546	3,410
Cathay Medical Care Corp.	43,234	42,529
Cathay Securities Co., Ltd.	8,044	7,441
Lin Yuan Property Management Co., Ltd.	3,183	3,345
Other	294,377	200,932
Total	$449,991	$346,467

N. Handling fees earned

	For the years ended 31 December	
Name	2017	2016
Other related party		
Cathay Securities Investment Trust Co., Ltd.	$182,147	$143,984

O. Insurance expenses

	For the years ended 31 December	
Name	2017	2016
Other related party		
Cathay Century Insurance Co., Ltd.	$115,158	$122,617

P. Indemnity income

	For the years ended 31 December	
Name	2017	2016
Other related party		
Cathay Century Insurance Co., Ltd.	$13,114	$11,809

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

Q. Reinsurance income

Name	For the years ended 31 December 2017	2016
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$131,460	$127,610

Cathay Insurance (Bermuda) Co., Ltd. engaged only in reinsurance business after its establishment. As the Company's board of directors resolved to acquire the reinsurance business of Cathay Insurance (Bermuda) Co., Ltd. on 7 November 2017, Cathay Insurance (Bermuda) Co., Ltd. had not engaged in any reinsurance business after the settlement date (15 December 2017).

R. Reinsurance service expenses

Name	For the years ended 31 December 2017	2016
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$8,826	$8,839

S. Reinsurance claim payments

Name	For the years ended 31 December 2017	2016
Subsidiary		
Cathay Insurance (Bermuda) Co., Ltd.	$128,255	$127,133

T. Other operating costs

Name	For the years ended 31 December 2017	2016
Other related party		
Cathay United Bank	$902,199	$743,944
Cathay Securities Investment Trust Co., Ltd.	152,394	109,201
Total	$1,054,593	$853,145

U. Finance costs

Name	For the years ended 31 December 2017	2016
Parent company		
Cathay Financial Holding Co., Ltd.	$1,260,179	$65,410

Finance costs consist of interest expenses accrued from bonds payable.

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

V. Operating expenses

Name	For the years ended 31 December 2017	2016
Associate and its subsidiary		
Symphox Information Co., Ltd.	$286,646	$357,766
Seaward Card Co., Ltd.	90,759	92,964
Subtotal	377,405	450,730
Other related party		
Cathay United Bank	5,860,235	7,842,181
Cathay Securities Co., Ltd.	8,450	-
Cathay Venture Inc.	13,440	-
Lin Yuan Property Management Co., Ltd.	781,188	782,457
Cathay Real Estate Development Co., Ltd.	5,828	7,088
Cathay Futures Co., Ltd.	3,571	3,580
Cathay Healthcare Management Co., Ltd.	30,623	17,963
Cathay Medical Care Corp.	3,731	7,817
Cathay Charity Foundation	5,550	5,703
San Ching Engineering Co., Ltd.	3,924	3,906
Subtotal	6,716,540	8,670,695
Total	$7,093,945	$9,121,425

W. Non-operating income

Name	For the years ended 31 December 2017	2016
Parent company		
Cathay Financial Holding Co., Ltd.	$5,127	$3,894
Other related party		
Cathay Century Insurance Co., Ltd.	580,053	1,334,873
Cathay United Bank	174,073	181,017
Cathay Securities Co., Ltd.	13,290	6,231
Cathay Securities Investment Trust Co., Ltd.	19,151	19,718
Cathay Healthcare Management Co., Ltd.	4,792	4,776
Cathay Medical Care Corp.	3,651	3,630
Subtotal	795,010	1,550,245
Total	$800,137	$1,554,139

Non-operating income is mainly generated from the Company and Subsidiaries' integrated marketing activities.

X. Non-operating expense

Name	For the years ended 31 December 2017	2016
Parent company		
Cathay Financial Holding Co., Ltd.	$93,000	$318,820

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

Y. Other

As of 31 December 2017 and 2016, the nominal amounts of the financial instruments transactions with Cathay United Bank are summarized as below (USD in thousands):

Item	31 December 2017		31 December 2016	
CS contracts	USD	3,322,000	USD	3,269,000

Z. Key management personnel compensation

	For the years ended 31 December 2017	2016
Short-term employee benefits	$134,551	$137,310
Post-employment benefits	1,219	1,705
Total	$135,770	$139,015

The management of the Company includes chairman, directors, president, senior executive vice president, senior vice general managers and the above.

53. Pledged assets

(1) The Company

The Company provided cash, time deposits and government bonds as guarantees for investments and bonds pledged with courts in legal as guarantee of litigations. Moreover, pursuant to Article 141 of the Insurance Act, the Company deposited 15% of its capital in the Central Bank as the Guaranteed Depository Insurance. Pledged assets are summarized based on the net carrying amounts. Details are as follows:

	31 December 2017	31 December 2016
Guarantee deposits paid – Government bonds	$9,637,852	$10,459,146
Guarantee deposits paid – Time deposits	486,100	608,982
Guarantee deposits paid – Others	56,163	53,487
Total	$10,180,115	$11,121,615

(2) Cathay Lujiazui Life

According to the requirement of the "China Insurance Regulatory Commission", the guaranteed deposit is 20% of the registered capital. Details are as follows (CNY in thousands):

	31 December 2017		31 December 2016	
Guarantee deposits paid – Time deposits	CNY	630,000	CNY	320,000

(3) Cathay Life (Vietnam)

According to the requirement of the Ministry of Finance of Vietnam, the guaranteed deposit is 2% of the legal capital. Details are as follows (VND in thousands):

	31 December 2017		31 December 2016	
Guarantee deposits paid – Time deposits	VND	12,000,000	VND	12,000,000

54. Commitment and Contingencies

(1) Legal claim contingency

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

(2) Investment commitment for private equity fund

As of 31 December 2017, the maximum remaining capital commitment for the contracted private equity fund of the Company was USD 2,001,623 thousand, EUR 179,315 thousand and GBP 1,557 thousand.

55. Significant disaster damages

None.

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

56. Significant subsequent events

(1) On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by $5,006,770 thousand and $2,530,148 thousand, respectively.

(2) In order to increase the net adjusted capital and RBC ratio, the Company's board of directors, on behalf of the shareholders, resolved to issue 300,000 thousand shares of common stocks at a premium of $100 per share through private placement on 9 February 2018. All the newly issued common stocks will be subscribed by the parent company, Cathay Financial Holding Co., Ltd. The proposal of the capital increase has not yet been approved by the Insurance Bureau of FSC at the date of issuance of the Company's financial statements.

(3) The Company's board of directors resolved to early redeem $5 billion of Class C preferred stocks on 15 March 2018. The right of redemption is expected to be exercised in July 2018, and the proposal is still pending approval from the Insurance Bureau of FSC.

(4) The Company's board of directors resolved to increase capital in its subsidiary, Cathay Vietnam, by investing USD 0.12 billion on 15 March 2018. The proposal of capital increase is still pending approval from the Insurance Bureau of FSC. In addition, the Company's board of directors also expects to participate in capital increase of Rizal Commercial Banking Corporation to maintain its percentage of ownership interests. The purchase amount is approximately PHP 3.5025 billion, and the proposal of capital increase is still pending approval from the Insurance Bureau of FSC and Philippines Stock Exchange.

57. Other matters

(1) Discretionary account management

A. As of 31 December 2017 and 2016, the Company contracts with securities investment trust business for discretionary investments management. The investment details are disclosed as follows:

	31 December 2017	
Items	Carrying amount	Fair value
Domestic stocks	$146,469,572	$146,469,572
Overseas stocks	55,439,633	55,439,633
Reverse repurchase bonds	8,910,000	8,910,000
Cash in banks	34,384,975	34,384,975
Beneficiary certificates	318,911	318,911
Futures and options	138,296	138,296
Total	$245,661,387	$245,661,387

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

Items	31 December 2016 Carrying amount	31 December 2016 Fair value
Domestic stocks	$111,615,056	$111,615,056
Overseas stocks	43,865,191	43,865,191
Reverse repurchase bonds	8,570,400	8,570,400
Cash in banks	18,580,579	18,580,579
Beneficiary certificates	710,198	710,198
Futures and options	247,321	247,321
Total	$183,588,745	$183,588,745

B. As of 31 December 2017, the Company entered into discretionary account management contracts in the amounts of NTD 107,000,000 thousand, USD 1,595,000 thousand and HKD 2,750,000 thousand. As of 31 December 2016, the Company entered into discretionary account management contracts in the amounts of NTD 90,748,903 thousand, USD 1,185,000 thousand and HKD 1,780,000 thousand.

(2) Revenue and expenses arising from business transactions, promotion activities and information sharing between parent company and other subsidiaries are directly recognized or allocated to the Company and its affiliates by using reasonable allocation method based on the attribution of the transactions.

(3) Capital management

A. Objectives

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

B. Policies

In order to assume all types of risks, the Company applies RBC ratio as the indicator for capital adequacy. The Company calculates RBC ratio periodically and aperiodically to monitor the status of capital adequacy in the short and mid-term. The Company sets business objectives and plans asset allocation based on the ratio.

C. Procedures

a. Periodically

The Company regularly reviews the RBC ratio. The Company uses assets and liabilities model based on cash flow of current contracts and assets, expected new contracts, and the best estimated scenario to estimate the RBC ratio in the future year and analyzes solvency. If the expected ratio deviates from related control standards, the Company decreases the risk exposures or increases capital.

b. Aperiodically

The Company conducts scenario analysis for RBC ratio focusing on the Company's use of funding, business development, reinsurance arrangement, or changes of the financial environment including updates of laws and regulations.

D. RBC ratio

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

(4) Structured entities

A. Consolidated structured entities

The Company owns real estate investment and management organizations as consolidated structured entities. As of 31 December 2017 and 2016, the Company and Subsidiaries provided loans amounting to GBP 345,000 thousand and GBP 345,000 thousand to the consolidated structured entities for operation and investment, respectively.

B. Unconsolidated structured entities

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

Types of structured entity	Nature and purpose	Interests owned
Private equity fund	Investment in private equity funds to receive returns	Investment in shares or limited partnership interests issued by the fund
Securitization vehicle	Investment in asset-backed security to receive returns	Investment in securitization vehicles issued by the entity

b. As of 31 December 2017 and 2016, the carrying amount of assets recognized by the Company and Subsidiaries relating to their interests in unconsolidated structured entities is disclosed as follows:

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

	31 December 2017	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$51,152,449	$75,857,755
Debt instrument investments for which no active market exists	-	133,790,164
Held-to-maturity financial assets	-	6,175,423
Total	$51,152,449	$215,823,342

	31 December 2016	
	Private equity funds	Asset-backed securities
Available-for-sale financial assets	$40,455,678	$100,957,444
Debt instrument investments for which no active market exists	-	106,571,086
Held-to-maturity financial assets	-	342,391
Total	$40,455,678	$207,870,921

58. Information regarding investment in Mainland China

On 25 December 2002 and 24 July 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit USD 22,850 thousand and USD 27,150 thousand, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). The total amount of the registered capital was revised from USD 50,000 thousand to USD 48,330 thousand approved by MOEAIC on 20 December 2010. Also, MOEAIC authorized the Company to remit USD 59,000 thousand as the registered capital again on 16 May 2008. MOEAIC authorized the Company to remit USD 3,400 thousand as the registered capital again on 2 April 2012. MOEAIC also authorized the revision of the amount of USD 32,520 thousand of unexecuted project to CNY 200,000 thousand to avoid currency risk on 14 September 2013. The total registered capital was USD 110,730 thousand. On 25 September 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (China) has acquired a business license of an enterprise as legal person on 29 December 2004 and changed its name to Cathay Lujiazui Life Insurance Company Ltd. following approval by the China Insurance Regulatory Commission on 12 August 2014. The Company has remitted USD 48,330 thousand to the subsidiary as of 31 December 2009. The Company injected additional USD 29,880 thousand on 29 September 2010, CNY 200,000 thousand on 8 May 2014. On 23 August 2017, MOEAIC authorized the Company to remit CNY 700,000 thousand and the amount was remitted on 20 September 2017. As of 31 December 2017, the Company's remittances to the subsidiary totaled approximately CNY 900,000 thousand and USD 78,210 thousand.

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

On 17 October 2007, MOEAIC authorized the Company to remit USD 26,390 thousand as the registered capital to establish a China-based general insurance subsidiary (in the form of a joint venture with Cathay Century Insurance) of which was also approved by China Insurance Regulatory Commission on 8 October 2007. On 6 March 2008, MOEAIC authorized the Company to increase the remittances from USD 26,390 thousand to USD 28,960 thousand. On 15 August 2008, MOEAIC further authorized the Company to revise the remittance from USD 28,960 thousand to USD 28,140 thousand. The joint venture company named Cathay Insurance Company Ltd. (China) established by the Company and Cathay Century Insurance in Shanghai has acquired a business license of an enterprise as legal person on 26 August 2008. On 28 May 2013, MOEAIC authorized the Company to remit CNY 200,000 thousand to increase the share capital. As of 31 December 2017, the Company's remittances to this general insurance company totaled approximately CNY 200,000 thousand and USD 28,140 thousand.

On 1 November 2011 and 11 April 2012, MOEAIC authorized the Company to remit CNY 300,000 (USD 47,000) thousand and CNY 500,000 (USD 80,000) thousand, respectively. A total of USD 127,000 thousand was used as the registered capital to establish a China-based company named Lin Yuan (Shanghai) Real Estate Co., Ltd. The Company's subsidiary, Lin Yuan (Shanghai) Real Estate Co., Ltd. has acquired a business license of an enterprise as legal person on 15 August 2012. On 1 April 2013, MOEAIC authorized the Company to remit CNY 700,000 (USD 111,000) thousand to increase the share capital. As of 31 December 2017, the Company's remittances to Lin Yuan (Shanghai) Real Estate Co., Ltd. totaled approximately CNY 1,500,000 thousand.

59. Segment information

(1) General information

The Company and Subsidiaries abide by the provisions of insurance law for insurance business operations. In accordance with IFRS 8, the Company and Subsidiaries provide insurance policy products and the overall business decision-makers make decisions based on resource allocation of the Company as a whole, making the entire company one functioning entity.

(2) Information of operating revenue by territory

The Company and Subsidiaries' operating revenues are primarily from premium income and investment income in both domestic and foreign area. The relevant operating revenue information is disclosed as follows:

	For the years ended 31 December	
	2017	2016
Domestic	$793,432,793	$721,604,435
Foreign	82,946,723	126,463,418
Total	$876,379,516	$848,067,953